SALHIA

ANNUAL REPORT

2018

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

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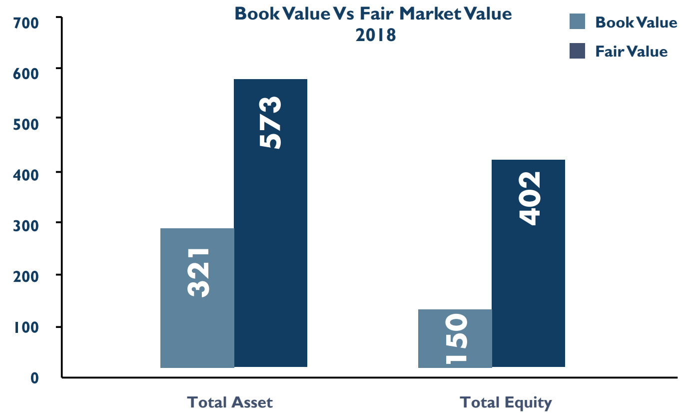
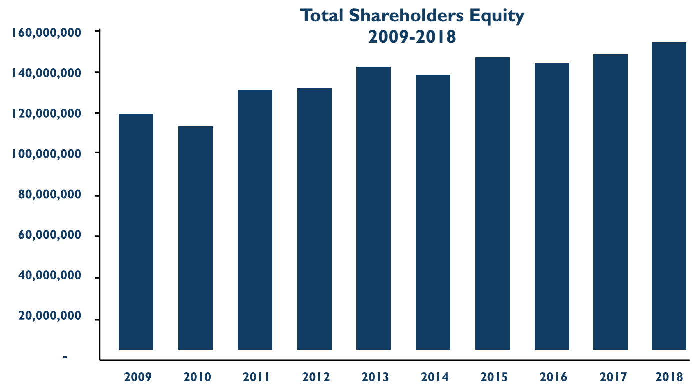
- The Company evaluates its assets by independent professional appraiser in the G.C.C and the European market ,The total Asset has been estimated fair market value KD573 Million (Book Value KD321 Million).

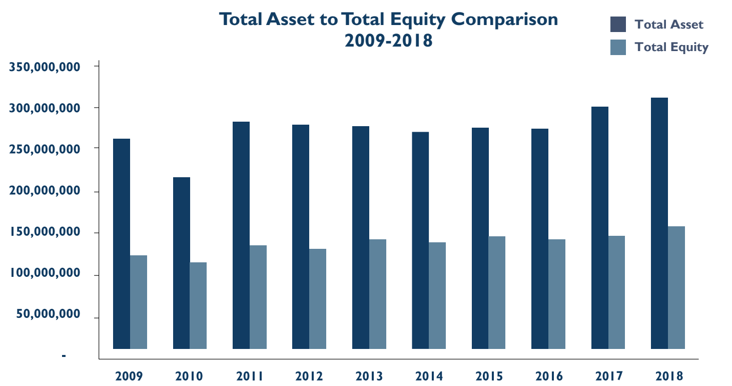
- The Estimated fair market value for the total shareholders equity KD402 Million (Book Value KD150 Million).

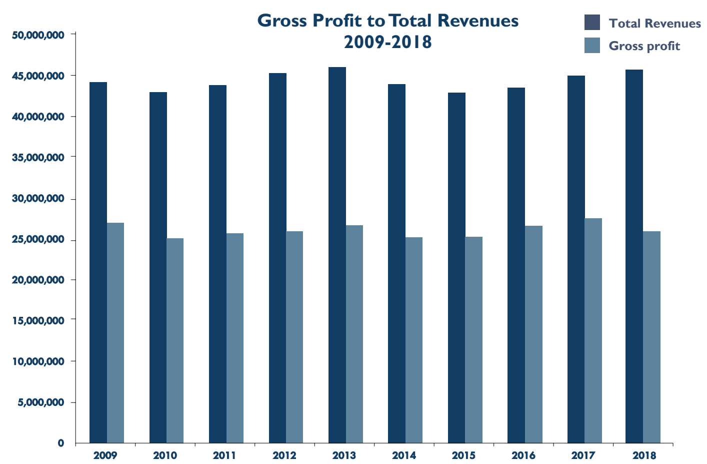


Geographic Segment Assets
2018

Europe
Kuwait and GCC







BOARD MEMBERS

GHAZI FAHED ALNAFISI
Chairman

FAISAL ABDUL MOHSEN 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 – Investment Group Head

HANY A. ABDELNOUR
Finance, Accounting & HR Group Head

BADER KHALIFAH AL-ADSANI
Real Estate Management & Development Group Head

MOHAMMAD KHALIL AL-MUSAIBEEH
Group Accounting Manager

NASSER BADER AL-GHANIM
Group Investment Manager

ABDULNASSER BADER ALTURKAIT
Group Information Technology Manager

ALI JASSIM ABUL
Group Human Resources & Administration Deputy Manager

AHMED MAHMOUD AL-QURAISH
Project Property Development Manager

CHAIRMAN`S STATEMENT

Dear Shareholders of Salhia Real Estate Company

On behalf of myself and my colleagues Members of the Board of Directors, I'm pleased to extend to you the best greetings and warm gratitude for your confidence. I'm honored to present the annual report and financial results of Salhia Real Estate Company for the fiscal year ending 31 December 2018.

2018 did not carry any significant variations, but continued at a steady pace. The year had its highs and lows, however, the positives outweighed the negatives. Oil prices rose and domestic and international markets flourished. This sent a message of reassurance and optimism of the resilience in the local and global economy.

During the course of 2018, the Company sought to maintain its strategic approach and its well-thought-out investment plans,achieving remarkable stability in its operating revenues despite the near-recession situation that has affected local, regional and international real estate markets. This validates the effective strategy adopted by Salhia Real Estate during the past year. The Company keeps striving to promote shareholders' equity, persevering sustainable growth through the development of its projects.

The company overcame the Assima's fire incident with great success. Salhia was successful in completing several lettings of commercial space with both local and international companies and institutions. The areas leased in the commercial complex is approximately 43,100 m2 representing 60% of the total lettable area. The company is still studying several rental offers to choose the most suitable tenant mix.

In regards to the financial results of the fiscal year of 2018, the Company generated a profit of 17.3 million Kuwaiti Dinars resulting in earnings per share of 35.07 fils, compared to profits of the previous year of 15.8 million Kuwaiti Dinars with earnings per share 32.15 fils per share, an increase of 9.5%.

The total assets of the company amounted to 321 million Kuwaiti dinar for the current year compared to 269 million Kuwaiti Dinar for the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previous year, an increase of 8.5%. Total liabilities increased to 169 million Kuwaiti Dinar in 2018, compared to 150 million Kuwaiti Dinar for 2017, an increase of 13% due to capital expenditure for the Assima project.

Owners' equity increased to 150 million Kuwaiti Dinars for the current year, compared to the previous year of 143 million Kuwaiti Dinars, an increase of 4%. Thus, the book value increased to 303 fils compared to last year which amounted to 279 fils, an increase of 9%.

The market value of the total assets, including assets which have been evaluated by professional valuators at the end of 2018, amounted to 573 million Kuwaiti Dinar. Equities, plus the surplus of the re-valuation of assets, amounted to 402 million Kuwaiti Dinar approximately. This resulted in an increase in net asset per share value to 783 fils.

Further, remuneration of the Members of the Board of Directors proposed for 2018 amounted to 120,000/- Kuwaiti dinar (120,000/- Kuwaiti Dinar for 2017), subject to the approval of the annual general assembly of the company's shareholders.

The company's Board of Directors proposed a cash dividends of 20 fils for 2018 (20 fils for 2017). This proposal is subject to the approval of the annual general assembly of the company's shareholders.

Dear Shareholders

We would like to extend our thanks and gratitude for your continuous support. We deeply appreciate the continuous efforts and input made by the members of the Board of Directors, the Executive Members and all the employees of the Company in all its departments.

In conclusion may God grant us, and you, success under the leadership of His Highness the Amir of Kuwait, Sheikh Sabah Al Ahmad Al Jaber Al Sabah, the leader of humanity and a symbol of giving and building, his trusted Crown Prince, His Highness Sheikh Nawaf Al Ahmad Al Jaber Al Sabah, the Prime Minister Sheikh Jaber Al Mubarak Al Hamad Al Sabah and his government, extending our sincere gratitude and appreciation to all of them.

May God protect Kuwait and its people. Please accept our best wishes for continuous health, wellness and unity for the advancement of our beloved country

Best Regards
Ghazi Fahed Alnafisi
Chairman

REPORT OF THE BOARD OF DIRECTORS

Local Investments

THE ASSIMA PROJECT

Salhia Real Estate Company has reached an advanced stages of execution in accordance with the agreed timetable after obtaining the full approvals and licenses required to set up the Assima Project, which comprises a number of commercial and investment properties in Sharq area, and overall forms a part of a 21,414m2 island. It is rare to find a site like this is in the Capital area and Assima is considered the biggest commercial project to date inside Kuwait City. This project is divided into 7,358m2 of commercial plots and 10,611m2 of investment plots/commercial offices.

It also includes a 3,445m2 hotel surrounded by state lands of approximately 18,738m2 and by streets in all four directions, including two significant streets which are Abdulaziz Al-Sager Street (previously Al Shuhada'a) and Khalid Bin Al Waleed Street.

Project Development Concept

The main concept behind the Assima project is based on the development of Salhia's properties combined with the surrounding state lands anchored on a modern vision that fulfils the requirements of the existing land usage and the forecasted market requirements. The design works were entrusted to major international consultant offices, each according to their specialty and area of expertise and the functional tasks mandated to them on the Project. The Company has striven during the implementation stage to carry out continuous developments in order to arrive at the best available solutions and designs that will ensure the success of the project according to the primary concept and vision.

Project Components

The Assima project consists of several elements and basic parts that constitute this important and distinctive structure. They are as follows:

First: The Commercial Part

It is a commercial complex spanning an area of over 19,668m2 comprising of four basements floors.

The fourth basement floor will be partially utilized for mechanical services, the other three basements are extended to the property boundaries, including two basements (second and third) to be used as a car park and a first basement to be fully utilized commercially, followed by a ground floor and six floors of retail shops, restaurants, coffee shops, entertainment activities, cinema and a health club.

Second: Hotel Part of the Project

The hotel consists of 11 floors located above the commercial part with 164 suites with their services of restaurants, multi-purpose halls, and a health club.

Third: Office Part of the Project

This is an office tower with an area of 1,746m2 that comprises a ground floor, and 54 floors to be fully utilized as commercial offices. The full rental area will be approximately 59,700m2 with an average rental area for each single floor between 1,150m2 to 1,350m2.

Fourth: The Utility Part of the Project

This part consists of several buildings to be used as car parks, including those constructed on the company's land and those built on the State lands, for a total number of approximately 2,000 parking lots distributed in a convenient manner, and all components of the project will be connected by bridges and tunnels to facilitate smooth pedestrian flow for visitors. With regard to the landscaping works and the surrounding areas, special attention has been focused on providing separate entrances and exits for all the structures that make up the full project to ensure maximum efficiency for the flow of traffic and complete avoidance of traffic congestion for visitors to the project. Moreover, the Company is keen to provide the best greenery and landscaping works wherever possible in all external areas to maximize the use of outdoor areas in pleasant weather during spring and winter.

Project Execution Stage (Current Status)

The Company laid the cornerstone for the execution of the project in the fourth quarter of 2015, whereby the executive and technical works on the Project were entrusted to major specialized companies.

The Company has executed strategic plans and its perspective for the completion of the project and has started its operation on each stage of construction and completion according to a precise time schedule which outlines the full execution stages of all parts of the project and its components with high professionalism and in a logical manner to ensure completion by the scheduled time with the minimum delay that may arise due to unforeseen obstacles.

During 2018, construction works were truly expedited. As a result, all concrete works for the commercial part along with one car park building as well as the office part basement, ground floor, and the first three office floors were completed. Also, the finishing and external facade works were successfully started for the commercial part.

Project Rental Works

The Company has started marketing the project with the assistance of several international brands and companies and their positive role in planning the future of the project with a focus on medium and small rental areas.

This was first done with the Company signing formal agreements with many companies both international and local institutions, that are famous and well-known which include the following:

- Galeries Lafayette
- Monoprix
- Cinescape
- UFC GYM
- National Geographic Ultimate Explorer
- Xcite
- Play
- Sky Zone

The total leased area in 2018 is 43,100m2 which already represents 60% of the rentable area. It is worth mentioning that the project is already undergoing implementation. The Company is currently in the process of receiving and evaluating all the requests for the medium and small rentable areas. Finally, Salhia Real Estate Company was keen to fully invest its technical and financial expertise in the Assima Project, which is considered the biggest real estate edifice to be currently built by the private sector in Kuwait City in terms of the total land area and financial costs. The estimated cost of the project is K.D. 178 million (Kuwaiti Dinars One Hundred and Seventy Eight Million), with a special note that the project will be self-financed by the Company portfolio in addition to banking finance.

Salhia International Company for Entertainment Centres

Signing with National Geographic for the use of leasing spaces in the Assima Project is a strong starting point for the establishment of the first family entertainment centre under the National Geographic Ultimate Explorer brand in Kuwait and the first in the Middle East. This has been done in partnership between Salhia Real Estate Company and iP2 Family Entertainment Company (exclusive franchisee of National Geographic America). To form this partnership, an affiliated Kuwaiti Company has been established under the name of Salhia International Entertainment Centres Company (K.S.C.), in which Salhia owns 90% and iP2 owns 10% of the company shares.

The 5,061m2 National Geographic Ultimate Explorer family entertainment centre will serve all family members through its fun and interactive exploration centres to simulate the world, forests, deserts, polar regions, deep oceans, and outer space as well as interaction with living beings to gain more knowledge and culture. National Geographic, headquartered in the United States of America, is a company interested in providing entertainment and education services in innovative, creative and interactive ways, and it will open new branches around the world to further its aim. This project provides an attractive and entertaining atmosphere for the family inside the mall and will also increase the percentage of mall visitors whether for shopping or to spend an integrated family entertainment day. This project also has marketing and promotional benefits besides the financial returns. The project will be supervised by an administration made up of specialized managers in this field, and experienced supervisors and employees in the field of managing modern entertainment centres.

Salhia Commercial Complex

Salhia Commercial Complex, is the first multi-function retail and leisure mall which was established in 1978, to be a leader in the GCC region. It's luxurious design and high standard of craftsmanship has helped maintain its top position to this day, as one of the finest commercial complexes in Kuwait and the region, as when Salhia Complex first opened.

The complex consists of three floors of mall space focusing on high fashion stores and classic luxury brands and five floors of luxury offices located above the three floors of the shopping mall, with a total rentable area of 25,503 m² occupied by major commercial corporations and government agencies.

The Salhia Complex is surrounded by three major Salhia properties – the JW Marriott Hotel, the Sahab Office Tower and Salhia Plaza including a dedicated car park for 376 vehicles indoors and another for 428 vehicles outdoors, which augment this outstanding development and offers a quality and all-inclusive experience for shoppers, businesses and visitors alike. As a result of the continuous modernization and enhancement program carried out by Salhia, the Salhia Complex has been proudly achieving a unique record of 100 percent occupancy over the years.

Salhia Plaza

In 2005 Salhia Real Estate Company developed its portfolio by introducing Salhia Plaza in the open area in front of Salhia Commercial Complex to provide an open air plaza for visitors and shoppers to enjoy the pleasant outdoor weather during spring and winter. The plaza area is very popular for outdoor dining with many classy restaurants and cafés surrounded by a garden landscape of beautiful flowers and an illuminated water fountain at night, constructed on the roof of the underground car park building. The underground car park contains 428 parking spaces distributed on the ground floor, and the first and second basement floors to serve the visitors of Salhia Plaza and the adjacent commercial complex. A valet parking service as well as automated payment machines have been provided by the Company, for the convenience of shoppers and visitors to the area.

Sahab Tower

Sahab Tower is connected to Salhia Commercial Complex through a suspended bridge on the mezzanine floor. The tower consists of three levels dedicated to commercial activities, along with 20 floors of luxurious corporate office space that has a rentable area of 10,738 m² and is occupied by well-known local and international firms. The tower, with is central location offers magnificent views of Kuwait City, including many benefits due to its proximity to the neighboring facilities of Salhia Complex as well as the excellent services provided by Salhia Real Estate Company, and has always achieved a 100% occupancy rate since its establishment in 1997.

JW Marriott Hotel Kuwait City

One of Kuwait's most prestigious hotels, The JW Marriott Hotel Kuwait City offers a wide range of products and services that cater to the needs of both business and leisure travellers. With its strategic location attached to Kuwait's most luxurious shopping mall "Salhia complex", JW Marriott Kuwait City is connected to convenient world-class shopping, entertainment and dining. In addition, the hotel is also located in close proximity to business and leisure attractions and is 15 minutes away from Kuwait International Airport.

The hotel consists of 313 luxurious rooms and suites, as well as an executive floor featuring a spacious lounge and reading area. Other facilities include a cutting- edge health club, temperature controlled indoor swimming pool, a sun terrace, steam room and massage rooms along with the finest restaurants that offers the best Arabic and international cuisine throughout the day.

JW Marriott Kuwait is ideal for events and conferences with its spacious meeting rooms. The hotel offers multipurpose ballrooms on the 1st and 16th floors with a combined space of 1,560 square meters which enables it to host events of any type or size.

The hotel has recently undergone a number of upgrades and renovations, including an upgraded air-conditioning system and change in the carpets in all the rooms and corridors to give the property a modern and fresh look.

Arraya Commercial Centre - Retail and Leisure

Arraya Centre is considered one of the important projects of Salhia Real Estate Company. Its distinguished location in the east of Kuwait City has turned it into a Centre attracting visitors and local and international companies since its opening in 2003. The Centre comprises three commercial floors which include an extensive and distinguished variety of showrooms, retail shops, coffee shops and restaurants. Further, the Centre includes seven floors of commercial offices, distinguished by a high standard of services. Arraya Commercial Centre is annexed with a six floor car park for visitors and guests which accommodates 1,400 cars, connected by suspended bridges overlooking Arraya Plaza which is an area of approximately 3,000 square meters of outdoor beautifully landscaped garden area which includes modern shades and water fountains in addition to innovative outdoor lighting and provides a magnificent ambience for the visitors of this area. The Arraya Plaza is the perfect location to host and organize various outdoor events, functions, entertainment and social activities aimed at bringing happiness and pleasure to the heart of every visitor and shopper to the center.

Arraya Tower

Arraya Tower occupies an area of 1,265.5m2 of the Arraya integrated project, with a height of approximately 300 meters and comprises 60 floors allocated for independent corporate office space and is occupied by major local and international companies. The tower is served by 16 elevators serving three entrances with a totally modern design and ultra-deluxe architectural finishing. Each entrance and elevator serves a number of floors, in order to facilitate convenient and quick access to the floors. The tower provides the best overall services to the tenants such as parking facilities, modern information technology systems and a 24 hour security and maintenance system and applies an open plan office layout clear of columns for the floors providing suitable rental spaces ranging in size from approximately 250 square meters to 740 square meters. This gives the floor tenant the absolute freedom to apply the divisions they deem suitable for their businesses. Rentals in 2018 reached an occupancy rate of 100%.

Arraya Ballroom

Proudly managed by Marriott International, the Arraya Ballroom is an epitome of luxury and unmatched elegance in the heart of Kuwait City. Renowned for hosting some of the country's most important and historic events and celebrations, this 1,500 square meter ballroom is one of the biggest event venues in Kuwait with its unparalleled services and facilities. The Ballroom can be divided into six massive sub sections to fit any meeting type or size, alongside a grand foyer and its own exclusive driveway with parking for over 1,000 vehicles.

Arraya has a highly skilled and attentive team of staff members who handle every detail of an event with the highest level of professionalism. To complement its strong presence as Kuwait's most prestigious event venue, Arraya Ballroom has launched a website www.arrayaballroomkuwait.com to provide all the necessary information to event organizers and facilitate the booking process with ease. Arraya Ballroom also offers a special suite for weddings with amazing and varied menus to make every event a huge success.

Courtyard by Marriott Hotel Kuwait City

A landmark in Kuwait City's skyline, the Courtyard by Marriott is a chic and trendy hotel located in the heart of the financial and business district, close to major tourist attractions in downtown Kuwait and just 18 km from Kuwait International Airport. Its direct connection to the finest stores at Arraya shopping mall, makes it perfect for families looking for the ultimate shopping experience.

Courtyard Kuwait offers 264 well-appointed spacious rooms and suites with enhanced luxury amenities and provides superb views of the city's skyline. Through permanent renovation, three new suite categories were added to the inventory, namely the 'Diplomatic', 'Amiri' and 'Royal' Suites. The new suites feature modern designs and colors in keeping with the overall ambience of the hotel.

The hotel also features distinctive dining options such as the Atrium Restaurant and Lounge, the famous Indian Soul and Spice Restaurant, the Tramisu Cafe and Sushi Japanese Restaurant. The Courtyard Hotel Marriott Kuwait offers six meeting rooms ideal for small and medium events including training courses, as the meeting rooms are equipped with high-speed internet access and advanced audio-visual equipment to provide the best possible services for the hotel guests.

REPORT OF THE
BOARD OF DIRECTORS

International Investment

Key property investments

There is a considerable amount of debate taking place about the impact that the UK's decision to leave the European Union (EU) will have on the UK as well as the UK economy and the UK property market in general.

According to CBRE, one of the world's largest firms of property advisers, a number of current indicators suggest the UK economy is continuing to reflect strong growth as 2018 draws to a close. This is in spite of concerns over the possible impact of Brexit. Economic resilience is being supported by an improving domestic environment. Inflation is increasing on the back of higher oil prices and currency volatility, although these effects have, so far, proved to be momentary.

Overseas investors continued to dominate investment transactions in Central London Q3, constituting 90% of the market, an increase from the previous quarter's 80%. Over the last 12 months, overseas investors have accounted for 83% of the overall London investment market. Despite the largest deal involving a South Korean investor accounting for £1.2bn of the £4.1bn total, European investors were the largest investor group.

In the residential market, to some surprise, Central London house prices increased by 1.1% in Q3, despite a continued slowdown in sales of 13% against the previous quarter. The new-build market continued to outperform the second-hand market with a 7% rise in new-build sales in the first nine months of 2018 compared with last year. The rental market also showed signs of strength with rental growth of 1.5% in Q3.

Outside of London, the regional economies have proved resilient. The main centres in the UK have all maintained varying degrees of growth in commercial and residential markets. The Logistics and Distribution sector has performed particularly well again, reflecting the recognition of the increase in online shopping, although most sectors have benefitted, with the exception of the retail market. UK and overseas investors have turned their focus on these markets where greater opportunities lie.

KPI has taken advantage of the strength in the markets throughout 2018 by selling selected properties. Good prices have been achieved while the portfolio is rebalanced. Further sales have been identified for sale during 2019 with the remainder being held to ensure maximisation of opportunities.

With Brexit scheduled for March 2019, there is likely to be continued uncertainty during the early part of the year. Even when agreement is reached, the impact of leaving the EU will be unknown and will emerge over time. Meanwhile, it is likely that the UK will continue to attract overseas interest, as well have a continuing domestic demand for occupation, development and investment opportunities.

BEORMA QUARTER BIRMINGHAM

Birmingham remains one of the UK's most rapidly changing cities. It is rapidly changing its historical mainly industrial image and becoming a vibrant modern city.

The continuing attraction of Birmingham, with its rich industrial heritage, lies in its local government's effort to ensure regeneration of old districts as well as encouraging major redevelopments such as the now completed New Street Station and its new trading shopping centre. Some major office developments have commenced. Huge financial commitments by central government to infrastructure investment, with new tram lines, office blocks and public squares have also contributed to the continuing rate of change as the city centre is remodelled.

The pace and the scale of economic growth in the region has been significant over the past year. New enterprises coming to the region demonstrate how Birmingham is being perceived as an alternative to London as a business hub. HSBC and Deutsche Bank have increased their occupational focus on the city. HMRC has announced plans to move a large number of staff to the city centre from 2020.

News that Birmingham has been selected as a host city partner of the 2022 Commonwealth Games is also likely to bring further economic and social benefits.

Top office rents in Birmingham are expected to be around £34 per sq ft by the end of 2018, as prime Grade A availability has continued to fall. Full year take up in central Birmingham is expected to exceed 700,000 sq ft although much of this take up has been in a range of smaller units of less than 30,000 sq ft.

Birmingham has also continued to prove attractive for commercial investors. Whilst overseas buyers have accounted for 44% of office investment in the city since 2016, UK institutional and other UK based investors have also turned their focus on the city. Prime yields for the best space remain at 4.75%.

The Residential market in central Birmingham has maintained its steady growth. In 2017, Birmingham was one of the best performing cities in England in terms of house price change, comfortably outstripping London. The strong increase in prices seen in the past few years has contributed to a 45% rise in average residential property values since the post-crisis trough in 2009. The difference between Birmingham, as the UK's second-biggest business hub to London, the financial centre of Europe, is significant, with new build development prices in some central zones of London ranging from £1,000 to £2,000+ per sq ft, compared to top figures of around £450 per sq ft in central Birmingham. This differential has attracted both UK and overseas buyers.

The Beorma project continues to attract strong interest. As well as the Accor/Pierre Vacancies Adagio aparthotel, The Prince's Trust has now taken occupation of all of the offices in the Grade II Listed Coldstore

building as their Midlands Headquarters. Phase 1 is largely now fully occupied.
Focus has been on the remaining two phases and negotiations are well advanced on a pre-let of the whole of Phase 3 of the scheme. This will be a significant step in the future of the scheme.

Discussions are in hand with a number of potential occupiers for the offices in Phase 2. This will be a very important step in triggering the construction of the main tower as the residential element of the tower is expected to attract very strong interest.

A Joint Venture between SREC and Simons Group Ltd

In 2018, Salhia entered a new property joint venture arrangement with Simons Group Ltd.
Simons have been in the property business for over 70 years. They are involved in Design, Construction and Development and have provided services and skills to some of the biggest and most well-known brands in the UK.
As a privately-owned business, the personal touch has been maintained throughout the years and much of the company's continued success is a result of the long-term relationships that it cultivates with all its partners and customers.
The principle for the joint venture is to invest in planning and development opportunities identified by Simons or created through their close relationships, in some cases with their longstanding customers.
Simons had identified a 250 acre future development opportunity just to the north of Cambridge, with an extensive frontage onto the A14 dual carriageway. The joint venture partnership has entered into an agreement with the Landowner and the proposal will be to obtain planning for a mixed use scheme. The planning process has to be handled carefully and will require engagement with a range of relevant authorities and consultees before an application can be made.
Another opportunity for the joint venture was created when one of Simons' major customers marketed some land (surplus to requirements) for sale to a limited market. The land is situated on the south side of Nottingham and has an historic positive planning position. The joint venture partnership agreed to acquire the land and will submit a planning application for mixed uses for onward sale of the land in separate plots.

HADDIA HOLDING GMBH

Salhia's German subsidiary - Haddia Holding GmbH, which is 91% owned by Salhia; has through its operating subsidiary Dana GmbH, a workforce of 950 highly qualified and trained staff specialized in geriatric care and manages its operations from its Head Office in Hannover, Germany.
Dana GmbH oversees the day-to-day operation of a total of 1,614 beds in 13 nursing homes and 4 assisted living properties as well as 2 "Dana Lifestyle" properties, all located in the north-western region of Germany, and is wholly owned by SAREC, another subsidiary of Haddia.

A new concept "Dana Lifestyle" was developed in 2013 to meet the new demands of a changing market to better accommodate the needs of the elderly, and thus the Dana Lifestyle concept was implemented on two new properties with a total of 34 apartments, of 17 each, which were outfitted with the latest and best facilities available, to meet the specialized needs of senior citizens and elderly clients.

A study has also been undertaken on the properties in Bad Pyrmont, on the best possible and maximum utilization of the available space, to meet the market requirements for spacious apartments and the most modern facilities available.
Over the years, Haddia has continued to maintain its niche position of being one of Germany's best health care and assisted living providers in the field of geriatric care. The Haddia brand is synonymous with top class assisted living properties which provide and maintain a very high standard of quality health care for senior citizens.

HUMAN RESOURCES

The administration of Salhia Real Estate Company believes that the success of any organization is closely related to the availability of professional and competent staff capable of understanding its business needs in addition to the availability of the best modern work systems within the company in order to provide the best performance and achieve the desired results.

In order to continue this success, the Company's HR Department provides a unique work environment through which the employees of the Company can realize their role. Moreover, it provides the necessary support to develop their abilities and improve their professional skills through the provision of specialized and continuous training programs. Last year, a number of training programs were conducted which are related to the functional tasks of the Company's employees. A large number of employees benefited from these training programs, especially those in the financial, accounting and computer sectors in addition to those in support and assistance jobs.

The HR management team believes that strengthening the Company's presence in the market as one of the outstanding companies in its field depends mainly on retaining outstanding employees and investing in their potential in addition to attracting the required competencies. Therefore, the Company spares no effort to achieve the full satisfaction of its employees and to provide them with the necessary support. This reflects one of the most important elements of strength that support the Company's activities in providing the highest levels of service.

Within the framework of HR Management efforts in developing the work environment and activating the internal attendance control within the Company, during the year 2018, the fingerprint system was activated to register attendance and departure. Through this system, the management team monitors the attendance in the Company. This has contributed to controlling the work and calculation of the overtime of the Company's employees more accurately. Moreover, this has contributed to better organizing work shifts in different sectors that work irregular hours.

As for the Assima Project, the HR Department of the Company has tentatively completed the workforce plan and the organizational structure, so as to be ready and on time to provide the required jobs in order to start work and distribute tasks to manage the various aspects of the project.

INFORMATION TECHNOLOGY

Through the use of trained and highly qualified staff, sophisticated systems, and new equipment, Salhia Real Estate Company covers all the current business needs and their development. Moreover, the IT Department is keen to follow up and study the latest developments and technologies in the technological fields in order to benefit from them in upgrading the current services and the Company's future projects. The IT Department is currently replacing the main servers of the Company's basic systems to increase their capacity and storage. Moreover, raising the level of external security of the mainframe is complete.

As for the Assima Project, which is one of the largest and most important projects in Kuwait for Salhia Real Estate Company which in turn is constructing the project as one of the smart buildings that provide the concept of sustainability and promotes the use of modern technology to meet the different and advanced needs of visitors and the tenants. The IT Department has achieved a number of contributions in 2018, which include reviewing and updating the project's Oracle tests; reviewing the CCTV requirements; and analyzing various multimedia types to be used in all sections of the project. The meetings continued with the telephone information, internet, and mobile phone service providers in order to reach the best levels of services for the visitors and tenants of the Assima Project.

CORPORATE GOVERNANCE REPORT
SALHIA REAL ESTATE COMPANY K.S.C.P.

Composition of the Board of Directors:

The Board of Directors of Salhia Real Estate Company has 8 members. the following is a brief about them:

Board Member Name	Member classification (executive/non executive/ independent) secretary	Date of election / appointment of the secretary
Ghazi Fahad Alnafisi Chairman	Non executive	21/3/2016
Faisal Abdulmohsen Al Khatrash Vice Chairman	Non executive	21/3/2016
Anwar Abdulaziz Al Usaimi Board Member Chief Executive Officer	Executive	21/3/2016
Abdulaziz Ghazi Alnafisi Board Member Deputy Chief Executive Officer	Executive	21/3/2016
Youssef Essa Al Othman Board Member	Non executive	21/3/2016
Abdulrahman Abdulaziz Al Babtain Board Member	Independent	21/3/2016
Marzouk Fajhan Al Mutairi Board Member	Independent	21/3/2016
Saud Ahmad Al Zabin Board Member	Non executive	21/3/2016
Mohammad Khalil Al Musaibeeh	Secretary	12/5/2014

Qualifications and experiences of Salhia Real Estate Company Board Members:

Mr. Ghazi Fahad Alnafisi
Chairman

Mr. Ghazi Alnafisi is a founding member of Salhia Real Estate Company since its incorporation in 1974. He is a holder of aviation engineering diploma from (Chelsea College for Aeronautical Engineering – London) Britain, June 1965. His tenure in the function of Salhia Real Estate Company chairman was renewed on 21/3/2016 and he is currently the Chairman of the Board Executive Committee.

Mr. Ghazi Alnafisi chairs the Board of Directors of the Hotels Association in Kuwait since 1979 to date. Further, he is a founding member of the Petroleum Independent Group, founded in 1975, where he holds the position of deputy chairman. In 2017 Mr. Ghazi Alnafisi was appointed the CEO of Assima Real Estate Co.

His experience includes working in many companies, which include Azzad Trading Group Company, in which he holds the position of its chairman since 1994. During the period from 1986 to 1996, he held the post of chairman in the Investment Company – Bahrain, and chairman and managing director of National Investments Company- Kuwait. Further, during the period from 1971 to 1976, he was a member of the Board of Directors of Kuwait National Petroleum Company (KNPC). He held several positions in Kuwait Aviation Fuelling Company from 1967 to 1976.

Mr. Faisal Abdulmohsen Al Khatrash
Vice Chairman

Mr. Faisal Al Khatrash holds the position of deputy chairman of Salhia Real Estate Company since 1981. His tenure was renewed during the last elections of the Board of Directors on 21/3/2016.

Mr. Faisal Al Khatrash holds a bachelor of military sciences, 1967. He worked as officer in the Kuwaiti army up to 1974. Currently, he holds the position of vice chairman of the International Investor Company since 2003. His experiences include holding positions in several corporations in Kuwait, including the vice chairman of Kuwait Finance House from 1982 to 1993, Furher, he held the position of managing director of Kuwait Foreign Trade, Contracting and Investment Company, between the period from 1974 to 1982.

Mr.Anwar Abdulaziz Al Usaimi
Board Member (CEO)

Mr.Anwar Al Usaimi joined the Board of Directors of Salhia Real Estate Company since 1981. He held the position of CEO of the company since 1997. He was re-elected to the board membership on 21/3/2016. Further, he is currently holding the membership of the Company Nominations and Remunerations Committee and the Board Executive Committee.

Mr. Anwar Al Usaimi is the holder of a bachelor of administrative sciences from the USA (Emporia Kansas State College) in 1976 and has extensive experience in the banking,financial and administration fields inside and outside Kuwait. He is currently holding the position of the chairman of the Assima Real Estate Company and membership of the Board of Directors of Haddia Holding Company (Germany) and KPI Company (Britain). Further, he held the membership of the Board of Directors of companies and banks in Kuwait, including the Commercial Bank, the International Investor Company, and was the deputy of the chairman and managing director in Pearl of Kuwait Real Estate Company and Vice Chairman of the Board of Directors in Kuwait Lebanese Real Estate Development Company.

Mr. Abdulaziz Ghazi Alnafisi
Board Member (Deputy CEO)

Mr. Abdulaziz Alnafisi joined the Board of Directors of Salhia Real Estate Company since 2006. He is currently holding the position of deputy CEO of the Company, and was re-elected to the board membership on 21/3/2016 ,And currently a member of the Board Executive Committee.

Mr.Abdulaziz Alnafisi is the holder of masters degree in business administration from the United Kingdom (City University – London) in 2002. Further, he holds a bachelor of accounting and middle eastern affairs from the USA (Northeastern University – Boston, MA) in 1997. He is currently holding the position of the chairman of Kuwait Packing Materials Manufacturing Company and the position of the deputy chairman of the Assima Real Estate Company and vice chairman of Salhia International Entertainment Centers . Further, he is a co-founding partner and board member of (Cross Bridge Capital Limited, London, UK).

Mr. Youssef Essa Al Othman
Board Member

Mr. Yousef Al Othman joined the Board of Directors of Salhia Real Estate Company in 1992. He was re-elected to the board membership on 21/3/2016. Further, he is currently holding the chairmanship of the Risk Management and Internal Auditing Committee and the Nominations and Remunerations Committee in the company.

Mr. Yousef Al Othman is the holder of a bachelor of business administration from Kuwait University in 1975. He holds several certificates, scientific and professional courses in the field of administration from institutions inside and outside Kuwait. He is currently holding the position of chairman and CEO of Al Bustan Real Estate Company and Al-Mirror Holding Company. Further, he is the general manager of Al Othman and Al Zamel General Trading & Contracting Company and the general manager of Essa Al Othman General Trading & Contracting Company.

Mr. Abdulrahman Abdulaziz Al Babtain
Board Member

Mr. Abdulrahman Al Babtain joined the Board of Directors of Salhia Real Estate Company in 2010. He was re-elected to the membership of the board on 21/3/2016. Further, he is currently holding the membership of the Risk Management and Internal Auditing Committee of the company.

Mr.Abdulrahman Al Babtain is the holder of a bachelor of business administration from Kuwait University in 1990. He is currently working as deputy chairman of Abdulaziz Saud Al Babtain Company. He is a member of the Board of Directors of Murabhat Investment Company. Earlier, he held the position of assistant manager of the Gulf Investment Corporation between the period from 1993 to 1998. Previously, he was a member of the Board of Directors of Gulf Franchising Company and Safat Dairy Company.

Mr. Marzouk Fajhan Al Mutairi
Board Member

Mr. Marzouk Al Mutari joined the membership of Salhia Real Estate Company's Board of Directors since 2002. He was re-elected to the board membership on 21/3/2016. Further, he is currently holding the membership of the Company Nominations and Remunerations Committee and the Risk Management and Internal Auditing Committee.

Mr. Marzouk Al Mutari is the holder of a bachelor of accounting from the USA (University of Central Flordia) in 1996. He is currently the chairman of the board of directors of Tharwa Investment Company since 2013. Further, he was a board member of the First Investment Company during the period from 2004 and 2014 and a member of the Board of Directors of the Livestock Transport and Trading Company from 2004 to 2013. Mr. Marzouk has extensive financial and investment experience in forming investment portfolios and their management. He has also contributed in founding Markaz Real Estate Fund.

Mr. Saud Ahmad Al Zabin
Board Member

Mr. Saud Al Zabin joined the Board of Directors Salhia Real Estate Company in 2013. He was re-elected to the membership of the Board of Directors on 21/3/2016.

He is a holder of bachelor of economics from the USA (Old Dominion University). He held several positions during his service in Zain Telecommunication Company during the period from 2005 to 2013. Currently, he is the chairman of the Board of Directors of (Overseas Links Company) since 2013, and is the chairman of the Board of Directors and managing partner in (DDR Performance), a pioneering after-market performance parts manufacturer in the automotive industry. He also held the membership of the Board of Directors of two companies in Egypt.

Mr. Mohammad Khalil Al Musaibeeh
Board Secretary

Mr. Mohammad Al Musaibeeh joined Salhia Real Estate Company in 1998. He was appointed as secretary of the Board of Directors on 12/5/2014, and held earlier the post of the board secretary.

He is a holder of the bachelor of accounting from (Cairo University- Egypt) in 1998. Further, he obtained professional certificates (ABA-CIDA-CTA-CST) and is currently working in the position of the accounting group manager in Salhia Real Estate Company. He is also a member of the Board of Directors of the Assima Real Estate Company and Salhia International Entertainment Centers. Mr. Al Musaibeeh has extensive experience and has attended courses in accounting, finance, auditing and investment fields. He held the membership of many committees in Kuwait Accountants and Auditors Society. He also held the membership of the Society Board of Directors from 2011 to 2014. He was a member of the Standing Technical Committee for Laying Down Accounting Rules and Auditing Charts in the Ministry of Commerce and Industry, as a representative of Kuwait Accountants and Auditors Society.

Members' Attendance of the Board Meetings

The Board of Directors of Salhia Real Estate Company held 6 meetings during the year 2018. The following table illustrates the details of such meetings and the number of meetings attended by each member.

	Meeting No. 1/2018 dated 12/2/2018	Meeting No. 2/2018 dated 2/4/2017	Meeting No. 3/2018 dated 14/5/2018	Meeting No. 4/2018 dated 8/8/2018	Meeting No. 5/2018 dated 12/11/2018	Meeting No. 6/2018 dated 10/12/2018	Number of meetings
Ghazi Al Nafisi Chairman	✓	✓	✓	✓	✓	✓	6
Faisal Al Khatrash Vice Chairman	✓	✓	✓	✓	✓	✓	6
Anwar Al Usaimi Member	✓	✓	✓	✓	✓	✓	6
Abdulaziz Al Nafisi Member	✓	✓	✓	✓	✓	✓	6
Youssef Al Othman Member	✓	✓	✓	✓		✓	5
Abdulraman Al Babtain Independent Member	✓			✓	✓	✓	4
Marzouq Al Mutairi Independent Member	✓	✓	✓	✓		✓	5
Saud Al Zabin Member			✓	✓	✓	✓	4

*The check mark is inserted if the board member attended the meeting.

Recording, coordinating and keeping minutes of the Board of Directors meetings

The Board of Directors secretary prepared a special register for the minutes of the Board of Directors of Salhia Real Estate Company and records for minutes of the meetings of the Risk Management and Auditing, Nominations and Remunerations Committees and the Board Executive Committee . Each register contains information on the agenda of each meeting, its date, venue, starting and ending timing of the meeting. Each meeting has a serial number according to the year. Further, special files are prepared in which the minutes of the meetings are kept and the deliberations and discussions held in the meetings. Members of the board and committees are furnished with the agenda, supported with the relevant documents, by a sufficient time in advance in order to permit the members to study the agenda items. The minutes of the meeting are signed by all those present. Minutes of the meetings held by passing are signed by all members. The secretary acts for the proper coordination and distribution of information among the members and other stakeholders.

Company Board of Directors Working Policy

The Company Board of Directors Working Manual, stipulates that the company's board assumes the comprehensive responsibility for Salhia Real Estate Company, including the laying down of the company strategic objectives, risk strategy, governance criteria, supervision responsibility over the executive management, safeguarding the interests of shareholders, creditors, personnel and all stakeholders, ensure that the company's management is carried out wisely and under the framework of the applicable laws and effective instructions of the regulatory bodies, articles of association, internal rules and policies of the company. The following is a brief on the general duties of the board of directors:

- The Board of Directors of Salhia Real Estate Company assumes all the required powers and authorities for management of the company without exceeding the general assembly's terms of reference. The board's responsibility remains standing for all the committees emanating from the board, which implies the board's responsibility for preparing the annual report read to the annual general assembly of the company, comprising all the information and data concerned with the company's business, financial position, results of its works and extent of compliance with the governance rules.
- The Board of Directors performs its duties with responsibility, good faith, seriousness and diligence. Its decisions are based on adequate information from the executive management or any other reliable source. The board is entitled to issue delegations for a number of its terms of reference without such authorizations being general or of unspecified period. The board's responsibility shall remain existing towards any authorization issued by it.
- Ensure that the executive management provides to the existing and potential shareholders and the investment community with all the information relevant to the company's activities and most significant developments, and verify that the annual report and financial reports published and forwarded to shareholders reflect the real conditions of the company.
- The board member is a representative of all shareholders and acts to achieve the general interest of the company and its shareholders.

Policies and Procedures Regulating the Executive Management Members' Work

The Board of Directors approved the policies and procedures manual regulating work for all the departments and executive groups within the company. Every Work Manual comprises all the duties carried out by each executive department in a detailed manner according to the strategic objectives laid down by the Board of Directors and the company internal regulations. Further, such policies clarify all the obligations shouldered by the executive management and CEO in light of the responsibilities empowered to them by the Company board of directors.

Company Board of Directors' Achievements During 2018

Salhia Real Estate Company's Board of Directors is keen to follow up the implementation of the strategic objectives and plans it laid down, and interact continuously with the executive department in order to achieve such strategies. Further, the Board addressed a great significance to the corporate governance criteria. This was not only for executing the procedures required from it, but also in view of the desire to make such criteria a working method and strategy within the company. During the past year, a number of achievements accomplished by the Board in such fields were manifested. The following is a brief on the most significant of such achievements:

1- Approval of the annual reports (corporate governance, indemnities, audit committee, social responsibility) of Salhia Real Estate Company.
2- Periodical revision of the Company budget and comparison with the financial statements issued for the various periods.
3- Approving the interim and annual financial statements of Salhia Real Estate Company.
4- Following up all the legal cases of the Company and meeting with the legal advisors of the Company to stand on the status of all cases.
5- Supervising the evaluation of the performance of the law offices and external legal consultants of Salhia Real Estate Company, adopting the results of the evaluation and approving the necessary recommendations.
6- Adopting the policies and procedures that complement corporate governance and regulatory compliance, and adopting amendments to certain policies and procedures previously approved by the Board of Directors of Salhia Real Estate Company.
7- Approving the results of the report of Russell Bedford Advisory Office on the amendments to the organizational structure, job descriptions, salary scales of Salhia Real Estate Company.
8- Approving the reappointment of the external auditor of the Company from the office of M/s. Al Aiban and Al Osaimi "Ernst and Young."
9- Approving the completion of land sale transactions of lands owned by Salhia Real Estate, at home and abroad, that achieve profitability to the Company.
10- Approving the Company's management strategy in achieving the required liquidity to the Company's shares in the Kuwait Stock Exchange, to meet the requirements of trading in the main market.

11-Discuss the management plan of the company about the latest developments of the Assima project in terms of leasing, interior and exterior design, and the time plan for the completion of all stages of the project.
12-Approving the re-Description of Mr.Abdulrahman Al-Babtain, Member of the Board of Directors, as an independent member within the Board, with the aim of enhancing the efficiency of the Board of Directors through self-monitoring and raising confidence in performance.
13-Discussing the time plan of the Company's internal audit, and agreeing with the Audit Office to assign a new team to manage the work.
14-Implementing a training program for the members of the Board of Directors on the responsibilities of members of the Board of Directors as Corporate insiders with the internal information of the Company, in addition to the controls to organize and attend meetings and the latest updates of the rules of control.
15-Approving contracting with an independent audit office to review and evaluate the internal audit performance of the Company over the past three years and submitting a report thereon to the Audit Committee and the Board of Directors.
16-Approving the establishment of the Executive Committee of the Board of Directors and approving the formation of the Committee and its Charter of Action.
17-Adopting the new investment policy of Salhia Real Estate Company.
18-Adopting the integrated report on the activity of Salhia Real Estate Company.
19-Approving the nomination of representatives of Salhia Real Estate Company in the Board of Directors of Salhia international Entertainment Centers Co.
20-Approving the banking facilities and guarantees required for the establishment of the Assima Project.
21-Hold periodical meetings with the Risks Department officials and the consultant office to discuss the results of the assessment stages of the Risks management in the Company.
22-Adopting the follow-up procedures for the acceptable risk management of Salhia Real Estate Company.
23-Adopting the Amended Authority Matrix of Salhia Real Estate.
24-Adopting the scheduling of credit facilities provided by a number of local banks.
25-Signing a new agreements with local and international companies to utilize the rental spaces in the Assima Project, which amounted to 60% of the total rentable areas.
26-Approving to enter into a new partnership to develop a number of real estate investments in Nottingham and Cambridge, UK.
27-General supervision over the implementation of the corporate governance rules and internal control procedures efficiently in the Company.
28-Review of the reports and recommendations issued by the Audit Committee and the internal auditor's reports, as well as review of the summary of the Committee work results.
29-Review of the reports and recommendations issued by the Nominations and Remunerations Committee, and supervision over the Committee's works in connection with the annual evaluation process of members of the board of directors and executive management.

Committees Emanating from the Board of Directors

The Board of Directors of Salhia Real Estate Company formed the required number of specialized committees according to the corporate governance rules issued by the Capital Markets Authority. The board performs its work duties supported with three basic committees. The following is a description of these committees:

First: Risks Management and Internal Auditing Committee

Committee Tasks

After obtaining approval of the Capital Markets Authority, the Risk Management and Internal Auditing Committees were merged in one committee. The Board approved the internal regulation of the committee, in which it outlined the terms of reference, objectives and responsibilities of the committee. The Risk Management and Internal Auditing Committee works to establish the culture of compliance and foster the efficiency of performance in the company, by analyzing the nature and volume of risks facing the company activities in order to limit them as much as possible, ensure the soundness and integrity of the financial reports, in addition to ensure the adequacy and efficiency of the applicable internal control systems.

Committee composition: the committee composition was approved in the Board of Directors meeting, according to the following:

Composition date	Members of the Risk Management and Internal Auditing Committee		
15/2/2016	Salhia Company board member- non executive	Mr. Youssef Essa Al Othman	Committee chairman
15/2/2016	Salhia Company board member- independent	Mr. Marzouk Fajhan Al Mutairi	Committee member
15/2/2016	Salhia Company board member- independent	Mr. Abdulrahman Abdulaziz Al Babtain	Committee member

The committee held 8 meetings during the year 2018. The following are its most prominent achievements:

1. Approving the annual internal audit plan for the Company's departments and groups for 2018.
2. Review of the annual and quarterly financial statements of Salhia Real Estate Company, and discussion with the external auditor in this respect.
3. Review of the internal auditor reports for the Company groups and departments, and reply to the remarks set forth in such reports.
4. Recommending the appointment of one external auditor for the Company and nomination of M/s Al Aiban and Al Ousami Office "Earnest & Young".
5. Approval of the Internal Control Regulations (ICR) assessment and revision for the company.
6. Discussing the formation of an executive committee to be affiliated to the Board of Directors and recommending it to the Board of Directors for approval.
7. Discussing the new investment policy of Salhia Real Estate Company and recommending it to the Board of Directors.
8. Preparing a policy and procedures manual for dealing with relevant parties and recommending it to the Board of Directors for approval.
9. Discussing the amendment to the Guide to Compliance Policies and Procedures and Risk Management and recommending it to the Board of Directors.
10. Approving the assignment of an independent audit office to assess the performance of the internal auditor of the Company, and recommending it to the Board of Directors for approval.
11. Preparation of the annual report on the Committee activity, and approval of the same as part of the items of the Company annual general assembly.

Second: Nominations and Remunerations Committee

Committee Duties

Salhia Real Estate Company's Board of Directors approved the composition of the Nominations and Remunerations Committee according to the regulatory requirements for the composition of the committee. The board approved its internal regulation in which it outlined the committee terms of reference, objectives and responsibilities, which aim at fostering the efficiency of work and production through contribution in the selection of the required competences for the Board of Directors and executive management, submit the recommendations to the Board of Directors in connection with the required skills and experiences which contribute in achieving the company's vision and objectives and protect the interests of shareholders and investors, in line with the approved policies and criteria. Further, the committee prepares the recommendations in connection with the development of the policies for granting remunerations and compensations to the board members and senior executives in the company.

Committee composition: Salhia Real Estate Company Board of Directors approved the composition of the Nominations and Remuneration Committee as follows:

Composition date	Members of the Nominations and Remunerations Committee		
15/2/2016	Salhia Company board member- non executive	Mr. Youssef Essa Al Othman	Committee chairman
15/2/2016	Salhia Company board member – CEO	Mr. Anwar Abdulaziz Al Usaimi	Committee member
15/2/2016	Salhia Company board member- independent	Mr. Marzouk Fajhan Al Mutairi	Committee member

The Committee held one meeting during the year 2018. The following are its most prominent achievements:

1- Supervision of the annual evaluation process of members of the Company Board of Directors, executive management and personnel.

2- Adopting the results of the annual evaluation of the performance of the Board of Directors and the Committees of the Board, as well as the performance of the Chief Executive Officer and the Secretary.

3- Discussing the remuneration of the Chairman of the Board of Directors, the members and the committees of the Board, and recommending them to the Board of Directors for approval.

4- Making the necessary recommendations to the Board of Directors regarding the remuneration of the Chief Executive Officer, members of the Executive Management and employees of the Company.

5- Preparing an annual report of all the remuneration given within the Company, and approving it within the terms of the annual general assembly of the Company.

6- Discussing the draft report of Russell Bradford Advisory Office regarding the amendments to the organizational structure, job description, salary scale of Salhia Real Estate Company and recommending it to the Board of Directors.

Third: Executive Committee of the Board of Directors

The Committee's Duties:

The Board of Directors of Salhia Real Estate Company approved the establishment of the Executive Committee of the Board of Directors of the Company. The Board approved the formation of the Committee and its work charter. The Committee was established with the aim of assisting the Board in performing its responsibilities towards the Company's activities and executive departments in various aspects: financial, accounting, management, human resources activities, investment management, property management and construction.

Formation of the Committee: The Board of Directors of Salhia Real Estate Company approved the formation of the Executive Committee of the Board of Directors as follows:

Composition date	Members of the Board Executive Committee		
12/11/2018	Chairman of the Board member- non executive	Mr. Ghazi Fahad Al-Nafisi	Committee chairman
12/11/2018	Salhia Company board member – CEO	Mr. Anwar Abdulaziz Al Usaimi	Committee member
12/11/2018	Salhia Company board member- Deputy CEO & Head of Investment Group	Mr. Abdulaziz Ghazi Al-Nafisi	Committee member

The Committee held one meeting during the year 2018. The following are its most prominent achievements:

1- Reviewing the formation of the Executive Committee approved by the Board of Directors of Salhia Real Estate Company and appointing the Secretary of the Committee.

2- Reviewing the charter of the Executive Committee approved by the Board of Directors of Salhia Real Estate Company.

3. Approving the offers of lease, renewal and termination and taking the necessary procedures for the existing lease contracts in the Company's properties until 31 December 2018.

4 - Approving the procedures for hotels of the Company, until 31 December 2018.

5 - Discussing the management plan to implement and lease the stages of the Company's project in the city of Birmingham, UK.

6- Discussing partnership with SIMONS UK.

7. Approving having credit facilities to finance the Company's projects.

General framework for performance evaluation of the board of directors and executive management:

The company has laid down clear mechanisms for conducting the annual evaluation of members of the Board of Directors and executive management, based on the concept of self and comprehensive evaluation by the members. The evaluation is carried out by the Nominations and Remunerations Committee and is supervised by the Board of Directors. Such evaluation is based on several objective indicators measuring the general performance in a neutral and objective manner, which assists in avoiding error and rectifying the default which detracts the enforcement of proper governance.

Mechanism for the board of directors members' obtaining of information and data accurately and in the right time

Salhia Real Estate Company provided the mechanism and instruments which enable the Board of Directors to obtain the required information and data in the right time, through the development of information technology environment in the Company, create direct communication channels between the Board of Directors secretariat and the board members, and providing the reports and discussion topics in connection with the meetings by an adequate time in advance to discuss and take decisions in this regard.

In 2017, the Board of Directors approved a manual comprising all the mechanisms to obtain information. Further, the manual illustrates all the procedures and policies which enable members of the Board of Directors to obtain information properly.

Report on the Remunerations Granted to Members of the Board of Directors and Executive Management

Summary of the Company Remunerations and Incentives Policy

The remunerations policy adopted by the board of directors of Salhia Real Estate Company reflects the desire to retain the competencies in the Company in the board of directors, executive management and various groups in the Company. This is in addition to providing the element of attraction to join the Company by all competences in the market, which helps to achieve the best results for the objectives and strategies which the board of directors acts to execute them on the long, medium and short term.

The Company Nominations and Remunerations Committee operates under the framework of this policy, whereby it recommends the remunerations determined for members of the board of directors and the executive management, pursuant to the procedures outlined by the remunerations policy, and based on the Company's performance and success criteria in achieving the objectives and volume of realized profits.

Implementing the Company remunerations policy

The Nominations and Remunerations Committee emanating from the Board of Directors undertakes the management of the process of granting remunerations in the Company, starting with the performance evaluation up to the preparation of the final report on the total of the granted remunerations, provided the board of directors assumes the full responsibility in taking the final decisions in connection with the approval of all the incentives, allowance sand remunerations.

Through the Nominations and Remunerations Committee, the board of directors undertakes the periodical review of this policy and follow up of the extent of its efficiency or the need to conduct any amendment on it.

Disclosures of the granted Remunerations

The Nominations and Remunerations Committee has prepared a detailed statement for all granted remuneration to the chairman and the company`s board members including the members of the risk management and internal auditing committee and the members of the nominations and remunerations committee. The statement also includes the annual wages details and the granted remuneration to the executive management members i.e. the CEO, Deputy CEO (head of the Investment Group), and the head of the Financial, Accounting and Human Resources Group.

The Remunerations statement has been reviewed and accepted at the company`s forty seventh general assembly held on 11/3/2019.

Nominations and Remunerations Committee
Salhia Real Estate Company

State of Kuwait
Date : 31/01/2019

Undertaking for the Soundness and Integrity of the Prepared Financial Reports

The executive management presents a written undertaking to the Board of Directors of Salhia Real Estate Company for the soundness and integrity of the Company financial reports, and that they cover all the financial aspects of operational data and results and prepared according to the International Financial Reporting Standards (IFRS). Further, the Board of Directors presents to the company shareholders a declaration of the soundness and integrity of the financial statements and reports relevant to the company's business.

Pursuant to the authorities vested into it by the Board of Directors, the Auditing Committee is entitled to access and review all the information, data, reports, records and correspondences related to the company's activities or risk management, as well as other matters which the committee deems significant to review. The Board of Directors guarantees to the committee and its members full independence.

Independence and impartiality of the external auditor

Salhia Real Estate company's Board of Directors approved the selection and independence policy of the external auditor at the beginning of 2017, prepared by the Audit Committee as per the laws and legislations in the State of Kuwait. This policy lays down the framework through which the Company external auditor undertakes his tasks in the Company, which fully illustrates the mechanism of the selection of the auditor and verifying his independence, as well as the competence criteria which he should enjoy and the services permitted to be provided.

On 12/3/2018, the general assembly of Salhia Real Estate Company approved the appointment of the auditor Mr. Adel Al Abdul Jader, Al Aiban and Ousaimi Office "Earnest & Young" as external auditor of the Company financial statements, as he enjoys a good reputation, and the required integrity and independence to undertake his role. Further, he is one of the auditors listed on the list of the Capital Markets Authority for the auditors.

Company Risk Management

The Compliance Office, Risk Department and Risk Management Committee in Salhia Real Estate Company shall undertake their role in the follow up and assessment of the decisions relevant to risk tolerance in the Company, in coordination with the consultant office approved by the Company in order to determine and measure the risks.
The Board of Directors shall assume the fundamental liability for determining the risk strategy and appetite in the Company, in addition to the approval of the risk management framework and periodical follow up for the objective of achieving balance between risks and expected returns.

Internal Control Systems

Salhia Real Estate Company relies on a number of control systems and regulatory rules which cover all the company activities and management. These controls and rules work to safeguard the soundness of the company's financial position, accuracy of its data and efficiency of its operations from the different aspects. The company's organizational structure reflects the double controls (Four Eyes Principles), which include the proper identification of the authorities and responsibilities, complete segregation of the tasks, non-conflict of interests, double inspection and control and double signing.
The company's Board of Directors mandated an independent consultant office to undertake the internal control and auditing works of the groups and departments in Salhia Real Estate Company. The office works as a consultation body accountable to the Auditing Committee and therefore the company's Board of Directors directly. The office submits periodical reports for the review and evaluation of the internal control systems applied in the company. Therefore, the company's Auditing Committee reviews the works of the Auditing Committee and discusses its reports, in preparation of submitting them to the Board of Directors.
Further, an independent auditing office shall assume the responsibility for preparing the internal control report (ICR) annually as per the requirements of the Capital Markets Authority.

Code of Conduct and Ethical Values

The Board of Directors laid down a code for encouraging the sound practices, ethical behaviors and protection of long term interests for those concerned. Among its most significant clauses are the following:

Integrity ranks first in terms of the priority in the company values, and acts as the goal guiding personnel in all their acts. Therefore, focusing on integrity fosters the method of work which spreads ethics and taking ethical decisions.
The ethical direction and behavior supports the decisions based on values upon providing services to the customers and during the performance of works. The company is proud not only with the works for the interest of work but also for the interest of stakeholders.
To support these ideals, the code of ethical conduct and ethics was prepared, which aims at assisting members of the Board of Directors and executive management in the company in performing their duties through a system based on ethical values. The principles and values of this code form an indivisible part of the strict compliance which the company aims to achieve in order to safeguard its reputation and the public's confidence in the company.

Company policies and procedures to limit conflict of interest cases

As part of the corporate governance, the company laid down a code for the conflict of interests policies, including the methods and necessary measures to confront and manage them, in order to satisfy such requirements and prohibit these conducts by members of the Board of Directors and executive management and segregate personal interests from their official responsibilities in the Company.
The objective of these policies exemplifies in assisting the company and each of its direct and indirect subsidiary companies, as well as members of the Board of Directors and executive management to identify the spread of regulatory values of the company, and sound management methods of the actual and potential conflict of interests cases. Such policies and procedures apply on all the company's personnel, suppliers, officials and members of its Board of Directors.

Disclosure and Transparency

The company adhered with clear instructions regulating the disclosure of substantial information and the mechanism of announcing them, which also satisfy the legal and ethical requirements of the company. Further, the company was keen to ensure that substantial information related to the company's activity are disclosed in the proper time, including the financial position and performance of the company's management to the concerned bodies to understand the strategy and practices of the company to facilitate the evaluation of its performance.

The company complies with the mechanism of disclosing substantial information laid down by the Authority through the Stock Exchange website and notifies the Authority with the same notification. Further, the company posts such disclosures on the company's website by the end of the same business day, and keeps an archive of such disclosures for the past five years, whereby it may be accessed at any time. Salhia Real Estate Company retains a special register in which it provides all the disclosures of members of the Board of Directors and the executive management. All the Company shareholders are entitled to access them for free.

Investors Affairs

The company has complied with laying down policies and procedures for representing the company fairly, whereby the current and potential investors are informed of the investment decisions. The Investors Affairs Unit in the company enjoys the required independence, whereby it works to provide data information and reports in the right time with the required accuracy through the accustomed disclosure methods.

Information Technology Infrastructure in the Company

The company has updated its website in which it created a special section on corporate governance. Salhia Real Estate Company provides through the website all the information about the company, subsidiary and affiliate companies and its projects locally and abroad. Further, it provides the various financial and non-financial data and other information. This information is updated on timely basis.

General rights of shareholders

According to the company's manual for the policies of protecting the rights of stakeholders and shareholders, all the Company shareholders enjoy general and clear rights which include registering the value of owned shares in the accounting records, registration and transfer of ownership of shares, receiving profits distribution, receiving a part of the company's assets in the event of its liquidation, receiving the data and information relevant to the company's activities, operational and investment strategies in the right time, participate in the meetings of the general assemblies of shareholders and voting on its decisions, election of members of the Board of Directors, monitoring the company's performance in general and the Board of Directors in particular, accountability of the Board of Directors and executive management and filing accountability lawsuits in the event of not performing the functional duties they are mandated with.

Further, a special register exists in the company kept with Kuwait Clearing Company in which the names of shareholders, their nationalities, domicile and the number of shares held by them are recorded. This register is marked with any changes on the data registered therein, according to the details received by the company or Kuwait Clearing Company. Every concerned party may request the company or Kuwait Clearing Company to furnish him with details from this register.

Company general assembly meeting

Salhia Real Estate Company is keen to organize meetings of the general assembly of shareholders as set forth in the corporate governance rules, laws and rules regulating the same. The agenda items shall include the minimum items required according to the rules. Details and information of the agenda shall be furnished to shareholders in advance of the date of holding the assembly by a sufficient time. Shareholders are permitted effective participation in the general assembly meetings, discussion of the topics listed therein and raise questions. Further, the company is keen that all shareholders practice the right of voting without any hurdles.

Rights of Stakeholders

Salhia Real Estate Company prepared the policies and procedures which guarantee the protection of stakeholders' rights and permit them to obtain legal compensations in the event of breaching any of their rights as set forth in the corporate governance rules. Further, these policies outline the Company's need to maintain positive working relationships and clarify the policy of reporting violations, receiving complaints and address them.

Through several procedures, the company is keen at increasing the contributions and participations of stakeholders in the company activities. Such procedures include the publishing of all relevant information accurately and at the right time to the stakeholders, and taking the interests of such parties into consideration upon taking the significant decisions. Further, stakeholders are provided with the opportunity of submitting their remarks on their experiences in dealing with the company.

Training programs and courses

Salhia Real Estate Company guarantees to all members of the Board of Directors and executive management the required training needs to increase skills and knowledge to achieve a better standard of management and competence at work.

Institutional values of the Company personnel

The company outlined in the professional and ethical code of conduct the fundamental principles on which the company's policy is based for creating the institutional values based on that the company reputation is established on the conduct of members of the Board of Directors, executive management and personnel. Everyone should play a role in safeguarding the Company reputation by compliance with the highest ethical standards. The Board of Directors assumes the responsibility of laying down the criteria and specifications of the company's ethical values. Each member of the senior management and staff shall assist to enforce this manual as part of his function and ethical responsibility and report any violation to the board of directors.
Further, the company's management has prepared the "Employee's Manual" in light of the private sector labor law in the State of Kuwait. This manual was circulated to all the company's personnel. The Manual comprises the guidelines and applicable procedures of Salhia Real Estate Company for the purpose of presenting a clear image on the employee's rights and duties which fosters the employees' vital and fundamental role in providing the best high standard services.

Social Responsibility

The company is keen for the continued compliance with its social responsibilities through social conduct aimed at achieving sustainable development for the community in general and its personnel in particular. This is achieved through the initiatives aimed at enhancing the level of living for the personnel, their families and the society, and working to reduce the unemployment rate in the society and reduce the wasting of environmental resources.
The Company aims at fostering the concept of management to include social and environmental problems within its operations and relations with stakeholders. The social responsibility paves the way for the company to establish the balance of the economic, environmental and social requirements, and at the same time fulfill the expectations of the shareholders and stakeholders, contribute in confronting the problems of the society, contribute in solving them, then enhance the company's image and promote its (trademark). Nevertheless, the concept of social responsibility goes further than this.
During the past year, Salhia Real Estate Company exerted several efforts in the field of social responsibility, which was diversified between social, environment and various youth and other activities, whereby Salhia provided sponsorship to many youth exhibitions and functions. The company's complexes were open to host such activities, in addition to charity activities, financial and moral support to numerous social institutions inside Kuwait.

Social Activities Report for 2018

Since the inception of the Company in the 1970s, Salhia Real Estate Company has taken upon itself the interest of the Kuwaiti society. This was not only for the sake of community prestige or media appearance, but out of a duty committed by the Company itself and insight from the management of the Company from the beginning seeking through which to integrate with the public money in the service of society. Thus, the Company stresses that development within the community is not the burden of the state alone, but is a conscious partnership between the public and private sectors. Growth is not only in numbers; rather, it is parallel to the conscious practice of positive citizenship.

Salhia Real Estate Company continued to play its social role and fulfill its obligations towards the civil and social institutions inside and outside the country, which serve the largest sector of the needy in various fields. In 2018, Salhia continued to provide assistance and help to many of these organizations, and among these organizations:

Bait Al Khair Exhibition (1)

Salhia Real Estate Company continued to sponsor the "Beit Al Khair" exhibition in its second winter season, where the exhibition supports the humanitarian cause of the Syrian refugee women. The non-profit artistic show was held under the slogan "House of Arts" in Arraya Centre in the period spanning between January 2 to February 2, 2018. The exhibition included activities of various types of art, especially the authentic Kuwaiti art. The exhibition also included live performances of artistic drawings in front of the audience for Kuwaiti talents and performances by Kuwaiti artists in music and artistic designs for jewelry, home accessories, flowers, and clothing.

Salhia Real Estate Company covered the costs and provided moral care for the exhibition. Moreover, the Company provided the venue for hosting the event, which has had a great impact by providing job opportunities for 32 needy Syrian refugees in Lebanon. The project has benefited more than 2,400 people under the umbrella of the Kuwaiti Red Crescent.

Earth Hour

Salhia Real Estate Company was present at the annual Earth Hour eve~t, during which the lights were turned off for one hour as part of a global event organized by World Wildlife Fund.

Forum to Support Entrepreneurs

As always, Salhia Real Estate Company has been a pioneer in motivating and encouraging outstanding ideas among Kuwaiti youth. It has supported and sponsored the opening of a specialized magazine to support and guide entrepreneurs in Kuwait through an exhibition at Arraya Centre titled "Start-Up Media Forum". This forum was well liked by a large number of well-known visitors and personalities. It included many qualitative and innovative projects, and witnessed the presence of a number of investors and people interested in small and medium-sized enterprises and a gathering of entrepreneurs in Kuwait to share ideas and experiences and benefit from experiences and solutions among the owners of these projects.

A Workshop for People With Special Needs

This year, Salhia Real Estate Company has hosted the 21 Center workshop for Vocational and Professional qualification. The Company has provided the necessary space for the exhibition in its complexes, where the products of our children with mental disabilities were presented. By hosting this event, the Company seeks to support this cause of people with mental disabilities who have reached the age of 21 years and have completed their studies and stay in their homes without a goal of life, By contributing to providing a marketing line for their products and obtaining a financial return for persons with disabilities from the proceeds of sales and filling their vacuum for the benefit of the community.

The 21st Center for People with Special Needs is one of the Kuwaiti non-profit organizations that represent civil action and a great community effort towards a special cause that may not receive sufficient attention. Salhia Real Estate Company seeks to be a strong supporter of extraordinary community issues that concern a special segment of our community.

Blood Donation Campaign

Under the title of "Your Blood Donation is Life", Salhia Real Estate Company organized a blood donation campaign in cooperation with the Kuwaiti Red Crescent in Al-Raya Tower on Wednesday 21 March 2018. The campaign was attended by a large number of employees of the Company and its complexes in addition to many visitors of Al-Raya tower, who have expressed their happiness to participate in such campaigns that carry noble meanings and benefits on health and social levels. This campaign comes in the context of enhancing the role of Salhia Real Estate company and its employees towards the community and in line with the humanitarian role and social responsibility of the Company to lend a helping hand for patients and the needy in hospitals that need blood units.

Health Awareness Campaign

Salhia Real Estate Company has organized a health awareness campaign at Salhia Centre in March 2018, which aims to spread the culture of the sport of walking and the importance of movement to the visitors of the mall. Furthermore, the awareness campaign answered the questions and gave health consultations to the visitors of the mall (such as joint pain, spinal pain, and sports injuries) and helped raise the awareness of the visitors about healthy nutrition and answered their queries.

Beit Al-Khair (2)

As a completion of the achievements of Beit Al-Khair, which presented an exhibition of the House of Arts, which includes many of the arts such as painting, music and other fine arts, whose proceeds are used to support Syrian refugee women.

Campaign (kheirukom li Alhlikom)

We coordinated with one of the Takaful Charity Associations to make an open day in Al. Salhia Complex on 26/4/2018 as well as in Arraya Centre on 24/5/2018. The purpose of this campaign is to raise funds for indebted women.

Hala Expo

Hala Expo aims to encourage Kuwaiti youth and support their small businesses by marketing their Ramadan products before the holy month of Ramadan. The exhibition was held on 24-25 April 2018.

A Campaign for the Rationalization of Electricity and Water

A campaign for the Ministry of Electricity and Water was held in Arraya Centre on 10/5/2018 in order to educate citizens about energy conservation.

Fayez's Walking Campaign

This campaign is keen to educate the community about the need for walking and its great benefit to human health. This campaign was held on 27/5/2018 at Arraya Centre.

Humanitarian Contributions t

Of the contributions of Salhia Real Estate Company is its support for one of the most important charities and humanitarian association in Kuwait, through assisting it in the relief of the Kyrgyzstan Republic during the month of Ramadan in 2018.

Hosting Healthy Eating Exhibition

In partnership with the organizers of the Food Buzz Campaign in collaboration with the Gulf Bank Health Awareness Marathon at Arraya Centre on 17 November 2018.

REPORT ON INTERNAL CONTROL SYSTEMS IN RESPECT OF SALHIA REAL ESTATE COMPANY K.S.C.P.

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The Board of Directors
Salhia Real Estate Company K.S.C.P
State of Kuwait

Dear Sirs,

Report on Internal Control Systems in respect of Salhia Real Estate Company K.S.C.P ("the Company" or "Salhia")

In accordance with our engagement letter dated 2 December, 2018 with Salhia Real Estate Company K.S.C.P, we have examined the internal control systems of the Company, which were in existence for the year ended 31 December 2018. The divisions examined were as follows:

Corporate Governance
Real Estate Facilities Management
Real Estate Development
Construction
Investments
Finance & Accounts
Human Resources & Administration
Information Technology
Compliance
Investor Relations Unit
Risk Management
Internal Audit Function
Legal

Our examination has been carried out with respect to Article 6-9 of Module 15 - 'Corporate Governance' of the Executive By-Laws issued by the Capital Market Authority ("CMA").

We would like to indicate that you as Directors of the Company are responsible for establishing and maintaining adequate internal control systems of your Company, taking into account that the related cost of such systems to be commensurate with the benefits expected from implementation thereof. It shall be noted that the objective of this report is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that risks are properly monitored and evaluated, that transactions are executed in accordance with established authorization procedures and are recorded properly, and to enable you to conduct the business in a prudent manner, with care and caution.

Because of inherent limitation in any internal control system, errors or irregularities may nevertheless occur and not be detected or traced. Also projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

In our opinion, having regard to the nature and size of the Company's business and operations for the year ended 31 December 2018, the internal control systems examined by us were established and maintained in accordance with the scope set out above with the exception of the matters set out in the respective areas of this report.

Dr. Saad Sulaiman Albuloushi
Licence No. 155 "A"
of Russell Bedford Kuwait
Member firm of Russell Bedford International

State of Kuwait
31 January 2019

AUDITING COMMITTEE REPORT

Salhia Real Estate Company
Auditing Committee Report for the Fiscal Year ended on 31 December 2018

Introduction:
The Board of Directors of Salhia Real Estate Company undertakes the duties of creating and following up the control, auditing and review systems in the Company, whereby the responsibility of the Board of Directors does not rely solely on the forms, policies and procedures related to auditing, but exceed them until the control systems represent a general conduct in the company, by its personnel in the various departments.

Internal Control Systems:
The Board of Directors has approved the general policies and procedures for the internal auditing systems covering all the company's activities and departments. The work strategy defines the control work for the company, as well as the responsibilities, duties and tasks of the company personnel. The Board of Directors Auditing Committee follows up the execution of such policies and procedures, whereby the committee held regularly its periodical meetings for the management and efficiency measurement of the internal control systems. Further, the remarks and reports submitted to the committee have been discussed according to the route of submitting reports at the company's various departments in order to achieve double control.
Furthermore, the committee held periodical meetings with the internal auditor in which it discussed the reports relevant to the various groups of the company. In these meetings, all the regulatory remarks issued by the internal auditor have been discussed, as well as review of the previous remarks and extent of response to these remarks in order to identify the aspects of risks and hurdles to which the company may be exposed, the degree of their significance and attempt to avoid such risks, as well as ensure that the control functions of the various groups of the company are laid down properly. This is in addition to the availability of the human competences and required and appropriate regulatory tools to achieve an effective internal control.
Furthermore, the Auditing Committee reviews the proposed plan for the auditing works inside the company in order to maintain the periodicity of convening the committee according to predetermined agenda and dates. The committee practices its authority for review and approval of the annual auditing plan and all the main changes on the internal control policies and procedures.

Accuracy of the financial statements and reports:
The Auditing Committee performs its role in the review and supervision over the external auditors' reports in connection with the quarterly and annual financial statements of the company before submitting them to the Board of Directors – and meets with the auditors if required – in order to ensure the soundness of the company's financial statements, the independence and integrity of the external auditor whose opinion remains independent, and enclosed with the contents of the company's annual report.

Regulatory Obligations:
According to the requirements of the Capital Markets Authority, the committee has taken the required steps to execute the new instructions for corporate governance, which included updating the existing auditing procedures and preparation of the special registers for recording the minutes of the committee, its decisions and agendas. Further, a contract was signed with an independent external auditor office in order to express the opinion and prepare the internal control report for the year ended on 31 December 2018.
During the year 2018, another independent audit office was assigned to review and evaluate the performance of the internal auditor of the company. For the past three years, provided that both the Internal Audit Committee and the Board of Directors are provided with a copy of this report.
The Board of Directors and executive management have both pledged to comply with submitting written and clear undertakings for the accuracy and integrity of the annual financial statements and financial reports related to the company's operations, and that they include all the financial aspects of the company and its operational results, and that they are prepared according to the International Financial Reporting Standards (IFRS).
At the end, the Auditing Committee observes that the follow up and supervision works it carried out and the review procedures of the auditors' reports and the applicable internal control systems, point out that Salhia Real Estate Company has a suitable control environment for its activities, which do not stand as a barrier for achieving its goals, and that the company is advancing in the efficiency of the monitoring and compliance system to the laws and regulations issued by the regulatory bodies.

Risk Management and Auditing Committee — **State of Kuwait**
Salhia Real Estate Company — **Date : 07/02/2019**

BOARD OF DIRECTORS UNDERTAKING

SALHIA

Date : 12/02/2019

Board of Directors Undertaking

Salhia Board of Directors assures the written undertakings of the soundness and integrity of financial reporting related to the corporate operations of Salhia Real Estate Co. for the financial year ending 31 December 2018.

Signature	
Mr. Ghazi Fahed Al Nafisi Chairman	

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

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2018

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the 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 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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

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

Key Audit Matters (continued)

Impairment of properties

Properties in the consolidated statement of financial position include investment properties, and certain freehold land and buildings classified under property and equipment. Apart from lands which are measured at costs, these properties are measured at cost less accumulated depreciation and impairment, if any, and constitutes significant portion of the Group's total assets as at the reporting date.

The management of the Group is determining the fair value of its properties, for disclosure and impairment testing purposes, at the reporting date and uses external appraisers to support these valuations. The valuation of the properties is highly dependent on estimates and assumptions such as rental value, occupancy rates, discount rates, market knowledge and historical transactions. Further, the disclosures relating to the assumptions are relevant, given the estimation uncertainty and sensitivity of the valuations. Given the size and complexity of the valuation of properties and the importance of the disclosures relating to the assumptions used in the valuation, we considered this as a key audit matter.

Our audit procedures included, amongst others, evaluating the assumptions and methodologies used by the Group, and considered the independence, reputation and capabilities of its external valuators. We also evaluated the accuracy of the data inputs used by the external evaluator. We also assessed the appropriateness of the disclosures relating to the investment properties of the Group in Note 10 of the consolidated financial statements.

Other information included in the Group's 2018 Annual Report

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

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

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

Report on the Audit of the Consolidated Financial Statements (continued)
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended 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.1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Parent Company or on its financial position.

BADER A. AL-ABDULJADER
LICENCE NO. 207 A
EY
(AL-AIBAN, AL OSAIMI & PARTNERS)

12 February 2019
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
Revenues		45,460,814	45,041,474
Operating costs		(19,666,311)	(17,492,606)
Gross profit		25,794,503	27,548,868
Share in joint venture's results, net of tax	9	4,899,477	2,590,844
General and administrative expenses		(5,866,996)	(5,345,214)
Depreciation	10,11	(5,369,150)	(5,234,229)
Sales and marketing expenses		(544,816)	(586,950)
Investment income	4	84,152	605,381
Foreign exchange (loss) gain		(81,082)	64,325
Interest income		18,472	22,498
Other income, net		129,314	263,069
Impairment loss on financial assets available for sale	8	-	(982,480)
Impairment loss on investment properties	10	-	(1,020,605)
Gain from sale of property		254,070	-
Finance costs		(686,599)	(935,458)
Profit before tax		18,631,345	16,990,049
Taxation on overseas subsidiaries		(181,053)	(135,894)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOUR SUPPORT TAX ("NLST"), ZAKAT AND DIRECTORS' FEES		18,450,292	16,854,155
KFAS		(163,939)	(149,859)
NLST		(455,387)	(416,274)
Zakat		(163,939)	(149,859)
Directors' fees	18	(120,000)	(120,000)
PROFIT FOR THE YEAR		17,547,027	16,018,163
Attributable to:			
Equity holders of the Parent Company		17,312,202	15,814,981
Non-controlling interests		234,825	203,182
		17,547,027	16,018,163
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	5	35.07 fils	32.15 fils

The attached notes 1 to 26 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018 KD	2017 KD
Profit for the year	**17,547,027**	16,018,163
Other comprehensive loss:		
Other comprehensive (loss) income that are or may be reclassified to consolidated statement of income in subsequent periods:		
Net movement in cumulative changes in fair value of financial assets available for sale	**-**	(720,718)
Impairment loss of financial assets available for sale transferred to consolidated statement of income	**-**	482,480
Exchange differences arising on translation of foreign operations	**(1,962,079)**	(213,485)
Net other comprehensive loss to be reclassified to consolidated statement of income in subsequent periods	**(1,962,079)**	(451,723)
Other comprehensive loss not to be reclassified to consolidated statement of income in subsequent periods:		
Changes in the fair value of equity instruments at fair value through other comprehensive income	**(793,664)**	-
Other comprehensive loss	**(2,755,743)**	(451,723)
Total comprehensive income for the year	**14,791,284**	15,566,440
Attributable to:		
Equity holders of the Parent Company	**14,556,459**	15,168,600
Non-controlling interests	**234,825**	397,840
	14,791,284	15,566,440

The attached notes 1 to 26 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 KD	2017 KD
ASSETS			
Cash and bank balances	6	7,814,245	4,895,535
Fixed deposits		2,300,000	2,633,206
Inventories		258,040	286,793
Accounts receivable and other assets	7	13,998,693	13,296,357
Financial assets at fair value through other comprehensive income	8	5,071,292	-
Financial assets available for sale	8	-	5,366,621
Interest in joint venture	9	8,352,038	6,380,746
Investment properties	10	211,560,563	187,062,981
Property and equipment	11	72,065,411	76,414,062
TOTAL ASSETS		321,420,282	296,336,301
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and financial institution		435,317	-
Accounts payable and other liabilities	12	26,431,698	21,100,969
Commercial financing	13	28,179,918	29,141,321
Islamic financing	14	113,989,034	99,686,890
TOTAL LIABILITIES		169,035,967	149,929,180
EQUITY			
Share capital	15	51,272,341	51,272,341
Share premium		35,055,163	35,055,163
Treasury shares	16	(5,168,680)	(5,315,245)
Treasury shares reserve		2,240,412	1,817,810
Statutory reserve	17	30,280,511	28,458,964
Voluntary reserve	17	20,489,290	20,489,290
Retained earnings		26,295,026	20,685,962
Fair value reserve		(172,021)	123,309
Foreign currency translation reserve		(10,593,567)	(8,992,619)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		149,698,475	143,594,975
Non-controlling interests		2,685,840	2,812,146
TOTAL EQUITY		152,384,315	146,407,121
TOTAL LIABILITIES AND EQUITY		321,420,282	296,336,301

Ghazi Fahad Alnafisi
Chairman

Faisal Abdulmuhsen Al-Khatrash
Vice Chairman

The attached notes 1 to 26 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Parent Company											
	Share capital	Share Premium	Treasury shares	Treasury shares reserve	Statutory reserve	Voluntary 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
Balance as at 1 January 2018	51,272,341	35,055,163	(5,315,245)	1,817,810	28,458,964	20,489,290	20,685,962	123,309	(8,992,619)	143,594,975	2,812,146	146,407,121
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 2.2)	-	-	-	-	-	-	-	498,334	-	498,334	-	498,334
Profit for the year	-	-	-	-	-	-	17,312,202	-	-	17,312,202	234,825	17,547,027
Other comprehensive loss	-	-	-	-	-	-	-	(793,664)	(1,600,948)	(2,394,612)	(361,131)	(2,755,743)
Total comprehensive income (loss)	-	-	-	-	-	-	17,312,202	(793,664)	(1,600,948)	14,917,590	(126,306)	14,791,284
Purchase of treasury shares	-	-	(1,132,213)	-	-	-	-	-	-	(1,132,213)	-	(1,132,213)
Sale of treasury shares	-	-	1,278,778	422,602	-	-	-	-	-	1,701,380	-	1,701,380
Dividends (Note 15)	-	-	-	-	-	-	(9,881,591)	-	-	(9,881,591)	-	(9,881,591)
Transfer to reserves	-	-	-	-	1,821,547	-	(1,821,547)	-	-	-	-	-
Balance as at 31 December 2018	**51,272,341**	**35,055,163**	**(5,168,680)**	**2,240,412**	**30,280,511**	**20,489,290**	**26,295,026**	**(172,021)**	**(10,593,567)**	**149,698,475**	**2,685,840**	**152,384,315**
Balance as at 1 January 2017	51,272,341	35,055,163	(4,783,820)	1,817,810	26,793,867	20,489,290	16,380,747	361,547	(8,584,476)	138,802,469	2,414,306	141,216,775
Profit for the year	-	-	-	-	-	-	15,814,981	-	-	15,814,981	203,182	16,018,163
Other comprehensive (loss) income	-	-	-	-	-	-	-	(238,238)	(408,143)	(646,381)	194,658	(451,723)
Total comprehensive income (loss)	-	-	-	-	-	-	15,814,981	(238,238)	(408,143)	15,168,600	397,840	15,566,440
Purchase of treasury shares	-	-	(531,425)	-	-	-	-	-	-	(531,425)	-	(531,425)
Dividends (Note 15)	-	-	-	-	-	-	(9,844,669)	-	-	(9,844,669)	-	(9,844,669)
Transfer to reserve	-	-	-	-	1,665,097	-	(1,665,097)	-	-	-	-	-
Balance as at 31 December 2017	51,272,341	35,055,163	(5,315,245)	1,817,810	28,458,964	20,489,290	20,685,962	123,309	(8,992,619)	143,594,975	2,812,146	146,407,121

The attached notes 1 to 26 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat and Directors' fees		18,450,292	16,854,155
Adjustments for:			
Share in joint venture's results, net of tax	9	(4,899,477)	(2,590,844)
Provision for employees' terminal benefits		864,221	534,670
Depreciation	10,11	5,369,150	5,234,229
Investment income	4	(84,152)	(605,381)
Foreign exchange loss (gain)		81,082	(64,325)
Interest income		(18,472)	(22,498)
Gain on sale of property		(254,070)	-
Impairment loss on financial assets available for sale	8	-	982,480
Impairment loss on investment properties	10	-	1,020,605
Finance costs		686,599	935,458
		20,195,173	22,278,549
Changes in operating assets and liabilities			
Inventories		28,753	20,178
Accounts receivable and other assets		6,783,062	211,472
Accounts payable and other liabilities		4,125,094	2,695,725
Cash from operations		31,132,082	25,205,924
Employees' terminal benefits paid		(249,640)	(137,685)
KFAS paid		(149,859)	(117,463)
NLST paid		(416,274)	(326,286)
Zakat paid		(149,859)	(117,463)
Directors' fees paid		(120,000)	(120,000)
Net cash flows from operating activities		30,046,450	24,387,027
INVESTING ACTIVITIES			
Proceeds from sale of financial assets available for sale		-	999,939
Additions to investment properties	10	(26,975,084)	(33,434,686)
Additions to property and equipment	11	(2,607,750)	(4,214,913)
Net movement in advance payments to contractors		(7,485,398)	2,647,654
Proceeds from sale of property and equipment		2,523,577	33,782
Dividend income received	4	84,152	131,096
Dividends received from joint venture	9	2,030,000	3,905,000
Interest income received		18,472	22,498
Fixed deposits		333,206	(304,916)
Net cash flows used in investing activities		(32,078,825)	(30,214,546)
FINANCING ACTIVITIES			
Proceeds from commercial and Islamic financings obtained		27,752,182	28,299,072
Repayment of commercial and Islamic financings		(13,351,879)	(12,830,702)
Finance costs paid		(686,599)	(935,458)
Dividends paid	15	(9,767,103)	(9,851,450)
Purchase of treasury shares		(1,130,459)	(531,425)
Sale of treasury shares		1,699,626	-
Net cash flows from financing activities		4,515,768	4,150,037
NET INCREASE (DECREASE) IN CASH AND BANK BALANCES		2,483,393	(1,677,482)
Cash and bank balances as at 1 January		4,895,535	6,573,017
CASH AND BANK BALANCES AS AT 31 DECEMBER	6	7,378,928	4,895,535

The attached notes 1 to 26 form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

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 2018 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors 12 February 2019. 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. The Parent Company'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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES

2.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared under the historical cost basis except for Financial assets at fair value through other comprehensive income 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.

The Group presents its statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 23.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

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

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

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

IFRS 9 - Financial Instruments

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

a) Classification and measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)
IFRS 9 - Financial Instruments (continued)
a) Classification and measurement (continued)

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

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

Under IAS 39, the Group's equity securities were classified as AFS financial assets. As a result of the change in classification of the Group's equity investments, the AFS reserve related to those investments that were previously presented under accumulated OCI, was reclassified to retained earnings at the date of initial application.

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

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

(b) Impairment

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

(c) Hedge accounting

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

IFRS 15 - Revenue from Contracts with Customers

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

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

The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in no change in the revenue recognition policy of the Group in relation to its contracts with customers. Further, adoption of IFRS 15 had no impact on this consolidated financial statement of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendments to IAS 40 - Transfers of Investment Property

The amendment is applied prospectively, however, retrospective application in accordance with IAS 8 is permitted if possible without the use of hindsight. The amendment clarifies when an entity should transfer property, including property under construction or development into, or out of, investment property.

The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This is effective for accounting periods beginning on or after 1 January 2018. There has been no change in use of any of the Group's investment property.

Transitional provisions

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

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

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

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

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

	Fair value reserve KD
Closing balance under IAS 39 (31 December 2017)	**123,309**
Impact on reclassification and re-measurements:	
Fair value gain on re-measuring unquoted securities to be carried at FVOCI	**498,334**
Opening balance under IFRS 9 on date of initial application at 1 January 2018	**621,643**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Classification of financial instruments on the date of initial application of IFRS 9

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Transition adjustments	New carrying amount under IFRS 9
			KD	KD	KD
Cash and cash equivalents	Loans and receivables	Amortised costs	4,895,535	-	**4,895,535**
Fixed deposits	Loans and receivables	Amortised costs	2,633,206	-	**2,633,206**
Accounts receivables	Loans and receivables	Amortised costs	13,296,357	-	**13,296,357**
Managed quoted portfolios	Financial assets available for sale	FVOCI	112,750	-	**112,750**
Managed unquoted portfolio	Financial assets available for sale	FVOCI	266,328	-	**266,328**
Unquoted equity securities	Financial assets available for sale	FVOCI	4,987,543	498,334	**5,485,877**

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

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 - Leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE(continued)

IFRS 16 - Leases (continued)

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

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

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

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

Amendments to IAS 28: Long-term interests in associates and joint ventures

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

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

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

2.4 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries including special purpose entities as at 31 December 2018. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Business combinations and acquisition of non-controlling interests

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

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

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

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.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and also exposed to credit risk. The specific recognition criteria described below must also be met before revenue is recognised.

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

Interest income
Interest income is recognised as it accrues using the effective interest rate method ("EIR").

Hotel and care home income
Hotel and care home income represents the invoiced value of services provided during the year.

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

Gain or loss on sale of investment properties and investment in securities
Gain or loss on sale of investment properties and investment in securities is recognised when the sale transaction is consummated.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

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 asset (or those assets) is not explicitly specified in an arrangement.

Group as a lessee

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

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

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

Group as a lessor

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

Finance costs

Finance costs that are 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 capitalised as part of the cost of that asset. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred. Finance costs consist of profit and other costs that the Company incurred in connection with the murabaha payables.

The finance cost capitalised 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 capitalised is the gross finance cost incurred on those borrowing less any investment income arising on its temporary investment. Finance cost is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Finance cost is also capitalised 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.

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.

Accounts payable and other liabilities

Accounts payable and other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Inventories

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

Net realisable 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.

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.

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. Unrealised 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.

Upon loss of joint control over the venture, the Group measures and recognise 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (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, 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 recognised 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	5 to 10 years
• Motor vehicles	5 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, 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 and equipment initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposals.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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.

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.

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.

Financial instruments

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

a) Recognition and initial measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

b) Classification and subsequent measurement

Financial assets - Policy effective from 1 January 2018 (IFRS 9)

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets – Business model assessment: Policy applicable from 1 January 2018 (continued)

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

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

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

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

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

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

Financial assets – Policy applicable before 1 January 2018

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

c) Derecognition

Financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

c) Derecognition (continued)

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

Financial liabilities

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

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

d) Offsetting

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

Impairment of financial assets

Policy applicable from 1 January 2018

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

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Accordingly, the measurement of receivables under IFRS 9 doesn't have material impact on the consolidated statement of income for the Group.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Policy applicable before 1 January 2018

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Policy applicable before 1 January 2018 (continued)

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

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

Impairment of non-financial assets

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Significant judgments

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

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. Property acquired principally for sale in the ordinary course of business is classified as trading property. Property acquired to generate rental income or for capital appreciation, or for undetermined future use is classified as investment property. Property acquired for owner occupation is classified as property and equipment

Classification of financial assets

Effective from 1 January 2018 (IFRS 9)

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Effective before 1 January 2018 (IAS 39)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Significant judgments (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 also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of financial assets at amortised cost

Effective before 1 January 2018 (IAS 39)

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

Effective from 1 January 2018 (IFRS 9)

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

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

Business combinations

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

Fair value measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

4 INVESTMENT INCOME

	2018 KD	2017 KD
Gain on sale of financial assets available for sale	-	474,285
Dividend income	84,152	131,096
	84,152	605,381

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 2018.

	2018	2017
Profit for the year attributable to equity holders of the Parent Company (KD)	17,312,202	15,814,981
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	493,683,839	491,901,177
Basic and diluted earnings per share attributable to equity holders of the Parent Company	35.07 fils	32.15 fils

6 CASH AND BANK BALANCES

Cash and bank balances comprises of the following:

	2018 KD	2017 KD
Cash on hand	2,423,812	25,644
Bank balances	5,390,433	4,869,891
Less: Due to banks and financial institutions	(435,317)	-
Cash and bank balances for the purpose of the consolidated statement of cash flows	7,378,928	4,895,535

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

7 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2018 KD	2017 KD
Hotel guests and care home residents receivables	**1,083,951**	1,696,313
Rent receivable	**377,513**	292,940
Staff receivables (Note 20)	**39,733**	57,386
Deposits and prepaid expenses	**100,161**	260,689
Advance payments to contractors*	**7,485,398**	8,076,789
Due from related parties (Note 20)	**801,380**	449,351
Other receivables	**4,110,557**	2,462,889
	13,998,693	13,296,357

* During the year, the Group made advance payments to the main contractor for the construction of Al Asima project amounting to KD 7,176,923 (2017: KD 7,437,485).

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

Movement in expected credit losses / provision for doubtful debts of hotel guests, care home and residents and rent receivable is as follows:

	2018 KD	2017 KD
As at 1 January	**623,636**	323,636
Charge for expected credit losses	**350,667**	-
Provision charge for doubtful debts	**-**	300,000
As at 31 December	**974,303**	623,636

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 to 365 days KD	Total KD
2018	**195,934**	**413,958**	**136,644**	**173,776**	**129,887**	**411,265**	**1,461,464**
2017	156,517	718,720	147,926	117,671	95,525	752,894	1,989,253

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

7 ACCOUNTS RECEIVABLE AND OTHER ASSETS (continued)

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

	2018 KD	2017 KD
Kuwaiti Dinar	1,025,760	1,741,191
Euro	386,935	248,062
GBP	48,769	-
	1,461,464	1,989,253

8 OTHER FINANCIAL ASSETS

	2018 KD	2017 KD
Financial assets available for sale (AFS)		
Managed quoted portfolios	-	112,750
Managed unquoted portfolio	-	266,328
Unquoted equity securities	-	4,987,543
Financial assets at fair value through other comprehensive income (FVOCI)		
Managed quoted portfolios	83,000	-
Managed unquoted portfolio	269,140	-
Unquoted equity securities	4,719,152	-
	5,071,292	5,366,621

At 31 December 2017, certain equity instruments amounting to KD 4,987,543 that do not have a quoted price in active market and whose fair value cannot be measured reliably were accounted at cost (in accordance with IAS 39). These instruments have been measured at fair value at the date of initial application of IFRS 9. Any difference between the previous carrying amount and the fair value is recognised in the opening retained earnings or OCI, as appropriate (Note 2.2).

Managed quoted portfolios represent equity investments carried at market bid prices and fair values as reported by the portfolio managers.

Managed unquoted portfolio represents unquoted equity securities amounting to KD 269,140 (2017: KD 266,328) are carried at the latest net asset value provided by the respective portfolio managers.

The fair values of financial instruments are presented in Note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

9 INTEREST IN JOINT VENTURE

This represents the Group's 50% (2017: 50%) interest in a United Kingdom based joint venture entity, Key Property Investments limited, engaged in real estate leasing and development.

	2018 KD	2017 KD
Carrying amount of the investment in the joint venture:		
As at 1 January	6,380,746	8,356,690
Share in the joint venture's results, net of tax	4,899,477	2,590,844
Dividends received	(2,030,000)	(3,905,000)
Foreign currency translation adjustment	(898,185)	(661,788)
As at 31 December	8,352,038	6,380,746
Share of joint venture entity's statement of financial position:		
Current assets	918,315	1,070,573
Non-current assets	13,110,984	18,149,685
Current liabilities	(1,586,058)	(2,134,436)
Non-current liabilities	(4,091,203)	(10,705,076)
Net assets	8,352,038	6,380,746
Share of joint venture entity's revenue and results:		
Revenues	3,920,123	3,517,319
Results	4,899,477	2,590,844

10 INVESTMENT PROPERTIES

	Freehold land KD	Buildings KD	Properties under construction KD	Total KD
Cost				
Balance as at 1 January 2018	98,861,389	65,730,348	53,970,468	218,562,205
Additions	-	-	26,975,084	26,975,084
Foreign currency translation adjustment	(194,027)	(255,131)	(133,659)	(582,817)
Balance as at 31 December 2018	98,667,362	65,475,217	80,811,893	244,954,472
Accumulated depreciation and impairment				
Balance as at 1 January 2018	3,030,307	28,468,917	-	31,499,224
Charge for the year	-	1,900,780	-	1,900,780
Impairment loss	-	-	-	-
Foreign currency translation adjustment	-	(6,095)	-	(6,095)
Balance as at 31 December 2018	3,030,307	30,363,602	-	33,393,909
Net Book Value as at 31 December 2018	95,637,055	35,111,615	80,811,893	211,560,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

10 INVESTMENT PROPERTIES (continued)

	Freehold land KD	Buildings KD	Properties under construction KD	Total KD
Cost				
Balance as at 1 January 2017	97,491,970	65,213,105	21,589,389	184,294,464
Additions	1,182,750	-	32,251,936	33,434,686
Foreign currency translation adjustment	186,669	517,243	129,143	833,055
Balance as at 31 December 2017	98,861,389	65,730,348	53,970,468	218,562,205
Accumulated depreciation and impairment				
Balance as at 1 January 2017	2,606,868	25,829,805	-	28,436,673
Charge for the year	-	1,938,906	-	1,938,906
Impairment loss	420,605	600,000	-	1,020,605
Foreign currency translation adjustment	2,834	100,206	-	103,040
Balance as at 31 December 2017	3,030,307	28,468,917	-	31,499,224
Net Book Value as at 31 December 2017	95,831,082	37,261,431	53,970,468	187,062,981

Investment properties with a carrying value of KD 155,792 (2017: KD 155,792) 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.

Property under construction includes cumulative capitalised borrowing costs amounting to KD 17,277,217 (2017: KD 12,206,958).

The fair value of the investment properties at the consolidated statement of financial position date was estimated to be KD 350,712,656 (31 December 2017: KD 352,246,885). For local properties, the fair values of investment properties are based on valuations performed by accredited independent valuers; one of these appraisers is a local bank and the other is a local reputable accredited appraiser. As for foreign properties, the fair values of investment properties are based on two valuations performed by foreign accredited independent valuers. The valuations are based on acceptable methods of valuation such as sales comparison, income capitalization and market comparable methods. As the significant valuation inputs used are based on unobservable market data these are classified under level 3 fair value hierarchy. In estimating the fair value of the investment properties, the highest and best use of the properties is their current use.

Investment properties amounting to KD 71,794,141 (2017: KD 71,794,141) are secured against Islamic financing obtained by a local subsidiary amounting to KD 47,750,000 (2017: KD 46,250,000). Under the terms of the liability, the lenders have no recourse to the Parent Company in the event of default (Note 14).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

11 PROPERTY AND EQUIPMENT

	Freehold Land KD	Buildings KD	Furniture And Equipment KD	Motor vehicles KD	Capital work in progress KD	Total KD
Cost						
Balance as at 1 January 2018	14,759,839	97,108,913	41,624,010	407,792	463,421	154,363,975
Additions	-	252,959	2,251,521	8,671	94,599	2,607,750
Disposals	(2,263,000)	(4,436)	(48,237)	-	-	(2,315,673)
Transfers from capital work in progress	-	-	-	-	-	-
Foreign currency translation adjustment	(181,981)	(1,015,568)	(44,469)	-	(4,816)	(1,246,834)
Balance as at 31 December 2018	12,314,858	96,341,868	43,782,825	416,463	553,204	153,409,218
Accumulated depreciation						
Balance as at 1 January 2018	-	42,588,974	35,057,194	303,745	-	77,949,913
Charge for the year	-	2,207,718	1,221,127	39,525	-	3,468,370
Depreciation on disposals	-	(37)	(46,318)	-	-	(46,355)
Foreign currency translation adjustment	-	(23,395)	(4,726)	-	-	(28,121)
Balance as at 31 December 2018	-	44,773,260	36,227,277	343,270	-	81,343,807
Net Book Value as at 31 December 2018	12,314,858	51,568,608	7,555,548	73,193	553,204	72,065,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

11 PROPERTY AND EQUIPMENT (continued)

	Freehold land KD	Buildings KD	Furniture and Equipment KD	Motor vehicles KD	Capital work in progress KD	Total KD
Cost						
Balance as at 1 January 2017	11,948,840	92,113,304	39,314,915	417,101	667,136	144,461,296
Additions	2,263,000	140,784	1,705,436	22,754	82,939	4,214,913
Disposals	-	-	(190,210)	(32,063)	-	(222,273)
Transfers from capital work in progress	-	-	292,682	-	(292,682)	-
Foreign currency translation adjustment	547,999	4,854,825	501,187	-	6,028	5,910,039
Balance as at 31 December 2017	14,759,839	97,108,913	41,624,010	407,792	463,421	154,363,975
Accumulated depreciation						
Balance as at 1 January 2017	-	38,646,964	33,738,457	289,094	-	72,674,515
Charge for the year	-	2,174,057	1,074,552	46,714	-	3,295,323
Depreciation on disposals	-	-	(156,428)	(32,063)	-	(188,491)
Foreign currency translation adjustment	-	1,767,953	400,613	-	-	2,168,566
Balance as at 31 December 2017	-	42,588,974	35,057,194	303,745	-	77,949,913
Net Book Value as at 31 December 2017	14,759,839	54,519,939	6,566,816	104,047	463,421	76,414,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2018 KD	2017 KD
Accounts payable	**6,137,011**	5,250,343
Retentions payable	**4,900,772**	3,521,907
Accrued expenses	**3,480,628**	3,727,055
Deposits from tenants, hotel and care home guests	**656,422**	640,770
Rents received in advance	**616,170**	1,135,621
Employees' terminal benefits	**5,150,073**	4,535,492
Other payables	**5,490,622**	2,289,781
	26,431,698	21,100,969

13 COMMERCIAL FINANCING

Commercial financing are contractually due for repayment as follows:

	2018 KD	2017 KD
Instalments payable within one year	**1,052,695**	3,314,173
Instalments payable within one year to two years	**1,081,140**	6,294,379
Instalments payable within two years to three years	**1,110,376**	1,122,438
Instalments payable within three years to four years	**1,140,426**	1,152,791
Instalments payable after four years	**23,795,281**	17,257,540
	28,179,918	29,141,321

Commercial financing are denominated in the following currencies:

	2018 KD	2017 KD
Kuwaiti Dinars	**2,550,000**	2,250,000
Euro	**20,687,966**	21,689,849
GBP	**4,941,952**	5,201,472
	28,179,918	29,141,321

Commercial financing are repayable in periodic installments over variable periods of time with maturities extending to December 2041.

Commercial financing denominated in Kuwaiti Dinar carries variable interest rates which range from 0.75% to 1.5% per annum (2017: 0.75% to 1.5% per annum) over the Central Bank of Kuwait discount rate.

Commercial financing denominated in euro carries variable interest rates which range from 1.5% to 2% per annum (2017: 1.5% to 2% per annum) over EURIBOR.

Commercial financing amounting to KD 25,659,918 (2017: KD 26,891,321) has been obtained by foreign subsidiaries under the terms of which lenders have no recourse to the Parent Company in the event of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14 ISLAMIC FINANCING

	2018 KD	2017 KD
Murabaha financing	113,989,034	95,336,890
Wakala financing	-	4,350,000
	113,989,034	99,686,890

Islamic financing are contractually due for repayment as follows:

	2018 KD	2017 KD
Instalments payable within one year	808,611	7,378,987
Instalments payable within one year to two years	4,033,333	900,000
Instalments payable within two years to three years	10,783,333	9,350,000
Instalments payable within three years to four years	17,715,334	9,350,000
Instalments payable after four years	80,648,423	72,707,903
	113,989,034	99,686,890

The average profit rate attributable to Islamic financing during the years is 1.5% per annum (2017: 1.5% per annum) over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 47,750,000 (2017: KD 46,250,000) has been obtained by a local subsidiary acquired during the year 2011, and is secured by an investment property with a carrying value of KD 71,791,141 (2017: KD 71,791,141). Under the terms of the facility, the lenders have no recourse to the Parent Company in the event of default (Note 10).

15 SHARE CAPITAL AND GENERAL ASSEMBLY MEETING

At the annual general assembly of the shareholders of the Parent Company held on 12 March 2018, the shareholders approved the distribution of cash dividends of 20 fils (2017: 20 fils) per share amounting to KD 9,881,591 for the year ended 31 December 2017 (31 December 2016: KD 9,844,669) for shareholders registered on that date which was paid subsequent.

As at 31 December 2018, the authorised, issued and paid up capital comprises of 512,723,413 shares (31 December 2017: 512,723,413 shares) of 100 fils (31 December 2017: 100 fils) each paid in cash.

For the year ended 31 December 2018, the Board of Directors of the Parent Company has proposed cash dividends of 20 fils (2017: 20 fils) per share. The cash dividend, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

16 TREASURY SHARES

As at 31 December 2018, the Parent Company' held 19,630,322 (2017: KD 21,278,655) of its own shares, equivalent to 3.83% (2017: 4.15%) of the total issued share capital at that date. The market value of these shares at the reporting date was KD 6,458,376 (2017: KD 7,511,365). Reserves of the Parent Company equivalent to the cost of the treasury shares have been ear-marked as non-distributable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

17 STATUTORY RESERVE AND VOLUNTARY RESERVE

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

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve. 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 2017 were approved by the annual general assembly of the shareholders of the Parent Company held on 12 March 2018 (Note 20).

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19 SUBSIDIARIES

Details of Subsidiaries are set out below:

Name of the company	Percentage of ownership		Country of incorporation	Principal activity
	31 December 2018	31 December 2017		
Directly held:				
Haddia Holding GMBH	**90.89%**	90.89%	Germany	Holding company
Drawbridge Securities Limited*	**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
Salhia Real Estate Bahrain S.P.C.	**100%**	100%	Kingdom of Bahrain	Real estate
Salhia International for Entertainment Centers K.S.C **	**90%**	-	Kuwait	Entertainment
Held through Haddia Holding GMBH:				
SAREC GMBH	**100%**	100%	Germany	Leasing of properties
DANA Lebensstil GmbH*	**50%**	50%	Germany	Dormant company
Dana Senioreneinrichtungen GMBH*	**40%**	40%	Germany	Care home operator
Dana Ambulante Pfegedienste GMBH*	**40%**	40%	Germany	Care home service provider
Dana Services GMBH (Gredo GMBH)*	**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	**100%**	100%	United Kingdom	Property development
Salhia Investment Residential Limited	**100%**	100%	United Kingdom	Real estate
Held through Bunyan Al-Salhia Project Management Company W.L.L.:				
Al Suwaihra Real Estate L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Suwaihra Development L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Suwaihra Global L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Waqaiba Real Estate L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Waqaiba Development L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Had Development L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Omq Real Estate L.L.C.	**99%**	99%	Sultanate of Oman	Real estate

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

* During the year ended 31 December 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19 SUBSIDIARIES (continued)

** During the year ended 31 December 2018, the Parent Company consolidate the new subsidiary Salhia International for Entertainment Centers K.S.C as the Parent Company 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:

	2018	2017
	KD	KD
Directors' fees (Note 18)	**120,000**	120,000

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

	Entities under common control	Other related parties	**Total 2018**	Total 2017
	KD	KD	**KD**	KD
Staff receivables (Note 7)	-	**39,733**	**39,733**	57,386
Due from related parties (Note 7)	-	**801,380**	**801,380**	449,351

Amounts due from related parties are receivable on demand and are interest-free.

Compensation of key management personnel

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

	2018	2017
	KD	KD
Short-term benefits	**621,913**	638,622
Employees' end of service benefits	**341,758**	269,025
	963,671	907,647

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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 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 Ballroom - Kuwait.
- Care home operations: Consist of care home activities provided by subsidiary companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 2018				31 December 2017			
	Real estate operations KD	**Hotel operations KD**	**Care home operations KD**	**Total KD**	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD
Segment revenue	**19,033,788**	**10,397,888**	**16,029,138**	**45,460,814**	18,878,156	10,657,110	15,506,208	45,041,474
Segment operating costs	**(4,224,533)**	**(3,906,670)**	**(11,535,108)**	**(19,666,311)**	(2,654,319)	(3,485,211)	(11,353,076)	(17,492,606)
Segment gross profit	**14,809,255**	**6,491,218**	**4,494,030**	**25,794,503**	16,223,837	7,171,899	4,153,132	27,548,868
Share in joint venture's results, net of tax	**4,899,477**	**-**	**-**	**4,899,477**	2,590,844	-	-	2,590,844
Depreciation	**(2,896,406)**	**(1,422,431)**	**(1,050,313)**	**(5,369,150)**	(2,933,551)	(1,281,693)	(1,018,985)	(5,234,229)
Administrative and marketing expenses	**(3,032,856)**	**(2,087,455)**	**(1,291,501)**	**(6,411,812)**	(2,672,941)	(1,787,510)	(1,471,713)	(5,932,164)
Finance costs	**2,464**	**(82,192)**	**(606,871)**	**(686,599)**	(227,747)	(85,372)	(622,339)	(935,458)
Taxation on overseas subsidiaries	**-**	**-**	**(181,053)**	**(181,053)**	-	-	(135,894)	(135,894)
Segment results	**13,781,934**	**2,899,140**	**1,364,292**	**18,045,366**	12,980,442	4,017,324	904,201	17,901,967
Interest income				**18,472**				22,498
Investment income				**84,152**				605,381
Impairment loss on financial assets available for sale				**-**				(982,480)
Impairment of investment properties				**-**				(1,020,605)
Gain from sale of property				**254,070**				-
Other non-operating income				**48,232**				327,394
KFAS, NLST, Zakat and Directors' fees				**(903,265)**				(835,992)
Profit for the year				**17,547,027**				16,018,163
Segment assets	**266,420,560**	**8,879,800**	**37,767,884**	**313,068,244**	241,830,146	10,070,703	38,054,706	289,955,555
Investment in joint venture	**8,352,038**	**-**	**-**	**8,352,038**	6,380,746	-	-	6,380,746
Total assets	**274,772,598**	**8,879,800**	**37,767,884**	**321,420,282**	248,210,892	10,070,703	38,054,706	296,336,301
Segment liabilities	**143,833,436**	**3,016,194**	**22,186,337**	**169,035,967**	123,946,030	2,748,331	23,234,819	149,929,180
Capital expenditure	**27,544,510**	**1,524,294**	**514,030**	**29,582,834**	36,013,076	1,256,956	379,567	37,649,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 2018			31 December 2017		
	Kuwait and GCC	**Europe**	**Total**	Kuwait and GCC	Europe	Total
	KD	**KD**	**KD**	KD	KD	KD
Revenue	**28,981,895**	**16,478,919**	**45,460,814**	29,207,359	15,834,115	45,041,474
Assets	**264,316,783**	**57,103,499**	**321,420,282**	241,252,732	55,083,569	296,336,301
Capital expenditure	**29,068,804**	**514,030**	**29,582,834**	37,270,032	379,567	37,649,599

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 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, bank balances, fixed deposits and financial assets at fair value through other comprehensive income.

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, Risk and Internal Audit 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 fixed deposits 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

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
2018		
KD	**25**	**292,436**
Euro	**25**	**51,720**
GBP	**25**	**12,355**
2017		
KD	25	958
Euro	25	54,225
GBP	25	13,004

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 exposure to foreign currency monetary assets and liabilities.

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

	2018		2017	
Currency	**Change in currency rate in %**	**Effect on consolidated statement of income KD**	Change in currency rate in %	Effect on consolidated statement of income KD
Euro	**1%**	**(179,961)**	1%	(196,035)
GBP	**1%**	**(48,519)**	1%	(50,566)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

22 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

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 included in a portfolio of foreign investments (managed by foreign financial institutions) sensitive to recognised international indices.

The effect on other comprehensive income in equity (as a result of a change in the fair value of financial assets at fair value through other comprehensive income at 31 December 2018) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2018		20017	
Market indices	**Change in equity price %**	**Effect on other comprehensive income KD**	Change in equity price %	Effect on other comprehensive income KD
International	**+/-5**	**4,150**	+/-5	5,638

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:

	2018 KD	2017 KD
Bank balances (Note 6)	**5,390,433**	4,869,891
Fixed deposits	**2,300,000**	2,633,206
Accounts receivable (Note 7)	**1,461,464**	4,509,528
Due from related parties (Note 7)	**801,380**	449,351
Total exposure of credit risk	**9,953,277**	12,461,976

The Group is exposed to credit risk on its bank balances and fixed deposits, accounts receivable and amounts due from related parties.

Bank balances and fixed deposits

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.

Accounts receivable

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. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Accounts receivable (continued)

With respect to accounts receivable, an impairment analysis is performed at each reporting date using a provision matrix to measure the expected credit losses. The provision rates are based on days past due and customer segments with similar loss patterns (i.e., product and customer type etc). The calculation reflects the reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, accounts receivable are written-off if past due more than one year are not subject to enforcement activity and there is no possibility to recover these amounts in near future. The maximum exposure to credit risk at the reporting date is the carrying value of each accounts receivable. The Group does not have a policy to obtain collaterals against accounts receivable.

The table below provides information about the credit risk exposure on the Group's accounts receivable using a provision matrix:

	Accounts receivable					
31 December 2018	**Days past due**					
	< 30 days	**30 to 60 days**	**60 to 90 days**	**90 to 120 days**	**120 to 365 days**	**Total**
	KD	**KD**	**KD**	**KD**	**KD**	**KD**
Estimated total gross carrying amount at default	**365,365**	**243,577**	**608,942**	**852,518**	**365,365**	**2,435,767**
Estimated credit loss	**97,430**	**146,145**	**194,861**	**243,576**	**292,291**	**974,303**
Expected credit loss rate	**27%**	**60%**	**32%**	**29%**	**80%**	**40%**

	Accounts receivable					
1 January 2018	Days past due					
	< 30 days	30 to 60 days	60 to 90 days	90 to 120 days	120 to 365 days	Total
	KD	KD	KD	KD	KD	KD
Estimated total gross carrying amount at default	391,933	522,578	653,222	783,867	261,289	2,612,889
Estimated credit loss	62,364	93,545	124,727	187,091	155,909	623,636
Expected credit loss rate	16%	18%	19%	24%	60%	24%

Amounts due from related parties

Amounts due from related parties are considered to be fully recoverable by the management and thus the credit risk is considered minimal.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

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 2018 and 31 December 2017 based on contractual undiscounted payments:

2018	**Within 3 months KD**	**3 to 6 months KD**	**6 to 12 months KD**	**Over one year KD**	**Total KD**
Due to banks and financial institution	**-**	**-**	**435,317**	**-**	**435,317**
Accounts payable and other liabilities	**5,872,682**	**1,011,814**	**814,155**	**18,733,047**	**26,431,698**
Commercial financing	**413,978**	**414,261**	**829,089**	**45,012,761**	**46,670,089**
Islamic financing	**1,544,477**	**1,404,273**	**3,693,757**	**161,026,223**	**167,668,730**
TOTAL LIABILITIES	**7,831,137**	**2,830,348**	**5,772,318**	**224,772,031**	**241,205,834**
Contingent liabilities	**-**	**-**	**937,560**	**-**	**937,560**
Capital commitments	**14,338,612**	**14,790,088**	**30,684,596**	**47,841,203**	**107,654,499**
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS	**14,338,612**	**14,790,088**	**31,622,156**	**47,841,203**	**108,592,059**

2017	Within 3 months KD	3 to 6 months KD	6 to 12 months KD	Over one year KD	Total KD
Accounts payable and other liabilities	4,759,580	1,104,038	747,451	8,818,787	15,429,856
Commercial financing	431,408	434,134	3,118,936	31,262,108	35,246,586
Islamic financing	5,979,164	1,316,486	3,896,626	110,144,064	121,336,340
TOTAL LIABILITIES	11,170,152	2,854,658	7,763,013	150,224,959	172,012,782
Contingent liabilities	-	-	-	890,670	890,670
Capital commitments	14,945,300	14,945,300	29,890,600	20,807,889	80,589,089
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS	14,945,300	14,945,300	29,890,600	21,698,559	81,479,759

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

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:

2018 **ASSETS**	**Within 3 months** **KD**	**3 to 6 months** **KD**	**6 to 12 months** **KD**	**Over one year** **KD**	**Total** **KD**
Cash and bank balances	7,814,245	-	-	-	7,814,245
Fixed deposits	-	2,300,000	-	-	2,300,000
Inventories	258,040	-	-	-	258,040
Accounts receivables and other assets	5,847,078	2,037,147	2,105,918	4,008,550	13,998,693
Financial assets at fair value through other comprehensive income	-	-	83,000	4,988,292	5,071,292
Interest in joint venture	-	-	-	8,352,038	8,352,038
Investment properties	-	-	-	211,560,563	211,560,563
Property and equipment	-	-	-	72,065,411	72,065,411
TOTAL ASSETS	**13,919,363**	**4,337,147**	**2,188,918**	**300,974,854**	**321,420,282**
LIABILITIES					
Due to banks and financial institution	-	-	435,317	-	435,317
Accounts payable and other liabilities	5,872,682	1,011,814	814,155	18,733,047	26,431,698
Commercial financing	260,549	262,291	529,855	27,127,223	28,179,918
Islamic financing	279,667	9,658	519,286	113,180,423	113,989,034
TOTAL LIABILITIES	**6,412,898**	**1,283,763**	**2,298,613**	**159,040,693**	**169,035,967**
NET ASSETS	**7,506,465**	**3,053,384**	**(109,695)**	**141,934,161**	**152,384,315**

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As at 31 December 2018

23 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

2017 ASSETS	Within 3 months KD	3 to 6 months KD	6 to 12 months KD	Over one year KD	Total KD
Cash and bank balances	4,895,535	-	-	-	4,895,535
Fixed deposits	-	2,633,206	-	-	2,633,206
Inventories	286,793	-	-	-	286,793
Accounts receivables and other assets	4,799,299	3,925,600	3,473,566	1,097,892	13,296,357
Financial assets available for sale	-	-	112,750	5,253,871	5,366,621
Interest in joint venture	-	-	-	6,380,746	6,380,746
Investment properties	-	-	-	187,062,981	187,062,981
Property and equipment	-	-	-	76,414,062	76,414,062
TOTAL ASSETS	9,981,627	6,558,806	3,586,316	276,209,552	296,336,301
LIABILITIES					
Accounts payable and other liabilities	5,895,201	1,104,038	747,451	13,354,279	21,100,969
Commercial financing	263,393	265,152	2,785,628	25,827,148	29,141,321
Islamic financing	5,184,500	312,500	1,881,987	92,307,903	99,686,890
TOTAL LIABILITIES	11,343,094	1,681,690	5,415,066	131,489,330	149,929,180
NET ASSETS	(1,361,467)	4,877,116	(1,828,750)	144,720,222	146,407,121

24 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

	2018 KD	2017 KD
Letters of guarantee	937,560	890,670
Construction projects	107,654,499	80,589,089
	108,592,059	81,479,759

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 maximise 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)

	2018 KD	2017 KD
Accounts payable and other liabilities (excluding rents received in advance and employees' terminal benefits)	20,665,455	15,429,856
Term financing	142,168,952	128,828,211
Less: Cash and bank balances	(7,814,245)	(4,895,535)
Net debt	155,020,162	139,362,532
Equity attributable to the equity holders of the Parent Company	149,698,475	143,594,975
Less: Fair value reserve	172,021	(123,309)
Total capital	149,870,496	143,471,666
Capital and net debt	304,890,658	282,834,198
Gearing ratio	50.84%	49.27%

26 FAIR VALUES MEASUREMENTS

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2018	**Level 1 KD**	**Level 3 KD**	**Total KD**
Financial assets at FVOCI:			
Managed quoted portfolios	83,000	-	83,000
Managed unquoted portfolio	-	269,140	269,140
Unquoted equity securities	4,719,152	-	4,719,152
	4,802,152	269,140	5,071,292

2017	Level 1 KD	Level 3 KD	Total KD
Financial assets available for sale			
Managed quoted portfolios	112,750	-	112,750
Managed unquoted portfolio	-	266,328	266,328
	112,750	266,328	379,078

During the year ended 31 December 2018 and 2017, 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.

For other financial assets and financial liabilities carried at amortised cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or re-priced immediately based on market movement in profit rates.

SALHIA