TIJARA

تجارة

شركة التجارة والاستثمار العقاري ش.م.ك عامة

& REALESTATE INVESTMENT K.S.C (PUBLIC)

From Land to Landmark

Annual Report 2017

بسم الله الرحمن الرحيم

In The Name of Allah

The Most Gracious And The Most Merciful

His Highness Shaikh
Sabah Al Ahmed Al Jaber Al Sabah
The Amir of the State of Kuwait

His Highness Shaikh
Nawaf Al Ahmed Al Sabah
Crown Prince

Contents

Board of Directors Report for the Fiscal Year Ended on 31/12/2016

Dear shareholders…

May the peace, mercy, and blessings of Allah be upon you,

The year 2017 has been ended and gone with many local and regional events whether they were positive or negative ones with aspirations to overcome the successive obstacles facing the economies of the area due to regional and local geopolitical crises.

On the positive side, oil prices have risen between the closing of of 2016 and the end of 2017 as the price of a barrel elevated from 51.9 dollars to 63 dollars i.e. with proportion of increase equal to 21.4% per barrel of Kuwaiti oil. As a result, the general State budget deficit has decreased and the Kuwait Stock Exchange came in the first place as the best Gulf market in performance in 2017 on the level of both indicators: price and Weight. In addition to that, Kuwait Stock Exchange has been nominated to join the rank of emerging markets although it lost a lot of liquidity in the last two months of this year.

The Kuwait Stock Exchange ended the year 2017 by achieving annual benefits stood at 11.5% for the price indicator against 2.4% in the end of 2016. Though, the profits of the KSE have declined about one billion dinars from 30 billion dinars during the year to reach 27.2 billion dinars at the end of the year. The Kuwait Stock Exchange ended 2017 with an increase in its general indicators based on the analogy of the end of 2016 as the price indicator has risen by 659.9 points at a percentage of 11.5%; while the weight indicator has risen by 21.3 points at a percentage of 5.6% and Kuwait 15 Indicator has risen by 29.9 points at a percentage of 3.4%. Similarly, the same applies to the general indicators as the average number of traded shares and traded value grew by 64.1% and 99.7% respectively. The daily average of the market value reached 23 million dinars in 2017 against 11.5 million dinars in 2016.

On the other hand, Kuwait has faced since 2016 a deficit in its current account i.e. its net transactions with the outside world for the last twenty five years which is the result of the weakness of the oil market, which at that time, led to a decline in the level of growth of the local economy, but in 2017, the International Monetary Fund (IMF) report estimated the deepening of the negative growth of the local economy from 0.1% in last April to 2.1% in the Fund's October report, this is due to the transfer of geopolitical events to the organization of Gulf Cooperation Council in along with the increase in public expenses by 5.3%.

The Central Bank of Kuwait (CBK), in a step testifies to its growing concern regarding the economic growth, has decided not to follow the trend of the arising dollar interest rates in two cases of three in current year in order to keep the cost of credit unchanged which could help support an expected recovery in 2018.

Real Estate Market

Real estate sales in Kuwait has risen during the second quarter of current year by 3.5% on a year-over-year basis for the first quarter of the year, as real estate sales (contracts and agencies) has reached 695 million dinars in the second quarter of the year 2017 compared to 672 million for the same period of 2016. In return, the indicator of the average value of transactions has dropped by 6% on a quarterly basis to reach 454 thousand dinars per transaction, thus, it has decreased by 13% on an annual basis.

In the first half of 2017, total value of sales has amounted to 1.37 billion dinars compared to 1.41 billion dinars for the same period of 2016 with a decline of 3%.

However, during the third quarter of the year, real estate sales in Kuwait has risen by 35% compared to the third quarter of last year, recording the highest annual increase since the second quarter of 2014, this increase of sales coincided with the increase in the number of transactions by about 30% along with the increase of transaction indicator by about 4%. all segments of the market, with the exception of warehousing section, have contributed in this increase where the sales of the artisanal sector nearly increased 5 times on an annual basis while the sales of the commercial sector has risen by about 44%, also, the sales of the housing sector has risen by 29% and the investment sector recorded the lowest annual rise At 9%.

Following the performance of the real estate in Kuwait at the end of the first nine months of the year, we find that the sales have risen by about 6% on an annual basis as the total of sales has reached 1.95 billion dinars compared to 1.85 billion dinars during the same time of the last year while the indicator of the number of registered transactions has reached during the same period to 4081 transaction compared to 3410 transactions during the first nine months of

2016 bringing an increase in the number of transactions by 20% on an annual basis.

As to the trades of November 2017, they were distributed as follows: 147.3 million dinars for the contracts and about 18.5 million dinars for agencies while the number of transactions has reached in this month 336 transactions which were distributed as follows: 301 contracts and 35 agencies. Al-Ahmadi governorate recorded the highest percentage in the number of real estate which was 87 transactions representing about 25.9% of the total number of real estate transactions followed by Al-Asema by 64 transactions or about 19% whereas Al-Jahra recorded the lowest number of transactions which was 29 transactions or about 8.6% of the total.

The activity of the trades of private housing transactions has reached about 96.9 million dinars in November against 116.8 million in October of the year 2017which means a decrease of about -17.1%. The trades of private housing transactions recorded about 58.5% of the total of real state in November while the percentage was 52.3% in October 2017. The monthly average of the trades of private housing transactions recorded during 12 months about 109.4 million dinars which means that the value of trades in this month is lower by -11.5% compared to average. The number of transactions of this sector has decreased to 269 transactions compared to 378 transactions in October 2017, thus, the average value of each transaction is 360.3 thousand dinars.

As to the trades of the investment housing, they reached about 41.5 million dinars which means a decrease of -30.9% compared to 60.1 million dinars in October 2017, the liquidity of this sector has also decreased to 25.1% compared to 26.9% in October 2017. The average value of investment housing activity during 12 months has reached about 60.8 million which means that the value of trades in this month is lower by -31.6% compared to the last 12 months. The number of transactions of this sector has decreased to 61 transactions compared to 105 transactions in October 2017, thus, the price of one transaction is 681.1 thousand dinars.

The commercial sector trades has reached 25.8 million dinars in November 2017 with a decrease of about -44.5% compared to 46.5 million in October 2017. It's portion from the total real estate trades decreased to about 15.6% compared to 20.8% in October 2017. The average value of commercial sector activity during 12 months has reached about 37.7 million which means that the value of trades in this month is lower by -31.5% compared to the 12 months average. Also, the number of the transactions of this sector has decreased to 5 transactions compared to 7 in October 2017. The warehousing sector has concluded one transaction with a value of 1.5 million in November 2017.

When comparing the trades of November 2017 to the same of the last year (November 2016), we notice a decrease in the liquidity of real estate market as the value of trades has decreased from about 232.1 million to about 165.8 million namely -28.6%, the decrease included the commercial sector by about -73.3% and the investment housing by -28.2% while the private housing sector has risen to 29.6%.

When comparing the total of all trades since the beginning of the year 2017 till November 2017 to the same in 2016, we notice a slight increase in the total liquidity of the real estate market from about 2.193 billion dinars to 2.199 billion namely 0.3%.

Dear brothers,

Over the past years, the company has adopted an organized policy based on the distribution of investments, the recycling of some assets and transformation of unprofitable assets into profitable real states within company's other real states. This vision grown out from a continuous follow-up and extrapolation of events witnessed by the region. This policy has proven effective and still to the present day.

As for the local level, the company invested in 2017 in new real estates within its plan which was started last year to increase investment in the industrial sector in order to support company's revenues. The company also still conserves its properties such as 25 February Tower in Sharq area and which is one of the pillars of the company's fixed income, as it is currently 100% leased, this tower comes along with the rest of the company's properties distributed in many places within Kuwait. These properties have a good ratio of occupancy and very good rental rates compared to the local market, and they are subject to continuous follow-up and development to ensure high occupancy rates and hence an increase in profits.

As to the company's investment of real states abroad, it could be said that it is stable despite the poor economic conditions during the past period; it is subject to continuous follow-up and evaluation. In this context, we would like to indicate that the company has become having local and non-local profitable real states of up to 95% of the total assets of the company with a revenue increase of 12% over the year 2016. This confirms the success of the company in achieving the goals of its proposed strategy which led to an increase in rental income as it is expected that the revenues continue to increase during the coming period.

The profit for the year 2017 has reached to 706,250 KD compared to 810,059 KD for the year 2016, the share has achieved profitability amounted to 1.91 fils per share in 2017 compared to 2.19 fils per share in 2016.

Total revenues and expenses amounted to 3,722,917 KD in 2017 and 2,740,816 KD consecutively.

Finally,

We would like to thank both the administrative and executive bodies of the company, all the officials and employees for their sincere efforts, also the distinguished members of the Sharia Supervisory Committee and the auditors.

We would like also to convey our thanks to all our shareholder brothers who have given us their trust and support during the previous period. We ask God to assist us to achieve our hoped aims for the sake of the company.

May the peace, mercy, and blessings of Allah be upon you

Sheikha / Yasmin Mubarak Al Jaber Al Sabah

Chairman

Acknowledgement and Undertaking of (Integrity and fairness of Statements)

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Kuwait on 31/01/2018

Acknowledgement and Undertaking of (Integrity and Fairness of Statements)

We the chairman and the BOD"s members of Tijara and Real Estate Investment Company acknowledge and undertake that the Financial Statements provided to the exterior auditor are sound accurate, and the financial reports of the company were presented in fair and sound way in accordance with the International Accounting Standards applicable in the State of Kuwait. Those financial reports have expressed the financial position of the company as of 31 December, 2017 based on the information and reports provided to us by the executive management, auditors and we have exerted the due diligence for verifying the fairness and accuracy of these reports.

Member's Name	Position	Signature
Sheikha/ Yasmin Mubarak Al Jaber Al Sabbah	Chairman	
Mr. Tareq Farid Abdul Rahman Al Othman	Vice Chairman and Executive President	
Mr. Saad Nasser Faraj	Board member	
Miss. Anoud Fadhel Al Hathran	Board member	
Sheikh/ Abdullah Ali Al Khalifa Al Sabbah	Board member	

First Rule

Setting up a balanced Structure for Board of Directors (BOD)

- The Current BOD was formed in 12/05/2016 as follows:

Name	Board Member Classification (executive/non-executive/ independent) -Board secretary	Academic qualification and Experience	Date of Electing/ assigning the secretary
Sheikha / Yasmin Mubarak Al Jaber Al Sabah	Non-Executive	Bachelor Degree 20 years of experience	12/05/2016
Mr. Tariq Farid Al Othman	Executive	Bachelor Degree 24 years of experience	12/05/2016
Mr. Saad Nasser Faraj	Independent Board Member	General Secondary School Certificate 52 years of experience	12/05/2016
Miss / Anoud Fadel Al Hathran	Independent Board Member	Master's Degree 15 years of experience	12/05/2016
Sheikh/Abdullah Ali Al Khalifa Al Sabah	Non-Executive	Bachelor Degree 5 years of experience	12/05/2016
Ms. Tahani Al-Ajmi	Board Secretary	Master's Degree 20 years of experience	12/05/2016

The Above formed board is still as it was, without any change in its members to date.

- The Following Table shows the Academic Qualifications and Experiences in detail

- Sheikha / Yasmin Mubarak Al Jaber Al Sabah- a holder of Bachelor of Business Administration (B.B.A) with 20 years of experience in business Administration.
- Mr. Tariq Farid Al Othman- a holder of Bachelor Degree in Banking and Finance with 24 years of experience in between Banking and Real estate sector.
- Mr. Saad Nasser Faraj- a holder of General Secondary School Certificate with 52 years of experience in between administrative and Real estate experience.
- Miss / Anoud Fadel Al Hathran- a holder of Master's Degree of Business Administration with 15 years of experience in Investment field.
- Sheikh/Abdullah Ali Al Khalifa Al Sabah- a holder of Bachelor Degree of Business Administration with 5 years of experience in real estate marketing.
- Ms. Tahani M. Al-Ajmi- a holder of Master's Degree in Business Administration with 20 years of experience in Investment field.

* Board of Directors' Meeting for the Year 2017:

Board Member Name/ Former Board	Meeting No. (1) Held on 16/01/2017	Meeting No. (2) held on 02/03/2017	Meeting No. (3) Held on 26/03/2017	Meeting No. (4) Held on 23/04/2017	Meeting No. (5) Held on 01/05/2017	Meeting No. (6) Held on 18/07/2017	Meeting No. (7) Held on 19/10/2017	Meeting No. (8) Held on 17/12/2017	Number of Meetings
Sheikha / Yasmin Al Sabah (Chairman)	✓	✓	✓	✓	✓	✗	✓	✓	7
Mr. Tariq Al Othman (Deputy chairman)	✓	✓	✓	✓	✓	✓	✓	✓	8
Mr. Saad Faraj (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Miss Anoud Al Hathran (Independent Board Member)	✓	✓	✓	✓	✓	✗	✓	✓	7
Sheikh/ Abdullah Al Sabah (Independent Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Ms. Tahani Al-Ajmi (Board Secretary)	✓	✓	✓	✓	✓	✓	✓	✓	8

* Summary of The way of applying recording and saving the Board of Director Meetings minutes

- In line with the Governance Requirements, The board has assigned Ms. Tahani Al-Ajmi as the Board of Directors Secretary in 12/05/2016. Writing and recording the signed Meeting minutes of the board as well as the reports shown to them are under her responsibilities. She also has the responsibility to informing the board members of the coming board meeting within three business days at least of prior to the meeting. She has to be keen to let all board member able to have all meetings minutes and company related information.

Second Rule

Most Important Achievements of the Board during the year of 2017

Viewing, discussing and authorizing the approve of signing the Company's facilities

Discussing and authorising new investments as well as purchasing real estates

Reviewing and discussing the properties position owned by the company and the problems facing such investments

Discussing and signing the Governance Report of 2016

Viewing, discussing and authorizing the financial data of the Company's

Review and approve minutes of meetings of ordinary General Assemblies

Reviewing the Periodical Reports of risk Management after discussing them by the Risk Management Committee.

Reviewing and discussing the strategy and work plan.

Authorization and Reviewing the Policies

Approving the Financial data audited by the Company as well as the quarterly financial data

Reviewing the indicators of measuring the executive department and the progress of the work plan completion

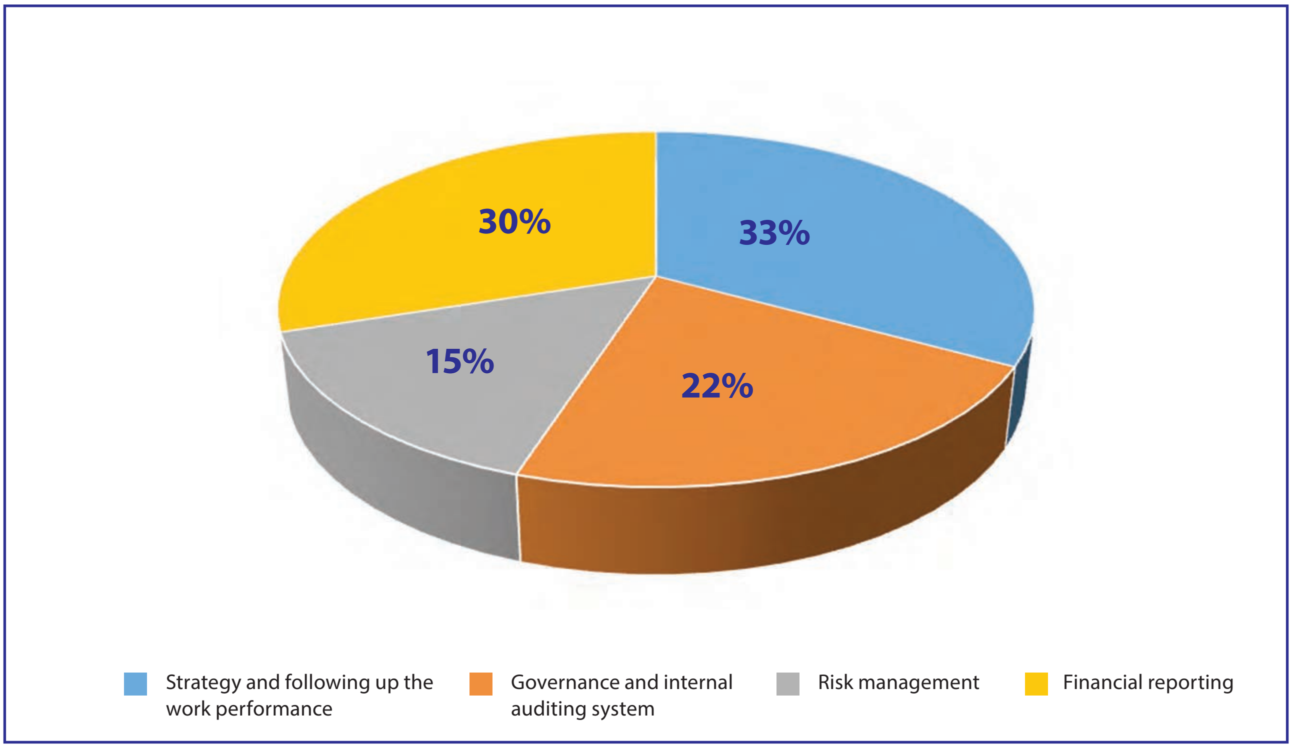
Discussing and authorizing the spend part of the amount specified for managing the social responsibility for the activities of Red Crescent and supporting the students of Engineering in Kuwait University

Reviewing and authorizing the committees minutes

Holding training courses for Board members To enhance the members competence

- As par the board meetings, the following summary is prepared, it shows distribution of time and the effort that have been done by the Board during the year 2017 as per the following categories:

- Strategy and following up the work performance
- Governance and Internal Control Systems
- Risk Management
- Financial Reporting



Annual Summary of Board of Directors Meetings

The Board of Directors system which is approved by the current Board of Directors states that: The Board exercises its responsibilities via three committees as following:

Internal Auditing Committee

15/06/2016

	The Most Important Achievements of the committee during the year	
Anoud Al Hathran (Chairman) Abdullah Ali Al Khalifa Al Sabah Mr. Saad Faraj	- Discussing the financial data and develop the recommendations. - Reviewing accountancy policies with external auditor - Auditing and recommending the Performance of Independence of external auditors. - Reviewing the report of External Auditor and develop recommendations. - Discussing the work plan and the internal audit for the current year. - Auditing and discussing ICR report during the past year. - Reviewing and discussing the Insurance contracts on the comapany's assets. - Reviewing and discussing the Cases related to the tenants. - Reviewing and discussing information system policy - Developing and discussing the plan of confronting disasters. - Holding a meeting with external auditing and discussing the financial data organized for the company	As the committee held six meetings during the year.

Nomination and Remuneration Committee

15/06/2016

	The Most Important Achievements of the committee during the year	
Yasmin Al Sabah (Chairman) Mr. Tareq Al Othman Mr. Saad Faraj	- Auditing and updating the evaluation and remuneration for the executive body. - Reviewing and ensuring the independence of independent members. - Recommendations not to distribute remunerations for the board for the past year. - Discussing remuneration's report - Reviewing and discussing the unoccupied places in the organizational frame. - Viewing the training programs for board memebers.	As the committee held four meetings during the year.

Risk Committee 15/06/2016		
Mr. Saad Faraj (Chairman) Mr. Tareq Al Othman Anoud Al Hathran	**The Most Important Achievements of the committee during the year** - Auditing the periodic risk report - Auditing and authorizing the framework of risk management. - Measuring the level of risk to help the board in determining and evaluating the risk level that is acceptable to the company. - Auditing and discussing disclosure table and ensure its relevance with the laws of regulatory authorities. - Auditing and discussing the plan of confronting disasters. - Ensuring the independence of the office responsible for preparing risk report.	As the committee held four meetings during the year.

- **Summary of the way of applying the requirements that allow the Board members to accurately acquire the information, data, and right on time.**

- In order to secure information flow between the administrative management and the BOD, the BOD developed a policy that organizes acquiring the board members the financial data and any reports from the company management by submitting periodical reports to the board concerning the performance of the executive body. Any board member is entitled to ask for any information or report from any management in coordination with the Secretary of the board as it is organized by the aforementioned policy. Such has to be done through the pack of periodical reports submitted to BOD and Committees.

Third Rule

Overview of applying the requirements of forming the Nomination and Remuneration Committee

Selection of Qualified Persons for Board and Executive Management

- Nomination and Remuneration Committee is consisting from three members, one of its members is an independent board member. The Committee is headed by non-executive member as it is stated in Corporate Governance Codes. One of Committee commissions is to accept nominations and re-nominations of board members and executive management, to develop a clear policy of remuneration of board members and the executive management, the annual review for Membership needs and attracting those people who desire to hold the executive positions. The most important responsibility of the committee is to prepare the annual detailed report of all remunerations granted to the board members and the executive body and to be keen to present it before the Company General Assembly.
- The BOD developed the remuneration policy through Nomination and Remuneration Committee and which aims at keeping the high experienced employees, increasing loyalty to the company, and to competitively enhance the company position in order to attract the experienced employees. Furthermore; the committee developed the remuneration policy which includes the criteria upon which remuneration is determined for the executive department, the personal evaluation, and the company's gained profits as a standard to achieve its targeted objectives.
- The remunerations in the policy are divided to the basic salary, other benefits (such as the annual tickets and the Medical compensation) annual bonus and indemnity. The policy clarifies the criteria upon which the remunerations of board members are determined in line with the company Codes conditioned with the approval of General Assembly. The remuneration is directly related to the company's performance taking into account the performance and participation of each board member.

Forth Rule

Ensuring Integrity of Financial Reports

Auditing committee is formed from three members, two of the members are Independent board members and the third is a non-executive member. Each member has the scientific experience suitable in accounting and financing. The committee holds quarterly meetings and meets with External and Internal auditors. During 2017, All BOD decisions were supportive to the auditing Committee. One of the most important commissions is to periodically audit the financial data, making a recommendation thereon, and to make a recommendation for BOD to assign or reassign external auditors, to evaluate how efficient the Internal auditing Systems inside the company, to supervise the internal audit and to follow ensuring the independence of external auditors. . As it is attached in the report of signed written obligation signed by the executive department and BOD

Fifth Rule

- Risk committee is formed from three members, Chairman is excluded from them, and it is headed by non-executive member. One of the most important commissions of this committee is to develop and auditing the strategies and policies of risk management and to submit it to the BOD for approval, to ensure the availability if sufficient systems for risk management and to prepare reports related to the nature of the risks the company exposes.
- The company has risk management that is directly following the BOD as per the organizational structure of the company.
- Controlling and Internal Auditing systems:
  - Tijara & Real estate Investment Co. is always seeking to develop the Internal Controlling Principals for Auditing, In the context of that the company determines in detail the authorities and responsibilities through procedures and policies and deliberate them between the departments to ensure the accounting data credibility and to achieve the efficiency and influence of operational process. The company listed in detail all approved authorities by BOD. The company was keen to totally fulfill the assigned commissions for each department and do not conflict interests. The company was also keen to cover the internal audit for all departments during 2017 and to follow up all actions taken to handling all the notes made by the internal auditor.
  - The company has assigned a coordinator of internal audit who has the full independence through his technical subordination to the BOD. His assignment, following up his commissions and responsibilities are by audit committee. The company has assigned independent audit office who has its independent functions of evaluating and auditing of internal control systems and Reporting. (ICR)

Sixth Rule

Business ethics modifications and morality

In order for Tijara & Real estate Investment Co. to make its board members and its executive body employees to fulfill their work in the perfect way that enhance the company image and its pursuit to achieve its objectives, the company has portrait the chart of actions which aims at guiding and providing the board members with Business ethics codes and work moralities and in order to avoid the cases in which the interests are conflicted and to organize process with related parties. All board members and executive body employees have signed the acknowledgement and obligation of commitment to chart of work.

Tijara & Real estate Investment Co. has developed a clear mechanism for reducing the conflict of interests' cases. The company has also developed a secured informing policy that grant any informer the highest level of security and protection from any damage that may be caused to him as a result of informing about any non-sound practice.

Seventh Rule

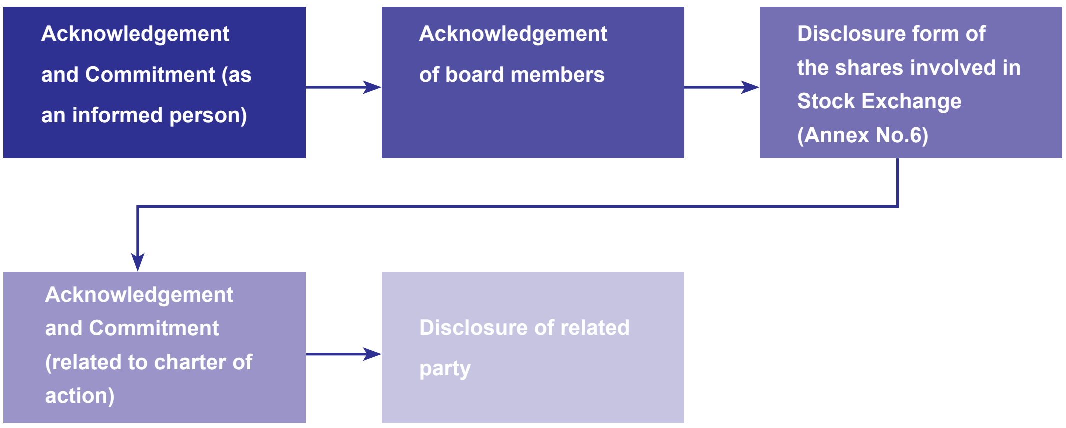
The accurate disclosure and transparency in the suitable time.

- As Tijara & Real estate Investment Co. realize the importance of disclosure and transparency on the company's reputation and its investors, thus, it developed a detailed classified table that covers all types of disclosure and clarifies the responsibility of each disclosure and it's follow-up to avoid any overlap or delay in any disclosure.

The company table of disclosures is divided into financial disclosures, disclosure of essential information and disclosures as per governance Codes.

- During the year, The company has disclosed the following:
  - Financial interim and annual data.
  - Company's disclosure of its shareholders whose ownership is reaching to 5% in the capital.
  - Outcomes of Board of Directors' Meetings
  - Announcement of holding the ordinary General Assembly
  - Resignation of the executive vice president for projects.

- The disclosure record of the BOD and the executive body contains the following:



- Tijara & Realestate Investment Co. is also keen to develop the Information Systems Infrastructure and to create a portal for disclosures to enable the current and future investors to view them. The work is now on way to load the disclosures of previous years.
- The company has activated the work on CIP system in coordination with Kuwait Stock Exchange to update the company's data, disclosures and the related announcements.
- The company has the Investors Affairs Unit, which is responsible for providing the data, information and other reports to current and potential investors. Investors Relations unit works effectively to provide accurate information- including the company's website- to the intended users in an unbiased manner. In this process, the company has assigned one of its employees to the responsibility of managing investor relations.

Eighth rule

Respect of Shareholders' Rights

- The company has set Shareholders' Rights regulation aiming at maintaining the interests of shareholders and to secure their gaining of all rights related to their ownership of company shares. Shareholders' Rights regulation has been divided as follows:
  - Shares related rights as per the value of ownership, disposal of shares, gaining profits and any other rights assigned to the shareholder by law.
  - Facilitating the practice of shareholders of their rights, their acquiring of information. The company has new and accurate records at Kuwait Clearing Company (KCC). The company also has internal records of shareholders in the company to enable the shareholders to view them as per the maximum degree of protection.

- Shareholders rights related to General Assembly:
  - The company invites its shareholders to attend the meetings included in Agenda, the time and place of holding meeting through making an advertisement twice in Official Journals. The company is also attaching the assembly Agenda that includes all Clauses viewed in the Assembly and as par the Company Law. The company is always encourage its shareholders to the necessity of attendance and participations in the general assembly meetings and to practice their rights.

Ninth Rule

Recognition of Stakeholders' Role

Tijara & Real estate Investment Co. is committed to protect the stakeholders and creating opportunities for operation and continuity through the sound financial projects, therefore, the company has set a policy to ensure the company's respect and protection of the stakeholders' rights as set forth in the applicable law within the State of Kuwait which provides opportunities for stakeholders to gain actual compensations in case of violation of any of their rights. The policy has defined the stakeholders as shareholders, the organizational bodies, clients, employees and related parties.

The company is keen to handle all of stakeholder problems fairly and equally, moreover; the company's transactions is ensures the fair treatment without discrimination with the board members, related parties and stakeholders. The company as well promises the suitable compensation in case of violating the rights mentioned in the official contracts signed with them or which generally accepted by the regulations.

And inline of encouraging the stakeholders to follow up company's work and any related developments, the company provides the stakeholders any data related to the activities, if necessary.

The company has also developed the Reporting Policy that enables any stakeholder to file his complaint to the BOD, such policy ensures that stakeholders will not be exposed to any harassment.

Tenth Rule

Enhancing and Developing the Performance

Board Members evaluate themselves through self-assessment form, in order to enclose the training needs. At the same time, the executive department is evaluating all executive body employees. The evaluation is including a part that is related to training needs for resident employee. Human Resources department is annually evaluating the employees by developing a plan to enhance and develop the technical level of the employees.

The company always seeks to create the institutional values of its employees during 2017 after holding training course for BOD related to Governance and Regulatory disclosure.

Eleventh Rule

The Importance of Social Responsibility

The company believes in its responsibility towards the society and commits to contribute in developing as per its capabilities through working on the national employment enhancement, improving living conditions of the workforce and their families, and determining a portion of the company profits to direct towards social services projects.

The social responsibility is including the employees of company and society, as well as the fair dealing in employment and responsibility related to health and safety due to the company's work nature in addition to the responsibility of protecting the environment.

Within that framework, the company held an awareness seminar concerning health nutrition and contributed in supporting the Red Crescent activities within Kuwait in addition to the cooperation with Kuwait Engineers Society to the support the Faculty of Engineering students in Kuwait University.

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Audit Committee Report for the Financial Year Ended on 31/12/2017

The Audit Committee consists of Messrs:

1)	Anoud Fadel Al-Hathran	Head
2)	Saad Nasser Faraj	Member
3)	Abdullah Ali Al-Khalifa Al-Sabah	Member

Meetings and achievements of the Committee:

During 2017, the Committee held 6 meetings; where most important achievements included the following:

- Discussing the financial statements and recommendations.
- Reviewing the accounting policies with the external auditor.
- Reviewing and giving recommendations on the performance and independence of external auditors.
- Perusing the reports of the internal auditor and developing recommendations.
- Perusing and discussing the ICR report during the year.
- Reviewing and discussing the insurance contracts of the company's assets.
- Perusing and discussing the issues of tenants.
- Reviewing and discussing the policy of Information Systems.
- Preparing and discussing the disaster confrontation plan.
- Meeting with the External Auditor and discussing the Company's financial statements.

The Committee's opinion regarding the Company's internal control environment:

Through monitoring and supervising on the works of internal audit in 2017 which is based on risk assessment, the Committee believes that the Company has a sufficient and effective control environment, as there were not any significant gaps identified during the year, nor were there any significant deficiencies in the applications of internal control systems.

The committee also noted the keenness of the executive body to implement the mechanisms and systems of internal control to ensure the protection of the company's assets and to guarantee the validity of the financial statements, in addition to the efficiency of the operational processes progress of the company and the efficiency of its financial aspects.

Anoud Fadel Al-Hathran	**Saad Nasser Faraj**	**Abdullah Ali Al-Sabah**	**Tahani Al-Ajmi**
Head of Committee	**Member**	**Member**	**Secretary**

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Remunerations Report of Ordinary General Assembly

Firstly: Remunerations and incentives system of BOD and Executive Management's Members

The company follows a strict framework for calculating the remunerations and incentives of the BOD and the executive management's members, where the framework of remunerations is characterized by the equalization of opportunities principle as it depends on connecting the remunerations and incentives with the levels of performance evaluation on the whole company as well as on the level of the individual's performance.

Secondly: detailing the remunerations given to the BOD and the executive management's members from amounts, interests and benefits and analyzing the layers of remunerations.

a. Remunerations Given to the BOD's Members :

Fixed Remunerations Tranche KD one thousand	Changing Remunerations Tranche KD one thousand	Total of Annual Remunerations and Benefits KD one thousand
--	30,000/- K.D	30,000/- K.D

b. Remunerations Given to the Executive Staff :

Fixed Remunerations Tranche KD one thousand	Changing Remunerations Tranche KD one thousand	Total of Annual Remunerations and Benefits KD one thousand
458,403/716 K.D	47,000/- K.D	505,403/716 K.D

Thirdly: any fundamental deviations from the remunerations policy approved by the BOD.

There are not any fundamental deviations

Yasmin Mubarak Al Sabah	Saad N. Faraj	Tariq F. Al Othman	Tahani Al Ajmi
Head of Committee	Member	Member	Secretary of the BOD

MANDR
Date: 11/02/2018
000150

The Sharia Report of TIJARA & REAL ESTATE INVESTMENT CO.
Fatwa and Shariah Supervisory Board
For the period from 01/01/2017 to 31/12/2017

To: The Shareholders of Tijara & Real Estate Investment Company.

Peace, mercy and blessings of Allah be upon you.

According to the contract signed with us we at Fatwa and Shariah Supervisory Board in Al Mashora and Al Raya have audited and supervised the principles adopted and the contracts related to the transactions concluded by the Company during the period from 01/01/2017 to 31/12/2017. We have carried out the necessary supervision to give our opinion on whether or not the Company has complied with the Islamic Shariah rules and principles as well as the Fatwas, decisions and guidelines made by us.

However, our liability is limited to the expression of independent opinion on the extent of the company compliance with same based on our audit.

Our supervision included examining the contracts and procedures used by the Company on the basis of examining each type of operations.

In our opinion, the contracts, operations and transactions concluded or used by the Company during the period from 01/01/2017 to 31/12/2017. and which have been reviewed by us, were in compliance with the provisions and principles of the Islamic Shariah.

Moreover, The Company has to draw the attention of its shareholders to the fact that they should pay their Zakat by themselves.

We wish the Company all success and prosperity in serving our religion and our country.

Peace, mercy and blessings of Allah be upon you.

Prof /Abdul Aziz k. Al-Qassar
Chairman of the Sharia Committee

Dr. Essa Zaki Essa
Sharia Committee Member

Dr. Ali Ibrahim Al-Rashed
Sharia Committee Member

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Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Tijara & Real Estate Investment 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 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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.

Valuation of Investment properties

Investment properties of the Group represent a significant portion of the total assets as at 31 December 2017 and are carried at fair value. The Management of the Group determines the fair value of its investment properties on periodical basis and uses external appraisers to support the valuation at year end. The valuation of the investment properties at fair value is highly dependent on estimates and assumptions such as rental value, occupancy rates, discount rates, financial stability of tenants, 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 investment properties and the importance of the disclosures relating to the assumptions used in the valuation, as disclosed in note 7 to the consolidated financial statements, we identified this as a key audit matter.

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

Key Audit Matters *(continued)*

Valuation of Investment properties (continued)

As part of our audit procedures, we have reviewed the assumptions and estimates made by the management and the external appraisers, appropriateness of the valuation technique and reasonableness of data used in the valuation. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions on the fair value of properties such as rental income, occupancy rates, discount rates, and historical transactions. Amongst others, we have considered the objectivity, independence and expertise of the external appraisers. We further assessed that the significant assumptions and related uncertainties are appropriately reflected in the sensitivity disclosure in Note 7 of the consolidated financial statements.

Other information included in the Group's 31 December 2017 Annual report

Management is responsible for the other information. Other information consists of the information included in the Group's 31 December 2017 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 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 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 auditors' 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.

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.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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.

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.

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

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

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 year and are therefore the key audit matters. We describe these matters in our auditors' 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.

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, or of the Parent Company's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2017, that might have had a material effect on the business of the Parent Company or on its financial position.

BADER A. AL-ABDULJADER
LICENSE NO. 207 A
EY
AL-AIBAN, AL-OSAIMI & PARTNERS

MOHAMMED HAMED AL SULTAN
LICENSE NO. 100 A
AL SULTAN AND PARTNERS
MEMBER OF BAKER TILLY INTERNATIONAL

7 February 2018
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
Rental income		**3,628,661**	3,243,654
Other services and operating income		**84,217**	48,941
Property operating expenses		**(269,869)**	(286,367)
Unrealised loss from re-measurement of investment properties to fair value	7	**(152,463)**	(3,195)
Net profit on investment properties		**3,290,546**	3,003,033
Sale of inventory properties		**209,854**	68,873
Cost of sales	5	**(283,019)**	(69,776)
Loss on sale of inventory properties		**(73,165)**	(903)
Impairment loss on inventory properties	5	**(32,363)**	-
Loss on inventory properties		**(105,528)**	(903)
Share of result of an associate	6	**119,058**	(13,311)
Impairment loss	6	**-**	(528,099)
Net investment gain (loss)		**119,058**	(541,410)
Administrative expenses		**(1,003,392)**	(1,104,120)
Foreign exchange (loss) gain		**(101,724)**	165,552
Other income		**10,039**	301,079
Operating profit		**2,208,999**	1,823,231
Finance costs		**(1,467,555)**	(1,119,985)
Provision no longer required		**-**	149,058
PROFIT FOR THE YEAR BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST) AND ZAKAT		**741,444**	852,304
KFAS		**(6,673)**	(7,671)
NLST		**(20,603)**	(24,696)
Zakat		**(7,918)**	(9,878)
PROFIT FOR THE YEAR		**706,250**	810,059
BASIC AND DILUTED EARNINGS PER SHARE	4	**1.91 fils**	2.19 fils

The attached 1 to 18 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 KD	2016 KD
PROFIT FOR THE YEAR		**706,250**	810,059
Other comprehensive income:			
Item that are (or) may be reclassified subsequently to consolidated statement of income:			
Foreign currency translation adjustments of foreign operations		**(73,367)**	57,153
Foreign currency translation adjustments of an associate	6	**(72,020)**	-
Other comprehensive (loss) income for the year		**(145,387)**	57,153
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**560,863**	867,212

The attached 1 to 18 form part of these consolidated financial statements

CONSOLIDATED Statement OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 KD	2016 KD
ASSETS			
Bank balances and cash		**1,820,862**	2,241,307
Accounts receivable and prepayments		**763,066**	659,734
Inventory properties	5	**3,115,869**	3,431,251
Investment in an associate	6	**6,123,656**	5,661,832
Investment properties	7	**57,733,468**	52,141,406
Property and equipment		**13,492**	64,558
TOTAL ASSETS		**69,570,413**	64,200,088
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accruals	8	**715,678**	733,825
Islamic financing payables	9	**29,172,101**	24,394,816
Employees' end of service benefits		**816,630**	766,306
Total liabilities		**30,704,409**	25,894,947
Equity			
Share capital	11	**37,000,000**	37,000,000
Statutory reserve	11	**157,551**	83,407
General reserve	11	**157,551**	83,407
Share options reserve		**142,253**	142,253
Foreign currency translation reserve		**207,542**	352,929
Treasury shares reserve		**18,132**	18,132
Retained earnings		**1,182,975**	625,013
Total equity		**38,866,004**	38,305,141
TOTAL LIABILITIES AND EQUITY		**69,570,413**	64,200,088

Sheikha / Yasmin Mubarak Jaber Al-Ahmad Al-Sabah
Chairman

Tareq Fareed Al Othman
Vice Chairman and Executive President

The attached 1 to 18 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Statutory reserve	General reserve	Share options reserve	Foreign currency translation reserve	Treasury shares reserve	Retained earnings (accumulated losses)	Total
	KD	KD	KD	KD	KD	KD	KD	KD
As at 1 January 2017	37,000,000	83,407	83,407	142,253	352,929	18,132	625,013	38,305,141
Profit for the year	-	-	-	-	-	-	706,250	706,250
Other comprehensive loss for the year	-	-	-	-	(145,387)	-	-	(145,387)
Total comprehensive (loss) income for the year	-	-	-	-	(145,387)	-	706,250	560,863
Transfer to reserves	-	74,144	74,144	-	-	-	(148,288)	-
As at 31 December 2017	**37,000,000**	**157,551**	**157,551**	**142,253**	**207,542**	**18,132**	**1,182,975**	**38,866,004**
As at 1 January 2016	38,446,256	-	-	142,253	295,776	18,132	(1,464,488)	37,437,929
Profit for the year	-	-	-	-	-	-	810,059	810,059
Other comprehensive income for the year	-	-	-	-	57,153	-	-	57,153
Total comprehensive income for the year	-	-	-	-	57,153	-	810,059	867,212
Transfer to reserves	-	83,407	83,407	-	-	-	(166,814)	-
Write-off of accumulated losses (Note 11)	(1,446,256)	-	-	-	-	-	1,446,256	-
As at 31 December 2016	37,000,000	83,407	83,407	142,253	352,929	18,132	625,013	38,305,141

The attached 1 to 18 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
Operating Activities			
Profit for the year before contribution to KFAS, Zakat and NLST		**741,444**	852,304
Adjustments to reconcile profit for the year before contribution to KFAS, Zakat and NLST to net cash flows:			
Depreciation		**58,201**	73,726
Provision for employees' end of service benefits		**133,084**	212,634
Realised loss on sale of inventory properties	5	**73,165**	903
Impairment loss on inventory properties	5	**32,363**	-
Share of result of an associate	6	**(119,058)**	13,311
Impairment loss	6	**-**	528,099
Unrealised loss from re-measurement of investment properties to fair value	7	**152,463**	3,195
Finance costs		**1,467,555**	1,119,985
Provision no longer required		**-**	(149,058)
Foreign exchange loss (gain)		**101,724**	(165,552)
		2,640,941	2,489,547
Changes in operating assets and liabilities:			
Accounts receivable and prepayments		**(267,187)**	(326,485)
Inventory properties		**209,854**	68,873
Accounts payable and accruals		**(79,512)**	(19,967)
Cash flows from operations		**2,504,096**	2,211,968
Employees' end of service benefits paid		**(82,760)**	(78,865)
Net cash flows from operating activities		**2,421,336**	2,133,103
Investment Activities			
Additions to investment in an associate		**(386,141)**	-
Additions to investment properties	7	**(5,959,000)**	(4,191,500)
Additions to property and equipment		**(7,135)**	-
Net cash flows used in investment activities		**(6,352,276)**	(4,191,500)
Financing Activities			
Proceeds from islamic financing payables		**5,726,700**	3,112,500
Repayment of islamic financing payables		**(887,351)**	(589,589)
Finance costs paid		**(1,326,542)**	(968,639)
Net cash flows from financing activities		**3,512,807**	1,554,272
Net Decrease In Bank Balances And Cash		**(418,133)**	(504,125)
Net foreign exchange difference		**(2,312)**	2,290
Bank balances and cash as at 1 January		**2,241,307**	2,743,142
BANK BALANCES AND CASH AS AT 31 DECEMBER		**1,820,862**	2,241,307

The attached 1 to 18 form part of these consolidated financial statements

1- CORPORATE INFORMATION

The consolidated financial statements of Tijara & Real Estate Investment Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively "the Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the board of directors on __________ 2018.

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by the shareholders of the Parent Company in the annual general assembly meeting held on 1 March 2017.

The Parent Company is a public Kuwaiti shareholding company registered and incorporated in Kuwait on 18 April 1983. The Group operates in accordance with the Islamic Share'a and is engaged in the following activities:

- Purchase and sale of land and real estate and exchange thereof; constructing buildings, commercial and residential complexes, and lease and rental thereof.
- Management of own properties and of third parties both inside and outside Kuwait.
- Sale and purchase of securities of companies carrying on similar activities.
- Development and building of real estate properties for the Group and for third parties.
- Maintenance works of buildings and real estate properties owned by the Group, including civil, mechanical, air-conditioning works to preserve all buildings and properties.
- Investing in equities and other investments.

The registered office of the Parent Company is P.O. Box 5655, Safat, 13057 Kuwait.

The Parent Company was listed on the Kuwait Stock Exchange on 26 September 2005.

2 - SIGNIFICANT ACCOUNTING POLICIES

2.1 - BASIS OF PREPERATION

Statement of compliance

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

Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified for investment properties carried at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars (KD), which is also the functional currency of the Parent Company.

2.2 - CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following amended IASB Standards that is relevant to the Group:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 10.

2.3 - STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 - STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed an initial impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its consolidated statement of financial position and equity from applying the classification and measurement requirements of IFRS 9.

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at amortised cost (AC), Fair value through other comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

At 31 December 2017, the Group does not have any equity instruments; accordingly, no application of the classification and measurement requirements of IFRS 9 is required.

With respect of receivables, the Group analysed the contractual cash flow characteristics of those instruments and concluded that based on their business model, they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

(b) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group will apply the simplified approach and record lifetime expected credit losses on all receivables. The Group do not expect any significant impact of expected credit losses on its amortised cost financial assets, when adopted.

(c) Hedge accounting

As at 31 December 2017, the Group does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 will not have a significant impact on the Group's consolidated financial statements.

(d) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group's assessment included an analysis to identify data gaps against current process and the Group is in process of implementing the system and controls changes that it believes will be necessary to capture the required data.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.

The Group is in the business of real estate that provides renting activities. Accordingly, the revenue streams of the Group comprise of rental and services income and is recognized when services are rendered.

Currently, the Group recognise rental income arising from operating leases on investment properties on a straight line basis over the lease term and hence the Group doesn't expect any significant impact when IFRS 15 is adopted.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3 - STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

IFRS 16 Leases

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

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

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

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. The Group does not expect any effect on its consolidated financial statements.

Other new or amended standards which are issued but not yet effective, are not relevant to the Group and have no impact on the accounting policies, financials position or performance of the Group.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 - BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2017.

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; and
- 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.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent 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 assets (including goodwill), liabilities, non-controlling interests, and other components of equity while any resultant gain or loss is recognized in the consolidated statement of income. Consideration received and any investment retained are recognized in the con solidated statement of financial position at fair value. It also reclassifies any share of components previously recognised in OCI to the consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Details of the subsidiaries included in the consolidated financial statements set out below:

Name of company	Equity interest		Country of incorporation	Activities
	2017	2016		
Madar Al Kuwait Trading and Contracting Company - Single Person Company	**100%**	100%	Kuwait	General trading
Tilal Real Estate Company W.L.L.*	**95%**	95%	Saudi Arabia	Real Estate

**The remaining shares in the subsidiary are held by related parties who have confirmed in writing that the Parent Company is the beneficial owner.*

2.5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquired. For each business combination, the acquirer measures the

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

non-controlling interest in the acquire either at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition costs incurred are expensed.

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable excluding discounts. The following specific recognition criteria must also be met before revenue is recognised

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature.

Income from real estate investment portfolio

Income from real estate investment portfolio is recognised when the Group's right to receive payment is established.

Gain or loss on sale of inventory properties

Gain or loss on sale of inventory properties is recognised when significant risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)
2.5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 capitalized as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognized as an expense in the period in which they are incurred.

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

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Group calculates the contribution to KFAS at 1% of profit for the year (net of accumulated losses brought) after accounting for the 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.

Financial instruments – initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.. The Group determines the classification of its financial assets and liabilities at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include bank balances and cash and accounts receivable.

Bank balances and cash

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand, which are subject to an insignificant risk of changes in value.

Accounts receivable

Accounts receivable are shown at the balance due, net of allowance for doubtful debts. Where the time value of money is material, receivables are carried at amortised cost. An estimate for doubtful debts is made, when collection of full amount is no longer probable. Bad debts are written off when the probability of recovery is assessed as being remote.

Subsequent measurement

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

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

Derecognition

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

- the contractual rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its contractual rights to receive cash flows from the asset and either:

(a) has transferred substantially all the risks and rewards of the asset, or

(b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities, are classified, at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in case of borrowings, plus directly attributable transactions costs.

The Group's financial liabilities include accounts payable and accruals and Islamic financing payables.

Subsequent measurement

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Financial liabilities (continued)

Subsquent measurement (continued)

Accounts payable and accruals

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

Islamic financing payables

Ijara payables represents the amount payable on a deferred settlement basis for assets purchased under ijara and tawarruq arrangements. Ijara payable is stated at the aggregate of the minimum lease payment due plus finance cost payable, net of any deferred costs.

Tawarruq payables represent amounts payable on a deferred settlement basis for commodities purchased under Tawarruq arrangements. Tawarruq payables are stated at the gross amount of the payables plus finance cost payable, less deferred profit payables.

Murabaha payable is an Islamic agreement which represents the amount payable, on a deferred settlement basis, exceeding one year for assets purchased under murabaha arrangements.

Derecognition

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

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

Offsetting of financial instruments

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

Inventory properties

Inventory properties are measured initially at cost. Subsequent to initial recognition, inventory properties are carried at the lower of cost or net realizable value determined on an individual basis.

Cost comprises the purchase cost of the property and other costs incurred in association with the construction or development of property to bring it to the condition necessary to make the sale.

Net realisable value is the estimated selling price in the ordinary course of the business, less costs to completion and the estimated costs necessary to make the sale.

Investment in an associate

The Group's investment in its associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor separately tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the consolidated statement of income and represents profit after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Financial liabilities (continued)

Investment in an associate (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence 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 fair value, which reflect market conditions at the reporting date.

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the year in which they arise. The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation techniques.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and 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 any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated on a straight line basis over the estimated useful lives for furniture, fixtures and equipment of 3 years.

The carrying values of property and equipment 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.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Financial liabilities (continued)

Property and equipment (continued)

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated statement of income as the expense is incurred.

Employees' end of service benefits

The Group provides end of service benefits to all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Further, with respect to its national employees, the Group also makes contributions to social security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Treasury shares

The Parent Company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in 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.

Foreign currencies

The Group's consolidated financial statements are presented in Kuwaiti Dinars, 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.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to 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 at the dates 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 is determined.

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Kuwaiti Dinars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Contingencies

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

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

Leases

Leases where the Group is lessee

Finance leases, which the Group transfers substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are recognized as finance costs in the consolidated statement of income.

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

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

Leases where the Group is lessor

Leases where the Group transfers substantially all the risks and benefits of ownership of the asset are financial leases and structured in the form of Ijara receivables.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease income is recognized as part of rental income in the consolidated statement of income on a straight line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3- SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Sensitivity analysis disclosures Note 7;
- Financial risk management and policies Note 15;
- Capital management Note 16.

Judgements

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

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

Judgements (continued)

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, con sideration 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 is recognised.

Classification of real estate properties

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

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

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

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

Impairment of receivables

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

Estimates and assumptions

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

Fair value measurements

The Group measures its non-financial assets such as investment property, at fair value at the end of each reporting period. Also, fair values of financial instruments measured at amortised cost are disclosed in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

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

The Group must be able to access the principal or the most advantageous market at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. 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 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

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

Estimates and assumptions (continued)

Fair value measurements (continued)

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

An analysis of fair values of investment properties are provided in Note 17.

4 - BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares). Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As at the reporting date, the Group had no outstanding dilutive potential shares.

	2017	2016
Profit for the year (KD)	**706,250**	810,059
Weighted average number of shares outstanding during the year (excluding treasury shares)	**370,000,000**	370,000,000
Basic and diluted earnings per share	**1.91 fils**	2.19 fils

5 - INVENTORY PROPERTIES

	2017	2016
	KD	KD
At 1 January	**3,431,251**	3,501,027
Disposals	**(283,019)**	(69,776)
Impairment loss on inventory properties	**(32,363)**	-
At 31 December	**3,115,869**	3,431,251

6 - INVESTMENT IN AN ASSOCIATE

The Group has following investment in an associate:

Name of company	Country of incorporation	Equity interest as at 31 December 2017 %	2016 %	Principal activities
Al Madar Al Thahabia Company W.L.L. ("Al Madar")	Kingdom Saudi Arabia	**24%**	24%	Sale, purchase, rent and lease of real estate properties and lands

Movement in the carrying amount of investment in an associate is as follows:

	2017 KD	2016 KD
At 1 January	**5,661,832**	-
Additions to investment in an associate	**414,786**	-
Acquisition of investment in an associate	**-**	5,572,043
Share of result	**119,058**	(13,311)
Foreign currency translation adjustments	**(72,020)**	103,100
At 31 December	**6,123,656**	5,661,832

During the year ended 31 December 2016, the Group has reclassified advance payment toward acquisition of investment in Al Madar Al Thahabia Company ("Al Madar"), a company incorporated in Saudi Arabia from accounts receivables and prepayments with carrying amount of KD 6,100,142 to investment in an associate, since the legal formalities of Al Madar was completed during the year ended 31 December 2016 and the Group is currently exercising significant influence over the Company's operations and decision making process. As the fair value of the investment on the date of acquisition was determined to be KD 5,572,043, the Group recorded an impairment loss of KD 528,099 in the consolidated statement of income for the year ended 31 December 2016.

Summarised financial information of the Group's investment in an associate at 31 December is as follows:

	2017 KD	2016 KD
Current assets	**309,266**	282,686
Non-current assets	**34,192,306**	34,544,528
Current liabilities	**(919,640)**	(1,212,383)
Non-current liabilities	**(8,153,314)**	(8,256,411)
Equity	**25,428,618**	25,358,420
Adjustment to the carrying value of investment in an associate*	**86,615**	(1,767,452)
	25,515,233	23,590,968
Proportion of the Group's ownership	**24%**	24%
Group's share in the equity	**6,123,656**	5,661,832

Summarised statement of income for associate is as follows:

	31 December 2017	31 December 2016
	KD	KD
Rental income	136,582	71,263
Staff costs	(482,346)	(78,592)
Administrative expenses	(482,910)	(48,135)
Property operating expenses	(31,630)	-
Finance cost	(475,492)	-
Loss for the year	(1,335,796)	(55,464)
Adjustment to the carrying value of investment in an associate*	1,831,869	-
	496,073	(55,464)
Proportion of the Group's ownership	24%	24%
Group's share of income (loss)	119,058	(13,311)

* Represents adjustment to the carrying value of investment property in the books of the associate to be in line with the Group's policy.

7 - INVESTMENT PROPERTIES

	2017	2016
	KD	KD
At 1 January	52,141,406	47,785,193
Additions	5,959,000	4,191,500
Unrealised loss from re-measurement of investment properties to fair value	(152,463)	(3,195)
Net foreign exchange (loss) gain	(214,475)	167,908
At 31 December	57,733,468	52,141,406

During the year ended 31 December 2017, the Group acquired four properties located in Kuwait for total consideration of KD 5,959,000 (2016: the group acquired two investment properties located in Kuwait for a total consideration of KD 4,191,500).

As at 31 December 2017, investment properties of KD 24,679,455 (2016: KD 24,041,659) are held in the name of a third party under Ijara agreement (Note 9).

As at 31 December 2017 certain investment properties amounting to KD 17,848,000 (2016: Nil) are pledged as a security against Murabaha agreement of KD 5,201,700 (2016: Nil) (Note 9).

The fair value of the investment properties amounting to KD 57,733,468 (31 December 2016: KD 52,141,406) have been determined based on valuations obtained from two independent valuers, who are an industry specialised in valuing these types of properties. One of these valuers is a local bank who has valued the local investment properties using the income capitalization approach for some properties, and the combination of the market comparison approach for the land and cost minus depreciation approach of the building for the investment properties. The other is a local reputable accredited valuers who has valued the investment properties using the income capitalization approach. For the foreign properties, both valuers are reputable accredited valuers who have valued the investment properties using the income capitalization approach for some properties, and the market comparison approach for the lands. For the valuation purpose, the Group has

7 - INVESTMENT PROPERTIES (continued)

selected the lower value of these two valuations as required by the Capital Market Authority. All investment properties are categorised in level 3 in the fair value hierarchy.

The significant assumptions used in the valuations are set out below:

2017	**Kuwait**	**GCC**
Estimated market price for the land (per sqm) (KD)	**1,635**	**678**
Construction costs (per sqm) (KD)	**434**	**267**
Average monthly rent (per sqm) (KD)	**9**	**4**
Yield rate	**9%**	**8%**
Vacancy rate	**19%**	**24.5%**

2016	Kuwait	GCC
Estimated market price for the land (per sqm) (KD)	1,844	683
Construction costs (per sqm) (KD)	399	270
Average monthly rent (per sqm) (KD)	8	4
Yield rate	8.8%	8.5%
Vacancy rate	22.6%	18.7%

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of the investment property.

	Changes in valuation assumptions	**Kuwait**	**GCC**
2017		**KD**	**KD**
Estimated market price for the land	5%	1,251,300	444,414
Average rent	5%	1,964,050	847,199
Yield rate	5%	1,870,524	806,856
Vacancy rate	5%	1,964,050	847,199
2016			
Estimated market price for the land	5%	1,088,250	447,676
Average rent	5%	1,673,800	853,887
Yield rate	5%	1,594,095	813,226
Vacancy rate	5%	1,673,800	853,887

8 - ACCOUNTS PAYABLE AND ACCRUALS

	2017	2016
	KD	KD
Advances from tenants	**181,733**	179,498
Refundable deposits	**214,305**	184,265
Other payables	**290,995**	370,062
Amount due to related party (note 12)	**28,645**	-
	715,678	733,825

9 - ISLAMIC FINANCING PAYABLES

2017	**Ijara**	**Tawaruq**	**Murabaha**	**Total**
	KD	**KD**	**KD**	**KD**
Gross amount	**19,797,921**	**5,510,368**	**5,272,921**	**30,581,210**
Less: deferred profit	**(1,095,262)**	**(225,003)**	**(88,844)**	**(1,409,109)**
	18,702,659	**5,285,365**	**5,184,077**	**29,172,101**

2016	Ijara	Tawaruq	Murabaha	Total
	KD	KD	KD	KD
Gross amount	20,217,446	6,366,111	-	26,583,557
Less: deferred profit	(1,767,064)	(421,677)	-	(2,188,741)
	18,450,382	5,944,434	-	24,394,816

Islamic finance payables represent facilities obtained from Islamic financial institutions and carry an average profit rate of 1.875% to 3% (2016: 2.25% to 3%) per annum over Central Bank of Kuwait discount rate. Islamic financing payables are mainly due within range of 1 to 7 years from the reporting date.

As at 31 December 2017, Ijara payable of KD 17,481,874 (2016: KD 17,112,500) are secured by the investment properties of KD 24,679,455 (31 December 2016: KD 24,041,659) (Note 7).

As at 31 December 2017, Murabaha payable of KD 5,201,700 (2016: Nil) are secured by the investment properties of KD 17,848,000 (2016: Nil) (Note 7).

10 - CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2017	Cash Flows –in/(out)	Other – in/(out)	31 December 2017
	KD	KD	KD	KD
Ijara payable	18,450,382	(762,354)	1,014,631	18,702,659
Tawarruq payable	5,944,434	(838,575)	179,506	5,285,365
Murabaha payable	-	5,113,736	70,341	5,184,077
	24,394,816	3,512,807	1,264,478	29,172,101

	1 January 2016	Cash Flows - in/(out)	Other– in/(out)	31 December 2016
	KD	KD	KD	KD
Ijara payable	15,314,384	2,287,631	848,367	18,450,382
Tawarruq payable	6,373,055	(733,359)	304,738	5,944,434
	21,687,439	1,554,272	1,153,105	24,394,816

11- SHARE CAPITAL, GENERAL ASSEMBLY MEETING A ND RESERVES

Share capital, general assembly meeting

The authorised, issued and fully paid up share capital at 31 December 2017, comprises 370,000,000 shares (2016: 370,000,000 shares) of 100 fils each paid up in cash.

On 16 June 2016, the Parent Company's Commercial Registration No. 34993 was amended to reflect the decision of the Extra-Ordinary General Assembly meeting held on 10 May 2016 to write-off part of the Parent Company's accumulated losses as at 31 December 2015 of KD 1,446,256 against the share capital.

The Board of Directors' meeting held on 7 February 2018, proposed not to distribute dividends for the year ended 31 December 2017. This proposal is subject to the approval of the Ordinary Shareholders' Annual General Assembly.

Statutory reserve

As required by the Companies Law and the Parent Company's articles of association, 10% of profit of the Group for the year before contribution to KFAS, NLST and Zakat after offsetting accumulated losses brought forward, is required to be transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve equals or exceeds 50% of paid-up share capital.

Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the distribution of a dividend of that amount.

General reserve

In accordance with the Parent Company's articles of association, 10% of the profit of the Group before contribution to KFAS, NLST and Zakat after offsetting accumulated losses brought forward is to be transferred to general reserve. The Group may resolve to discontinue such transfers by a resolution of the Group's board of directors. There are no restrictions on distribution of general reserve provided the distribution is approved by the shareholders general assembly.

12- RELATED PARTY TRANSACTIONS

These represent transactions with major shareholders, directors, executive officers and key management personnel of the Group, close members of their families and companies of which they are principal owners or over which they are able to exercise control or significant influence entered into by the Group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions and balances with related parties included are as follows:

	Subsidiary	Associate	2017	2016
	KD	KD	KD	KD
Consolidated statement of income:				
Foreign currency exchange differences*	(100,223)	-	(100,223)	71,629
Consolidated statement of financial position:				
Amounts due to a related party (note 8) **	-	28,645	28,645	-

	2017	2016
Compensation of key management personnel:	KD	KD
Salaries and short-term benefits	274,140	354,000
Employees' end of service benefits	98,533	179,842
	372,673	533,842

*The Group has recognized a loss of KD 100,223 (2016: gain of KD 71,629) in the consolidated statement of income for the year ended 31 December 2017 on foreign exchange rate fluctuation in SAR relating to the amounts due from one of the Group's subsidiary of SAR 97,080,290 (2016: SAR 99,070,874).

**Amounts due to related party do not carry any interest and are payable within one year from the reporting date.

13 - CAPITAL COMMITMENTS AND CONTINGENCIES

Capital commitment

The Group does not have capital commitments in respect of construction agreements as of the reporting date.

Contingent liabilities

As at 31 December 2017, the Group has contingent liabilities representing a letter of guarantee amounting to KD 4,063,020 (2016: KD 4,062,120) and from which it is anticipated that no material liability will arise.

14 - SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services, and has two reportable operating segments as follows:

- Real Estate management comprises investment and trading in real estate and construction or development of real estate for the sale in the ordinary course of business and the provision of other related real estate services.
- Investment management comprises participation in financial and real estate funds and managing the Group's liquidity requirements.
- Other management comprises other activities rather than real estate and investment activities.

14 - SEGMENT INFORMATION (continued)

31 December 2017	**Real estate activities**	**Investment activities**	**Others**	**Total**
	KD	**KD**	**KD**	**KD**
Segment revenue	**3,712,878**	**-**	**-**	**3,712,878**
Segment results	**1,975,454**	**-**	**-**	**1,975,454**
Unrealised loss from re-measurement of investment properties to fair value	**(152,463)**	**-**	**-**	**(152,463)**
Realised loss on sale of inventory properties	**(73,165)**	**-**	**-**	**(73,165)**
Impairment loss on inventory properties	**(32,363)**		**-**	**(32,363)**
Share of results of an associate	**-**	**119,058**	**-**	**119,058**
Other income	**-**	**-**	**10,039**	**10,039**
Unallocated expenses - net	**-**	**-**	**(1,140,310)**	**(1,140,310)**
Segment profit (loss)	**1,717,463**	**119,058**	**(1,130,271)**	**706,250**
Segment assets	**63,433,265**	**6,123,656**	**13,492**	**69,570,413**
Segment liabilities	**29,887,779**	**-**	**816,630**	**30,704,409**

31 December 2016	**Real estate activities**	**Investment activities**	**Others**	**Total**
	KD	KD	KD	KD
Segment revenue	3,292,595	-	-	3,292,595
Segment results	1,886,243	-	-	1,886,243
Unrealised loss from re-measurement of investment properties to fair value	(3,195)	-	-	(3,195)
Realised loss on sale of inventory properties	(903)	-	-	(903)
Share of results of an associate	-	(13,311)	-	(13,311)
Impairment loss of an associate	-	(528,099)	-	(528,099)
Other income	-	-	301,079	301,079
Unallocated expenses - net	-	-	(831,755)	(831,755)
Segment profit (loss)	1,882,145	(541,410)	(530,676)	810,059
Segment assets	58,473,698	5,661,832	64,558	64,200,088
Segment liabilities	25,128,641	-	766,306	25,894,947

15 - RISK MANAGEMENT

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 is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into profit rate risk, foreign currency risk.

15 - RISK MANAGEMENT (continued)

Risk management structure

The Board of Directors of the Parent Company is ultimately responsible for identifying and controlling risks and for the overall risk management approach and for approving the risk strategies and principles.

Executive management

The Executive management of the Group formulates the risk management policies of the Group and makes recommendations to the Board of Directors.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

With respect to credit risk arising from the other financial assets of the Group, including bank balances and cash and accounts receivable, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group limits its credit risk with regard to bank balances by only dealing with reputable banks.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements (if any).

	Gross maximum exposure 2017 KD	Gross maximum exposure 2016 KD
Cash and bank balances (excluding cash on hand)	**1,818,350**	2,239,567
Accounts receivable	**742,228**	501,822
Total credit risk exposure	**2,560,578**	2,741,389

Risk concentrations of the maximum exposure to credit risk

The Group's financial assets, before taking into account any collateral held or other credit enhancements (if any), can be analysed by the following geographical regions and industrial sectors:

	2017				2016			
	Banking and financial services	**Construction and real estate**	**Other**	**Total**	Banking and financial services	Construction and real estate	Other	Total
	KD	**KD**	**KD**	**KD**	KD	KD	KD	KD
Kuwait	**1,527,513**	**186,219**	**42,194**	**1,755,926**	1,965,169	65,018	29,159	2,059,346
Other GCC	**290,837**	**508,806**	**5,009**	**804,652**	274,398	396,982	10,663	682,043
	1,818,350	**695,025**	**47,203**	**2,560,578**	2,239,567	462,000	39,822	2,741,389

15 - RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Liquidity risk and funding management

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

Analysis of financial liabilities by remaining contractual maturities

The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profiles of the financial liabilities at the year-end are based on contractual undiscounted repayment arrangement or on management's estimate of planned exit dates.

The maturity profile of the undiscounted financial liabilities at 31 December was as follows:

31 December 2017	**Within 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 3 years**	**Over 3 years**	**Total**
	KD	**KD**	**KD**	**KD**	**KD**	**KD**
LIABILITIES						
Accounts payable and accruals (excluding advances from tenants)	-	-	**533,945**	-	-	**533,945**
Islamic financing payables	**667,405**	**96,751**	**1,226,389**	**6,205,421**	**22,385,244**	**30,581,210**
TOTAL LIABILITIES	**667,405**	**96,751**	**1,760,334**	**6,205,421**	**22,385,244**	**31,115,155**

31 December 2016	Within 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
	KD	KD	KD	KD	KD	KD
LIABILITIES						
Accounts payable and accruals (excluding advances from tenants)	-	-	554,327	-	-	554,327
Islamic financing payables	1,525,579	608,343	733,175	22,040,820	1,675,640	26,583,557
TOTAL LIABILITIES	1,525,579	608,343	1,287,502	22,040,820	1,675,640	27,137,884

Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as profit rates and foreign exchange rates, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

15 - RISK MANAGEMENT (continued)

Market risk (continued)

a) Profit rate risk

Profit rate risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market profit rates. The Group is exposed to profit rate risk on its floating profit bearing Ijara agreements (Note 9). Other than this the Group is not exposed to any other significant profit risk.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in profit rates, with all other variables held constant:

	Increase / decrease in basis points %	Effect on profit for the year KD
2017	+/-1%	**287,151**
2016	+/-1%	239,220

b) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed by the treasury department of the Parent Company on the basis of limits determined by the Parent Company's board of directors and a continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

The effect on profit (due to change in the fair value of monetary assets and liabilities) as a result of change in currency rate, with all other variables held constant is shown below:

	2017		2016	
Currency	**Change in exchange rate %**	**Effect on profit for the year KD**	Change in exchange rate %	Effect on profit for the year KD
SAR	**+/-3**	**236,496**	+/-3	292,957

16- CAPITAL MANAGEMENT

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

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Changes were made in objectives, policies or processes for managing capital during the year ended 31 December 2017 and 31 December 2016 as disclosed in Note 11 to the consolidated financial statements.

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, Islamic finance payables and accounts payable and accruals (excluding advances from tenants), less bank balances and cash. Capital represents total equity of the Parent Company.

16- CAPITAL MANAGEMENT (continued)

	2017 **KD**	2016 KD
Accounts payable and accruals (excluding advances from tenants)	**533,945**	554,327
Islamic financing payable	**29,172,101**	24,394,816
Less: Bank balances and cash	**(1,820,862)**	(2,241,307)
Net debt	**27,885,184**	22,707,836
Equity	**38,866,004**	38,305,141
Total capital and net debt	**66,751,188**	61,012,977
Gearing ratio	**42%**	37 %

17 - FAIR VALUES MEASUREMENTS

Set out below is a comparison by class of the carrying amounts and fair value of the Group's assets:

As at 31 December 2017	**Level 3** **KD**	**Total** **KD**
Investment properties	**57,733,468**	**57,733,468**

As at 31 December 2016	Level 3 KD	Total KD
Investment properties	52,141,406	52,141,406

During the year ended 31 December 2017, there were no transfers into and out of level 3 fair value measurements.

The reconciliation of the opening and closing amount of Level 3 are presented in note 7.

18 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for investment properties and inventory properties is based on management's estimate of liquidation of those assets.

The maturity profile of assets and liabilities is as follows:

31 December 2017	Within 1 year	1 to 5 years	Total
	KD	KD	KD
Assets			
Bank balances and cash	1,820,862	-	1,820,862
Accounts receivable and prepayments	763,066	-	763,066
Inventory properties	3,115,869	-	3,115,869
Investment in an associate	-	6,123,656	6,123,656
Investment properties	-	57,733,468	57,733,468
Property and equipment	-	13,492	13,492
Total assets	5,699,797	63,870,616	69,570,413
Liabilities			
Accounts payable and accruals	715,678	-	715,678
Islamic financing payables	1,266,370	27,905,731	29,172,101
Employees' end of service benefits	-	816,630	816,630
TOTAL LIABILITIES	1,982,048	28,722,361	30,704,409

18 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

31 December 2016	Within 1 year	1 to 5 years	Total
	KD	KD	KD
Assets			
Bank balances and cash	2,241,307	-	2,241,307
Accounts receivable and prepayments	659,734	-	659,734
Inventory properties	3,431,251	-	3,431,251
Investment in an associate	-	5,661,832	5,661,832
Investment properties	-	52,141,406	52,141,406
Property and equipment	-	64,558	64,558
Total assets	6,332,292	57,867,796	64,200,088
Liabilities			
Accounts payable and accruals	733,825	-	733,825
Islamic financing payables	2,143,639	22,251,177	24,394,816
Employees' end of service benefits	-	766,306	766,306
TOTAL Liabilities	2,877,464	23,017,483	25,894,947