SALHIA

ANNUAL REPORT

2019

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
SABAH AL-KHALID AL-HAMAD AL-SABAH
Prime Minister - State of Kuwait

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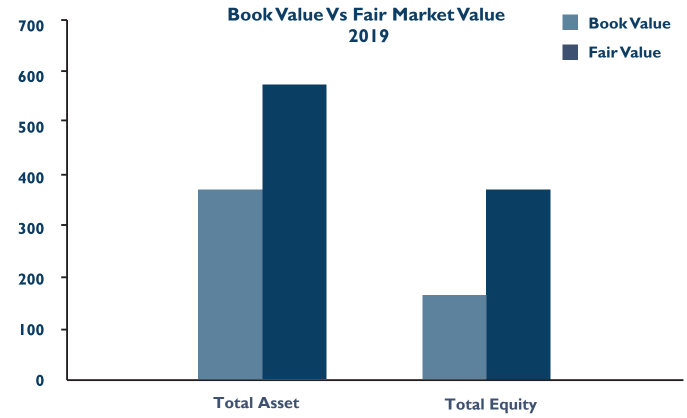
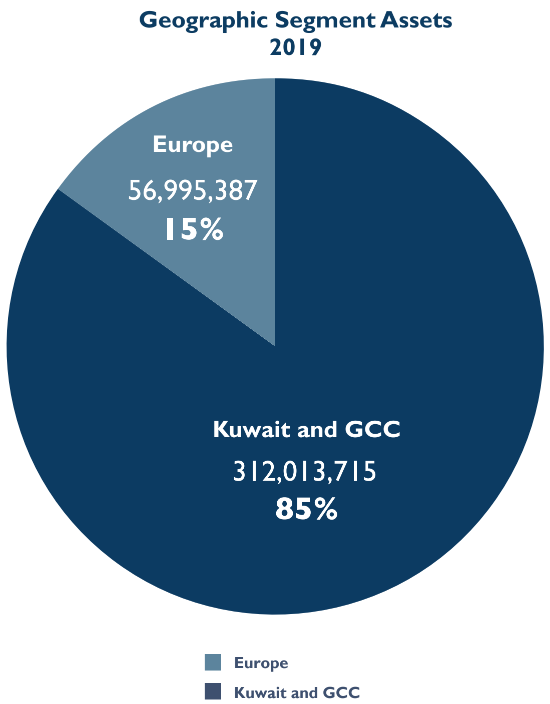
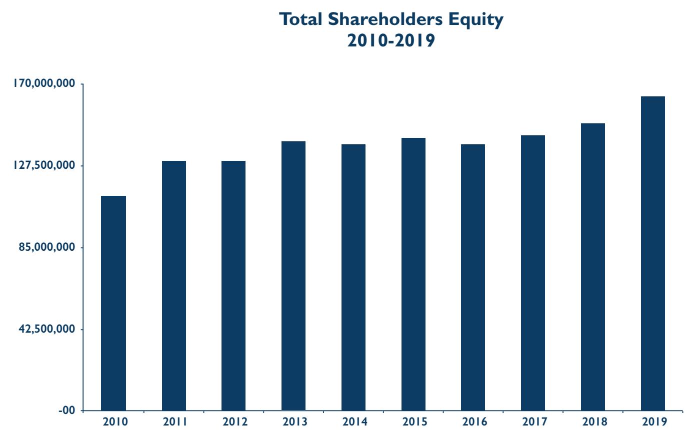
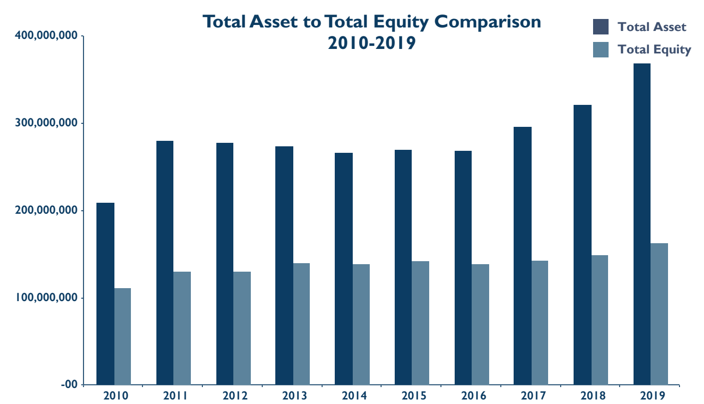
- The Company evaluates its assets by independent professional appraiser in the G.C.C and the European market ,The total Asset has been estimated fair market value KD 571 Million (Book Value KD 369 Million).

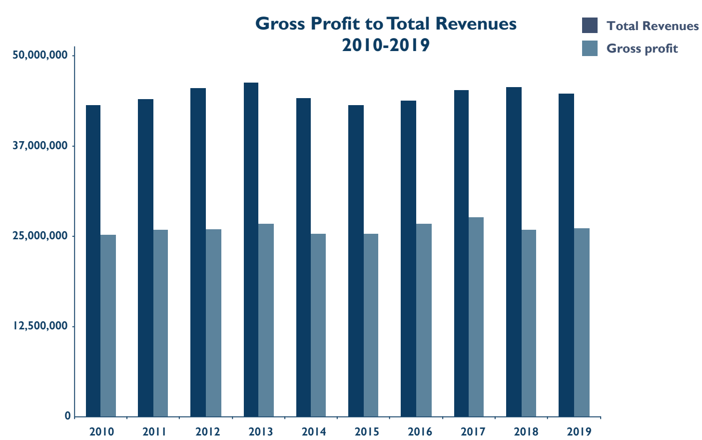
- The Estimated fair market value for the total shareholders equity KD 369 Million (Book Value KD163 Million).











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

FAISAL KHALID BINSALAMAH
Group Property Manager

ADEL BIN HASSAN MARHOUM
Group Leasing 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 2019.

At the beginning, I would like to thank the Members of the Board of Directors and the Executive Management of Salhia Real Estate Company for their efforts during the past year, in achieving success and enhancing the company's performance despite the economic and geopolitical changes in the year 2019. On the other hand, the stability of the local political and economic situation was another factor in strengthening the performance of the Kuwaiti market and seeing a "new Kuwait 2035". There is no doubt that the announcement of the third upgrade of the "emerging market" through MSCI as of May 2020, is a remarkable stepping stone for the State of Kuwait.

Moreover, after upgrading the S&P Dow Jones and the promotion of the FTSE Russell Index, we see an economic breakthrough and a step forward towards greater success.

The company's performance during the past year

During the past year, Salhia Real Estate Company has committed to follow its permanent approach by exploiting all the opportunities available that are in line with its strategies, and has also developed and strengthened its existing business in a way that contributes to supporting trust between it and all its customers, through focusing on the company's main activities in the field of real estate development.

The company has had a number of achievements that support its financial position and confirm the confidence of its customers and the growing reputation of the company. As a result, an official lease agreement has been signed with Warba Bank to exploit rental areas exceeding 9.7 thousand square meters in

Arraya Tower that will be available after the end of National Bank of Kuwait's contract, transferring to its new headquarters. The company also succeeded in exiting a number of local and international real estate assets and investments, achieving profits of more than 7.5 million Kuwaiti dinars. Adding to the company's success in strengthening its financial position, early payments of credit facilities for the parent company contributed to reducing finance costs in the company's income statement.

In line with the company's approach to hard work and continuous effort, Salhia Real Estate Company approached the final stages of the Assima Project (a project in progress consisting of a group of commercial and investment properties in the Sharq region in the capital). After the project sustained the effects of the fire and other technical obstacles that occurred more than two years ago, the Assima project construction was subject to an extension period.

As such, the total leased areas in the commercial complex of the project totaled to 53,550 m2 by the end of 2019, accounting for 73.5% of the total leasable areas in the complex, indicating the success of the professional marketing plan adopted by the company and supported by the confidence of tenants, stakeholders and the business community in managing the company.

Financial Indicators

With regard to the summary of the financial performance for the year 2019, the company achieved a profit of KD 21.5 million and an earnings per share of 43.70 fils compared to last year. The profits reached KD 17.3 million, with a profit per share of 35.07 fils per share and an increase of 24%.

The total assets of the company amounted to 369 million Kuwaiti dinars for the current year, compared to 321 million Kuwaiti dinars for the last year, an increase of 15%.

As the value of liabilities increased to KD 203 million in the year 2019 compared to KD 169 million last year, an increase of 20% was achieved, as a result of the financial requirements of the Assima project (under development).

On the other hand, property rights increased to 163 KD million in 2019 compared to last year, which amounted to KD 150 million, an increase of 9%. Thus, the book value increased to 330 fils compared to last year, amounting to 303 fils, an increase of 9%. Bearing in mind that all previous financial statements have been recorded according to the historical cost shown on the 2019 financial statements.

As for the market value of the total assets, which includes assets evaluated by neutral professional residents at the end of the year 2019, they amounted to KD 571 million, thus the property rights and the added surplus of the assets revaluation amounted to approximately KD 369 million, increasing the book value by fair value per share is 746 fils.

Board of Directors Recommendations

The Board of Directors has proposed allocating a remuneration to the members of the Board for the year 2019 in the amount of - / 120,000 Kuwaiti Dinars (- / 120,000 Kuwaiti Dinars for the year 2018), as it is subject to the approval of the annual general assembly of the shareholders of the company.

The company's board of directors also approved the recommendation to distribute cash dividends of 25 fils per share for the year 2019 (20 fils for the year 2018), provided that this proposal is subject to the approval of the annual general assembly of the company's shareholders registered in the company's records at the end of the due date.

Honorable Shareholders,

We would like to extend our sincere thanks and gratitude for your continued confidence in us, and to our brothers, the members of the Board of Directors, the executive body and all employees of the company in all its departments and external branches for their exerted efforts and wonderful performance throughout the previous years.

In conclusion may Almighty 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 Sabah Khalid 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, prosperity and unity for the advancement of our beloved country.

Yours sincerely ,,,
Ghazi Fahed Alnafisi
Chairman

REPORT OF THE BOARD OF DIRECTORS

Local Investments

Salhia Commercial Complex

Salhia Commercial Complex, the company's original flagship property, is the first multi-function retail and leisure mall that was established in 1978 as a leader in the GCC's retail arena. Its luxurious design and high standard of craftsmanship has helped maintain its competitive edge to this day, as one of the finest commercial complexes in Kuwait and the region. The complex is comprised of three floors of mall space targeting high street fashion and classic luxury brands, and five floors of luxury offices located above the shopping mall, with a total rentable area of 25,503 square meters occupied by major commercial corporations and government agencies. The Salhia Complex is bordered by three major Salhia properties – the JW Marriott Hotel, the Sahab Office Tower and Salhia Plaza as well as a dedicated car park facility that provides for 376 indoor vehicles as well as 428 outdoor spaces. Through the continuous modernization and enhancement programs carried out by Salhia Real Estate Company, the Salhia Complex has been proudly achieving a unique record of 100 percent occupancy rate over its tenure.

Salhia Plaza

Salhia Real Estate Company introduced the Salhia Plaza in the outdoor open area in front of the complex in 2005 allowing visitors and shoppers to soak in the sun and enjoy the lovely Kuwait breeze in spring and winter. The plaza area is very popular for outdoor dining with many classy restaurants and cafés surrounded by a beautiful garden landscape of flowers and an illuminated water fountain at night, constructed on the roof of the 428 underground car park building. The Salhia Real Estate Company utilizes the most energy efficient lighting systems in line with its continuous effort to conserve electricity, overheads and consumption.

Sahab Tower

Sahab Tower, established in 1997, is connected to the Salhia Commercial Complex by a bridge on the mezzanine floor. The tower consists of three floors dedicated to commercial activities, along with 20 floors of luxurious corporate office space that comprises a rentable area of 10,738 square meters and is occupied by reputable local and international firms. The tower, with its central location in the city, offers breathtaking views of the skyline, as well as many benefits due to its proximity to the neighboring facilities of Salhia Complex as well as the unparalleled services provided by Salhia Real Estate Company. Sahab tower has continuously achieved 100 percent occupancy rate.

JW Marriott Kuwait

Recognized as one of Kuwait's most luxurious and award-winning five-star hotels, the JW Marriott Kuwait City, is an oasis of tranquility in the bustling business district, and just 15 minutes away from Kuwait International Airport. Direct access to Salhia complex, home to the finest luxury brands which makes the JW Marriott hotel a perfect shopping destination. The hotel is a short distance away from Kuwait's finest shopping malls, Al Shaheed Park and Sheikh Jaber Al Ahmad Cultural Centre, which makes it the perfect destination for both business and leisure visitors alike.

The hotel is home to 313 elegantly designed rooms and suites that provide the finest personal luxuries and latest technology. The JW Marriott Kuwait has three gastronomic restaurants as well as a tea lounge that offer a taste of everything from the finest steaks to the most authentic Japanese and international cuisines. The hotel features a wide array of recreational facilities, including an Elite Health Club and an indoor swimming pool. Guests can choose from a range of event spaces, including Al Jahra Ballroom, Al Thuraya Ballroom and Salhia meeting rooms each delivering different ambiance and venue styles. JW Marriott Hotel is among the chosen destination for Kuwaiti local weddings and hi-profile events.

In a quest to enrich experiences of its valued patrons, the hotel has undergone many soft refurbishments and renovation projects over the years including the recent launch of the Marriott Mobile app for members to interact with the guest relation officers for check-in and preference related queries. All this seamlessly crafts a 5 star luxury hotel experience that shapes guests' journeys with personalized services amidst relaxing and luxurious surroundings.

Arraya Commercial Centre

Arraya Commercial Centre is considered one of the most significant projects within Salhia Real Estate Company's portfolio. Its distinguished location in the east of Kuwait City has turned it into a center attracting local and international visitors and companies since it opened its doors in 2003. Arraya Centre comprises three commercial floors which include a wide array of exquisite showrooms, retail shops, cafés and restaurants. Furthermore, the Centre includes seven floors for commercial office use, totaling 5,950 m2, distinguished by high standard facilities and services. The Centre is annexed with a six floor car park facility for visitors and guests accommodating for 1400 cars, connected by suspended bridges overlooking the Arraya Plaza, an estimated area of 3000 square meters offering a beautiful and comfortable outdoor seating area right outside the Centre.

Arraya Tower

Arraya Tower occupying an area of 1,265.5 square meters, soars approximately 300 meters in height and is comprised of 60 floors with an ultra-deluxe architectural finishing and is allocated primarily for office use. The tower is served by 16 elevators distributed among three elegantly designed modern entrances. Each entrance serves a dedicated number of floors, providing ease of access and convenience to the users.

The tower provides first-class services to the tenants including a parking facility, modern IT systems, and a 24 hour security and maintenance system. It utilizes an open layout method for its floors, with flexible rental spaces clear of columns ranging from 250-740 square meters, giving tenants the freedom to apply the divisions they deem suitable for their business needs. The tower currently stands at an occupancy rate of 95%.

Arraya Ballroom

Arraya Ballroom is a spectacular 1,500 square meter venue for events hosted in Kuwait, managed by the prestigious Marriott International, and ideally located in Kuwait city, adjacent to the elegant Arraya shopping centre. The Arraya Ballrooms is undoubtedly one of the most esteemed ballrooms in the country.

Advanced audiovisual equipment is available, with the latest technological support by the on-site teams of engineers to ensure the best audiovisual facilities for events. Direct loading and unloading access at street level. Valet car service and a designated parking for 1000 cars is also available with direct access to the venue.

In recent years, Arraya ballroom has undergone many soft refurbishment projects for technological enhancement like the innovative lighting solutions, hi-end electronic support, providing unmatched services for more than a decade. Arraya has definitely etched its name in gold with the local elite, and now has a dedicated website to aid in the reservation process www.arrayaballroomkuwait.com.

The Courtyard by Marriott

A landmark in Kuwait City's skyline, the Courtyard by Marriott is located in the heart of the financial and business districts in downtown Kuwait. The hotel provides comfort with 264 well-appointed spacious rooms and suites. It is connected to the finest stores at Arraya shopping centre giving its guests an exclusive shopping experience in Kuwait and is only a short drive away from Kuwait International Airport.

The hotel offers an Executive Club Lounge for business travelers seeking an exclusive space to hold meetings

as well as a 25 meter rooftop swimming and whirlpool overlooking the city. Additionally, the health club includes a state of-the-art gym with personal trainers, and provides a range of resistance and cardiovascular machines, and fully equipped sauna, steam and massage rooms, catering to all the guests' needs.

The diverse range of restaurants available include Indian cuisine at Soul & Spice restaurant, the Atrium Restaurant specializing in Italian food, Sushi Japanese Restaurant, Tiramisu Café, offering both indoor and outdoor seating for shoppers and guests. The hotel also provides six meeting rooms that are perfect for small and medium events, training and product launches. All meeting rooms have ample natural light and high-speed internet, audio-visual support equipment and a business center. Courtyard by Marriott Kuwait is a technologically advanced hotel supported by the Marriott Mobile app for members to interact with guest relations team for reservation, easy check-in and all preference related queries.

Car Parking Development

Salhia Real Estate Company continuously thrives to provide excellence and innovation in its work by utilizing the latest in modern technology and applying pioneering technical advances to the company's car parking facilities. In its effort to minimize traffic congestion and scarcity of available parking spaces in the city, the company has introduced a smart parking system, at Salhia Commercial Complex and Arraya Commercial Centre.

The new parking management system facilitates in the ease of navigating and parking and provides safety and security benefits to users, making the most of allotted parking spaces and increasing their capacity. In line with the efforts to enhance the visitors' overall experience. The company also added the first payment via K-NET gateway in Kuwait at its facilities, easing the parking pay machines process through the distribution of the KNET machines at the parking exits.

The company also installed an automated guidance system within its parking facilities to help motorists identify vacant positions easily and quickly. In addition to electronic charging stations to charge electric vehicles. All this has been undertaken within Salhia Real Estate Company's commitment toward sustainable development and preserving the environment through the use of efficient energy sources and lighting.

The Assima Project

Salhia Real Estate Company has reached 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 the Sharq area, and forms a part of a 21,414m2 overall property space. It is rare to find a site of this area is in the capital, and Assima is considered the biggest commercial project to date in the 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 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 consultancy offices, each according to their specialty and area of expertise and the functional tasks mandated to them. 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, cinemas and a health club.

Second: The Hotel

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

Third: The Offices

The offices will be housed in a dedicated 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 range of 1,150m2 to 1,350m2 rental area for each floor.

Fourth: The Utilities

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 surrounding 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 of the project were entrusted to major specialized companies.

The company has executed strategic plans for the completion of the project and has started its operation on each stage of construction and completion according to a precise time schedule. The schedule 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 planned time with minimum delays that may arise due to unforeseen obstacles.

During 2019, construction works were fully expedited. As a result, all concrete works for the commercial part and hotel were completed while the carpark is expected to be finalized by the end of next year. Additionally, the basement, ground floor, and the first 25 office floors have all been completed. The finishing and external façade works have progressed significantly with the façade expected completion date early next year.

Project Rental Works

The company has started marketing the project alongside several international brands and companies and has already witnessed a 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 locally and internationally, including agreements with the following prestigious names:

- Monoprix
- Cinescape
- UFC GYM
- National Geographic Ultimate Explorer
- Xcite
- Play
- Sky Zone
- Zara
- IKEA Boutique

The total leased area in 2019 was 53,550 square meters which represents 73.5% of the total rentable area. The company is currently in the process of receiving and evaluating all requests for the medium and small rentable areas. Finally, Salhia Real Estate Company is keen to fully invest its technical and financial expertise in 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, with a special note that the project is self-financed by the Company portfolio in addition to banking finance.

Salhia International Entertainment Centers Company K.S.C

To enrich the entertainment mix at the Assima Mall, Salhia Real Estate Company in partnership with iP2 Entertainment Company has established an affiliated Kuwaiti Company, in which Salhia owns 90% and iP2 owns 10% of the shares. iP2 Entertainment Company is the exclusive franchisee of National Geographic USA. Salhia International Entertainment Centers Company (SIEC) is developing the first Family Entertainment Center branded with National Geographic Ultimate Explorer in Kuwait and the first in the Middle East.

The 5,061 square meters National Geographic Ultimate Explorer Family Entertainment Center will serve all family members through its appealing and interactive attractions which simulate the world, forests, deserts, polar regions, deep oceans, and outer space as well as interactions with living beings to explore and have fun. National Geographic, headquartered in the United States of America, is a company that is renowned for providing entertainment and education services in innovative, creative and interactive ways.

This project provides an attractive and entertaining atmosphere for families visiting 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 centers.

REPORT OF THE
BOARD OF DIRECTORS

International Investment

Key property investments

2019 proved to be a year of continued uncertainty, largely arising out of Brexit and the inevitable knock on effect that it has had. The UK's economy has grown only marginally during 2019 and is expected to remain modest in 2020, compared with its long-term trend rate of around 2%.

The impact on industry and the property market has been quite marked during the year as the timing and decisions over the terms of the UK's exit from the European Union. Economic indicators have also been muted, business investment has been on a declining trend and this has been expected to continue until Brexit is resolved. The UK will leave the EU by 31st January 2020. Trade deals and other matters with the EU will still need to be agreed during the course of 2020 but this can now be undertaken from a position of greater political strength.

The Retail market has continued to remain challenging, with the rapid growth in on-line purchasing, resulting in a continued decline in high street shopping. However, the same on-line buying has given a boost to the Industrial & Logistics markets, with demand for direct delivery of goods from warehouses. This has, in turn, increased levels of speculative investments being made.

The KPI portfolio has continued to perform well. Within the Portfolio, there has been good progress in the targeted asset disposals, with three properties sold at profit during the year. Further asset sales are proposed for 2020.

Salhia International Investments Ltd)

Beorma Quarter Birmingham

Birmingham city is a major international commercial centre, ranked as a beta-world city by the Globalization and World Cities Research Network. It is the joint highest ranking city of all British cities outside of London, Edinburgh and Manchester. It is also a major transport, retail, events and conference hub. It's metropolitan economy is the second largest in the United Kingdom and is now dominated by the service sector.

Birmingham's office investment volumes in the first half of 2019 were £235 million. Overseas investors have been particularly active with European and Middle Eastern investors accounting for 75% of Birmingham's office investment volumes during the first half of the year. Prime yields currently stand at 4.75%.

After an extended competitive bidding process, Birmingham City Council announced a joint venture with the Australian firm, Lendlease, to develop the 42 acre freehold market site known as Birmingham Smithfield. The Birmingham Smithfield site lies immediately adjacent to the Beorma site and will have a positive effect on the project.

The Beorma project continues to attract strong interest, with Accor/Pierre Vacances' Adagio aparthotel and The Prince's Trust already in occupation. Whilst seeking a pre-let, it has been decided to proceed with the construction of the main tower in the project. This will provide approximately 152,000 sq ft (14,400 sq m) of Grade A office accommodation and 125 high level residential units at the top of the tower.

A Joint Venture between SREC and Simons Group Ltd

In 2018, the Salhia Real Estate Company entered into a joint venture with Simons Development Limited in the United Kingdom. Simons has an established reputation in the field of construction, refurbishment and fit-out market in the United Kingdom.

The joint venture was established to acquire an interest in 250 acres (1,000,000m2) and to seek planning permission for a mixed use and predominantly logistics warehouse development at Bar Hill, Cambridgeshire, to serve Cambridge and the surrounding area.

The Cambridge area's industrial market is small relative to the research and & development market and is characterized by a severe lack of stock. In Cambridge city itself, industrial development is unlikely as the industrial stock continues to reduce whilst the overall economy gows further, signaling a need for additional space. Major occupiers such as Astra Zeneca, GSK, ARM and others on the business parks surrounding Cambridge will need a supply chain which will require services.

The Bar Hill site, dedicated to Salhia Real Estate Company and Simons Development Limited, benefits from top quality operational connections and is strategically located with all high-quality transportation and diverse routes providing easy access to places of employment and housing

It is worth noting that many positive and optimistic preliminary indicators will support the project's success, which is expected to continue growing well into 2020.

In the latter part of 2018, another partnership was established between Salhia Real Estate Company and Simons Development Company Limited to exploit and operate a 45,000m2 vacant site in a largely residential area just south of Nottingham.

The proposal for the joint venture is to obtain planning permission for a mixed-use residential and retail project in two phases. A planning application was submitted for a total of approximately 3,500m2 of retail and ancillary uses in 5 units. 3,160m2 space is either pre-let or under offer to let, and planning permission is expected imminently.

HADDIA HOLDING GMBH

Haddia Holding GmbH, a German subsidiary that is 90.89% owned by Salhia, has its head office in Hannover and an operating workforce of 950 highly qualified and trained staff specialized in geriatric care. It manages and operates a total of 1,548 beds in 13 nursing homes and 4 properties for assisted living as well as 2 "Dana Lifestyle" properties, all located in the north western region of Germany. The nursing homes and the assisted living properties are wholly owned by SAREC, another subsidiary of Haddia.

To meet the demands and challenges of a changing and growing market to better care for the elderly, the company developed two new properties in 2013 called "Dana Lifestyle". Each building includes 17 apartments specifically outfitted to meet the specialized needs of elderly clients and residents and to provide maximum comfort and ease of living. 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

Based on the core belief of Salhia Real Estate Company, in the importance of human capital as the main source of success in the organization, the company continues its efforts to invest in human resources by providing dedicated training courses and workshops that boost overall employee performance and morale.

The company is very keen on its' manpower selection process according to the latest standards and principles that addresses its evolving needs. The company also undertakes extensive social corporate responsibility initiatives and projects that benefit the community, its employees, and the youth of today. This is in line with Salhia Real Estate Company's mission and values to continually strive to promote corporate citizenship and uphold respect: for our clients, our employees, our shareholders, our partners and the environment.

The Human Resources Group has completed the workforce plan and organizational structure for the Assima Mall, so as to be ready and on time to provide the required skillsets to successfully meet all the main requirements of the project and ensure the smooth and effective commencement and operation of the mall, in every aspect.

INFORMATION TECHNOLOGY

With the assistance of a highly qualified and trained team of IT personnel equipped with the latest technology, Salhia utilizes sophisticated IT systems to accommodate all aspects of its business and development needs.

The IT department is working closely with the Assima team and Software vendors to analyze the best options that could be utilized in the Assima project and to enhance the existing service for Salhia management, employee and clients.

The IT department is currently working hand in hand with the newly formed Salhia Entertainments Company to finalize the hardware and software integration for running very high-level error free IT operations. It has further conducted network penetration tests (both internally and externally) with one of the most qualified local companies to ensure optimal network performance levels with the latest security standards and regulation, as well as to assure the safety of Salhia Real Estate Company's Data and networks.

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, as shown below:

Board Member Name	Member classification (executive/non executive/ independent) secretary	Date of election / appointment of the secretary
Ghazi Fahad Alnafisi Chairman	Non executive	11/3/2019
Faisal Abdulmohsen Al Khatrash Vice Chairman	Non executive	11/3/2019
Anwar Abdulaziz Al Usaimi Board Member Chief Executive Officer	Executive	11/3/2019
Abdulaziz Ghazi Alnafisi Board Member Deputy Chief Executive Officer	Executive	11/3/2019
Youssef Essa Al Othman Board Member	Non executive	11/3/2019
Abdulrahman Abdulaziz Al Babtain Board Member	Independent	11/3/2019
Marzouk Fajhan Al Mutairi Board Member	Independent	11/3/2019
Saud Ahmad Al Zabin Board Member	Non executive	11/3/2019
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 back in 1974. He is a holder of an 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 11/3/2019 and he is currently the Chairman of the Board Executive Committee.

Mr. Ghazi Alnafisi has chaired the Board of Directors of the Hotels Association in Kuwait since 1979 to date. 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, including Azzad Trading Group Company, where he has held the position of its Chairman since 1994. During the period from 1986 to 1996, he held the post of chairman in the Gulf 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 key 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 11/3/2019.

Mr. Faisal Al Khatrash holds a Bachelor of Military Sciences, 1967. He worked as an 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, Further, 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 from 1997. He was re-elected to the board membership on 11/3/2019. Furthermore, he is currently a member 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 sectors inside and outside Kuwait. He currently holds the position of the Chairman of the Assima Real Estate Company and is a member of the Board of Directors of Haddia Holding Company (Germany) and KPI Company (Britain). Furthermore, he is a member of Board of Directors of several 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 in 2006. He currently holds the position of Deputy CEO of the Company, and was re-elected to the board membership on 11/3/2019, where he is currently a member of the Board Executive Committee.

Mr. Abdulaziz Alnafisi holds a Master's degree in Business Administration from the United Kingdom (City University – London) that he acquired in 2002. He holds a Bachelor of Accounting and International Relations from the USA (Northeastern University – Boston, MA) in 1997. He is the Chairman of Kuwait Packing Materials Manufacturing Company and the Deputy Chairman of the Assima Real Estate Company as well as the Vice Chairman of Salhia International Entertainment Centers. Furthermore, 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 11/3/2019. He currently chairs 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 the Chairman and CEO of Al Bustan Real Estate Company and Al-Mirror Holding Company as well as the General Manager of both Al Othman and Al Zamel General Trading & Contracting Company and 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 11/3/2019 and currently holds 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 the Deputy Chairman of Abdulaziz Saud Al Babtain Company, and 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 1993 and 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 Salhia Real Estate Company's Board of Directors in 2002. He was re-elected to the board on 11/3/2019 and is currently a member in the the Company Nominations and Remunerations and the Risk Management and Internal Auditing Committees.

Mr.Marzouk Al Mutari is the holder of a Bachelor of Accounting from the USA (University of Central Flordia) that he received in 1996. He is currently the Chairman of the Board of Directors of Tharwa Investment Company from 2013. Furthermore, 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 of Salhia Real Estate Company in 2013. He was re-elected to the membership of the Board of Directors on 11/3/2019.

He is a holder of a Bachelor of Economics from the USA (Old Dominion University). He held several positions during his service in Zain Telecommunication Company from 2005 to 2013. Currently, he chairs the Board of Directors of Overseas Links Company since 2013. He was also a member 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 Secretary to the Board of Directors on 12/5/2014, and carried out the duties of the board secretary prior to that.

He has a Bachelor of Accounting degree from (Cairo University- Egypt) that he received in 1998. In addition, he has obtained professional certificates (ABA-CIDA- CTA-CST) and is currently working as the Accounting Group Manager of 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 numerous courses in accounting, finance, auditing and investments. He was a member of many committees in Kuwait Accountants and Auditors Society. He was also a member 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 7 meetings during the year 2019. The following table illustrates the details of such meetings and the number of meetings attended by each member.

	Meeting No. 1/2019 dated 12/2/2019	Meeting No. 2/2019 dated 11/3/2019	Meeting No. 3/2019 dated 9/5/2019	Meeting No. 4/2019 dated 7/8/2019	Meeting No. 5/2019 dated 11/11/2019	Meeting No. 6/2019 dated 17/12/2019	Meeting No. 7/2019 dated 17/12/2019	Number of meetings
Ghazi Al Nafisi Chairman	✓	✓	✓	✓	✓	✓	✓	7
Faisal Al Khatrash Vice Chairman	✓	✓	✓	✓	✓	✓	✓	7
Anwar Al Usaimi Member	✓	✓	✓	✓	✓	✓	✓	7
Abdulaziz Al Nafisi Member	✓	✓	✓	✓	✓	✓	✓	7
Youssef Al Othman Member	✓	✓	✓	✓	✓	✓	✓	7
Abdulraman Al Babtain Independent Member	✓	✓	✓	✓	✓	✓	✓	7
Marzouq Al Mutairi Independent Member	✓	✓	✓	✓	✓	✓	✓	7
Saud Al Zabin Member	✓	✓	✓	✓	✓	✓	✓	7

*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 time of the meeting. Each meeting has a serial number according to the year. Additionally, special files are prepared in which the minutes of the meetings are kept and the deliberations and discussions covered in the meetings. Members of the board and committees are provided with the agenda, supported with the relevant documents, in advance in order to allow them to prepare and study the agenda items. The minutes of the meeting are signed by all those present. The secretary's role entails coordinating and distributing the 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 covers all the committees emanating from the board, which implies the board's responsibility for preparing the annual report that is shared in the annual general assembly of the company. The annual report comprises 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.
- The executive management provides to the existing and potential shareholders and the investment community all the information relevant to the company's activities and most significant developments, and verifies 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 approve 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's internal regulations. Furthermore, 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 2019

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. The Board also places a great significance on the corporate governance criteria, not only for executing the required procedures, but also in view of the need 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. Approving the formation of the new Board of Directors, and choosing a Chairman and Vice Chairman for the Board of Directors.
2. Agreeing to reconstitute the committees affiliated with the Board of Directors.
3. Approving the annual reports (corporate governance, indemnities, audit committee, social responsibility) of Salhia Real Estate Company.
4. Periodically revising the Company budget and comparing it with the financial statements issued for the various periods.
5. Approving the interim and annual financial statements of Salhia Real Estate Company.
6. 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.
7. 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.
8. 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.
9. Approving the reappointment of the external auditor of the Company from the office of M/s. Al Aiban and Al Osaimi "Ernst and Young."
10. Approving the integrated report on the activity of Salhia Real Estate Company

11. Agreeing to amend credit facilities agreements signed with some banks, which include better terms of interest and payment.
12. Approving the renewal of a credit facility agreement for a subsidiary in the United Kingdom, to finance the Company's project in Birmingham.
13. Agreeing to make sale transactions of real estate assets owned by Salhia Real Estate Company, which will achieve profitable returns for the Company.
14. Agreeing to increase the capital of Assima Real Estate Company, and enhancing the ownership rights of Salhia Real Estate Company in the subsidiary.
15. Discussing the report of the independent consulting office on reviewing the evaluation of the performance of the Company's internal auditor for the past three years.
16. Approving the amendment to the mechanism and models for the annual performance evaluation of the members of the Board of Directors.
17. Approving the orientation program for new and newly appointed members of the Company's Board of Directors.
18. Adopting the orientation program for new and newly appointed members of the Company's Executive Management.
19. Discussing and following up the latest developments of the Assima Project, and reviewing the rental works and internal and external finishing works of the Project.
20. Implementing a training program for the members of the Board of Directors on International Financial Reporting Standards (FIRS) No. 15 and 16, and the effect of applying these standards on the Company's transactions of selling employees' housing in the Sharq area.
21. Supporting the Company's management strategy in achieving the required liquidity volume on the Company's shares trading on the Kuwait Stock Exchange.
22. Approving the banking facilities and guarantees required for the establishment of the Assima Project.
23. Holding periodical meetings with the Risk Department officials and the consultant office to discuss the results of the assessment stages of the risks management in the Company.
24. Adopting the follow-up procedures for the acceptable risk management of Salhia Real Estate Company.
25. Overseeing the implementation of the corporate governance rules and internal control procedures efficiently in the Company.
26. Reviewing the recommendations issued by the Audit Committee, the results of the discussion of internal audit reports, and the summary of the results of the Committee's work.
27. Reviewing the reports and recommendations issued by the Nominations and Remunerations Committee, and supervising the Committee's work in connection with the annual evaluation process of members of the Board of Directors and Executive Management.
28. Approving the minutes of the meetings and decisions issued by the Executive Committee relating to the activities of the Company's departments.

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, as well as ensurng the adequacy and efficiency of the applicable internal control systems.

Committee composition:

The Board of Directors shall form the Risk Management and Internal Audit Committee so that the number of its members shall not be less than three, and at least one of its members shall be an independent member. The membership of the Committee shall not be held by the Chairman of the Board or by a member of the Executive Management. The members of the Committee

must possess the academic qualifications and appropriate practical experience for the work of the Committee, and must be familiar with the necessary financial, accounting and administrative aspects.
The Board of Directors shall determine the term of membership of the members of the Committee and its method of work so as the term of office of the members of the Committee shall expire on the expiry of their membership in the Board of Directors.

Composition date	Members of the Risk Management and Internal Auditing Committee		
11/3/2019	Salhia Company Board Member - Non-Executive	Mr. Youssef Essa Al Othman	Committee Chariman Non-Executive
11/3/2019	Salhia Company Board Member - Independent	Mr. Marzouk Fajhan Al Mutairi	Committee Member Independent
11/3/2019	Salhia Company Board Member - Independent	Mr. Abdulrahman Abdulaziz Al Babtain	Committee Member Independent

The committee held 8 meetings during the year 2019. The following are its most prominent achievements:

1. Approving the annual internal audit plan for the Company's departments and groups for 2019.
2. Reviewing the annual and quarterly financial statements of Salhia Real Estate Company, and any discussions with the external auditor in this respect.
3. Reviewing the internal auditor reports for the Company groups and departments, and addressing 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. Approving the annual performance evaluation form of the Company's external auditor.
6. Approving the Internal Control Regulations (ICR) assessment and revision for the company.
7. Discussing the report on monitoring the risk management business of Salhia Real Estate Company, which is prepared by an independent consultant office.
8. Periodically discussing the records of review of the Company's risk management procedures.
9. Reviewing the summary of lawsuits and legal issues for Salhia Real Estate Company.
10. Reviewing the report of the independent audit office charged with reviewing and evaluating the Company's internal audit quality assurance for the past three years.
11. Periodically evaluating meetings that discuss any of the internal auditor's reports.
12. Discussing the amendment to the Guide to Compliance Policies and Procedures and Risk Management and recommending it to the Board of Directors.
13. Agreeing to change the consulting office charged with preparing the annual report on risk management in the Company, and recommending acceptance of the submitted proposal after discussing it.
14. Preparing the annual report on the Committee activity, and approving the same as part of the items of the Company annual general assembly.

Second: Nominations and Remunerations Committee
Committee Tasks

Salhia Real Estate Company's Board of Directors approved the composition of the Nominations and Remunerations Committee according to the regulatory requirements. 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, and submitting the recommendations to the Board of Directors in connection with the required skills and experiences in line with achieving the company's vision and objectives and protecting the interests of shareholders and investors. The committee also 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:

The Board of Directors shall form the Nomination and Remuneration Committee of at least three members, provided that at least one of its members shall be an independent member, the Chairman of the Committee shall be a member of the non-executive Board of Directors, and the Chairman of the Board of Directors of the Company may not be a member of this Committee. The members of the Committee must have an adequate educational qualification and sufficient knowledge of the financial and administrative aspects and the nature of the Company's business.

The membership of the Committee members shall be limited to three years or the term of the Board of Directors, whichever is shorter.

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

Composition date	Members of the Nominations and Remunerations Committee		
11/3/2019	Salhia Company Board member - Non-Executive	Mr. Youssef Essa Al Othman	Committee Chairman
11/3/2019	Salhia Company Board member – CEO	Mr. Anwar Abdulaziz Al Usaimi	Committee Member
11/3/2019	Salhia Company Board member - Independent	Mr. Marzouk Fajhan Al Mutairi	Committee Member

The Committee held one meeting during the year 2019. The following are its most prominent achievements:

1. Supervising the annual evaluation process of the members of the Company Board of Directors, executive management and personnel.
2. Approving the criteria for distributing annual bonuses to the Company's employees, and recommending them to the Board of Directors.
3. 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.
4. 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.
5. 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.
6. 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.

Third: Board Executive Committee

The Committee's Tasks:

The Board of Directors of Salhia Real Estate Company approved the establishment of the Board Executive Committee 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 toward the Company's activities and executive departments in various aspects: financial, accounting, management, human resources, investment management, property management and construction.

Committee Composition

The Board of Directors shall form the Board Executive Committee, by appointing at least three members of the Committee, one of whom shall be a non-executive Board member. The membership of the Committee shall continue for a period of three years or until the end of the membership of the Board of Directors, whichever is shorter.
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		
11/3/2019	Chairman of the Board Member - Non-Executive	Mr. Ghazi Fahad Al-Nafisi	Committee Chairman Member - Non-Executive
11/3/2019	Salhia Company Board Member – CEO	Mr. Anwar Abdulaziz Al Usaimi	Committee Member
11/3/2019	Salhia Company Board Member - Deputy CEO & Head of Investment Group	Mr. Abdulaziz Ghazi Al-Nafisi	Committee Member

The Committee held (4) meeting during the year 2019. The following are its most prominent achievements:

1. Approving the rental, renewal, settlement and termination offers and taking the necessary procedures for the lease contracts in the Company's properties during 2019.
2. Adopting the procedures for exempting a number of tenants from paying some monthly rents.
3. Approving the procedures for the Company's hotels during 2019.
4. Approving the results of the annual performance evaluation of non-executive employees in Salhia Real Estate Company.
5. Approving the agreement with a number of real estate owners located in Sharq Region, to appoint WSP, the global consulting office, to prepare a study to develop the road network in the region.
6. Approving contracts for the supply, installation and maintenance of the sensor system and parking equipment at Salhia Complex and Arraya Commercial Center.
7. Approving the payroll increase for the non-executive employees of Salhia Real Estate Company.
8. Approving the establishment of short-term deposits for the Salhia Real Estate Company with a number of local banks.

Mechanism for the Members of the Board of Directors obtaining information and data accurately and at 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 at the right time, through the development of an 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 of topics in connection with the meetings in a timely manner to discuss and take decisions in this regard.
The Board of Directors approved a manual comprising all the mechanisms to obtain information, illustrating 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 necessary incentives 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 endeavors to execute in 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 that 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.
- There have been no major deviations or changes to the implementation of remuneration system and mechanism for 2019 from the policy approved by the Board of Directors.

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 eighth general assembly held on 11/3/2020

Nominations and Remuneration Committee
Salhia Real Estate Company

State of Kuwait
Date : 23/1/2020

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). Furthermore, the Board of Directors provides 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.

Recommendations of the Audit Committee to the Company's Board of Directors

The Audit Committee has the right, based on the powers specified in the Committee's work charter, and in accordance with the powers and responsibilities mentioned in the corporate governance rules, to supervise, review and follow up on all the Company's auditors' activities, internal audit activities, and other tasks that ensure the consolidation of the culture of compliance. It also has the right to ensure the fairness and transparency of financial reports, as well as on ensuring the effectiveness of the applied internal control systems. The Committee has to submit any observations or recommendations related to its work periodically to the Board of Directors. **During the past year, there was no conflict between the recommendations of the Audit Committee and the decisions issued by the Company's Board of Directors.**

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, 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's external auditors undertake their tasks in the Company, which fully illustrate the mechanism of the selection of the auditors and verifying their independence, as well as the competence criteria which they hold in line with the services provided. On 11/3/2019, 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 the external auditor of the Company's financial statements, as he enjoys a good reputation, and the required integrity and independence to undertake that role. Furthermore, 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's 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 as per the requirements of the Capital Markets Authority. 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, as well as preparation of the annual internal control report (ICR). 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.

Code of Conduct and Ethical Values

The Board of Directors laid down a code for encouraging sound practices, ethical behaviors and protection of long term interests for all 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 foundation guiding personnel in all their acts, thereby fostering a method of work which spreads ethics as the underlying focus.
- The ethical direction and behavior supports the decisions based on values upon providing services to customers and during the overall work performance. The company is not only proud with the works for the interest of work but also for the interest of all 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 performing their duties based on a system of 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 corporate governance, the company has laid down a code on conflict of interest, including the methods and necessary measures to confront and prevent it, and prohibit such conduct by any Members of the Board of Directors and Executive Management which clearly segregates personal interests from official responsibilities in the Company.
The objective of this policy is to assist the Company and each of its direct and indirect subsidiaries, as well as Members of the Board of Directors and Executive Management to observe and implement the regulatory values of the Company with sound management practices to avoid actual and potential conflict of interest 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 adheres to clear instructions regulating the disclosure of substantial information and the mechanisms of announcing them, which also satisfies the legal and ethical requirements of the company. Furthermore, the company is keen to ensure that substantial information related to the Company's activities are disclosed at the proper time, including the financial position and performance of the Company's management, to the concerned bodies to understand the strategy and practices for the evaluation of its performance.
The Company complies with the disclosure mechanisms laid down by the Authority through the Stock Exchange website and notifies the Authority accordingly. Disclosures are further posted on the Company's website by the end of the same business day; and have been archived for the last five years, granting access to such information at any given time.

Salhia Real Estate Company retains a special register in which it provides disclosures on all the Members of the Board of Directors and the Executive Management. All the Company shareholders are entitled to access this information for free.

Investors Affairs

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

Information Technology Infrastructure in the Company

The company has updated its web site 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. It also provides various financial and non-financial data and other relevant information that is updated on a timely basis.

General rights of shareholders

As stipulated in 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, registering and transferring the ownership of shares, receiving profits distribution, receiving a part of the company's assets in the event of its liquidation, receiving data and information relevant to the company's activities, operational and investment strategies at the right time, participating in 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 non-performance of the functional duties they are mandated with.
Furthermore, 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 are recorded. This register is updated with any changes on the data registered therein, according to the details received by the company or Kuwait Clearing Company. Concerned parties may request the company or Kuwait Clearing Company to supply them with details from this register.

Company General Sssembly Meetings

Salhia Real Estate Company is keen to organize meetings of the General Assembly of shareholders as set forth in the corporate governance rules and laws regulating the same. The agenda items shall include the minimum items required according to the rules. Details and information of the agenda shall be made available to shareholders with an adequate notice period of the general meeting. Shareholders are permitted effective participation in the general assembly meetings, discussion of the topics listed therein and to raise questions.
The company is keen that all shareholders utilize the right to vote without any hinderance.

Rights of Stakeholders

Salhia Real Estate Company prepared the policies and procedures which guarantee the protection of stakeholders' rights permitting them to obtain legal compensations in the event of breach of any of their rights as set forth in the corporate governance rules. These policies outline the Company's need to maintain positive working relationships and clarify the policy of reporting violations, receiving complaints andmeans of addressing them.
The company is devoted to increasing the contributions and participations of stakeholders in its activities, through procedures such as the publishing of all relevant information accurately and promptly to the stakeholders, and taking the interests of such parties into consideration upon taking relevant decisions. Furthermore, stakeholders are encouraged to submit their remarks and feedback on their experiences in dealing with the company.

Training programs and courses

Continuous training and qualification of the members of both the Board of Directors and the Executive Management has been included on the agenda of the meetings of the Salhia Real Estate Board of Directors, where the Board has adopted a decision on the need to provide training programs for members and their responsibilities. There have been some examples that correspond to the latest administrative and financial developments and improvements issued by the regulatory authorities and other related aspects that contribute to raising the level of members' performance towards their responsibilities. The members of the Board of Directors and members of the Executive Management participated in a number of these programs and training workshops during last year.

The Board of Directors has also approved the orientation program for new and newly appointed members of the Board of Directors, as well as the orientation program for new joined members of the Executive Management. These programs contain the most important information about the Company's strategy, the financial and operational aspects of the Company's various activities, as well as legal and regulatory obligations of the members of the Board of Directors and members of the Executive Management, and the general framework of their responsibilities and the rights available to them.

The general framework for evaluating the performance of the board of directors and executive management

The company has put in place a clear mechanism for conducting the annual evaluation process for members of the board of directors and executive management, based on the concept of comprehensive self-evaluation. The evaluation is carried out through the Nomination and Remuneration Committee and supervised by the Board of Directors, and depends on several key indicators that measure the overall performance in an impartial and objective manner. This not only helps avoid errors but also rectifies any issues that would impede the proper application of governance procedures.

Institutional values of the Company personnel

The company outlined in its professional and ethical code of conduct manual the fundamental principles on which it bases the institutional values that the company reputation is established on for 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.
Additionally, the company's management has prepared the "Employee's Manual" following the labor law for the private sector in the State of Kuwait. This manual was circulated to all the company 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' fundamental role in providing the best and highest standard of services.

The Board's emphasis on Value Creation in the Company, the Company has developed an Integrated Report as one of the effective tools in achieving the Company's strategic goals and then promoting corporate values, by issuing an Annual Report to be submitted to the Board of Directors. This report contains the most prominent characteristics mentioned in the rules of corporate governance that must be available in the Integrated Report, such as the approved business model for the Company, a summary of the total risk, and an analysis of the financial and operational performance for the past year, in addition to the direction and future vision of the Company.

Social Responsibility

Since its launch in the 1970s, Salhia Real Estate Company has readily carried out its responsibilities toward the Kuwaiti community, not for publicity or prestige but as a responsibility that the company is committed to. Salhia has always strived to synergize with public efforts to serve the community, out of our firm belief that community development is not only the government task but a conscious partnership between the public and private sectors. Growth is not only about numbers, but conscious positive citizenship.

The Board of Directors of Salhia Real Estate Company has been keen on adopting a clear guide to the policies and procedures that achieve a balance between societal goals, the environment and the economic goals of the company. This is achieved through initiatives aimed at improving the living conditions of workers, their families and the community and working to reduce the unemployment rate in the community and reduce waste of environmental resources.

Salhia Real Estate Company has continued to fulfill its responsibilities and commitments towards both local and international social and civil societies serving the poor in different ways. In 2019, Salhia Real Estate Company has continued to assist several organizations, including:

Bait Al Khair Third Fair

Salhia Real Estate Company continued to sponsor "Bait Al Khair" Fair to support small businesses set up by female Syrian refugees to help them attain a steady income and provide for themselves.

Earth Hour

Salhia Real Estate Company participates in Earth Hour every year. Earth Hour is a global event organized by the World Wide Fund for Nature (WWF) where lights are turned off for an entire hour to conserve energy and consumption.

"Khairkom L Ahlokom" Campaign

Out of our strong belief in supporting humanitarian endeavors, we at Salhia Real Estate have coordinated with Al Takaful Charity at Arraya Commercial Centre to collect donations for female prisoners in monetary debt.

Give Them a Pen Campaign

We have coordinated with Al Najat Charitable Society at Arraya Commercial Centre to help students in need in Kuwait to realize their dreams and continue their education.

Breast Cancer Campaign

We have cooperated with Maison A to produce a work of art to raise women's awareness about breast cancer at Salhia Commercial Complex.

Home Deal

Salhia Real Estate Company has adopted a clever idea to revive the market by cooperating with Home Deal for Small Businesses Support. The idea supports retail shops to boost sales by giving a 50% discount on their products.

Marzook and ASAP Initiative

Salhia Real Estate Company has supported the Marzook and ASAP Initiative to spread awareness of mental health and invest in related initiatives. This collaboration is not only meant to spread the message but also educate the community.

Kuwait Architecture Students Association (KASA)

Salhia Real Estate Company is cooperating with Kuwait University's College of Architecture to hold their annual fair at Arraya Commercial Centre. The annual fair is meant to spread the knowledge of architecture by inviting architecture firms and faculty members to the event.

Collaborating with Students of Gulf University for Science and Technology

Salhia Real Estate Company has invited students of Gulf University for Science and Technology to visit the Assima Project site and learn about real estate investment and the project's design and planning process.

Experience Adventure

Salhia Real Estate Company sponsored the 4th Experience Adventure in order to spread the adventure and travel culture, make known their benefits, and spread positivity. The event was held at Arraya Commercial Centre.

Food Buzz

Salhia Real Estate Company sponsored Food Buzz at the end of each of the winter months to support and boost small businesses.

Sponsoring the Landscaping Program at the Architecture Department of Kuwait University

Salhia Real Estate Company has always strived to provide sponsorship and encouragement to the Landscaping program to help students learn and greatly contribute to maintaining a healthy environment in Kuwait.

The launch and launch party of "A Humanitarian Leader"

Salhia Real Estate Company has released a book titled "A Humanitarian Leader" to celebrate the fifth anniversary of naming the Amir of Kuwait a leader of humanitarian work. The book includes a congratulatory message from the company to the Amir.

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

Russell Bedford
taking you further

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Chartered Accountants and Business Advisers

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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 12 November, 2019 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 2019. 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 2019, 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
2 February 2020

AUDITING COMMITTEE REPORT

Salhia Real Estate Company
Auditing Committee Report for the Fiscal Year ended on 31 December 2019

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 periodically – 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 And it is submitted to the Capital Market Authority on an annual basis.
Furthermore in 2019, Salhia has complied with Capital Markets Authority (CMA) for listed companies mandating an independent evaluation of the internal audit unit, where the Board of Directors and Audit Committee have approved the appointment of an independent audit firm for the review and assessment of the internal audit unit within Salhia Real Estate Company for the three preceding years (2016:2018). In addition, Board members and Audit Committee members have read and discussed the highlighted findings, which concluded that the performance of the internal audit unit for Salhia is compliant with the international professional practices for internal audit, as well as the requirements included in the regulations of the Capital Markets Authority (CMA).
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
Salhia Real Estate Company

State of Kuwait
Date : 6/2/2020

BOARD OF DIRECTORS UNDERTAKING

SALHIA

Date : 12/02/2020

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 2019.

Signature	
Mr. Ghazi Fahed Al Nafisi Chairman	

Salhia Real Estate Company K.S.C. Mohd.Thunayan Al-Ghanim St., P.O. Box 23413, Safat 13095, Kuwait. Tel (+965) 2299 6000 Fax (+965) 2299 6304 www.salhia.com
Capital K.D 51,272,341 C.R.: 21250

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

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019

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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 2019, 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 2019, 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 (including International Independence Standards) (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 2019 Annual Report

Management is responsible for the other information. Other information consists of the information included in Group's 2019 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 2019 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.

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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)

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 2019 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 2020
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Notes	2019 KD	2018 KD
Revenues		**44,618,708**	45,460,814
Operating costs		**(18,671,542)**	(19,666,311)
Gross profit		**25,947,166**	25,794,503
Share in joint venture's results, net of tax	9	**1,866,251**	4,899,477
General and administrative expenses		**(5,331,583)**	(5,866,996)
Depreciation	10,11	**(5,874,209)**	(5,369,150)
Sales and marketing expenses		**(549,166)**	(544,816)
Investment income	4	**843,380**	84,152
Foreign exchange loss		**(45,807)**	(81,082)
Interest income		**45,551**	18,472
Other income, net		**276,460**	129,314
Impairment loss on investment properties	10	**(407,172)**	-
Gain from sale of property and equipment	11	**7,603,499**	254,070
Finance costs		**(1,450,221)**	(686,599)
Profit before tax		**22,924,149**	18,631,345
Taxation on overseas subsidiaries		**(162,371)**	(181,053)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOUR SUPPORT TAX ("NLST"), ZAKAT AND DIRECTORS' FEES		**22,761,778**	18,450,292
KFAS		**(226,540)**	(163,939)
NLST		**(566,350)**	(455,387)
Zakat		**(226,540)**	(163,939)
Directors' fees	18	**(120,000)**	(120,000)
PROFIT FOR THE YEAR		**21,622,348**	17,547,027
Attributable to:			
Equity holders of the Parent Company		**21,514,598**	17,312,202
Non-controlling interests		**107,750**	234,825
		21,622,348	17,547,027
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	5	**43.70 fils**	35.07 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 2019

	2019 KD	2018 KD
Profit for the year	**21,622,348**	17,547,027
Other comprehensive loss:		
Other comprehensive income (loss) that are or may be reclassified to consolidated statement of income in subsequent periods:		
Exchange differences arising on translation of foreign operations	**361,543**	(1,962,079)
Net other comprehensive income (loss) to be reclassified to consolidated statement of income in subsequent periods	**361,543**	(1,962,079)
Other comprehensive income (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	**866,261**	(793,664)
Other comprehensive income (loss)	**1,227,804**	(2,755,743)
Total comprehensive income for the year	**22,850,152**	14,791,284
Attributable to:		
Equity holders of the Parent Company	**22,742,402**	14,556,459
Non-controlling interests	**107,750**	234,825
	22,850,152	14,791,284

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 KD	2018 KD
ASSETS			
Cash and bank balances	6	6,617,854	7,814,245
Fixed deposits		6,744,193	2,300,000
Inventories		285,816	258,040
Accounts receivable and other assets	7	12,124,081	13,998,693
Financial assets at fair value through other comprehensive income	8	5,937,553	5,071,292
Interest in joint venture	9	10,606,712	8,352,038
Investment properties	10	259,963,689	211,560,563
Property and equipment	11	65,811,421	72,065,411
Right-of-use assets		917,783	-
TOTAL ASSETS		369,009,102	321,420,282
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and financial institution		-	435,317
Accounts payable and other liabilities	12	31,216,063	26,431,698
Commercial financing	13	29,927,962	28,179,918
Islamic financing	14	138,657,358	113,989,034
Lease liabilities		3,237,095	-
TOTAL LIABILITIES		203,038,478	169,035,967
EQUITY			
Share capital	15	51,272,341	51,272,341
Share premium		35,055,163	35,055,163
Treasury shares	16	(5,194,386)	(5,168,680)
Treasury shares reserve		2,872,702	2,240,412
Statutory reserve	17	30,280,511	30,280,511
Voluntary reserve	17	20,489,290	20,489,290
Retained earnings		37,939,197	26,295,026
Fair value reserve		694,240	(172,021)
Foreign currency translation reserve		(10,107,119)	(10,593,567)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		163,301,939	149,698,475
Non-controlling interests		2,668,685	2,685,840
TOTAL EQUITY		165,970,624	152,384,315
TOTAL LIABILITIES AND EQUITY		369,009,102	321,420,282

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 2019

	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 2019	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
Profit for the year	-	-	-	-	-	-	21,514,598	-	-	21,514,598	107,750	21,622,348
Other comprehensive income (loss)	-	-	-	-	-	-	-	866,261	486,448	1,352,709	(124,905)	1,227,804
Total comprehensive income (loss)	-	-	-	-	-	-	21,514,598	866,261	486,448	22,867,307	(17,155)	22,850,152
Purchase of treasury shares	-	-	(2,334,810)	-	-	-	-	-	-	(2,334,810)	-	(2,334,810)
Sale of treasury shares	-	-	2,309,104	632,290	-	-	-	-	-	2,941,394	-	2,941,394
Dividends (Note 15)	-	-	-	-	-	-	(9,870,427)	-	-	(9,870,427)	-	(9,870,427)
Balance as at 31 December 2019	**51,272,341**	**35,055,163**	**(5,194,386)**	**2,872,702**	**30,280,511**	**20,489,290**	**37,939,197**	**694,240**	**(10,107,119)**	**163,301,939**	**2,668,685**	**165,970,624**
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	-	-	-	-	-	-	-	498,334	-	498,334	-	498,334
Profit for the year	-	-	-	-	-	-	17,312,202	-	-	17,312,202	234,825	17,547,027
Other comprehensive (loss) income	-	-	-	-	-	-	-	(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 reserve	-	-	-	-	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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Notes	2019 KD	2018 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat and Directors' fees		**22,761,778**	18,450,292
Adjustments for:			
Share in joint venture's results, net of tax	9	**(1,866,251)**	(4,899,477)
Provision for employees' terminal benefits		**609,705**	864,221
Depreciation	10,11	**5,874,209**	5,369,150
Investment income	4	**(843,380)**	(84,152)
Foreign exchange loss		**45,807**	81,082
Interest income		**(45,551)**	(18,472)
Gain on sale of property		**(7,603,499)**	(254,070)
Impairment loss on investment properties	10	**407,172**	-
Reversal for expected credit losses	7	**(200,000)**	(12,148)
Finance costs		**1,450,221**	686,599
		20,590,211	20,183,025
Changes in operating assets and liabilities			
Inventories		**(27,776)**	28,753
Accounts receivable and other assets		**(5,410,786)**	(1,281,579)
Accounts payable and other liabilities		**10,989,334**	4,125,094
Cash from operations		**26,140,983**	23,055,293
Employees' terminal benefits paid		**(15,864)**	(249,640)
KFAS paid		**(163,939)**	(149,859)
NLST paid		**(455,387)**	(416,274)
Zakat paid		**(163,939)**	(149,859)
Directors' fees paid		**(120,000)**	(120,000)
Net cash flows from operating activities		**25,221,854**	21,969,661
INVESTING ACTIVITIES			
Additions to investment properties	10	**(50,388,487)**	(26,975,084)
Additions to property and equipment	11	**(1,321,394)**	(2,607,750)
Net movement in advance payments to contractors		**1,405,187**	591,391
Proceeds from sale of property and equipment		**13,002,350**	2,523,577
Dividend income received	4	**843,380**	84,152
Dividends received from joint venture	9	**-**	2,030,000
Interest income received		**45,551**	18,472
Fixed deposits		**(4,444,193)**	333,206
Net cash flows used in investing activities		**(40,857,606)**	(24,002,036)
FINANCING ACTIVITIES			
Proceeds from commercial and Islamic financings obtained		**45,974,635**	27,752,182
Repayment of commercial and Islamic financings		**(19,558,268)**	(13,351,879)
Finance costs paid		**(1,450,221)**	(686,599)
Dividends paid	15	**(9,855,014)**	(9,767,103)
Purchase of treasury shares		**(2,334,810)**	(1,130,459)
Sale of treasury shares		**2,309,104**	1,699,626
Payments of lease liabilities		**(210,748)**	-
Net cash flows from financing activities		**14,874,678**	4,515,768
NET (DECREASE) INCREASE IN CASH AND BANK BALANCES		**(761,074)**	2,483,393
Cash and bank balances as at 1 January		**7,378,928**	4,895,535
CASH AND BANK BALANCES AS AT 31 DECEMBER	6	**6,617,854**	7,378,928

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

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 2019 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors 12 February 2020. 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 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, 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.

Adoption of IFRS 16 'Leases'

The Group has adopted IFRS 16 issued in January 2016 with a date of initial application of 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group, as a lessee, has adopted the following accounting policy in respect of its leases:

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.

Please refer to note 2.3 for the accounting policy of leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Adoption of IFRS 16 'Leases' (continued)

Impact on adoption of IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

ASSETS	**KD**
Right-of-use assets	**480,224**
Total assets	**480,224**
LIABILITIES	
Lease liability	**480,224**
Total liabilities	**480,224**

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	**Lease liabilities**
	KD	**KD**
As at 1 January 2019	**480,224**	**480,224**
Additions	**635,698**	**2,947,387**
Depreciation expense	**(198,139)**	**-**
Finance costs	**-**	**11,232**
Payments	**-**	**(201,748)**
As at 31 December 2019	**917,783**	**3,237,095**

The Group has discounted its future lease obligations using its incremental borrowing rate which is determined at 4% at the reporting date.

Set out below, are the amounts recognised in profit or loss:

	2019
	KD
Depreciation expense on right-of-use assets	198,139
Finance costs on lease liabilities	11,232
Total amounts recognised in profit or loss	**209,371**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2.3 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 2019. 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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and acquisition of non-controlling interests (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 (Policy applicable before 1 January 2019)

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

Group as a lessee

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (Policy applicable before 1 January 2019) (continued)

Group as a lessor

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

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (Policy applicable before 1 January 2019) (continued)

Group as a lessor

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

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

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

Taxation on overseas Subsidiaries

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

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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in joint venture (continued)

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

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

An item of property 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

a) Recognition and initial measurement

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

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

b) Classification and subsequent measurement

Financial assets - (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:

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 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets – Business model assessment (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:

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.

Financial assets – Subsequent measurement and gains and losses:

□ 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of non-financial assets (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (conntinued)

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.

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:

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

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.

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

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 2019

4 INVESTMENT INCOME

	2019 KD	2018 KD
Dividend income	843,380	84,152

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 2019.

	2019	2018
Profit for the year attributable to equity holders of the Parent Company (KD)	21,514,598	17,312,202
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	492,293,890	493,683,839
Basic and diluted earnings per share attributable to equity holders of the Parent Company	43.70 fils	35.07 fils

6 CASH AND BANK BALANCES

Cash and bank balances comprises of the following:

	2019 KD	2018 KD
Cash on hand	120,284	2,423,812
Bank balances	6,497,570	5,390,433
Less: Due to banks and financial institutions	-	(435,317)
Cash and bank balances for the purpose of the consolidated statement of cash flows	6,617,854	7,378,928

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

7 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2019 **KD**	2018 KD
Hotel guests and care home residents receivables	**826,902**	1,083,951
Rent receivable	**594,431**	377,513
Staff receivables (Note 20)	**53,503**	39,733
Deposits and prepaid expenses	**1,210,086**	100,161
Advance payments to contractors*	**6,080,211**	7,485,398
Due from related parties (Note 20)	**742,765**	801,380
Other receivables	**2,616,183**	4,110,557
	12,124,081	13,998,693

* During the year, the Group made advance payments to the main contractor for the construction of Al Asima project amounting to KD 2,428,599 (2018: KD 7,176,923).

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 of hotel guests, care home and residents and rent receivable is as follows:

	2019 **KD**	2018 KD
As at 1 January	**570,062**	582,210
Reversal of expected credit losses	**(200,000)**	(12,148)
As at 31 December	**370,062**	570,062

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	< 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	KD
2019	**122,574**	**449,588**	**176,605**	**136,046**	**85,057**	**451,463**	**1,421,333**
2018	195,934	413,958	136,644	173,776	129,887	411,265	1,461,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7 ACCOUNTS RECEIVABLE AND OTHER ASSETS (continued)

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

	2019 KD	2018 KD
Kuwaiti Dinar	1,106,541	1,025,760
Euro	195,549	386,935
GBP	119,243	48,769
	1,421,333	1,461,464

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 KD	2018 KD
Managed quoted portfolios	112,050	83,000
Managed unquoted portfolio	271,249	269,140
Unquoted equity securities	5,554,254	4,719,152
	5,937,553	5,071,292

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 271,249 (2018: KD 269,140) 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.

9 INTEREST IN JOINT VENTURE

This represents the Group's 50% (2018: 50%) interest in a United Kingdom based joint venture entity, Key Property Investments limited, engaged in real estate leasing and development.

	2019 KD	2018 KD
Carrying amount of the investment in the joint venture:		
As at 1 January	8,352,038	6,380,746
Share in the joint venture's results, net of tax	1,866,251	4,899,477
Dividends received	-	(2,030,000)
Foreign currency translation adjustment	388,423	(898,185)
As at 31 December	10,606,712	8,352,038
Share of joint venture entity's statement of financial position:		
Current assets	1,417,955	918,315
Non-current assets	12,159,749	13,110,984
Current liabilities	(1,122,297)	(1,586,058)
Non-current liabilities	(1,848,695)	(4,091,203)
Net assets	10,606,712	8,352,038
Share of joint venture entity's revenue and results:		
Revenues	4,329,777	3,920,123
Results	1,866,251	4,899,477

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10 INVESTMENT PROPERTIES

	Freehold land KD	Buildings KD	Properties under construction KD	Total KD
Cost				
Balance as at 1 January 2019	**98,667,362**	**65,475,217**	**80,811,893**	**244,954,472**
Additions	**-**	**-**	**50,388,487**	**50,388,487**
Foreign currency translation adjustment	**33,137**	**156,489**	**110,191**	**299,817**
Balance as at 31 December 2019	**98,700,499**	**65,631,706**	**131,310,571**	**295,642,776**
Accumulated depreciation and impairment				
Balance as at 1 January 2019	**3,030,307**	**30,363,602**	**-**	**33,393,909**
Charge for the year	**-**	**1,874,993**	**-**	**1,874,993**
Impairment loss	**407,172**	**-**	**-**	**407,172**
Foreign currency translation adjustment	**-**	**3,013**	**-**	**3,013**
Balance as at 31 December 2019	**3,437,479**	**32,241,608**	**-**	**35,679,087**
Net Book Value as at 31 December 2019	**95,263,020**	**33,390,098**	**131,310,571**	**259,963,689**

	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				
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
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

Investment properties with a carrying value of KD 155,792 (2018: 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 22,588,499 (2018: KD 17,277,217).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 INVESTMENT PROPERTIES (continued)

The fair value of the investment properties at the consolidated statement of financial position date was estimated to be KD 362,334,873 (31 December 2018: KD 350,712,656). For local properties, the fair values of investment properties are based on a valuation 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 one valuation performed by foreign accredited independent valuer. The valuation is 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.

Certain properties amounting to KD 3,925,463 incurred impairment loss amounting to KD 407,172. This is based on the independent accredited valuation described above after considering the specific market and liquidity risk.

Investment properties amounting to KD 71,794,141 (2018: KD 71,794,141) are secured against Islamic financing obtained by a local subsidiary amounting to KD 61,000,000 (2018: KD 47,750,000). Under the terms of the liability, the lenders have no recourse to the Parent Company in the event of default (Note 14)

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 2019	12,314,858	96,341,868	43,782,825	416,463	553,204	153,409,218
Additions	-	101,398	1,100,606	15,454	103,936	1,321,394
Disposals *	(1,294,125)	(2,438,413)	(2,119,316)	(13,675)	(71,927)	(5,937,456)
Transfers from capital work in progress	-	38,284	-	-	(38,284)	-
Foreign currency translation adjustment	(93,319)	(505,685)	(20,258)	-	(2,868)	(622,130)
Balance as at 31 December 2019	**10,927,414**	**93,537,452**	**42,743,857**	**418,242**	**544,061**	**148,171,026**
Accumulated depreciation						
Balance as at 1 January 2019	-	44,773,260	36,227,277	343,270	-	81,343,807
Charge for the year	-	2,460,980	1,303,323	36,774	-	3,801,077
Depreciation on disposals	-	(786,603)	(1,984,423)	(13,672)	-	(2,784,698)
Foreign currency translation adjustment	-	(475)	(106)	-	-	(581)
Balance as at 31 December 2019	**-**	**46,447,162**	**35,546,071**	**366,372**	**-**	**82,359,605**
Net Book Value as at 31 December 2019	**10,927,414**	**47,090,290**	**7,197,786**	**51,870**	**544,061**	**65,811,421**

* During the year ended 31 December 2019, the Parent Company entered into a sale and leaseback agreement related to one of its staff housing property. The Group has discounted its future lease obligations using its incremental borrowing rate which is determined at 4% at the reporting date. The resultant gain amounting to KD 7,603,499 has been recorded in the consolidated statement of income during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2019

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 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 2019

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2019 KD	2018 KD
Accounts payable	**6,034,054**	6,137,011
Retentions payable	**8,888,348**	4,900,772
Accrued expenses	**2,279,378**	3,480,628
Deposits from tenants, hotel and care home guests	**687,177**	656,422
Rents received in advance	**5,337,212**	616,170
Employees' terminal benefits	**5,665,638**	5,150,073
Other payables	**2,324,256**	5,490,622
	31,216,063	26,431,698

13 COMMERCIAL FINANCING

Commercial financing are contractually due for repayment as follows:

	2019 KD	2018 KD
Instalments payable within one year	**6,559,962**	1,052,695
Instalments payable within one year to two years	**1,088,626**	1,081,140
Instalments payable within two years to three years	**1,118,087**	1,110,376
Instalments payable within three years to four years	**1,148,370**	1,140,426
Instalments payable after four years	**20,012,917**	23,795,281
	29,927,962	28,179,918

Commercial financing are denominated in the following currencies:

	2019 KD	2018 KD
Kuwaiti Dinars	**5,500,000**	2,550,000
Euro	**19,322,234**	20,687,966
GBP	**5,105,728**	4,941,952
	29,927,962	28,179,918

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% per annum (2018: 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 (2018: 1.5% to 2% per annum) over EURIBOR.

Commercial financing amounting to KD 24,427,961 (2018: KD 25,659,918) 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
As at 31 December 2019

14 ISLAMIC FINANCING

	2019 KD	2018 KD
Murabaha financing	**138,657,358**	113,989,034

Islamic financing are contractually due for repayment as follows:

	2019 KD	2018 KD
Instalments payable within one year	**-**	808,611
Instalments payable within one year to two years	**6,150,000**	4,033,333
Instalments payable within two years to three years	**13,483,334**	10,783,333
Instalments payable within three years to four years	**16,815,333**	17,715,334
Instalments payable after four years	**102,208,691**	80,648,423
	138,657,358	113,989,034

The average profit rate attributable to Islamic financing during the years is 1.25% per annum (2018: 1.5% per annum) over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 61,000,000 (2018: KD 47,750,000) 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 (2018: 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 11 March 2019, the shareholders approved the distribution of cash dividends of 20 fils (2017: 20 fils) per share amounting to KD 9,870,427 for the year ended 31 December 2018 (31 December 2017: KD 9,881,591) for shareholders registered on that date which was paid subsequent.

As at 31 December 2019, the authorised, issued and paid up capital comprises of 512,723,413 shares (31 December 2018: 512,723,413 shares) of 100 fils (31 December 2018: 100 fils) each paid in cash.

For the year ended 31 December 2019, the Board of Directors of the Parent Company has proposed cash dividends of 25 fils (2018: 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 2019, the Parent Company' held 18,321,260 (2018: KD 19,630,322) of its own shares, equivalent to 3.57% (2018: 3.83%) of the total issued share capital at that date. The market value of these shares at the reporting date was KD 7,639,965 (2018: KD 6,458,376). 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 2019

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 2019, the shareholders of the Parent Company agreed on the proposal of the Board of Directors to discontinue annual transfer to Statutory reserve.

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before 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 2018 were approved by the annual general assembly of the shareholders of the Parent Company held on 11 March 2019 (Note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 2019	31 December 2018		
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	**99.91%**	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%**	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
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, and Salhia International Investment Limited which have a financial year end of 30 November.

* During the year ended 31 December 2019, 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

As at 31 December 2019

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:

	2019 KD	2018 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 KD	Other related parties KD	**Total 2019 KD**	Total 2018 KD
Staff receivables (Note 7)	-	**53,503**	**53,503**	39,733
Due from related parties (Note 7)	-	**742,765**	**742,765**	801,380

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:

	2019 KD	2018 KD
Short-term benefits	**571,439**	621,913
Employees' end of service benefits	**283,602**	341,758
	855,041	963,671

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.

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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 2019				31 December 2018			
	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	**18,958,626**	**9,766,266**	**15,893,816**	**44,618,708**	19,033,788	10,397,888	16,029,138	45,460,814
Segment operating costs	**(3,057,995)**	**(3,886,157)**	**(11,727,390)**	**(18,671,542)**	(4,224,533)	(3,906,670)	(11,535,108)	(19,666,311)
Segment gross profit	**15,900,631**	**5,880,109**	**4,166,426**	**25,947,166**	14,809,255	6,491,218	4,494,030	25,794,503
Share in joint venture's results, net of tax	**1,866,251**	**-**	**-**	**1,866,251**	4,899,477	-	-	4,899,477
Depreciation	**(3,352,064)**	**(1,505,726)**	**(1,016,419)**	**(5,874,209)**	(2,896,406)	(1,422,431)	(1,050,313)	(5,369,150)
Administrative and marketing expenses	**(2,641,607)**	**(1,838,960)**	**(1,400,182)**	**(5,880,749)**	(3,032,856)	(2,087,455)	(1,291,501)	(6,411,812)
Finance costs	**(808,888)**	**(87,626)**	**(553,707)**	**(1,450,221)**	2,464	(82,192)	(606,871)	(686,599)
Taxation on overseas subsidiaries	**-**	**-**	**(162,371)**	**(162,371)**	-	-	(181,053)	(181,053)
Segment results	**10,964,323**	**2,447,797**	**1,033,747**	**14,445,867**	13,781,934	2,899,140	1,364,292	18,045,366
Interest income				**45,552**				18,472
Investment income				**843,380**				84,152
Impairment of investment properties				**(407,172)**				-
Gain from sale of property				**7,603,499**				254,070
Other non-operating income				**230,653**				48,232
KFAS, NLST, Zakat and Directors' fees				**(1,139,431)**				(903,265)
Profit for the year				**21,622,348**				17,547,027
Segment assets	**318,276,461**	**4,647,902**	**35,478,027**	**358,402,390**	266,420,560	8,879,800	37,767,884	313,068,244
Investment in joint venture	**10,606,712**	**-**	**-**	**10,606,712**	8,352,038	-	-	8,352,038
Total assets	**328,883,173**	**4,647,902**	**35,478,027**	**369,009,102**	274,772,598	8,879,800	37,767,884	321,420,282
Segment liabilities	**179,763,730**	**2,670,753**	**20,603,995**	**203,038,478**	143,833,436	3,016,194	22,186,337	169,035,967
Capital expenditure	**50,606,524**	**771,343**	**332,014**	**51,709,881**	27,544,510	1,524,294	514,030	29,582,834

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 2019			31 December 2018		
	Kuwait and GCC	**Europe**	**Total**	Kuwait and GCC	Europe	Total
	KD	**KD**	**KD**	KD	KD	KD
Revenue	**28,262,928**	**16,355,780**	**44,618,708**	28,981,895	16,478,919	45,460,814
Assets	**312,013,715**	**56,995,387**	**369,009,102**	264,316,783	57,103,499	321,420,282
Capital expenditure	**49,033,742**	**2,676,139**	**51,709,881**	29,068,804	514,030	29,582,834

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk (continued)

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.

	Increase/decrease in basis points	Effect on profit before KFAS, NLST, Zakat and Directors' fees KD
2019		
KD	**25**	**421,463**
Euro	**25**	**48,306**
GBP	**25**	**12,764**
2018		
KD	25	292,436
Euro	25	51,720
GBP	25	12,355

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:

	2019		2018	
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%**	**(17,629)**	1%	(179,961)
GBP	**1%**	**(892)**	1%	(48,519)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 2019) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2019		2018	
Market indices	**Change in equity price %**	**Effect on other comprehensive income KD**	Change in equity price %	Effect on other comprehensive income KD
International	**+/-5**	**5,603**	+/-5	4,150

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:

	2019 KD	2018 KD
Bank balances (Note 6)	**6,497,570**	5,390,433
Fixed deposits	**6,744,193**	2,300,000
Accounts receivable (Note 7)	**1,421,333**	1,461,464
Due from related parties (Note 7)	**742,765**	801,380
Total exposure of credit risk	**15,405,861**	9,953,277

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.

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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

31 December 2019	**Accounts receivable**					
	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	**179,140**	**268,709**	**447,849**	**537,419**	**358,278**	**1,791,395**
Estimated credit loss	**55,509**	**74,012**	**55,509**	**74,012**	**111,020**	**370,062**
Expected credit loss rate	**31%**	**28%**	**12%**	**14%**	**31%**	**21%**

31 December 2018	Accounts receivable					
	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	274,729	203,153	507,882	711,034	334,728	2,031,526
Estimated credit loss	57,006	85,509	114,012	142,516	171,019	570,062
Expected credit loss rate	21%	42%	22%	20%	51%	28%

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 2019

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 2019 and 31 December 2018 based on contractual undiscounted payments:

2019	**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	**5,573,538**	**3,118,862**	**4,834,843**	**17,688,820**	**31,216,063**
Commercial financing	**439,156**	**439,156**	**879,592**	**45,515,926**	**47,273,830**
Islamic financing	**1,555,622**	**1,733,285**	**4,043,510**	**189,750,957**	**197,083,374**
Lease liabilities	**269,758**	**269,758**	**269,758**	**2,427,821**	**3,237,095**
TOTAL LIABILITIES	**7,838,074**	**5,561,061**	**10,027,703**	**255,383,524**	**278,810,362**
Contingent liabilities	**-**	**-**	**964,625**	**-**	**964,625**
Capital commitments	**15,675,881**	**12,389,946**	**32,977,850**	**28,956,323**	**90,000,000**
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS	**15,675,881**	**12,389,946**	**33,942,475**	**28,956,323**	**90,964,625**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

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:

2019 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	6,617,854	-	-	-	6,617,854
Fixed deposits	-	6,744,193	-	-	6,744,193
Inventories	285,816	-	-	-	285,816
Accounts receivables and other assets	6,082,379	1,857,467	1,720,408	2,463,827	12,124,081
Financial assets at fair value through other comprehensive income	-	-	112,050	5,825,503	5,937,553
Interest in joint venture	-	-	-	10,606,712	10,606,712
Right-of-use assets	88,847	88,847	177,694	562,395	917,783
Investment properties	-	-	-	259,963,689	259,963,689
Property and equipment	-	-	-	65,811,421	65,811,421
TOTAL ASSETS	**13,074,896**	**8,690,507**	**2,010,152**	**345,233,547**	**369,009,102**
LIABILITIES					
Accounts payable and other liabilities	5,573,538	3,118,862	4,834,843	17,688,820	31,216,063
Commercial financing	262,346	264,101	533,515	28,868,000	29,927,962
Islamic financing	-	-	-	138,657,358	138,657,358
Lease liabilities	269,758	269,758	269,758	2,427,821	3,237,095
TOTAL LIABILITIES	**6,105,642**	**3,652,721**	**5,638,116**	**187,641,999**	**203,038,478**
NET ASSETS	**6,969,254**	**5,037,786**	**(3,627,964)**	**157,591,548**	**165,970,624**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2019

23 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

24 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

	2019 KD	2018 KD
Letters of guarantee	964,625	937,560
Construction projects	90,000,000	107,654,499
	90,964,625	108,592,059

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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25 CAPITAL MANAGEMENT (continued)

	2019 KD	2018 KD
Accounts payable and other liabilities (excluding rents received in advance and employees' terminal benefits)	**20,213,213**	20,665,455
Term financing	**168,585,319**	142,168,952
Less: Cash and bank balances	**(6,617,854)**	(7,814,245)
Net debt	**182,180,678**	155,020,162
Equity attributable to the equity holders of the Parent Company	**163,301,939**	149,698,475
Less: Fair value reserve	**(694,240)**	172,021
Total capital	**162,607,699**	149,870,496
Capital and net debt	**344,788,377**	304,890,658
Gearing ratio	**52.84%**	50.84%

26 FAIR VALUES MEASUREMENTS

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

2019	**Level 1 KD**	**Level 3 KD**	**Total KD**
Financial assets at FVOCI:			
Managed quoted portfolios	**112,050**	**-**	**112,050**
Managed unquoted portfolio	**-**	**271,249**	**271,249**
Unquoted equity securities	**-**	**5,554,254**	**5,554,254**
	112,050	**5,825,503**	**5,937,553**

2018	Level 1 KD	Level 3 KD	Total KD
Financial assets available for sale	83,000	-	83,000
Managed quoted portfolios	-	269,140	269,140
Managed unquoted portfolio	-	4,719,152	4,719,152
	83,000	4,988,292	5,071,292

During the year ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The table below analyses the movement in the financial instruments classified under level 3 of the fair value hierarchy.

Financial assets at fair value through other comprehensive income	**At the beginning of the period KD**	**Change in fair value KD**	**At the end of the period KD**
31 December 2019	**4,988,292**	**837,211**	**5,825,503**

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