



**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 2018**

**Consolidated Statement of Financial Position as at 31 December 2018**

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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 2018, 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 2018, 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 of KD 370,400,645 as at 31<sup>st</sup> December 2018 are commercial and residential properties, carried at fair value as on the reporting date. 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. Accordingly, audit of fair valuation is considered as a key audit matter.

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 of KD 54,296,565 as at 31<sup>st</sup> December 2018 are carried at fair value. These investments 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 and 2.3.6, 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. Accordingly, audit of fair valuation is considered as a key audit matter.

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 2018 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.

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 2018 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.**

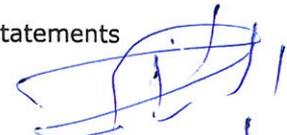
Kuwait  
05 March 2019

**Consolidated Statement of Financial Position as at 31 December 2018**

	Notes	Kuwaiti Dinars	
		2018	2017
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	24,881,238	26,362,918
Investment property	6	370,400,645	367,511,385
Investments in associates	7	47,308,182	45,313,974
Investments available for sale	8	-	26,531,681
Investments at FVOCI	8	34,252,835	-
		<u>476,842,900</u>	<u>465,719,958</u>
<b>Current assets</b>			
Land and properties held for trading	9	13,180,088	13,782,570
Investments at fair value through profit or loss	10	20,750,539	26,653,077
Receivables	11	9,974,210	10,366,328
Cash and cash equivalents	12	1,622,383	2,837,430
		<u>45,527,220</u>	<u>53,639,405</u>
<b>Total assets</b>		<u>522,370,120</u>	<u>519,359,363</u>
<b>Equity and liabilities</b>			
<b>Equity attributable to the shareholders of the Parent Company</b>			
Share capital	13	178,708,714	178,708,714
Share premium		1,308,384	1,308,384
Treasury shares	14	(3,599,426)	(2,208,386)
Statutory reserve	15	36,941,642	35,418,545
Voluntary reserve	16	27,829,414	27,067,865
Other reserve	17	5,374,271	7,753,369
Retained earnings		46,917,225	42,224,332
<b>Total equity attributable to shareholders of the Parent Company</b>		<u>293,480,224</u>	<u>290,272,823</u>
Non-controlling interests		22,064,705	24,136,788
<b>Total equity</b>		<u>315,544,929</u>	<u>314,409,611</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employees' end of service indemnity		949,902	1,024,530
Financing from third party	18	150,886,386	153,442,557
		<u>151,836,288</u>	<u>154,467,087</u>
<b>Current liabilities</b>			
Payables	19	17,237,231	19,009,765
Financing from third party	18	37,751,672	31,472,900
		<u>54,988,903</u>	<u>50,482,665</u>
<b>Total liabilities</b>		<u>206,825,191</u>	<u>204,949,752</u>
<b>Total equity and liabilities</b>		<u>522,370,120</u>	<u>519,359,363</u>

The notes on pages 10 to 44 form an integral part of this 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 2018**

	Notes	Kuwaiti Dinars	
		2018	2017
<b>Income</b>			
Rental income of investment properties and hotel's revenue	20	30,923,402	30,046,104
Operating expenses	20	(10,344,987)	(10,967,324)
Sale of land and properties held for trading		1,390,884	2,454,916
Cost to sell land and properties held for trading		(662,491)	(1,244,493)
Net income from operating activities		21,306,808	20,289,203
Change in fair value for investment properties		(2,184,877)	(1,296,373)
Reversal of impairment/ (impairment) of land and real estate held for trading		22,025	(7,670)
Share of profit from investment in associate companies		2,573,344	3,231,919
Gain from investments	21	4,246,820	6,388,806
Other income		164,882	272,915
<b>Total income</b>		<b>26,129,002</b>	<b>28,878,800</b>
<b>Expenses and other charges</b>			
Staff costs		(2,326,784)	(2,522,399)
Expenses and other charges		(858,774)	(898,469)
Finance costs		(8,283,793)	(8,114,177)
Reversal /(provisions and impairment)	22	1,963,758	(417,293)
<b>Total expenses</b>		<b>(9,505,593)</b>	<b>(11,952,338)</b>
<b>Net profit before deductions</b>		<b>16,623,409</b>	<b>16,926,462</b>
Kuwait Foundation for the Advancement of Sciences (KFAS)		(97,771)	(98,452)
National Labour Support Tax (NLST)		(405,470)	(368,586)
Zakat Expense		(115,977)	(111,344)
Board of directors' remuneration		(108,000)	(128,000)
<b>Net profit for the year</b>		<b>15,896,191</b>	<b>16,220,080</b>
<b>Distributed as follows:</b>			
Shareholders of the Parent Company		14,503,751	14,256,299
Non-controlling interests		1,392,440	1,963,781
		<b>15,896,191</b>	<b>16,220,080</b>
<b>Earnings per share for Parent Company's shareholders (fils)</b>	23	<b>8.25</b>	<b>8.09</b>

The notes on pages 10 to 44 form an integral part of this consolidated financial statements.

**Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2018**

	Kuwaiti Dinars	
	2018	2017
<b>Net profit for the year</b>	15,896,191	16,220,080
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified subsequently to statement of income:</i>		
Change in fair value reserve of FVOCI investment	(562,519)	-
Transfer to retained earnings resulting from sale of FVOCI investment	86,508	-
Group's share in associates' reserves	(628,762)	767,673
	(1,104,773)	767,673
<i>Items that may be reclassified subsequently to statement of income:</i>		
Change in fair value of available for sale investments	-	(524,063)
Foreign currency translation differences	(37,549)	9,424
<b>Total other comprehensive (loss)/income</b>	(1,142,322)	253,034
<b>Total comprehensive income for the year</b>	14,753,869	16,473,114
<b>Distributed as follows:</b>		
Shareholders of the Parent Company	13,336,238	14,479,668
Non-controlling interests	1,417,631	1,993,446
	14,753,869	16,473,114

The notes on pages 10 to 44 form an integral part of this consolidated financial statements

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



Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

	Kuwaiti Dinars										Total equity
	Equity Attributable to Shareholders of the Parent Company									Non-controlling interests	
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (Note 17)	Retained earnings	Total			
<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	284,719,403	22,709,860	307,429,263	
Acquisition of additional share in subsidiary	-	-	-	-	-	-	1,051	1,051	(2,551)	(1,500)	
Subsidiary dividend paid	-	-	-	-	-	-	-	-	(563,967)	(563,967)	
Cash dividends (note 25)	-	-	-	-	-	-	(8,836,792)	(8,836,792)	-	(8,836,792)	
Purchase of treasury shares	-	-	(90,507)	-	-	-	-	(90,507)	-	(90,507)	
Transactions with owners	178,708,714	1,308,384	(2,208,386)	33,922,277	26,319,731	7,530,000	30,212,435	275,793,155	22,143,342	297,936,497	
Net profit for the year	-	-	-	-	-	-	14,256,299	14,256,299	1,963,781	16,220,080	
Other comprehensive income	-	-	-	-	-	223,369	-	223,369	29,665	253,034	
Total comprehensive (loss)/income for the year	-	-	-	-	-	223,369	14,256,299	14,479,668	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	290,272,823	24,136,788	314,409,611	
<b>Balance as at 1 January 2018</b>	178,708,714	1,308,384	(2,208,386)	35,418,545	27,067,865	7,753,369	42,224,332	290,272,823	24,136,788	314,409,611	
Impact of initial application of IFRS 9 (note 2.1.1)	-	-	-	-	-	(1,125,077)	1,125,077	-	-	-	
Impact of initial application of IFRS 9 in the books of associates	-	-	-	-	-	-	(542,833)	(542,833)	(3,358)	(546,191)	
<b>Balance as at 1 January 2018 (restated)</b>	178,708,714	1,308,384	(2,208,386)	35,418,545	27,067,865	6,628,292	42,806,576	289,729,990	24,133,430	313,863,420	
Acquisition of additional share in subsidiary (note 24)	-	-	-	-	-	-	626,080	626,080	(2,923,806)	(2,297,726)	
Cash dividends (note 25)	-	-	-	-	-	-	(8,821,044)	(8,821,044)	-	(8,821,044)	
Purchase of treasury shares	-	-	(1,391,040)	-	-	-	-	(1,391,040)	-	(1,391,040)	
Transactions with owners	178,708,714	1,308,384	(3,599,426)	35,418,545	27,067,865	6,628,292	34,611,612	280,143,986	21,209,624	301,353,610	
Transfer to retained earnings on disposal of FVOCI investment	-	-	-	-	-	-	86,508	86,508	-	86,508	
Net profit for the year	-	-	-	-	-	-	14,503,751	14,503,751	1,392,440	15,896,191	
Total comprehensive income for the year	-	-	-	-	-	(1,254,021)	-	(1,254,021)	25,191	(1,228,830)	
Subsidiary dividend paid	-	-	-	-	-	-	-	-	(562,550)	(562,550)	
Transferred to reserves	-	-	-	1,523,097	761,549	-	(2,284,646)	-	-	-	
<b>Balance as at 31 December 2018</b>	178,708,714	1,308,384	(3,599,426)	36,941,642	27,829,414	5,374,271	46,917,225	293,480,224	22,064,705	315,544,929	

The notes on pages 10 to 44 form an integral part of this consolidated financial statements

**Consolidated Statement of Cash Flows for the Year Ended 31 December 2018**

	Notes	Kuwaiti Dinars	
		2018	2017
<b>Operating activities</b>			
Net profit for the year		15,896,191	16,220,080
<i>Adjustments for:</i>			
Change in fair value of investment properties		2,184,877	1,296,373
Gain from sale of land and properties held for trading		(728,393)	(1,202,753)
Share of profit from investments in associates		(2,573,344)	(3,231,919)
Net gain on investments	21	(4,246,820)	(6,388,806)
Depreciation of property, plant and equipment	5	1,817,090	1,830,490
Finance cost		8,283,793	8,114,177
Provision and impairment		(1,963,758)	417,293
Employees' end of service indemnity provided during the year		332,628	205,289
<i>Operating cash flow before changes in the working capital</i>		<u>19,002,264</u>	<u>17,260,224</u>
Payment for purchase of investment property		(482,312)	(1,344,216)
Purchase of land and real estate held for sale		(4,629,809)	(3,255,928)
Proceeds from sale of land and real estate held for trading		1,390,884	2,454,916
Receivables		(4,158,541)	(5,759,355)
Payables		(1,550,757)	(5,013,395)
Employees' end of service indemnity – paid during the year		(407,256)	(128,418)
Net cash generated from operating activities		<u>9,164,473</u>	<u>4,213,828</u>
<b>Investing activities:</b>			
Payment for purchase of property, plant and equipment	5	(335,410)	(222,124)
Payment to acquire additional share in subsidiaries	25	(2,297,726)	(1,500)
Payment to acquire shares in associates		(1,109,575)	(126,562)
Dividends received from associates		2,826,673	2,486,093
Payment to acquire available for sale investments		-	(2,353,437)
Payment to acquire investment at FVOCI		(6,042,099)	-
Proceeds on sale of available for sale investments		-	272,913
Proceeds on sale of investment at FVOCI		873,786	-
Proceeds on sale of investments at fair value through profit or loss		8,906,069	8,751,698
Payment to acquire investments at fair value through profit or loss		-	(2,061,276)
Cash dividend received		2,393,908	2,473,708
Net cash generated from investing activities		<u>5,215,626</u>	<u>9,219,513</u>
<b>Financing activities:</b>			
Proceeds from financing from third party		61,837,901	21,113,097
Repayment of financing from third party		(58,115,300)	(18,862,173)
Payment for buy-back of treasury shares		(1,391,040)	(90,507)
Cash dividend paid		(8,365,499)	(8,378,114)
Finance cost paid		(8,961,116)	(7,306,943)
Non-controlling interests		(562,550)	(563,967)
Net cash used in from financing activities		<u>(15,557,604)</u>	<u>(14,088,607)</u>
<b>Net change in cash and cash equivalents</b>		<u>(1,177,505)</u>	<u>(655,266)</u>
Effect of foreign currency translation		(37,542)	9,424
<b>Cash and cash equivalents at beginning of the year</b>		<u>2,837,430</u>	<u>3,483,272</u>
<b>Cash and cash equivalents at end of the year</b>	12	<u>1,622,383</u>	<u>2,837,430</u>

The notes on pages 10 to 44 form an integral part of this consolidated financial statements

## **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 and building constructions including sale, purchase, lease of real estate properties and investing surplus cash in equity markets 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 also participate in any suitable investments in entities that engage in similar business activities or that may help the Company achieve its objectives inside Kuwait and abroad. The Company may purchase such entities, either as a subsidiary or as an associate, affiliate them 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 (24), ("together referred to as the Group").

The consolidated financial statements were authorized for issue by the Board of Directors on 05 March 2019.

## **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 amended IFRS Standards that are effective for the current year**

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 2018, have been adopted in these financial statements.

The Group applies, for the first time, IFRS 9 Financial Instruments (as revised in July 2014) and IFRS 15 Revenue from contracts with customers ) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The impact of the initial application of these standards is disclosed as below:

#### **Impact of initial application of IFRS 9 Financial Instruments**

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are mandatorily effective for an accounting period that begins on or after 1 January 2018. Transition provisions of IFRS 9 allow an entity not to restate comparatives. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments:

**1) The classification and measurement of financial assets and financial liabilities, Impairment of financial assets**

Details of these new requirements as well as their impact on the Group's financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- the Group's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at FVTOCI and FVTPL. The change in fair value on these equity instruments classified as FVOCI continues to be accumulated in the investment revaluation reserve and change in fair value on instruments classified as FVTPL is adjusted against retained earnings.
- financial assets classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

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The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39 KD	Re-measurement -ECL/others KD	New Carrying amount under IFRS 9 KD
<b>Financial assets</b>					
Cash and cash equivalents	Loans and receivable	Amortised cost	2,837,430	-	2,837,430
Investments – Equity Securities	AFS	FVOCI	12,168,780	-	12,168,780
Investments – Equity Securities	AFS	FVTPL	14,362,901	-	14,362,901
Investment – Equity Securities	FVTPL	FVTPL	13,505,791	-	13,505,791
Investment – Equity Securities	FVTPL	FVOCI	13,147,286	-	13,147,286
Other financial assets	Loans and receivable	Amortised cost	1,742,571	-	1,742,571

The impact of this change in accounting policy on Shareholders' equity as at 1 January 2018 is as follows:

	Retained earnings KD	Fair value reserve KD
Closing balance under IAS 39 as at 31 December 2017	42,224,332	1,039,636
Impact on reclassification:		
Investment securities (equity) from available-for-sale to FVTPL	1,252,283	(1,252,283)
Investment securities from FVTPL to FVOCI	(127,206)	127,206
Opening balance under IFRS 9 on the date of initial application of 1 January 2018	<u>43,349,409</u>	<u>(85,441)</u>

(b) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost and debt investments at fair value through other comprehensive income but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Group's accounting policies for impairment of financial assets under IFRS 9 is explained in note 2.3.5.

(c) Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

(d) Disclosures in relation to the initial application of IFRS 9

The Group's management has provided more extensive disclosures under IFRS 9. The Group's accounting policies for financial instruments are disclosed in detail in note 2.3.5 below.

**Impact of application of IFRS 15 Revenue from Contracts with Customers**

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is mandatorily effective for an accounting period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition.

The Group's accounting policies for its revenue streams are disclosed in detail in note 2.3.12 below. Application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

#### **IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions**

The Group does not have any share-based payment schemes hence the amendment to the standard did not impact on the financial position and or financial performance of the Group.

#### **IAS 40 (amendments) Transfers of Investment Property**

The Group has adopted the amendments to IAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

#### **Annual Improvements to IFRS Standards 2014 - 2016 Cycle**

The Group has adopted the amendments to IAS 28 included in the Annual Improvements to IFRS Standards 2014-2016 Cycle for the first time in the current year.

#### **Amendments to IAS 28 Investments in Associates and Joint Ventures**

The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

#### **IFRIC 22 Foreign Currency Transactions and Advance Consideration**

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

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

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

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 16 <i>Leases</i>	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.	

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<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
<u>Impact assessment of IFRS 16 Leases</u>	
The Group is in process of assessing the impact of new requirement of IFRS 16 to recognise a right-to-use, on the financial statements of the Group.	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs.	
<i>IFRIC 23 Uncertainty over Income Tax Treatments</i>	1 January 2019
IFRIC 23 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:	
<ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively;</li> <li>• Assumptions for taxation authorities' examinations;</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and</li> <li>• The effect of changes in facts and circumstances.</li> </ul>	
<i>Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation.</i>	
The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.	
Amendment to IAS 19 <i>Employee Benefits</i> relating to amendment, curtailment or settlement of a defined benefit plan	1 January 2019
Amendments in IAS 28 <i>Investments in Associates and Joint Ventures</i> relating to long-term interests in associates and joint ventures.	1 January 2019
The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).	
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendment to IFRS 3 <i>Business Combinations</i> relating to definition of a business	1 January 2020
<p>The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.</p>	
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
<p>The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.</p>	
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.
<p>Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable.</p>	

## **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 affects 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 losses 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 in 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.

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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 IFRS 9, 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 business combinations 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. 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 IFRS 9 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.

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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. 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 – applicable before 1 January 2018**

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).

*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.

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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.

*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 Financial instruments – applicable after 1 January 2018**

**Classification and measurement of financial assets**

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

**Business model assessment**

The Group determines its business model at the level that best reflects how it manages group of financial assets to achieve its business objective and in order to generate contractual cash flows. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- The stated policies and objectives for the financial assets and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

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- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

**Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)**

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through profit or loss (FVTPL)
- Financial assets carried at fair value through other comprehensive income (FVOCI)

**Financial assets carried at Amortised cost:**

A financial asset is carried at amortised cost if it meets both of the following conditions:

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income. Cash and cash equivalents and receivables are classified at amortized cost.

**Financial asset carried at fair value through profit or loss:**

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the Consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the statement of profit or loss and other comprehensive income when the right to the payment has been established.

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

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to Consolidated statement of income. Dividends are recognised in Consolidated statement of income when the right to payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings in the statement of changes in equity.

### Reclassification of financial assets

The Group only reclassifies its financial assets subsequent to their initial recognition upon change in business model.

### Impairment of financial assets

The Group recognizes expected credit losses (ECL) on financial assets that are measured at amortized cost in accordance with IFRS 9.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward looking 'Expected Credit Loss' (ECL) model. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Group recognizes ECL for cash and bank balances using the general approach and uses the simplified approach for receivables as required by IFRS 9.

#### *General approach*

Under general approach, assets migrate through the three stages based on the change in credit quality since initial recognition. The Group incorporates forward-looking information based on expected changes in macro- economic factors in assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Financial assets with significant increase in credit risk since initial recognition, but not credit impaired, are transitioned to stage 2 from stage 1 and ECL is recognized based on the probability of default (PD) of the counter party occurring over the life of the asset. All other financial assets are considered to be in stage 1 unless it is credit impaired and an ECL is recognized based on the PD of the customer within next 12 months. Financial assets are assessed as credit impaired when there is objective evidence of impairment.

ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

#### *Simplified approach*

The Group applies simplified approach to measuring credit losses, which uses a lifetime expected loss allowance for all trade receivables.

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar credit risk characteristics. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

**Notes to the Consolidated Financial Statements - 31 December 2018**

*Event of default*

The Group considers an event of default has occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, in full (without taking into account any collateral held by the Group). Irrespective of this criteria, the Group considers that a default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**Recognition and de-recognition**

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is de-recognised when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership of the financial asset, or when it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset and when it no longer retains control over the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**Fair values**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value of financial instruments is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost.

### **2.3.7 Land and Properties 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.

### **2.3.8 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.

### **2.3.9 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.

### **2.3.10 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.

### **2.3.11 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 un-distributable 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, then to reserves and 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.

### **2.3.12 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 resulted from the settlement of such transactions and from the translation at year-end are recorded in the Consolidated statement of income.

## Notes to the Consolidated Financial Statements - 31 December 2018

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:

- 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.

### **2.3.13 Revenue recognition**

Rental income from investment property and hotel income are recorded point in time, when the service is rendered.

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.

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

### **2.3.14 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.

### **2.3.15 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.

### **2.3.16 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

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.

## 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. Group does not have any interest bearing assets or liabilities carried at fair value and therefore are not exposed to fair value risk.

#### 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:

	2018	2017
US Dollar	27,662,229	26,232,438
Sterling Pound	9,973,953	10,208,641
Bahraini Dinar	34,078,530	28,501,796
Other	19,770,409	18,840,760

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			
	2018		2017	
	Equity	Statement of income	Equity	Statement of income
US Dollar	592,587	790,525	566,741	744,881
Sterling Pound	387,190	111,507	220,454	289,978
Bahrain Dinar	18,285	1,685,641	56,925	1,368,165
Other	665,836	322,684	142,116	799,922

**Notes to the Consolidated Financial Statements - 31 December 2018**

*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 at FVOCI. 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.

**B) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist of bank balances. The Group manages this risk by placing money with high credit rating financial institutions.

The Group always measures the loss allowance for impairment for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group considers an event of default has occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, in full (without taking into account any collateral held by the Group). Irrespective of this criteria, the Group considers that a default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The following table contains an analysis of the maximum credit risk exposure of financial instruments:

	<u>2018</u>	<u>2017</u>
Bank balances	1,598,695	2,797,716
Receivables	6,991,296	5,774,418
Due from related parties	130,141	131,182
Refundable deposits	349,530	351,430
Other debit balance	149,668	93,361
	<u>9,219,330</u>	<u>9,148,107</u>

All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

The ECL charge on due from related parties, refundable deposits and other receivables as on 1 January 2018 and for the year ended 31 December 2018 are not material.

Notes to the Consolidated Financial Statements - 31 December 2018

The following table details the risk profile of trade receivables based on the Group's provision matrix.

**31 December 2018**

	<u>0-90 Days</u>	<u>91-180 days</u>	<u>181-365 days</u>	<u>&gt; 365 days</u>	<u>Total</u>
<i>Expected credit loss rate</i>	4.10%	33.24%	73.76%	100%	
<i>Gross carrying amount</i>	2,133,751	333,084	344,496	4,179,965	6,991,296
<i>Lifetime ECL</i>	87,500	110,503	254,117	4,179,965	4,632,085

**01 January 2018**

	<u>0-90 Days</u>	<u>91-180 days</u>	<u>181-365 days</u>	<u>&gt; 365 days</u>	<u>Total</u>
<i>Expected credit loss rate</i>	25.40%	48.20%	64.53%	100%	
<i>Gross carrying amount</i>	1,128,513	382,472	620,177	3,643,256	5,774,418
<i>Lifetime ECL</i>	286,633	184,357	400,213	3,643,256	4,514,459

**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 assets, which are easily convertible into cash and also by securing banking facilities 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				
	2018				
	<u>Within 3 months</u>	<u>From 3 months to one year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Borrowings	6,049,906	41,453,315	148,419,791	24,455,736	220,378,748
Accounts payable	3,038,739	11,915,790	-	-	14,954,529
	Kuwaiti Dinars				
	2017				
	<u>Within 3 months</u>	<u>From 3 months to one year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Borrowings	17,052,258	27,191,106	155,903,087	15,040,827	215,187,278
Accounts payable	2,719,416	14,155,109	-	-	16,874,525

**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.

Notes to the Consolidated Financial Statements - 31 December 2018

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 gearing ratio at year end was as follows:

	Kuwaiti Dinars	
	2018	2017
Financing from third party	188,638,058	184,915,457
Less: cash and cash equivalents	(1,622,383)	(2,837,430)
Net debt	187,015,675	182,078,027
Total equity	315,544,929	314,409,611
Gearing ratio (%)	59.27	57.91

Notes to the Consolidated Financial Statements - 31 December 2018

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 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

	Fair value as at		Fair value level	Valuation methods and key inputs	Significant unobservable inputs	Relation of unobservable inputs to fair value
	2018	2017				
<b>Financial assets</b>						
<b>Investments at fair value through other comprehensive income</b>						
Quoted shares	111,309	-	1	Last bid price	N/A	N/A Higher estimated cash flows and lower discount rates, results in higher fair value
Private equity	33,713,166	-	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher estimated cash flows and lower discount rates, results in higher fair value
Investment funds	428,360	-	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher estimated cash flows and lower discount rates, results in higher fair value
<b>Available for sale investments:</b>						
Quoted shares	-	927,272	1	Last bid price	N/A	N/A Higher estimated cash flows and lower discount rates, results in higher fair value
Private equity	-	22,305,872	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher estimated cash flows and lower discount rates, results in higher fair value
Investment funds	-	3,298,537	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher estimated cash flows and lower discount rates, results in higher fair value
<b>Investments at fair value through profit or loss:</b>						
Quoted shares	595,500	-	1	Last bid price	N/A	N/A Higher estimated cash flows and lower discount rates, results in higher fair value
Private equity	20,155,039	26,653,077	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher estimated cash flows and lower discount rates, results in higher fair value

Notes to the Consolidated Financial Statements - 31 December 2018

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

	Kuwaiti Dinars			
	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>				
- Due from related parties	130,141	130,141	131,182	131,182
- Receivables	3,078,767	3,078,767	1,846,922	1,846,922
- Cash and cash equivalents	1,622,383	1,622,383	2,837,430	2,837,430
	<u>4,831,291</u>	<u>4,831,291</u>	<u>4,815,534</u>	<u>4,815,534</u>
<b>Financial liabilities:</b>				
- Financing from third party	188,638,058	187,320,489	184,915,457	183,399,359
- Payables	17,237,231	17,237,231	19,009,765	19,009,765
	<u>205,875,289</u>	<u>204,557,720</u>	<u>203,925,222</u>	<u>202,409,124</u>

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 "at FVOCI". The Group follows the guidance of IFRS 9 on classifying its investments.

*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 Afkar Holding Company have been classified as associates although the Group only owns 19.35% 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).

#### *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*

Applicable before 1 January 2018

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.

Applicable from 1 January 2018

The Group estimates impairment for all investments carried at amortized cost or fair value through consolidated statement of income except for equity instruments. 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 financial assets*

Applicable from 1 January 2018

The Group estimates expected credit loss for all financial assets carried at amortized cost or fair value through consolidated statement of profit or loss except for equity instruments. The determination of expected credit loss involves significant use of external and internal data and assumptions. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. Refer note 2.3.6 impairment of financial assets for more information.

Notes to the Consolidated Financial Statements - 31 December 2018

Applicable before 1 January 2018

The Group reviews its financial assets classified as "available for sale investments" and "loans and receivables" periodically to assess 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.

*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 28).

**5. Property, plant and equipment**

	Kuwaiti Dinars				Total
	Land & buildings	Furniture & fittings	Furniture & utensils	Office equipment & tools	
<b>Cost</b>					
Balance at 1 January 2017	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
Additions	3,900	28,074	57,410	246,026	335,410
Balance at 31 December 2018	26,928,166	10,823,298	3,643,767	1,564,690	42,959,921
<b>Accumulated depreciation</b>					
Balance at 1 January 2017	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
Depreciation for the year	566,460	1,080,468	8,838	161,324	1,817,090
Balance at 31 December 2018	4,582,128	8,804,870	3,594,904	1,096,781	18,078,683
<b>Net carrying value</b>					
As at 31 December 2018	22,346,038	2,018,428	48,863	467,909	24,881,238
As at 31 December 2017	22,908,598	3,070,822	291	383,207	26,362,918
Useful lives (years)	40	5-10	5	3-6	

**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	
	2018	2017
Balance at 1 January	367,511,385	367,463,542
Additions during the year	482,312	1,344,216
Transferred from Land and properties held for trading	4,591,825	-
Change in fair value	(2,184,877)	(1,296,373)
Balance at 31 December	370,400,645	367,511,385

**Notes to the Consolidated Financial Statements - 31 December 2018**

The fair value of the Group's investment properties as at 31 December 2018 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 2017: 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 282,472,540 as at 31 December 2018 (31 December 2017 - KD 282,711,612) 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	
			2018	2017	2018	2017
Hajar Tower Real Estate Co.	Kuwait	Real Estate	27.42	27.42	9,308,917	9,988,876
Kuwait Resorts Co.	Kuwait	Services	34.93	33.75	8,938,199	8,654,686
Bayan Real Estate Co.	Saudi Arabia	Real Estate Holding	22.71	21.68	4,556,970	2,887,696
Afkar Holding Co.	Kuwait	Company	19.35	19.35	3,000,000	2,899,327
Kuwait Commercial Markets Complex Co.	Kuwait	Real Estate	22.84	22.84	2,754,369	2,505,831
Gulf Opportunities Co.	Kuwait	Real Estate	43.00	43.00	904,459	904,459
Al Jahra Tourism Co.	Kuwait	Tourism	44.87	44.87	11,363,863	11,468,994
Vacation Club Venture	Emirates	Real Estate	30.00	30.00	4,226,709	3,823,383
Waves Budaiya Development Co.	Bahrain	Real Estate	36.00	36.00	1,556,502	1,464,409
Other					698,194	716,313
					<u>47,308,182</u>	<u>45,313,974</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 3,563,393 as at 31 December 2018 (31 December 2017: KD 4,228,686).

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

Notes to the Consolidated Financial Statements - 31 December 2018

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	
	2018	2017
Current assets	19,584,673	20,934,435
Non-current assets	15,038,961	17,176,552
Current liabilities	5,761,335	8,336,558
Non-current liabilities	2,856,066	3,680,932
Kuwaiti Dinars		
	2018	2017
Revenue	7,918,580	7,999,906
(Loss)/profit for the year	(211,008)	2,473,060
Dividends received from associate during the year	304,073	294,432

**Hajar Tower Real Estate Company**

	Kuwaiti Dinars	
	2018	2017
Current assets	20,893,956	22,086,207
Non-current assets	35,977,148	38,410,410
Current liabilities	9,195,349	11,438,473
Non-current liabilities	13,467,860	12,377,200
Kuwaiti Dinars		
	2018	2017
Revenue	14,995,436	16,689,006
Profit for the year	1,620,044	2,212,077
Dividends received from associate during the year	1,100,480	1,375,600

**Al Jahra Tourism Co.**

	Kuwaiti Dinars	
	2018	2017
Current assets	6,819,389	5,879,254
Non-current assets	21,297,503	22,332,499
Current liabilities	1,651,227	2,352,487
Non-current liabilities	1,140,935	300,217
Kuwaiti Dinars		
	2018	2017
Revenue	7,495,042	7,762,293
Profit for the year	3,122,322	2,716,292
Dividends received from associate during the year	1,422,120	711,061

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

	Kuwaiti Dinars	
	2018	2017
The Group's share of income from continuing operations	183,184	47,774
The Group's share of other comprehensive income/(loss) for the year	(804,463)	472,071
The Group's share of total comprehensive income/(loss) for the year	(621,279)	519,845
Aggregate carrying amount of the Group's interest in these associates	17,697,204	15,201,418

**8. Investment available for sale**

	Kuwaiti Dinars	
	2018	2017
Investment in quoted shares	-	927,272
Investment in private equities managed by others	-	22,305,872
Investment funds	-	3,298,537
	-	26,531,681

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

**Investment at FVOCI**

	Kuwaiti Dinars	
	2018	2017
Investment in quoted shares	111,309	-
Investment in private equities managed by others	33,713,166	-
Investment funds	428,360	-
	34,252,835	-

**9. Land and properties held for trading**

	Kuwaiti Dinars	
	2018	2017
Balance as at 1 January	13,782,570	11,778,895
Additions	4,629,809	3,255,928
Transferd to Investment properties	(4,591,825)	-
Sales during the year	(662,491)	(1,244,493)
Reversal of Impairment / (Impairment)	22,025	(7,760)
Balance as at 31 December	13,180,088	13,782,570

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.

**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).

Notes to the Consolidated Financial Statements - 31 December 2018

**11. Receivables**

	Kuwaiti Dinars	
	2018	2017
Trade receivables	6,991,296	5,774,418
Due from related parties (note 26)	130,141	131,182
Loss allowance	(4,632,085)	(4,514,459)
	2,489,352	1,391,141
Advance payments for acquisition of investments	1,160,287	4,286,210
Advance payment for purchase of land	4,757,989	3,344,997
Advances to contractors and suppliers	740,597	612,151
Prepaid expenses	106,429	144,866
Refundable deposits	349,530	351,430
Other debit balances	370,026	235,533
	<u>9,974,210</u>	<u>10,366,328</u>

Trade receivables include an amount of KD 6,175,938 that is past due and impaired as at 31 December 2018 for which the Group has recognized a provision of KD 4,632,085 (31 December 2017: KD 5,585,602 with a provision of KD 4,514,459).

Aging of past due but not collected trade and other receivables as at 31 December 2018 is as follows:

	Kuwaiti Dinars	
	2018	2017
30 – 60 days	656,685	525,771
60 – 90 days	158,081	303,658
90 – 120 days	173,284	107,303
Above 120 days	5,187,888	4,648,870
	<u>6,175,938</u>	<u>5,585,602</u>

Movement of provision for doubtful debts for the year:

	Kuwaiti Dinars	
	2018	2017
Balance as at 1 January	4,514,459	4,187,166
Provided during the year	386,709	336,372
Reversal of provision for doubtful debts	-	(9,079)
Bad debts	(269,083)	-
Balance as at 31 December	<u>4,632,085</u>	<u>4,514,459</u>

**12. Cash and cash equivalents**

	Kuwaiti Dinars	
	2018	2017
Cash in hand	23,688	39,714
Cash at banks and financial institutions	1,598,695	2,797,716
	<u>1,622,383</u>	<u>2,837,430</u>

**13. Share capital**

The authorized, issued, and paid up share capital of the Parent Company is KD 178,708,714 (31 December 2017: KD 178,708,714) distributed over 1,787,087,137 shares (31 December 2017: 1,787,087,137 shares) with a nominal value of 100 fils each, fully paid up in cash.

Notes to the Consolidated Financial Statements - 31 December 2018

14. Treasury shares

	Kuwaiti Dinars	
	2018	2017
Number of shares	42,326,225	24,566,570
Proportion to issued shares (%)	2.37	1.37
Market value	3,894,013	2,247,841
Cost	3,599,426	2,208,386

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 14,595,416 shares are held by a subsidiary as of 31 December 2018 (31 December 2017: 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.

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 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	1,039,636	864,284	5,547,886	301,563	7,753,369
Balance as at 1 January 2018	1,039,636	864,284	5,547,886	301,563	7,753,369
Impact of initial application of IFRS 9 (note 2.2.1)	(1,125,077)	-	-	-	(1,125,077)
<b>As at 1 January 2018 (restated)</b>	<b>(85,441)</b>	<b>864,284</b>	<b>5,547,886</b>	<b>301,563</b>	<b>6,628,292</b>
Total comprehensive (losses)/income for the year	(587,710)	(628,762)	-	(37,549)	(1,254,021)
Balance as at 31 December 2018	(673,151)	235,522	5,547,886	264,014	5,374,271

Notes to the Consolidated Financial Statements - 31 December 2018

**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	
	2018	2017
Current portion	37,751,672	31,472,900
Non-current portion	150,886,386	153,442,557
	<u>188,638,058</u>	<u>184,915,457</u>

Average cost of financing from third parties is 4.39% as at 31 December 2018 (31 December 2017: 4.39%).

The maturity analysis is set out in note (3.1)

The Group obtained finance against pledge of 245,697,583 (31 December 2017: 245,697,583) share of Al Salmia Group (subsidiary) in addition to the following assets:

	Kuwaiti Dinars	
	2018	2017
Property, plant and equipment (Note 5)	24,376,572	25,781,345
Investment properties (Note 6)	282,472,540	282,711,612

**19. Payables**

	Kuwaiti Dinars	
	2018	2017
Trade payables	1,637,954	1,039,264
Due to related party (Note 26)	189,717	189,717
Retentions	776,988	1,317,518
Accrued expenses	3,387,402	4,590,970
Rent received in advance	1,134,885	2,725,442
Deposits from others	3,561,444	3,661,222
Kuwait Foundation for the Advancement of Science (KFAS)	97,771	98,452
National Labor Support Tax	405,470	368,586
Zakat	117,539	111,344
Dividends payable to shareholders	1,892,485	1,436,940
Finance claim (Note 28)	1,575,699	1,575,699
Other payables	2,459,877	1,894,611
	<u>17,237,231</u>	<u>19,009,765</u>

**20. Net income from operating activities**

	Kuwaiti Dinars	
	2018	2017
Real estate rental income	25,386,078	24,500,820
Hotel and hospitality revenues	5,537,324	5,545,284
Total revenues	30,923,402	30,046,104
Property expenses	(4,881,291)	(4,895,887)
Hotel and hospitality expenses	(5,463,696)	(6,071,437)
	<u>20,578,415</u>	<u>19,078,780</u>

Notes to the Consolidated Financial Statements - 31 December 2018

Hotel expenses include an amount of KD 1,688,915 that represents the current year depreciation of the hotel building and related equipments (31 December 2017: KD 1,676,026).

**21. Net income on financial investments**

	Kuwaiti Dinars	
	2018	2017
<b>Investment at FVOCI</b>		
Cash dividends	2,022,345	-
	<u>2,022,345</u>	<u>-</u>
<b>Available for sale investments</b>		
Profit on sale	-	23,222
Cash dividends	-	910,807
	<u>-</u>	<u>934,029</u>
<b>Investments at fair value through profit or loss</b>		
Gain from change in fair value	1,206,371	3,344,722
Cash dividends	478,219	1,560,374
Profit on sale	539,885	549,681
	<u>2,224,475</u>	<u>5,454,777</u>
	<u>4,246,820</u>	<u>6,388,806</u>

**22. Provision and impairment**

	Kuwaiti Dinars	
	2018	2017
Impairment of available for sale investments	-	(90,000)
Reversal of impairment related to investment in associates	2,350,467	-
Net movement in provision for doubtful debts	<u>(386,709)</u>	<u>(327,293)</u>
	<u>1,963,758</u>	<u>(417,293)</u>

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

Earnings per share is 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	
	2018	2017
Net profit (KD)	14,503,751	14,256,299
Weighted average number of outstanding shares (share)	<u>1,757,398,458</u>	<u>1,763,215,419</u>
Basic earnings per share (fils)	<u>8.25</u>	<u>8.09</u>

Notes to the Consolidated Financial Statements - 31 December 2018

24. Investments in subsidiaries

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

Company name	Activity	Country of incorporation	Kuwaiti Dinars	
			Shareholding percent (%)	
			2018	2017
Al Mutajara Real Estate Company K.S.C.C.	Real Estate	State of Kuwait	77.57	72.22
Commeriale Real Estate Development Co.	Real Estate	Kingdom of Bahrain	100	100
Commeriale Real Estate Development Co.	Real Estate	Morocco	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	
	2018	2017
Current assets	844,695	535,911
Non-current assets	71,651,000	74,399,000
Current liabilities	3,606,588	4,037,213
Non-current liabilities	14,846,284	17,936,008
Equity attributable to shareholders of the Parent Company	44,260,632	43,375,193
Non-controlling interests	9,782,191	9,586,497

	Kuwaiti Dinars	
	2018	2017
Revenue	3,770,658	5,237,815
Expenses	(2,716,023)	(2,661,609)
Profit/(loss) for the year	1,054,635	2,576,207
Profit for the year attributable to shareholders of the Parent Company	858,941	2,112,143
Profit for the year attributable to non-controlling interests	195,694	464,064
Total comprehensive income attributable to shareholders of the Parent Company	858,941	2,112,143
Total comprehensive profit attributable to non-controlling interests	195,694	464,064
Total comprehensive income for the year	1,054,635	2,576,207

	Kuwaiti Dinars	
	2018	2017
Net cash flow generated/(used in) operating activities	1,520,697	(1,617,597)
Net cash flow used in investing activities	(194,766)	(270,370)
Net cash flow generated/(used in) financing activities	(1,232,821)	1,816,225
Net change in cash and cash equivalents of the subsidiary	93,110	(71,742)

**Al Mutajara Real Estate Company**

	Kuwaiti Dinars	
	2018	2017
Current assets	7,033,370	10,735,552
Non-current assets	66,537,000	61,717,125
Current liabilities	1,969,141	3,774,305
Non-current liability	15,899,200	15,694,700
Equity attributable to shareholders of the Parent Company	43,419,515	38,433,381
Non-controlling interests	12,282,514	14,550,291
	Kuwaiti Dinars	
	2018	2017
Revenue	5,916,467	6,563,645
Expenses	(916,136)	(959,970)
Profit for the year	5,000,331	5,603,672
Profit for the year attributable to shareholders of the Parent Company	3,803,585	4,103,955
Profit for the year attributable to non-controlling interests	1,196,746	1,499,717
Total comprehensive income attributable to shareholders of the Parent Company	5,112,659	4,181,080
Total comprehensive income attributable to non-controlling interests	1,221,937	1,529,382
Total comprehensive income for the year	3,890,722	5,710,462
Dividends paid to non-controlling interests	562,550	563,967
Net cash flow generated/(used in) from operating activities	6,682,724	2,202,262
Net cash flow generated/(used in) from investing activities	(2,163,634)	2,331,484
Net cash flow (used in)/generated from financing activities	(4,528,882)	(4,316,959)
Net change in cash and cash equivalents of the subsidiary	(9,792)	216,787

**Change in Group's ownership interest**

During the year, the Group increased its interest in the subsidiary "Al Mutajara Real Estate Company K.S.C.C." at 77.57% by acquiring interests from non-controlling interests for an amount of KD 2,297,726. The net carrying value of acquired assets and liabilities exceeds the paid consideration by KD 626,080 and this difference has been included within equity as follows:

Parent Company's share in net acquired assets	2,923,806
Fair value of paid amount against acquisition	2,297,726
Gain on bargain purchase	626,080

**25. Dividends**

On 9 April 2018, the Annual General Assembly (AGM) of the Parent Company's shareholders has approved the consolidated financial statements for the year ended 31 December 2017 and approved to distribute cash dividends of 5% to the shareholders of record as of the due date (5% dividends for the year ended 31 December 2016).

For 2018, the Parent Company's Board of Directors proposed cash dividends of 5% and stock dividend (treasury shares) of 2% for the year ended 31 December 2018. This proposal is subject to the shareholders' approval at the Annual General Assembly Meeting and the regulatory authorities.

Notes to the Consolidated Financial Statements - 31 December 2018

**26. 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:

	Kuwaiti Dinars	
	2018	2017
<b>Transactions</b>		
Key management remuneration	835,408	1,163,597
Purchase of an additional shares in subsidiary	2,250,000	-
<b>Balances</b>		
Receivables (Note 11)	130,141	131,182
Payables (Note 19)	189,717	189,717
Key management remuneration	503,326	926,714

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.

**27. Capital commitments**

	Kuwaiti Dinars	
	2018	2017
Uncalled capital – investments	436,429	1,081,465
Contracts for projects under development	6,836,699	10,858,379
Other	3,296,235	3,559,427
	<u>10,569,363</u>	<u>15,499,271</u>

**28. 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 3,760,481 (31 December 2017: KD 2,995,067).

**29. 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.

Notes to the Consolidated Financial Statements - 31 December 2018

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

	2018			
	Kuwaiti Dinars			
	Real estate sector	Hotel	Investment sector	Total
Revenue	24,614,110	5,537,324	9,170,631	39,322,065
Direct cost	(6,898,162)	(5,463,696)	(211,673)	(12,573,531)
Gross profit	17,715,948	73,628	8,958,958	26,748,534
Unallocated costs				(10,852,343)
Net profit				15,896,191

	2017			
	Kuwaiti Dinars			
	Real estate sector	Hotel	Investment sector	Total
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)
Gross profit	18,235,008	(526,153)	9,299,203	27,008,058
Unallocated costs				(10,787,978)
Net profit				16,220,080

Geographic distribution

	2018			
	Kuwaiti Dinars			
	State of Kuwait	Gulf Countries	Other	Total
Total income	20,426,114	4,304,448	4,024,689	28,755,251
Total expenses	(9,845,321)	(3,013,739)	-	(12,859,060)
Net profit/(loss)	10,580,793	1,290,709	4,024,689	15,896,191

	2017			
	Kuwaiti Dinars			
	State of Kuwait	Gulf Countries	Other	Total
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

Geographic distribution of assets and liabilities

	Kuwaiti Dinars			
	Assets		Liabilities	
	2018	2017	2018	2017
State of Kuwait	427,735,500	433,518,178	175,756,333	159,236,634
Gulf countries	51,705,543	44,277,441	31,068,858	45,713,118
Other	42,929,077	41,563,744	-	-
	522,370,120	519,359,363	206,825,191	204,949,752