SALHIA

40 Years in Creating Value

ANNUAL REPORT

2014

H. H. SHAIKH

SABAH AL-AHMAD AL-JABER AL-SABAH

The Amir of the State of Kuwait

H. H. SHAIKH

NAWAF AL-AHMAD AL-JABER AL-SABAH

Crown Prince of the State of Kuwait

H. H. SHAIKH

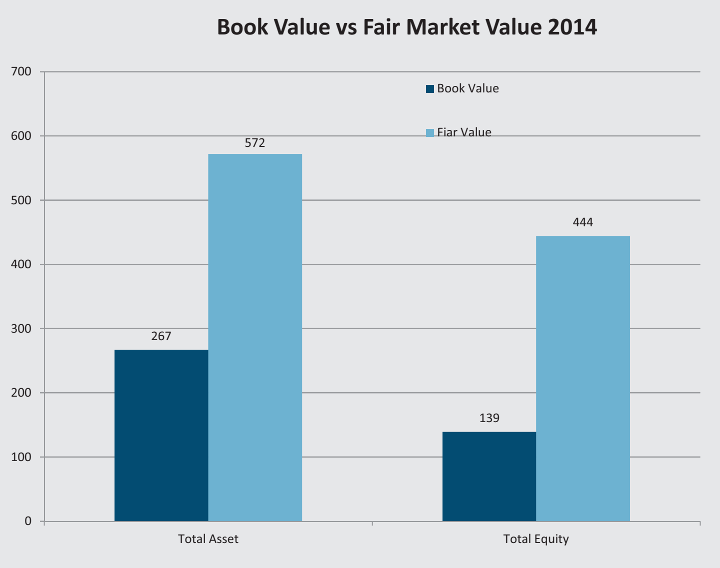
JABER MUBARAK AL HAMAD AL-SABAH

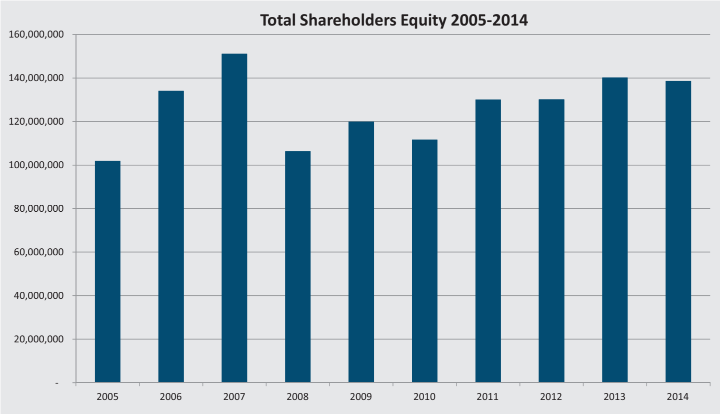
Prime Minister - State of Kuwait

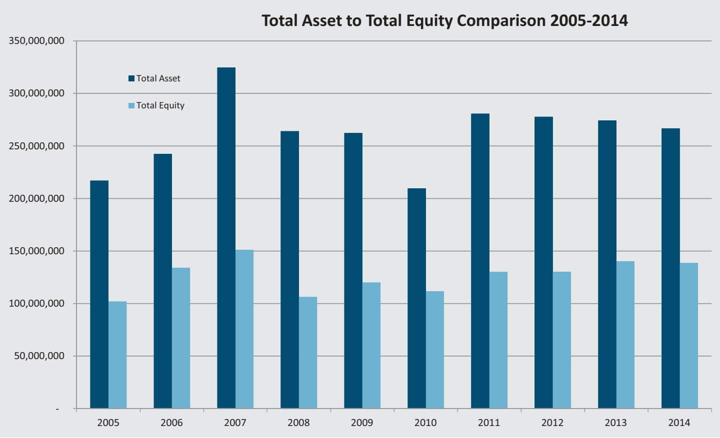
CONTENTS

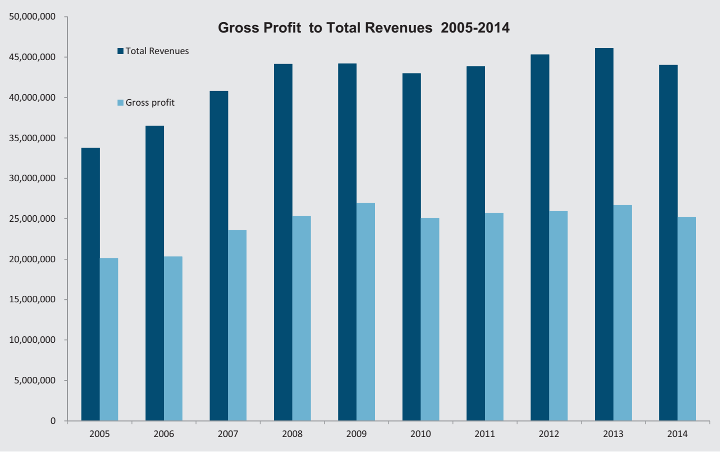
- The Company evaluates its assets by independent professional appraiser in the G.C.C and the European market, The total Asset has been estimated market value KD572 Million (Book Value KD268 Million).

- The Estimated fair market value for the total shareholders equity KD444 Million (Book Value KD139 Million).









BOARD MEMBERS

Ghazi Fahad Alnafisi
Chairman

Faisal AbdulMohsen Al-Khatrash
Vice Chairman

Anwar Abdulaziz Al-Usaimi
Board Member & Chief Executive Officer

Abdulaziz Ghazi Alnafisi
Board Member & Deputy Chief Executive Officer

Youssef Essa Al-Othman
Board Member

Abdulrahman Abdulaziz Al Babtain
Board Member

Marzouk Fajhan Al-Mutairi
Board Member

Saud Ahmad Faisal Al-Zabin
Board Member

Mohammad Khalil Al-Musaibeeh
Board Secretary

EXECUTIVE MANAGEMENT

Anwar Abdulaziz Al-Usaimi
Chief Executive Officer

Abdulaziz Ghazi Alnafisi
Deputy Chief Executive Officer

Hany A. Abdelnour
Finance ,Accounting & HR Group Head

Eng. Bader Khalifah Al-Adsani
Real Estate Management & Development Group Head

Mohammad Khalil Al-Musaibeeh
Group Accounting Manager

Nasser Bader Al-Ghanim
Group Investment Manager

Eng. Kifah Georges
Group Construction Manager

Abdulnasser Bader Alturkait
Group Information Technology Manager

Ali Jassim Abul
Group Human Resources & Administration Deputy Manager

CHAIRMAN`S STATEMENT

Dear shareholders,

On behalf of the Board of Directors, I would like to extend my warmest greetings to you and present to you the annual report of Salhia Real Estate Company for the financial year ended December 31st, 2014.

With sincerity and loyalty we look back on 40 years spent together, with your esteemed company.

More than 40 years have passed since establishing Salhia Real Estate Co, featuring both proud achievements and challenging milestones. We look back at our history of accomplishments of recent years and the dreams that have evolved into reality, and we are convinced more than ever before that this record deserves due recognition as an inevitable contributor to the magnitude and achievement of these progressive endeavors.

Our endeavor with SREC begins with a multitude of ambitious ideas and aspirations for real estate development; the first of these was a distinctive land plot in the Salhia business district, which was then a kaleidoscope of simple markets and apartment buildings from a bygone era. Optimistic ambition drove us to devise a plan to develop the surrounding and adjacent land plots to ensure provision for aesthetic consistency in the general vicinity. Our age then was no impediment to realizing our goals and ambitions, but was rather a positive, influential impetus for igniting our youthful spirit with the desire to take on challenges, break down barriers and substitute the traditional with the modern, all whilst leaving a mark on our country's history.

I was 32 years old when I began to communicate my aspirational concepts with the owners of the adjacent land plots, all of whom encouraged and supported my vision as partners in this venture.

Ideas are born simple, but evolve with time, circumstances, requirements and regulations. Thus the vision for this venture progressed to a larger plot with comprehensive facilities to include a globally-branded five star hotel alongside a model for an exclusive mall which offered a brand new shopping experience that became Salhia Complex.

Salhia Complex, this new concept in shopping, left a stunning imprint and an astonishing impact on a large segment of customers. This resonance was not due to the complex being the first destination in the world of luxury shopping in Kuwait, but because it was the first innovation of its kind in the Gulf region, it thus was considered the standard index of luxury real estate, through which to benchmark similar development projects. This commercial complex contributed strongly to the development drive of the local economy, especially with regards to both the retail and hospitality sectors, which were and remain important and vital, with a direct impact on the Kuwaiti economy.

As such, the complex gave an upscale flair to the concept of luxury shopping to local Kuwaiti society by responding to the high-end needs of citizens and visitors alike. Today, the complex continues to add its unique social hallmark on the local community with this mission.

The journey with SREC was laden with challenges, difficulties and sensitive issues, that required undertaking unconventional decisions at certain times and in very serious situations. The first challenge was the local market crisis that

began in the 1980s, to be followed by the Iraqi invasion in 1990. Ordeals arose again during the global economic crisis in 2008, which hit, with considerable strength, economies across the world without exception including Kuwait, which is still suffering from the consequences triggered by this crisis, to this day.

Clear insight to resolve challenges today and clear foresight to meet new challenges tomorrow are indispensable and require careful decision making to navigate risks and difficulties. We praise Allah for the harmony and spirit of brotherhood amongst the shareholders and the Board of Directors that helped SREC diversify its activities both inside and beyond Kuwait.

Thus began the construction of Sahab Tower in 1994, which was considered at the time one of the highest commercial towers in Kuwait. Later SREC established Arraya Centre consisting of a commercial center, a four-star Courtyard by Marriot Hotel, the Arraya Ballroom, and a designated events compound. SREC also acquired business opportunities and ventures in multiple entities in the United Kingdom and Germany.

Looking back in time and contemplating our present, we radiate with pride and self-satisfaction stemming from our recognition that SREC is not only a real estate development company, but an entity that infuses value and significance to each facility or commercial property so that each stands out as an individual real estate investment.

SREC's added-value to the Kuwaiti economy goes beyond the commercial perspective, evolving to become a patriotic distinction. An experience perhaps unique to the Kuwaiti society is that its citizens have independently contributed to the construction of their own homes, and thus came to participate with their community in the construction and real estate development of the State, bestowing a unique touch to the urban development of Kuwait.

The track record of successive inspiring achievements and accomplishments challenges us on what we will pursue in the future, and continues to elude our followers that are attempting to predict our next chapter in real estate development whether locally, regionally or internationally.

As SREC continues to build on and expand its communication with all stakeholders, the Company is proud to clarify that it will pursue its landmark endeavor, "Al Assima Project" – the mixed-use property development comprising the latest technological innovations in eco-friendly green buildings envisaging the concepts and techniques of sustainable development and smart-building technologies via a unique sophisticated architectural design that will enhance Kuwait's skyline and economy, transforming into reality the royal vision of Kuwait's leadership to transform Kuwait into an international financial center.

Our course, moving towards success with SREC kindles an enhanced spirit of an integrated compatible family that embraces all its members

to achieve its vision, goals and enhance its humanitarian and communal values.

Conveying my sincerest appreciations and gratitude to all - especially our esteemed tenants, our treasured customers, our loyal shareholders and our vigorous staff; you are our beginning and our destination where we appraise our prospects, celebrate our present and take on challenges side by side. We promise that our achievements will be the springboard for a secure present and a brighter future.

Dear shareholders,

Salhia Real Estate Company succeeded in maintaining a positive and balanced performance, despite many challenges faced by the company in the domestic and global market. The company managed to overcome these difficulties, thanks to the implementation of prudent polices and financial strategies that were targeted at achieving the best earnings for our esteemed shareholders.

The steady financial performance of the company for the year ended 2014, has resulted in a profit of KD.11.4 Million which represents a profit of 23.07 Fils per share compared to last year's profit of KD.16.01 Million and a profit of 32.3 Fils per share which represents a decrease of 28.7%. This decrease in the year 2013 was marked by the sale of Elephant and Castle property for €.80 Million, which has achieved an extraordinary dividend of KD.11.6 Million.

The company's total assets for the year ended 2014 amounted to KD.266 Million compared to KD.274 Million for the previous year, which is a decrease of 2.7%.

The company's liabilities were reduced from KD.131 Million for the previous year to KD.125 Million for the current year which represents a 4.3% decrease.

On the other hand, Salhia Real Estate Company has a decrease of the shareholders equity to KD.138 Million compared to KD.140 Million for the previous year, which is a decrease of 1.1%.

Accordingly, the book value of Salhia's share decreased to 270 Fils which is a 1.1% decrease for the current year as compared to 273 Fils for the previous year.

The company decreased its revenues to KD.44 Million for 2014 which stands at a 4.5% decrease as compared to KD.46 Million for the previous year.

The Financial Statements of 2014 were finalized taking into consideration that all the figures mentioned above were recorded in the books on the basis of historical cost for the year ended 2014.

The assessment of the company's total assets was undertaken by independent professional appraisers at the end of 2014. The estimated market value of the company's total assets indicated a value of KD.572 Million with an estimated Ownership Equity KD.444 Million, thereby increasing the book value per share to 866 Fils.

Esteemed Shareholders,

Finally, I would like to express my deep appreciation and gratitude to you for your continued support of Salhia Real Estate Company and I would like to take this opportunity to extend my sincere thanks to our Board of Directors, the Executive Management and the staff of the company in all departments and foreign subsidiaries .

Praying to Allah to continue His blessings upon us to preserve our beloved country under the wise leadership of the Amir of Kuwait, His Highness Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, the humanitarian leader, the Crown Prince, His Highness Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah and the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah and his judicious government.

God save Kuwait and its people from any harm and best wishes to all -for health and wellbeing to improve our beloved country.

Ghazi Fahad Alnafisi

Chairman

Salhia Real Estate Company

REPORT OF THE
BOARD OF DIRECTORS

Local Investments

SALHIA COMMERCIAL COMPLEX

Since its inception in 1978, as the first shopping complex in Kuwait, Salhia Complex has kept its place among other shopping malls ranked as one of the most important shopping malls and commercial offices in the region due to the continuous development, modernization and renovation along the 36 years and with the location in the middle of Kuwait city has helped in maintaining a 100% occupancy for many years.

Salhia Complex has a three hundred and seventy six indoor parking lot and four hundred and twenty eight outdoor parking lot a consisting of three commercial floors (ground Floor - mezzanine I - mezzanine II) offering an impressive collection of world-famous brands, cafes and restaurants. The upper floors include five floors of office space occupied by major international companies, corporations and government institutions. Salhia has finished renovating the second mezzanine this year to be the center for variety of restaurants which will meet visitors needs.

SALHIA PLAZA

The Plaza is located above two basements parking floors in front of Salhia Commercial Complex. The site contains selected trendy restaurants and cafes surrounded in the middle by a fountain illuminated at night, and a large landscaped area covered with colorful flowers. Since completion in 2005, the Plaza quickly became an attraction for visitors due to its proximity to Salhia Complex making it a great choice for visitors.

SAHAB TOWER

Sahab Tower consists of a twenty-storey commercial office building occupied by some of the largest international and local companies. With its location in the middle of Kuwait city and with the connecting bridge to Salhia Complex on the mezzanine floor, the tower also has a commercial space from the basement to the mezzanine floor. Sahab Tower became one of the most important and prominent towers in Kuwait keeping a rate of occupancy of 100% since completion in 1997, due to the excellence of services it provides.

JW Marriott Hotel Kuwait City

The JW Marriott Hotel is one of the leading hotels in Kuwait as it is located in the heart of Kuwait City and directly connected to the famous Salhia Shopping Complex. The hotel has 313 rooms, 73 of which are suites which has been renovated recently to ensure the highest level of comfort and luxury.

Several notable refurbishments have been achieved to saisfy the clients needs, such as the beautification of the lobby entrance , rebranding the health club which is equipped with the latest and optimum equipment including its indoor swimming pool, a sun deck area and spa with steam bath. It is also home to the country`s finest restaurants bringing cuisines from all around the world. The executive level holds a private lounge and a library.

The JW Marriott Hotel is an ideal choice for conferences, meetings and social events. The hotel has also been awarded the Best Luxury Business Hotel by (The World Luxury Hotel Awards), and The Best Business Hotel in Kuwait by (Business Traveler Middle East) through the services provided such as the flexible meeting rooms and a professional events management team. The hotel offers multipurpose ballrooms on the first and the sixteenth floor with a combined space of 1,560 square meters which enables hosting the most important events in Kuwait.

Courtyard by Marriott Hotel Kuwait City

Courtyard by Marriott Hotel, Kuwait City is located in heart of Kuwait`s business district , attached to the magnificent Arraya Centre offering a unique and upscaling shopping experiance.

This modern property consists of 264 rooms Equipped to fit the desires of its visitors. The entertainment and sports featured by the hotel health club and spa "Waves" equipped with the latest sports equipment and the 25 meters length swimming pool on the roof, along with a high level massage treatments are all set to offer an enjoyable and healthy stay of visitors.

Courtyard by Marriott offers different type of restaurants to suit all tastes, starting with the famous "Atrium" Restaurant, which has a wonderful panoramic view, "Seoul & Spice" the original Indian food, And the last Japanese restaurant "Sushi" inaugurated by the Japanese Ambassador in Kuwait.

Courtyard by Marriott Hotel, therefore offers an elite stay considered as the ideal hotel for businessmen looking for productive and energizing stay to achieve their business goals.

ARRAYA COMMERCIAL CENTRE

Arraya Centre is one of the most important projects for Salhia Real Estate Company with its quite shopping atmosphere and comprises a wide selection of retail fashion stores and international franchises along with fancy cafes and restaurants. Arraya Centre includes seven commercial office floors leased by major local and international corporations. With its location in the east of Kuwait city and the high services level that Arraya Centre grants its visitors it became an excellent choice for local and international companies.

The building was incorporated with a multi-storey car park separated by Arraya Plaza which is a vast space that provide a relaxed atmosphiere for those who are keen to enjoy the outdoor and is equipped with umbrellas and surrounded by water fountains. Arraya Plaza has a space of 3000 square meters, and lit at night by innovative lights which provide a special ambience for visitors to this area. Arraya Plaza can also host big social and entertainment events and functions.

ARRAYA TOWER

Arraya Tower is one of a kind in Kuwait city with its 60 floors and height of 300 meter, served with 16 elevators for three entrances each entrance of whom serves a number of floors for easier access supported by state-of-the-art technology. Arraya Tower offers the best services to its valuable tenants by providing a multi-storey parking, security 24/7 and maintenance services in the tower, with a high standard architectural finishing with very flexible rentable floors and open plan of between 250 square meters and up to 740 square meters. The leasing process continued in 2014, to rent the remaining available floors in the tower to reach 95% occupancy.

Arraya Ballroom

Arraya Ballroom is managed by Marriott International group considered as one of the most famous and prestigious multi-purpose ballrooms in Kuwait City. The ballroom has many features and services that qualifies it to host all kinds of events from small personal events to government functions. One of the main advantages is the ability to divide the hall into six sections connected to external services with a high degree of sound insulation between them. The ballroom also uses the latest sound and lighting systems provided by a dedicated professional events management team capable of handling events of any size.

Arraya Ballroom provides the finest local and international cuisines to suit all tastes, served by the ballroom central kitchen located in the basement. Arraya Ballroom now is a destination of choice for memorable events of all kinds in Kuwait.

AL-ASIMA PROJECT

In spite of the many procedural obstacles which, for a considerable period of time, negatively impacted the completion of the project, thanks to God, we recently were able to re-commence the design and re-development of the Alasima Project located within the Al Mirqab area of Kuwait City.

This project has now been assigned to international renowned consulting firms with tasks allocated according to the parameters of the project and the diversity of the activities within it.

The project was re-developed after a number of studies and discussions based on projections and analysis of the current and future real estate and economic environment, in order to reach the ideal option that will meet the aims of the company, the region, and the needs of potential clients and customers. On this basis, all aspects of the project were integrated, re-developed and transformed into a new project combining all the previous design aspects into a Shopping Center consisting of 5 floors with Basements 2 &3 allocated as a car park; Basement 1, the Ground Floor, Level 1 and Level 2 for Retail, Restaurants and Entertainment followed by a 156 Apartment Hotel with a multi-purpose ballroom, a spacious Health Club and an Office Tower consisting of 65 storeys.

Also, there will be two buildings on government land which will be utilized as multi-storey car parks,

one consisting of 4 basements with 6 floors and the roof; and the other consisting of 4 basements and a ground floor.

Upon completion of the Final Design of the project, the company has submitted all the documents for approvals and licenses to commence project construction to authorities and received the approval/resolution from the Municipal Council related to all requirements and development works after submitting a detailed explanation to its members. In the meantime, the company has obtained the necessary approvals from the Kuwait Fire Department, while also concluding a Contract with the Ministry of Finance and the Government Property Office for the bridges and ramps required for the project, as well as approvals from the Ministry of Interior for the necessary entrances and exits to the Project; the required approval from the Ministry of Commerce for the construction of the Hotel and lastly the issuance of the Property Deed after obtaining the necessary approvals on the re-design and proposed re-development of the Project from Kuwait Municipality.

We expect that within the next few weeks, the company will receive the remaining required documentation and approvals in order to commence the project construction.

REPORT OF THE
BOARD OF DIRECTORS

International Investment

Key Property Investments

The UK economy has continued to stabilise and strengthen throughout 2014, growing at a faster rate than its competitors. There is still a level of uncertainty affected in part by other European economies which continue to struggle. In spite of this uncertainty, the UK is still considered to be one of the most stable and safe havens for international investment.

There has been significant transactional activity within the London market. This includes £1.6bn in just three buildings including the HSBC building and Tower Place. The sale of such large lots will significantly impact the 2014 total should they complete before the end of the year.

Foreign investors accounted for 64% for the year-to-date total. Foreign investors continue to dominate the larger transactions, particularly from Asia Pacific, accounting for £6.8bn of the £8.1bn London total (33 out of 39 transactions) so far in 2014.

A return of occupier confidence and signs of real rental growth returning to the Central London and regional occupational markets are continuing to attract inward investment from domestic and international investors alike. This has driven yields to historic lows for prime property, particularly in London.

The London residential market has also continued to grow strongly, with sales volumes continuing to rise, a result of continued demand from overseas as well as economic recovery within the UK. Prime London still leads the way.

Domestic and International investors have also been increasingly active outside of London, in most sectors of the market and this trend is likely to continue in the near future. The General Election in May 2015 will, inevitably, create a level of uncertainty during the lead up. Historically, this has had less impact than expected.

The KPI portfolio continues to perform well. Revaluation expectations are positive. Development and refurbishment at Farnborough town centre is generating an increasing level of interest. The new multiscreen Vue cinema in the heart of the centre will be completed shortly. Leases have been agreed on two of the 5 restaurants and this will stimulate more activity in the centre. Established national and international retailers are also now looking at taking units in the town centre and there are other initiatives being undertaken.

There is an increasing level of activity throughout the portfolio, with development and letting activity throughout. Some of the historically more difficult properties are also performing well and generating greater returns. There are many asset management, refurbishment and development opportunities and St Modwen, as manager, continue to actively work the various properties to maximize income and sales values.

Beorma Quarter Birmingham

Birmingham, arguably the UK's second most important city after London, has a metropolitan population of over 3.5 million. Birmingham is a major international commercial centre and an important transport, retail, events and conference hub. It's metropolitan economy is the second largest in the United Kingdom with a GDP of over £70 billion and its six universities make it the largest centre of higher education and academic research in the country outside of London.

Birmingham›s city centre has undergone a renaissance in recent years. Birmingham City Council are continuing to focus on the revitalisation of central

Birmingham and raise the city›s profile and connectivity, both nationally and internationally through the most ambitious and far-reaching citywide development project ever undertaken in the UK.

Amongst other projects, New Street Station is currently undergoing a major £600 million redevelopment as part of the City Council's overall plans, transforming the dark, crowded underground station into a bright, modern transport hub for Birmingham and the West Midlands. The project will double passenger capacity, relieving congestion, and will be a catalyst for creating more than 5000 jobs. It will redevelop and regenerate the area around the station and provide improved pedestrian connections across the city centre.

Salhia Real Estate Co Ksc, through Salhia Investments (Birmingham) Ltd (SIBL), has commenced construction of Phase I on the Beorma site of around 2 acres in the centre of Birmingham, adjacent to the Bullring Shopping Centre and Selfridges. The site is strategically located to take advantage of the future regeneration of the area now known as Southside and identified in the City Council's designated plans.

The site is conveniently situated between New Street Station and Moor Street station and is close to the proposed HS2 London – Birmingham link station. Birmingham City Council have been enthusiastic in encouraging the proposed scheme as it sits adjacent areas designated in their Big City Plan and the site now lies in one of Birmingham's designated Enterprise Zones which will bring significant benefits to occupiers and the area.

The construction of Phase 1, which includes a pre-let hotel to Adagio (Accor & Pierre Vacancies), commenced in January 2014 and is scheduled to be completed on time in May 2015. A new planning application is being submitted on Phases 2 & 3 to reflect design and market changes and this will significantly enhance the overall scheme which will be finished in 2015 .

This is a very exciting and significant development which will contribute significantly to the changing face of Birmingham City Centre.

HADDIA HOLDING GMBH

Haddia Holding GmbH, which is 91% owned by Salhia, through its subsidiary DANA, manages a total of 1,614 units in 13 nursing homes, 4 properties for assisted living and 2 new “DANA Lifestyle” properties. All these properties are located in the north western region of Germany. The nursing homes and assisted living properties are owned by SAREC, a fully owned subsidiary of Haddia. The head office is located in Hannover and the group employs around 900 highly qualified employees who specialize in the care of the elderly.

To meet the requirements of the changing market, a new concept “DANA Lifestyle” was developed on two new properties, each consisting of 17 apartments which have been outfitted to meet the special needs of its elderly clients and residents, provide the maximum comfort, and which can be acquired by the tenants. This concept allows these properties to be constructed in central locations in various small German towns.

During 2014, the two “DANA Lifestyle” properties with 34 apartments, in total, were constructed, operated and managed by DANA as well. Leasing and selling of the apartments on both properties has already started and Haddia expects 70% to 80% of both properties to be leased or sold by mid-2015.

Haddia has always focused on very high quality and standard of service and maintains top class properties, which provide the best living conditions and facilities for its elderly clients. Also, throughout the year 2014, DANA maintained its market position in Germany, of being one of the best operators in the field of geriatric care.

INFORMATION TECHNOLOGY

Salhia utilizes sophisticated IT systems to accommodate all aspects of its business and development needs through a team of highly qualified and trained IT personel equipped with the latest technology; while at the same time exploring some of the newer technologies in order to best serve and benefit Salhia on its upcoming projects.

Since the year 2003, Salhia has been using state-of-the-art Oracle applications for all departments in order to maximize the level of productivity in the company.

In keeping with the latest released enhancements of oracle systems, Salhia has implemented the newest versions first by attending technology exhibitions on all the latest prerequisites of hardware and software on the market and then by conducting on the job training, as well as providing the latest Oracle training programs for its staff.

Human Resources

The Human Resources and Administration group is a major strategic group in Salhia Real Estate Company working with all other departments to achieve the company's goals by recruiting a highly skilled staff in all areas of the company in which customer service is required, and also to improve employee professionalism through training and development programs and contribute to the preservation of the company's policies and work ethic to achieve the highest level of performance.

SALHIA REAL ESTATE COMPANY K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

Building a better working world

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Salhia Real Estate Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SALHIA REAL ESTATE COMPANY K.S.C.P. (CONTINUED)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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. 25 of 2012, as amended, and its executive regulation and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended and its executive regulation, or of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2014 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

Ali A. Al-Hasawi
LICENCE NO.30-A
RÖDL MIDDLE EAST
BURGAN – INTERNATIONAL ACCOUNTANTS

16 February 2015

Kuwait

Salhia Real Estate Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2014

	Notes	2014 KD	2013 KD
Revenues		44,022,766	46,109,061
Operating costs		(18,838,097)	(19,436,319)
Gross profit		25,184,669	26,672,742
Share in joint venture's results	9	1,597,828	12,550,890
General and administrative expenses		(3,667,355)	(4,224,752)
Depreciation	10,11	(5,964,606)	(6,260,059)
Sales and marketing expenses		(798,889)	(864,751)
Investment income	4	788,222	333,984
Foreign exchange loss		(392,826)	(86,832)
Interest income		275,288	260,169
Other income, net		159,183	253,600
Impairment loss on financial assets available for sale	8	(274,298)	(5,833,237)
Finance costs		(4,541,918)	(5,674,279)
Profit before tax		12,365,298	17,127,475
Taxation on overseas subsidiaries		(209,593)	(228,601)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOUR SUPPORT TAX ("NLST"), ZAKAT AND DIRECTORS' FEES		12,155,705	16,898,874
KFAS		(110,359)	(152,526)
NLST		(306,065)	(423,464)
Zakat		(110,357)	(152,526)
Directors' fees	18	(120,000)	(120,000)
PROFIT FOR THE YEAR		11,508,924	16,050,358
Attributable to:			
Equity holders of the Parent Company		11,422,038	16,010,674
Non-controlling interests		86,886	39,684
		11,508,924	16,050,358
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE PARENT COMPANY	5	23.07 fils	32.3 fils

The attached notes 1 to 25 form part of these consolidated financial statements.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 KD	2013 KD
Profit for the year		11,508,924	16,050,358
Other comprehensive income:			
Other comprehensive income / (loss) to be reclassified to consolidated income statement in subsequent periods:			
Net movement in cumulative changes in fair value		1,718,093	(131,957)
Realised gain on sale of financial assets available for sale	4	(629,984)	(34,017)
Impairment loss transferred to consolidated statement of income	8	252,026	261,955
Exchange differences arising on translation of foreign operations		(4,403,690)	1,617,317
Other comprehensive (loss)/income for the year		(3,063,555)	1,713,298
Total comprehensive income for the year		8,445,369	17,763,656
Attributable to:			
Equity holders of the Parent Company		8,667,117	17,461,036
Non-controlling interests		(221,748)	302,620
		8,445,369	17,763,656

The attached notes 1 to 25 form part of these consolidated financial statements.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 KD	2013 KD
ASSETS			
Cash and bank balances	6	7,975,666	7,285,873
Fixed deposits		529,895	2,657,964
Inventories		349,110	328,239
Accounts receivable and other assets	7	6,489,549	6,904,552
Financial assets available for sale	8	10,100,742	11,318,456
Interest in joint venture	9	15,194,875	16,907,027
Investment properties	10	146,454,079	142,831,144
Property and equipment	11	79,692,334	86,042,042
TOTAL ASSETS		266,786,250	274,275,297
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and other liabilities	12	19,261,898	16,644,670
Commercial financing	13	24,544,119	27,674,387
Islamic financing	14	81,583,334	86,750,000
TOTAL LIABILITIES		125,389,351	131,069,057
EQUITY			
Share capital	15	51,272,341	51,272,341
Share premium		35,055,163	35,055,163
Treasury shares	16	(4,289,737)	(3,941,495)
Treasury shares reserve	16	1,817,810	1,817,810
Statutory reserve	17	24,261,580	23,054,698
Voluntary reserve	17	20,489,290	20,489,290
Retained earnings		14,801,129	14,492,441
Fair value reserve		(404,404)	(1,744,539)
Foreign currency translation reserve		(4,375,203)	(280,147)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		138,627,969	140,215,562
Non-controlling interests		2,768,930	2,990,678
TOTAL EQUITY		141,396,899	143,206,240
TOTAL LIABILITIES AND EQUITY		266,786,250	274,275,297

Ghazi Fahad Alnafisi

Chairman

The attached notes 1 to 25 form part of these consolidated financial statements.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to equity holders of the Parent Company												
	Share capital	Share premium	Treasury shares	Treasury shares reserve	Statutory reserve	Voluntary reserve	Other reserve	Retained earnings	Fair value reserve	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2014	**51,272,341**	**35,055,163**	**(3,941,495)**	**1,817,810**	**23,054,698**	**20,489,290**	**-**	**14,492,441**	**(1,744,539)**	**(280,147)**	**140,215,562**	**2,990,678**	**143,206,240**
Profit for the year	-	-	-	-	-	-	-	11,422,038	-	-	11,422,038	86,886	11,508,924
Other comprehensive loss	-	-	-	-	-	-	-	-	1,340,135	(4,095,056)	(2,754,921)	(308,634)	(3,063,555)
Total comprehensive income/ (loss)	-	-	-	-	-	-	-	11,422,038	1,340,135	(4,095,056)	8,667,117	(221,748)	8,445,369
Purchased of treasury shares	-	-	(348,242)	-	-	-	-	-	-	-	(348,242)	-	(348,242)
Dividends (Note 15)	-	-	-	-	-	-	-	(9,906,468)	-	-	(9,906,468)	-	(9,906,468)
Transfer to reserves	-	-	-	-	1,206,882	-	-	(1,206,882)	-	-	-	-	-
Balance at 31 December 2014	**51,272,341**	**35,055,163**	**(4,289,737)**	**1,817,810**	**24,261,580**	**20,489,290**	**-**	**14,801,129**	**(404,404)**	**(4,375,203)**	**138,627,969**	**2,768,930**	**141,396,899**
Balance at 1 January 2013	51,272,341	35,055,163	(3,941,495)	1,817,810	21,368,779	20,489,290	(663,600)	8,261,137	(1,840,520)	(1,634,528)	130,184,377	2,688,058	132,872,435
Profit for the year	-	-	-	-	-	-	-	16,010,674	-	-	16,010,674	39,684	16,050,358
Other comprehensive income	-	-	-	-	-	-	-	-	95,981	1,354,381	1,450,362	262,936	1,713,298
Total comprehensive income	-	-	-	-	-	-	-	16,010,674	95,981	1,354,381	17,461,036	302,620	17,763,656
Transfer to retained earnings (Note 20b)	-	-	-	-	-	-	663,600	(663,600)	-	-	-	-	-
Dividends (Note 15)	-	-	-	-	-	-	-	(7,429,851)	-	-	(7,429,851)	-	(7,429,851)
Transfer to reserve	-	-	-	-	1,685,919	-	-	(1,685,919)	-	-	-	-	-
Balance at 31 December 2013	51,272,341	35,055,163	(3,941,495)	1,817,810	23,054,698	20,489,290	-	14,492,441	(1,744,539)	(280,147)	140,215,562	2,990,678	143,206,240

The attached notes 1 to 25 form part of these consolidated financial statements.

Salhia Real Estate Company K.S.C.P. and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

	Notes	2014 KD	2013 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat and Directors' fees		12,155,705	16,898,874
Adjustments for:			
Share in joint venture's results, net of related tax	9	(1,597,828)	(12,550,890)
Depreciation	10,11	5,964,606	6,260,059
Provision for employees' terminal benefits		500,910	460,796
Investment income	4	(788,222)	(333,984)
Foreign exchange loss		392,826	86,832
Interest income		(275,288)	(260,169)
Finance costs		4,541,918	5,674,279
Impairment loss on financial assets available for sale	8	274,298	5,833,237
Gain on sale of investment properties and fixed assets		(15,062)	-
		21,153,863	22,069,034
Changes in operating assets and liabilities			
Inventories		(20,871)	41,603
Accounts receivable and other assets		415,003	(1,880,204)
Accounts payable and other liabilities		2,046,249	1,325,008
Cash from operations		23,594,244	21,555,441
Employees' terminal benefits paid		(132,487)	(2,083,516)
KFAS paid		(152,526)	(79,154)
National Labour Support Tax paid		(373,740)	(237,525)
Zakat paid		(149,496)	(95,021)
Directors' fees paid		(120,000)	(120,000)
Net cash flows from operating activities		22,665,995	18,940,225
INVESTING ACTIVITIES			
Purchase of financial assets available for sale		-	(282,892)
Proceeds from sale of financial assets available for sale		704,567	34,017
Additions to investment properties and property and equipment	10,11	(6,784,617)	(2,020,926)
Proceeds from sale of investment properties and property and Equipment		22,806	12,808
Investment income received		158,238	299,967
Dividends received from joint venture	9	2,350,002	9,732,500
Interest income received		275,288	260,169
Fixed deposits		2,128,069	806,353
Net cash flows (used in) from investing activities		(1,145,647)	8,841,996
FINANCING ACTIVITIES			
Proceeds from commercial and Islamic financings obtained		10,000,000	8,000,000
Repayment of commercial and Islamic financings		(16,033,927)	(20,582,432)
Due from a financial institution repaid		-	-
Finance costs paid		(4,541,918)	(5,585,385)
Dividends paid		(9,906,468)	(7,429,851)
Purchase of treasury shares		(348,242)	-
Net cash flows used in financing activities		(20,830,555)	(25,597,668)
INCREASE IN CASH AND BANK BALANCES		689,793	2,184,553
Cash and cash equivalents at the beginning of the year		7,285,873	5,101,320
CASH AND BANK BALANCES AT THE END OF THE YEAR	6	7,975,666	7,285,873

The attached notes 1 to 25 form part of these consolidated financial statements.

Salhia Real Estate Company K.S.C.P. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2014

1. CORPORATE INFORMATION

The consolidated financial statements of Salhia Real Estate Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively "the Group") for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors 16th February 2015. The general assembly of the shareholders of the Parent Company has the power to amend these consolidated financial statements after issuance.

The Group comprises Salhia Real Estate Company K.S.C.P. and its Subsidiaries listed in Note 19.

The Parent Company is a Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. It's registered office is located at Salhia Complex, Mohammed Thunayan Al-Ghanim, P.O. Box 23413 Safat 13095 Kuwait.

The Group's main activities comprise real estate leasing and development of commercial properties and hotel operations in Kuwait and care home operation in Germany. Surplus funds are invested in real estate and securities portfolios managed by specialist investment managers.

2. SIGNIFICANT ACCOUNTING POLICES

2.1 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990.

Basis of preparation

The consolidated financial statements are prepared under the historical cost basis except for financial assets available for sale that have been measured at fair value.

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

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries including special purpose entities as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

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

Consolidated statement of income and each component of other comprehensive income ("OCI") are attributed to the shareholders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of Subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

Salhia Real Estate Company K.S.C.P. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2014

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised.

- Rental income is recognised on a straight-line basis over the lease terms.
- Interest income is recognized as it accrues using the effective interest rate method ("EIR").
- Hotel and care home income represents the invoiced value of services provided during the year.
- Dividend income is recognized when the Group's right to receive payment is established.
- Gain on sale of property is recognized when the sale has been consummated and the contracts have been signed, the significant risks and rewards of ownership have passed to the buyers and the Group has no continuing involvement in the property.
- Gain on sale of investments is recognized on a trade date basis.

Finance costs

Finance costs directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognized as an expense in the period in which they are incurred.

The finance cost capitalized is calculated using the weighted average cost of borrowing after adjusting for borrowing associated with specific development. Where borrowings are associated with specific developments, the amount capitalized is the gross finance cost incurred on those borrowing less any investment income arising on their temporary investment. Finance cost is capitalized as from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Finance cost is also capitalized in the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Foreign currency translation

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

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are included within foreign currency gain or loss in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Group companies

As at the reporting date, the assets and liabilities of foreign subsidiaries, and the carrying values of foreign associates and joint venture investments, are translated into the Parent Company's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the reporting date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to the consolidated statement of other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

Leases

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

Group as a lessee

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

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

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

Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

Salhia Real Estate Company K.S.C.P. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2014

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit of the Parent Company (net of accumulated losses brought forward) after accounting for the transfer to statutory reserve and after deducting its share of income from shareholding subsidiaries and associates and transfer to statutory reserve.

National Labour Support Tax (NLST)

The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. In determining taxable profit, profit of associates and Subsidiaries subject to NLST and cash dividends from listed companies subject to NLST are deducted.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Taxation on overseas Subsidiaries

Taxation on overseas Subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these Subsidiaries operate.

Cash and bank balances

Cash and bank balances are short-term, highly liquid investments including short-term fixed deposits that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value, net of due to banks contractually due within three months.

Fixed deposits

Fixed deposits in the statement of financial position comprise term deposit with original maturity of one year or less.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as cash and bank balances, loans and receivables or financial assets available for sale, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through consolidated statement of income, transaction costs that are attributable to the acquisition of the financial asset. The Group determines the classification of its financial assets at initial recognition.

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any. Losses arising from impairment are recognised in the consolidated statement of income.

Financial assets available for sale

Financial assets available for sale include equity securities. Equity securities classified as available for sale are those, which neither classified as held for trading nor designated at fair value through profit and loss. Investments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as cumulative changes in fair values in other comprehensive income until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss is removed from the fair value reserve and recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are stated as cost less impairment losses, if any.

The Group evaluates whether the ability and intention to sell its available for sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available for sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to the consolidated statement of income over the remaining life of the investment using the effective interest rate method (EIR). Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

Derecognition

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

- the rights to receive the cash flows from the asset have expired;
- the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Salhia Real Estate Company K.S.C.P. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2014

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment and uncollectibility of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets available-for-sale

For financial asset available for sale, the Group assesses at each financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investment classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

In relation to loans and receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as accounts payable, commercial financing and islamic financing, as appropriate.

The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in case of accounts payable, commercial financing and islamic financing net of directly attributable transactions costs.

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement

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

Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Commercial financing

After initial recognition, interest bearing commercial financing is subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate.

Islamic financing

Islamic financing represents Murabaha and Wakala financing taken under Murabaha and Wakala arrangements. Islamic financing is stated at the gross amount of the payable, net of deferred cost payable. Deferred cost payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis, or to realise the assets and liabilities simultaneously.

Inventories

Inventories of food and beverages are valued at the lower of cost and net realizable value after making due allowance for any expired or slow-moving items. Cost is determined by the first-in, first-out basis.

Net realizable value is based on estimated selling price less any further costs expected to be incurred on sale.

Inventories of operating supplies are valued at cost less due allowance for any obsolete or slow-moving items. Cost is determined on a weighted average basis.

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2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income. After such reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Interest in joint venture

The interest in the joint venture is accounted for using the equity method Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

The Group interest in the joint venture is accounted for using the equity method. Under the equity method, the interest in joint venture is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. Goodwill relating to a joint venture is included in the carrying amount of the investment and is not amortised. The Group recognises in the consolidated statement of income its share of the results of the joint venture from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the joint venture reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the joint venture arising from changes in the joint venture's equity. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes in the consolidated statement of comprehensive income.

Unrealised gains on transactions with joint venture are eliminated to the extent of the Group's share in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of interest in joint venture is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The joint venture's financial statements are prepared to the Parent Company's reporting date or to a date not earlier or later than three months of the Parent Company's reporting date. Where practicable, appropriate adjustments are made to the joint venture's financial statements to bring them in line with the Group's accounting policies.

Salhia Real Estate Company K.S.C.P. and Subsidiaries
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2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Upon loss of joint control over the venture, the group measures and recognize any retained investment at its fair value.

Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at depreciated cost less provision for impairment. Buildings are depreciated using the straight line method over their estimated useful lives which vary between 10 to 50 years.

The carrying amounts are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, properties are written down to their recoverable amount.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the year of derecognition.

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

Properties under construction

Properties under construction are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset.

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

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment in value (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial year in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is provided on a straight line basis at rates calculated to write-off the cost of each asset over its expected useful life as follows:

- Buildings and related immovable equipment 10 to 50 years
- Furniture and equipment 10 years
- Motor vehicles 5 years

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2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amounts are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

The useful economic lives of property and equipment are reviewed at each financial year and revised for significant change where necessary.

An item of property, plant and equipment initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or dispoals.

Any gain or loss arising on derecognition of the assets is included in the consolidated statement of income when the asset is derecognised.

Capital work in progress

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

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

Treasury shares

The Parent Company's own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Share-based payments

The Group operates equity-settled transactions in the form of, share-based employees share option plan (ESOP). Under the terms of the plan, share options are granted to eligible employees and are exercisable at the end of the vesting period. The fair value of the options is recognised as an expense over the vesting period with a corresponding effect in equity. The fair value of the options is determined using the Black-Scholes option pricing model.

The proceeds received from the exercise of the share options are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be incurred to settle the obligation.

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

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

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

Fair value measurement

The Group measures certain financial instruments, such as available of sale financial assets, at fair value at the end of each reporting period.

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

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

The Group must be able to access the principal or the most advantageous market at the measurement date. 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

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

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

An analysis of fair values of financial instruments and further are provided in Note 8.

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2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for Subsidiaries at fair value through consolidated statement of income. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

The adoption of the above mentioned amendments did not have any impact on the financial position or performance of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments (effective for annual periods on or after 1 January 2018)

The IASB issued IFRS 9 Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's financial statements, when adopted.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through consolidated statement of income whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

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2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

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2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in Subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. The Group, however, expects no material impact from the adoption of the amendments on its financial position or performance.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

In the process of applying the Group's accounting policies, management has made the following significant judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Business combinations

The Group acquires Subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.

When the acquisition of Subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Classification of real estate

Management of the Group decides on acquisition of a developed and under development property whether it should be classified as trading, investment property or properties and equipment.

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

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

The Group classifies property as property and equipment when it is acquired for owner occupation.

Classification of equity investments

All investments are classified as available for sale.

Impairment of financial assets available for sale

The Group treats financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of receivables

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

Estimates and assumptions

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

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Valuation of unquoted equity instruments

Valuation of unquoted equity instruments is normally based on one of the following:
- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- An earnings multiple or industry specific earnings multiple;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment (see Note 8).

Salhia Real Estate Company K.S.C.P. and Subsidiaries
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4. INVESTMENT INCOME

	2014 KD	2013 KD
Gain on sale of financial assets available for sale	629,984	34,017
Dividend income	158,238	299,967
	788,222	333,984

5. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic:

Basic earnings per share attributable to equity holders of the Parent Company is computed by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares).

Diluted:

Diluted earnings per share attributable to the equity holders of the Parent Company is computed by dividing the profit for the year attributable to the equity holders of the Parent Company, adjusted for the effect of conversion of employees share options, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees share options. The Parent Company does not have outstanding share options under the employees share option plan as at 31 December 2014.

	2014	2013
Profit for the year attributable to equity holders of the Parent Company (KD)	11,422,038	16,010,674
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	495,194,135	495,323,413
Basic and diluted earnings per share attributable to equity holders of the Parent Company	23.07 fils	32.3 fils

6. CASH AND BANK BALANCES

Cash and bank balances comprises of the following:

	2014 KD	2013 KD
Cash on hand	218,968	114,722
Bank balances	7,756,698	7,171,151
	7,975,666	7,285,873

Bank balances represent non-interest bearing current bank accounts held with commercial banks.

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7. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2014 KD	2013 KD
Hotel guests and care home residents receivables	1,233,800	2,785,620
Rent receivable	518,483	168,637
Staff receivables (Note 20)	80,542	287,088
Deposits and prepaid expenses	396,439	402,681
Advance payments to contractors	314,234	278,817
Due from related parties (Note 20)	1,365,571	888,083
Other receivables	2,580,480	2,093,626
	6,489,549	6,904,552

Hotel guests, care home residents receivables and rent receivable are non-interest yielding and are generally on 30-90 days terms.

Movement in the impairment of hotel guests and rent receivable is as follows:

	2014 KD	2013 KD
At 1 January	397,411	392,951
Charge of impairment for the year	13,554	4,460
Reversed during the year	(125,000)	-
At 31 December	285,965	397,411

As at 31 December, the analysis of hotel guests, care home residents receivables and rent receivable that were past due but not impaired is as follows:

			Past due but not impaired				
	Neither past due nor impaired **KD**	**< 30 days** **KD**	**30 to 60 days** **KD**	**60 to 90 days** **KD**	**90 to 120 days** **KD**	**> 120 days** **KD**	**Total** **KD**
2014	**142,399**	**923,716**	**156,086**	**246,020**	**161,284**	**122,778**	**1,752,283**
2013	133,555	1,065,134	1,147,610	190,079	67,144	350,735	2,954,257

Hotel guests, care home residents receivables and rent receivable include amounts denominated in the following major currencies:

	2014 KD	2013 KD
Kuwaiti Dinar	1,543,665	2,733,350
Euro	208,618	220,907
	1,752,283	2,954,257

Salhia Real Estate Company K.S.C.P. and Subsidiaries

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8. FINANCIAL ASSETS AVAILABLE FOR SALE

	2014 KD	2013 KD
Managed quoted portfolios	2,071,617	2,470,957
Managed funds	98,316	454,037
Unquoted securities	7,930,809	8,393,462
	10,100,742	11,318,456

	2014 KD	2013 KD
Local investments	3,914,591	4,662,902
Foreign investments	6,186,151	6,655,554
	10,100,742	11,318,456

Managed quoted portfolios represent local and foreign equity investments and are carried at market bid prices and fair values as reported by the portfolio managers. During the year, the Parent Company recorded an impairment loss of KD 57,332 (2013: KD 261,955) against foreign equity investments respectively.

Managed funds represent investments in mutual funds which are carried at the latest net asset value provided by the respective fund managers. During the year, the Parent Company recorded an impairment loss of KD 194,694 (2013 KD: Nil) against investments for prolonged decline in value.

Unquoted equity securities amounting to KD 94,812 (2013: KD 492,651) are carried at fair value as reported by the portfolio manager.

Unquoted equity securities amounting to KD 7,835,997 (2013: KD 7,900,811) are carried at cost less impairment since fair values cannot be reliably estimated and the investment managers have been unable to indicate any estimates of the range within which fair values might lay. The management recorded an impairment loss of KD 22,272 (2013: KD 1,105,067) against these investments based on the most recently available information to them.

During the year ended 2013, the Group has fully impaired an investment which has filed a voluntary case under Chapter 11 of the United States Bankruptcy Code to protect the business and assets of the Company amounting to KD 4,466,215.

The following table provides the fair value measurement hierarchy of the Group's financial assets available for sale:

31 December 2014	**Level 1 KD**	**Level 2 KD**	**Level 3 KD**	**Total KD**
Managed portfolios	**2,071,617**	**-**	**-**	**2,071,617**
Managed funds	**-**	**98,316**	**-**	**98,316**
Unquoted securities	**-**	**-**	**94,812**	**94,812**
	2,071,617	**98,316**	**94,812**	**2,264,745**

31 December 2013	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Managed portfolios	2,470,957	-	-	2,470,957
Managed funds	-	454,037	-	454,037
Unquoted securities	-	-	492,651	492,651
	2,470,957	454,037	492,651	3,417,645

Salhia Real Estate Company K.S.C.P. and Subsidiaries

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8. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

During the year ended 31 December 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing balances of the financial instruments classified in level 3 of the fair value hierarchy:

31 December 2014	**At 1 January 2014**	**Loss recorded in the consolidated income statement**	**Gain recorded in equity**	**Net purchases, sales, transfers and settlements**	**At 31 December 2014**
	KD	**KD**	**KD**	**KD**	**KD**
Assets measured at fair value					
Financial assets available for sale					
Unquoted securities	**492,651**	**-**	**-**	**(397,839)**	**94,812**

31 December 2013	At 1 January 2013	Loss recorded in the consolidated income statement	Gain/(Loss) recorded in equity	Net purchases, sales, transfers and settlements	At 31 December 2013
	KD	KD	KD	KD	KD
Assets measured at fair value					
Financial assets available for sale					
Unquoted securities	5,132,319	(5,073,812)	434,144	-	492,651

9. INTEREST IN JOINT VENTURE

This represents the Group's 50% (2013: 50%) interest in a United Kingdom based joint venture entity, Key Property Investments limited, engaged in real estate leasing and development.

	2014 KD	2013 KD
Carrying amount of the investment in the joint venture:		
At 1 January	16,907,027	13,312,728
Share in the joint venture's results	1,597,828	12,550,890
Dividend received	(2,350,002)	(9.732.500)
Foreign currency translation adjustment	(959,978)	775,909
At 31 December	15,194,875	16,907,027
Share of joint venture entity's statement of financial position:		
Current assets	-	3,490,806
Long-term assets	34,796,370	27,063,264
Current liabilities	(2,272,343)	(6,440,819)
Long-term liabilities	(17,329,152)	(7,206,224)
Net assets	15,194,875	16,907,027
Share of joint venture entity's revenue and results:		
Revenues	4,441,621	6,125,766
Results	1,597,828	12,550,890

Salhia Real Estate Company K.S.C.P. and Subsidiaries
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10. INVESTMENT PROPERTIES

	Freehold land KD	*Buildings* KD	*Properties under construction* KD	*Total* KD
Balance at 1 January 2014	92,963,823	39,164,761	10,702,560	142,831,144
Additions	20,800	-	5,585,080	5,605,880
Depreciation charged for the year	-	(1,757,710)	-	(1,757,710)
Foreign currency translation adjustment	(89,964)	-	(135,271)	(225,235)
Balance at 31 December 2014	**92,894,659**	**37,407,051**	**16,152,369**	**146,454,079**
Cost	99,507,274	58,783,826	16,152,369	174,443,469
Accumulated depreciation	-	(21,376,775)	-	(21,376,775)
Impairment provision	(6,612,615)	-	-	(6,612,615)
Balance at 31 December 2014	**92,894,659**	**37,407,051**	**16,152,369**	**146,454,079**

	Freehold land KD	*Buildings* KD	*Properties under construction* KD	*Total* KD
Balance at 1 January 2013	92,864,337	40,906,364	9,934,879	143,705,580
Additions	69,862	16,000	717,719	803,581
Depreciation charged for the year	-	(1,757,603)	-	(1,757,603)
Foreign currency translation adjustment	29,624	-	49,962	79,586
Balance at 31 December 2013	92,963,823	39,164,761	10,702,560	142,831,144
Cost	99,579,457	58,783,826	10,702,560	169,065,843
Accumulated depreciation	-	(19,619,065)	-	(19,619,065)
Impairment provision	(6,615,634)	-	-	(6,615,634)
Balance at 31 December 2013	92,963,823	39,164,761	10,702,560	142,831,144

Investment properties with a carrying value of KD 4,898,246 (2013: KD 4,898,246) are registered in the name of a nominee. The nominee has confirmed in writing that the Parent Company is the beneficial owner of the properties.

The fair value of investment properties amounted to KD338,586,909 (2013: KD 343,879,464) at the reporting date based on valuations obtained from two independent appraiser, who are industry specialists in valuing these types of investment properties. One of these appraiser is a local bank and the other is a local reputable accredited appraiser using mixed acceptable methods of valuation such as sales comparison, income capitalization and market comparable method. As significant valuation inputs used are based on unobservable market data, these are classified under level 3 fair value hierarchy.

For properties under construction amounting to KD 16,152,369 (2013: KD 10,702,560), no fair valuation was available as there is no reliable measurement of fair value since the project is under construction.

Investment properties amounting to KD 71,794,141 are secured against Islamic financing obtained by a local subsidiary. Under the terms of the liability, the lenders have no recourse to the Parent Company in the event of default.

Salhia Real Estate Company K.S.C.P. and Subsidiaries
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11. PROPERTY AND EQUIPMENT

	Freehold land	*Buildings*	*Furniture and equipment*	*Motor vehicles*	*Capital work in progress*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
Balance at 1 January 2014	12,900,406	65,877,029	6,591,790	96,902	575,915	86,042,042
Additions	-	-	1,093,788	19,884	65,065	1,178,737
Disposals	-	-	(160,244)	(70,928)	-	(231,172)
Transfers from capital work in progress	-	-	19,416	-	(19,416)	-
Depreciation charge for the year	-	(2,419,456)	(1,757,419)	(30,021)	-	(4,206,896)
Depreciation related to disposals	-	-	153,084	70,344	-	223,428
Foreign currency translation adjustment	(455,981)	(2,754,784)	(96,893)	-	(6,147)	(3,313,805)
Balance at 31 December 2014	**12,444,425**	**60,702,789**	**5,843,522**	**86,181**	**615,417**	**79,692,334**
Cost	12,444,425	99,595,037	36,537,476	328,826	615,417	149,521,181
Accumulated depreciation	-	(38,892,248)	(30,693,954)	(242,645)	-	(69,828,847)
Net carrying amount at 31 December 2014	**12,444,425**	**60,702,789**	**5,843,522**	**86,181**	**615,417**	**79,692,334**

Salhia Real Estate Company K.S.C.P. and Subsidiaries
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At 31 December 2014

11. PROPERTY AND EQUIPMENT (continued)

	Freehold land	*Buildings*	*Furniture and equipment*	*Motor vehicles*	*Capital work in progress*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
Balance at 1 January 2013	12,652,854	66,604,611	7,054,003	75,459	1,111,133	87,498,060
Additions	-	235	925,982	52,835	238,293	1,217,345
Disposals	-	-	(100,336)	(56,653)	(1,008)	(157,997)
Transfers from capital work in progress	-	16,315	758,884	-	(775,199)	-
Depreciation charge for the year	-	(2,281,212)	(2,189,852)	(31,392)	-	(4,502,456)
Depreciation related to disposals	-	-	88,536	56,653	-	145,189
Foreign currency translation adjustment	247,552	1,537,080	54,573	-	2,696	1,841,901
Balance at 31 December 2013	12,900,406	65,877,029	6,591,790	96,902	575,915	86,042,042
Cost	12,900,406	99,595,037	35,584,516	379,870	575,915	149,035,744
Accumulated depreciation	-	(33,718,008)	(28,992,726)	(282,968)	-	(62,993,702)
Net carrying amount at 31 December 2013	12,900,406	65,877,029	6,591,790	96,902	575,915	86,042,042

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12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2014 KD	2013 KD
Accounts payable	7,408,408	4,983,347
Retentions payable	123,168	123,071
Due on purchase of investment property	1,193,996	1,193,996
Accrued expenses	3,759,361	4,467,134
Deposits from tenants, hotel and care home guests	637,316	625,909
Rents received in advance	1,085,960	1,163,013
Employees' terminal benefits	3,212,308	2,843,885
Other payables	1,841,381	1,244,315
	19,261,898	16,644,670

13. COMMERCIAL FINANCING

Commercial financing are contractually due for repayment as follows:

	2014 KD	2013 KD
Instalments payable within one year	1,716,377	1,715,774
Instalments payable within one year to two years	1,012,366	991,567
Instalments payable within two years to three years	1,022,309	1,030,781
Instalments payable within three years to four years	1,050,915	1,052,417
Instalments payable after four years	19,742,152	22,883,848
	24,544,119	27,674,387

Commercial financing are denominated in the following currencies:

	2014 KD	2013 KD
Euro	23,813,095	26,928,475
GBP	731,024	745,912
	24,544,119	27,674,387

Commercial financing are repayable in periodic installments over variable periods of time with maturities extending to December 2040.

Commercial financing denominated in euro carries variable interest rates which range from 1.5% to 2% per annum (2013: 1.5% to 2% per annum) over EURIBOR.

Commercial financing amounting to KD 23,813,095 (2013: KD 26,928,475) has been obtained by a foreign subsidiary under the terms of which lenders have no recourse to the Parent Company in the event of default.

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14. ISLAMIC FINANCING

	2014 KD	2013 KD
Murabaha financing	77,083,334	77,250,000
Wakala financing	4,500,000	9,500,000
	81,583,334	86,750,000

Islamic financing are contractually due for repayment as follows:

	2014 KD	2013 KD
Instalments payable within one year	14,333,330	10,166,667
Instalments payable within one year to two years	8,833,331	11,416,667
Instalments payable within two years to three years	18,833,339	25,416,667
Instalments payable within three years to four years	6,166,667	4,416,667
Instalments payable after four years	33,416,667	35,333,332
	81,583,334	86,750,000

The average profit rate attributable to islamic financing during the years is 1.5% per annum (2013: 1.75% per annum) over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 48,583,333 has been obtained by a local subsidiary acquired during 2011, and is secured by an investment property with a carrying value of KD 71,794,141 owned by the Group. Under the terms of the liability, the lenders have no recourse to the Parent Company in the event of default.

15. SHARE CAPITAL AND GENERAL ASSEMBLY MEETING

At the annual general assembly of the shareholders of the Parent Company held on 9 April 2014, the shareholders approved the distribution of cash dividends of 20 fils per share (2012: 15 fils per share) amounting to KD 9,906,468 for the year ended 31 December 2013 (2012: KD 7,429,851) for shareholders registered on that date.

As at 31 December 2014, the authorized, issued and paid up capital comprises of 512,723,413 shares at 100 fils per share each (31 December 2013: 512,723,413 shares).

For the year ended 31 December 2014, the Board of Directors of the Parent Company has proposed cash dividends of 20 fils (2013: 20 fils) per share. This proposal is subject to the approval of the annual general assembly of the shareholder's of the Parent Company.

16. TREASURY SHARES

At 31 December 2014, the Parent Company' held 18,344,547 (2013: 17,400,000) of its own shares, equivalent to 3.58% (2013: 3.39%) of the total issued share capital at that date. The market value of these shares at the reporting date was KD 6,787,482 (2013: KD 6,699,000). Reserves of the Parent Company equivalent to the cost of the treasury shares have been ear-marked as non distributable.

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17. STATUTORY, VOLUNTARY AND GENERAL RESERVES

As required by the Companies Law and the Parent Company's Articles of Association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and directors' fees and after offsetting accumulated losses brought forward, is required to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals or exceeds 50% of paid-up share capital. Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

As required by the Parent Company's Articles of Association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and directors' fees and after offsetting accumulated losses brought forward is required to be transferred to voluntary reserve.

In 2012, the shareholders of the Parent Company agreed on the proposal of the Board of Directors to discontinue annual transfer to voluntary reserve.

18. DIRECTORS' FEES

Directors' fees of KD 120,000 are subject to approval by the annual general assembly of the shareholders of the Parent Company. Directors' fees of KD 120,000 for the year ended 31 December 2013 were approved by the annual general assembly of the shareholders of the Parent Company held on 9 April 2014.

19. SUBSIDIARIES

Details of Subsidiaries are set out below:

	31 December 2014	31 December 2013		
Directly held:				
Haddia Holding GMBH	**90.89%**	90.89%	Germany	Holding company
Drawbridge Securities Limited (a)	**50%**	50%	United Kingdom	Property development
Salhia International Investment Limited	**100%**	100%	United Kingdom	Property development
Bunyan Al-Salhia Project Management Company W.L.L.	**99%**	99%	Kuwait	Project management
Al Asima Real Estate Company K.S.C	**99.74%**	99.74%	Kuwait	Real estate
Held through Haddia Holding GMBH:				
SAREC GMBH	**100%**	100%	Germany	Leasing of properties
DANA Lebensstil GmbH (a)	**50%**	50%	Germany	Dormant company
Dana Senioreneinrichtungen GMBH (a)	**40%**	40%	Germany	Care home operator
Dana Ambulante Pfegedienste GMBH (a)	**40%**	40%	Germany	Care home service provider
Dana Services GMBH (Gredo GMBH) (a)	**40%**	40%	Germany	Care home catering service provider
Held through Salhia International Investments Limited:				
Salhia Jersey Limited	**100%**	100%	United Kingdom	Real estate
Salhia Investments (Birmingham) Limited	**100%**	100%	United Kingdom	Real estate
Ingelby Limited (b)	**100%**	100%	United Kingdom	Property development

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19. SUBSIDIARIES (continued)

The financial year end of all the above subsidiaries is 31 December except for Drawbridge securities limited, Ingelby limited and Salhia International Investment which have a financial year end of 30 November.

(a) During the year ended 31 December 2014, the Group continued to consolidate Drawbridge Securities Limited, DANA Lebensstil GmbH, Dana Senioreneinrichtungen GMBH, Dana Ambulante Pfegedienste GMBH and Dana Services GMBH (Gredo GMBH) as the Group exercise control and has in substance the majority of ownership risks in order to obtain benefits from their activities.

20. RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, joint venture entities, directors and key management personnel of the Group, and companies which are controlled by them or over which they have significant influence and dealing with the Group. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions with related parties included in the consolidated statement of income are as follows:

	2014	2013
	KD	KD
Directors fees	120,000	120,000
Consultation fees	-	150,000

Balances with related parties included in the consolidated statement of financial position are as follows:

	Major shareholders	Other related parties	Total 2014	Total 2013
	KD	KD	KD	KD
Staff receivables (Note 7)	-	80,542	80,542	287,088
Due from related parties (Note 7)	-	1,365,571	1,365,571	888,083

Compensation of key management personnel

The remuneration of key management personnel of the Group during the year is as follows:

	2014	2013
	KD	KD
Short-term benefits	409,118	401,365
Employees' end of service benefits	122,373	107,223
	531,491	508,588

21. SEGMENTAL INFORMATION

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating consolidated statement of income as explained in the table below.

Segment results include revenue and expenses directly attributable to a segment.

- Real estate operations: Consist of development and leasing of properties.
- Hotel operations: Consist of the hotel hospitality services provided through JW Marriott Hotel – Kuwait, Courtyard Marriott Hotel-Kuwait and Arraya Ball Room - Kuwait.
- Care home operations: Consist of care home activities provided by subsidiary companies.

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21. SEGMENTAL INFORMATION (continued)

The following is the detail of the above segments, which constitutes the Group's operating segments:

	31 December 2014				*31 December 2013*			
	Real estate operations	***Hotel operations***	***Care home operations***	***Total***	*Real estate operations*	*Hotel operations*	*Care home operations*	*Total*
	KD	***KD***	***KD***	***KD***	*KD*	*KD*	*KD*	*KD*
Segment revenue	**16,602,024**	**11,832,371**	**15,588,371**	**44,022,766**	16,583,325	14,048,145	15,477,591	46,109,061
Segment operating costs	**(2,683,513)**	**(4,851,952)**	**(11,302,632)**	**(18,838,097)**	(3,114,816)	(5,217,349)	(11,104,154)	(19,436,319)
Segment gross profit	**13,918,511**	**6,980,419**	**4,285,739**	**25,184,669**	13,468,509	8,830,796	4,373,437	26,672,742
Share in joint venture's results	**1,597,828**	**-**	**-**	**1,597,828**	13,174,075	-	-	13,174,075
Depreciation	**(3,154,636)**	**(1,648,421)**	**(1,161,549)**	**(5,964,606)**	(3,085,961)	(1,981,640)	(1,192,458)	(6,260,059)
Other operating expenses	**(2,247,304)**	**(906,134)**	**(1,312,806)**	**(4,466,244)**	(2,565,316)	(1,189,021)	(1,335,166)	(5,089,503)
Finance costs	**(3,413,233)**	**(74,237)**	**(1,054,448)**	**(4,541,918)**	(4,248,127)	(86,651)	(1,339,501)	(5,674,279)
Taxation on overseas subsidiaries	**-**	**-**	**(209,593)**	**(209,593)**	(623,185)	-	(228,601)	(851,786)
Segment results	**6,701,166**	**4,351,627**	**547,343**	**11,600,136**	16,119,995	5,573,484	277,711	21,971,190
Interest income				**275,288**				260,169
Investment income				**788,222**				333,984
Impairment loss on financial assets available for sale				**(274,298)**				(5,833,237)
Other non-operating (expense)/ income				**(233,643)**				166,768
KFAS, NLST, Zakat and Directors' fees				**(646,781)**				(848,516)
Profit for the year				**11,508,924**				16,050,358
Other information:								
Segment assets	**207,240,359**	**6,076,754**	**38,274,262**	**251,591,375**	208,506,844	6,108,600	42,752,826	257,368,270
Investment in joint venture	**15,194,875**	**-**	**-**	**15,194,875**	16,907,027	-	-	16,907,027
Total assets	**222,435,234**	**6,076,754**	**38,274,262**	**266,786,250**	225,413,871	6,108,600	42,752,826	274,275,297
Segment liabilities	**97,545,281**	**2,715,410**	**25,128,660**	**125,389,351**	99,652,315	2,723,785	28,692,957	131,069,057
Capital expenditure	**6,555,571**	**-**	**229,046**	**6,784,617**	1,739,862	-	281,064	2,020,926

21 SEGMENTAL INFORMATION (continued)

Geographic information

The Group operates in two geographical markets: Kuwait and GCC and Europe. The following table shows the distribution of the Group's segment revenues, assets and capital expenditure.

	31 December 2014			*31 December 2013*		
	Kuwait and GCC	***Europe***	***Total***	*Kuwait and GCC*	*Europe*	*Total*
	KD	***KD***	***KD***	*KD*	*KD*	*KD*
Revenue	**28,434,395**	**15,588,371**	**44,022,766**	30,631,470	15,477,591	46,109,061
Assets	**216,584,284**	**50,201,966**	**266,786,250**	224,090,586	50,184,711	274,275,297
Capital expenditure	**2,366,024**	**4,418,593**	**6,784,617**	1,157,513	863,413	2,020,926

22. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group's principal financial liabilities comprise non-derivatives financial instruments such as commercial financing, Islamic financing, due to banks and a financial institutions and account payables. The main purpose of these financial liabilities is to fund the Group's operations. The Group has various financial assets such as accounts receivable, cash and bank balances and short-term fixed deposits, which arise directly from its operations. The Group also holds financial assets available for sale.

The main risk arising from the Group's financial instruments are market risk, credit risk and liquidity risk.

The Parent Company's Board of Directors and Executive Committee are ultimately responsible for overall risk management including setting, reviewing and agreeing policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, foreign currency risk and equity price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk with respect to its bank balances, fixed deposits, due to banks and financial institution, and commercial financing which are both at fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between floating rate and fixed rate borrowings.

Positions are monitored on a regular basis to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit for the year to a reasonable possible change of interest rate in terms of basis points with effect from the beginning of the year. The calculation is based on the Group's floating rate financial instruments held at each reporting date. All other variables are held constant.

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22. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

	Increase/decrease in basis points	*Effect on profit before KFAS, NLST, Zakat and Directors' fees KD*
2014		
Kuwaiti Dinar	**25**	**203,958**
Euro	**25**	**59,533**
GBP	**25**	**3,655**
2013		
Kuwaiti Dinar	25	216,875
Euro	25	67,321
GBP	25	1,865

Sensitivity to interest rates movement will be on symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's net investments in foreign Subsidiaries, as the Group's exposure to foreign currency monetary assets and liabilities is not significant.

The following table demonstrates the sensitivity to changes in currency rates, with all other variables held constant:

	2014			*2013*		
Currency	***Change in currency rate in %***	***Effect on profit KD***	***Effect on other comprehensive income KD***	*Change in currency rate in %*	*Effect on profit KD*	*Effect on other comprehensive income KD*
US Dollar	**1%**	**45**	**11,508**	1%	(998)	(16,088)
Euro	**1%**	**-**	**(227,880)**	1%	-	(252,811)
GBP	**1%**	**-**	**(4,810)**	1%	-	18,313

Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the Parent Company through diversification of investments in terms of geographical distribution and industry concentration. The Group's quoted investments include securities listed on the Kuwait Stock Exchange and a portfolio of foreign investments (managed by foreign financial institutions) sensitive to recognised international indices.

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22. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk (continued)

The effect on other comprehensive income in equity (as a result of a change in the fair value of financial assets available for sale at 31 December 2014) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2014		*2013*	
Market indices	***Change in equity price %***	***Effect on other comprehensive income KD***	*Change in equity price %*	*Effect on other comprehensive income KD*
Kuwait	+/-5	**90,334**	+/-5	118,757
International	+/-5	**18,187**	+/-5	35,396

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual counter-parties, and groups of counter-parties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties.

The Group's maximum exposure to credit risk is limited to the carrying amounts of financial assets recognised at the reporting date, as summarised below:

	2014 KD	2013 KD
Bank balances	7,756,698	7,171,151
Fixed deposits	529,895	2,657,964
Accounts receivable (Note 7)	1,752,283	2,954,257
Due from related parties (Note 7)	1,365,571	888,083
Total exposure of credit risk	11,404,447	13,671,455

The credit risk exposure for bank balances and fixed deposits is not considered to be significant because the counterparties are reputable, financially sound financial institutions.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure to a single counter party is KD 778,600 (2013: KD 1,799,910). There are no significant concentrations of credit risk within the Group.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. The Group objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, commercial and Islamic financing.

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22. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 and 31 December 2013 based on contractual undiscounted payments:

Year ended 31 December 2014	***Within 3 months KD***	***3 to 6 months KD***	***6 to 12 months KD***	***Over one year KD***	***Total KD***
Accounts payable and accruals	**4,076,438**	**3,044,459**	**1,555,351**	**10,585,650**	**19,261,898**
Commercial financing	**452,112**	**452,112**	**904,224**	**32,642,362**	**34,450,810**
Islamic financing	**6,950,502**	**1,400,473**	**8,707,555**	**76,623,361**	**93,681,891**
TOTAL LIABILITIES	**11,479,052**	**4,897,044**	**11,167,130**	**119,851,373**	**147,394,599**
Contingent liabilities	**-**	**-**	**16,855,346**	**1,096,800**	**17,952,146**
Capital commitments	**-**	**-**	**18,626,861**	**-**	**18,626,861**
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS	**-**	**-**	**35,482,207**	**1,096,800**	**36,579,007**

Year ended 31 December 2013	*Within 3 months KD*	*3 to 6 months KD*	*6 to 12 months KD*	*Over one year KD*	*Total KD*
Accounts payable and accruals	4,167,109	3,503,589	498,040	8,475,932	16,644,670
Commercial financing	526,034	529,317	940,966	36,672,139	38,668,456
Islamic financing	1,706,969	1,956,754	9,565,771	89,408,288	102,637,782
TOTAL LIABILITIES	6,400,112	5,989,660	11,004,777	134,556,359	157,950,908
Contingent liabilities	-	-	16,761,566	-	16,761,566
Capital commitments	-	-	8,080,578	10,252,000	18,332,578
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS	-	-	24,842,144	10,252,000	35,094,144

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23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturity profile of cash and cash equivalents, fixed deposits, accounts receivable and other assets, accounts payable and other liabilities, interest bearing loans and borrowings at the year end is based on contractual repayment arrangements. The maturity profile for the remaining assets is determined based on the management estimate of liquidation of those financial assets. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of assets and liabilities was as follows:

31 December 2014	***Within 3 months KD***	***3 to 6 months KD***	***6 to 12 months KD***	***Over one year KD***	***Total KD***
ASSETS					
Cash and cash equivalents	7,975,666	-	-	-	7,975,666
Fixed deposits	-	529,895	-	-	529,895
Inventories	349,110	-	-	-	349,110
Accounts receivables and other assets	3,569,326	1,680,984	832,704	406,535	6,489,549
Financial assets available for sale	-	-	1,564,455	8,536,287	10,100,742
Investment in joint venture	-	-	-	15,194,875	15,194,875
Investment properties	-	-	-	146,454,079	146,454,079
Property and equipment	-	-	-	79,692,334	79,692,334
TOTAL ASSETS	**11,894,102**	**2,210,879**	**2,397,159**	**250,284,110**	**266,786,250**
LIABILITIES					
Accounts payable and other liabilities	4,076,438	3,044,459	1,555,351	10,585,650	19,261,898
Commercial financing	246,338	246,338	492,676	23,558,767	24,544,119
Islamic financing	6,229,166	729,166	7,374,999	67,250,003	81,583,334
TOTAL LIABILITIES	**10,551,942**	**4,019,963**	**9,423,026**	**101,394,420**	**125,389,351**
NET ASSETS/ (LIABILITIES)	**1,342,160**	**(1,809,084)**	**(7,025,867)**	**148,889,690**	**141,396,899**

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23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

31 December 2013 ASSETS	*Within 3 months KD*	*3 to 6 months KD*	*6 to 12 months KD*	*Over one year KD*	*Total KD*
Cash and cash equivalents	7,285,873	-	-	-	7,285,873
Fixed deposits	-	2,657,964	-	-	2,657,964
Inventories	328,239	-	-	-	328,239
Accounts receivables and other assets	3,895,479	1,758,523	664,530	586,020	6,904,552
Financial assets available for sale	-	-	1,917,731	9,400,725	11,318,456
Investment in joint venture	-	-	-	16,907,027	16,907,027
Investment properties	-	-	-	142,831,144	142,831,144
Property and equipment	-	-	-	86,042,042	86,042,042
TOTAL ASSETS	11,509,591	4,416,487	2,582,261	255,766,958	274,275,297
LIABILITIES					
Accounts payable and other liabilities	4,167,109	3,503,589	498,040	8,475,932	16,644,670
Commercial financing	291,299	294,582	1,129,893	25,958,613	27,674,387
Islamic financing	937,500	1,187,500	8,041,667	76,583,333	86,750,000
TOTAL LIABILITIES	5,395,908	4,985,671	9,669,600	111,017,878	131,069,057
NET ASSETS/ (LIABILITIES)	6,113,683	(569,184)	(7,087,339)	144,749,080	143,206,240

24. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At the reporting date, the Group had the following contingencies and capital commitments:

	2014 KD	2013 KD
Letters of guarantee	17,952,146	16,761,566
Construction projects	18,626,861	18,332,578
	36,579,007	35,094,144

25. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may review the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, accounts payable and other liabilities, and commercial and Islamic financing, less cash and bank balances. Capital includes equity attributable to the equity holders of the Parent Company less fair value reserve.

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25. CAPITAL MANAGEMENT (continued)

	2014 KD	2013 KD
Accounts payable and other liabilities	19,261,898	16,644,670
Term financing	106,127,453	114,424,387
Less: Cash and bank balances	(7,975,666)	(7,285,873)
Net debt	117,413,685	123,783,184
Equity attributable to the equity holders of the Parent Company	138,627,969	140,215,562
Less: Fair value reserve	(404,404)	(1,744,539)
Total capital	139,032,373	141,960,101
Capital and net debt	256,446,058	265,743,285
Gearing ratio	46%	47%

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SALHIA

40 Years in Creating Value