



## ANNUAL REPORT 2018



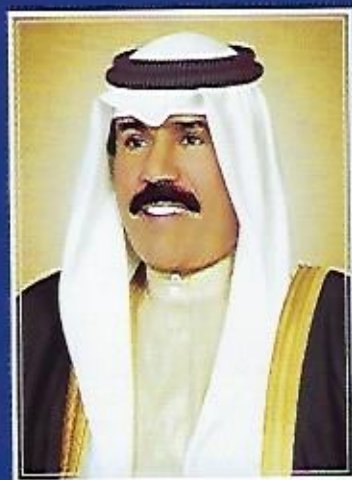


# OUR LEADERS





**H.H. Sheikh  
Sabah Al-Ahmad Al-Jaber Al-Sabah**  
Amir of the State of Kuwait



**H.H. Sheikh  
Nawaf Al-Ahmad Al-Jaber Al-Sabah**  
Crown Prince of the State of Kuwait





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# REPORT

BOARD OF DIRECTORS





## REPORT OF THE BOARD OF DIRECTORS

for the fiscal year ended on 31st December 2018

**Dear shareholders...**

**Greetings,**

2018 has witnessed waves of regional and global market volatility, political turmoil in more than one region, and a foggy outlook for the economic future, in particular our regional area. But Kuwait has maintained a relative stability in its economic indicators and achieved growth that regional economies failed to achieve, thanks to its huge financial assets, and its moderate economic policies. The non-oil growth in the Kuwaiti economy was stronger than expected in the first half of 2018, and the fiscal budget was boosted by higher oil production reaching its highest levels in four years, with a Kuwaiti oil barrel averaging \$ 70.3. On the other hand, growth in consumer spending and real estate sales slowed, albeit due to seasonal factors, both of which are traditional pillars of the non-oil economy.

On the other hand, as a part of its continued drive to boost economic growth, the Central Bank of Kuwait (CBK) kept its key lending rates unchanged despite the US Fed's interest rate hikes. The promotion of the Kuwaiti Stock Market in the FTSE Russell Index also helped the growth of trading activities and the rise in foreign purchases to record levels, although this did not affect the stock prices as a result of increased profit-taking.

Kuwait Stock Exchange indices were positive by the end of 2018, compared to its level at the end of 2017; the general index closed at 12 points to reach 5071.3 points with an increase of 0.24%. The total volume of trading in the index reached 120.9 million shares through 4994 transactions worth KD 16.9 million. For the level of the main market index, the index rose to 15.5 points to reach 4715 points with 86.4 million shares exchanged through 2,932 transactions valued at 5.7 million dinars. The First Market Index increased 10.18 points to reach 5267 points, with an increase of 0.19% through a total of 34.4 million shares that have been exchanged through 2062 transactions valued about KD 11.2 million.

The total value of shares achieved profits by KD 1.8 billion, with an increase of 4.7% to reach 29.01 billion dinars, compared to 27.2 billion dinars at the end of 2017. On the level of performance of the First Market, which captures KD 19.4 billion of the total market value of the listed shares, shares have achieved the highest level of traded prices reached 5.2%.

### Real Estate Market

Sales of Real Estate recorded a good improvement during the first half of 2018. Total sales amounted to KD 1.7 billion compared to KD 1.4 billion during the first half of 2017. The Real Estate Market in Kuwait recorded a rise in the value of sales by 24% on a semi-annual basis.

Sales in the first six months of 2018 captured 67% of the total sales of 2017, and the number of transactions executed in the market during the first half rose by 2% to reach 2,973 transactions (contracts and agencies) compared to 2921 transactions during the first half of 2017.

The increase in market sales is driven by the rise in the average value of the transaction, which rose by 22% to reach 569 thousand dinars per transaction during the first half of 2018 compared to 468 thousand dinars in the first half of 2017.

The Real Estate Market recorded a good performance during the second quarter of 2018, with sales reached KD 857 million, with 3% rise from the previous quarter and 23% from the second quarter of 2017, to record the highest sales levels since the second quarter of 2015.





The number of transactions increased by 14% compared to the previous quarter, reaching 1586 transactions, with an increase of 4% on an annually basis. While the index of the average value of the transaction compared to the previous quarter has declined, but remained higher than the levels recorded in the second quarter of 2017 and with 19%, as the average value of one transaction during the second quarter of 2018 has reached 540 thousand dinars, despite the decline in levels of sales of the investment sector compared to the previous quarter. However, its sales almost doubled on an annually basis compared to its sales in the second quarter of 2017, as sales of the investment sector reached KD 358 million.

The improvement in the performance of the Investment Sector was also evident in the increase in the number of recorded transactions in the sector, which rose by 40% on a quarterly basis and more than 54% on annually basis to reach 592 transactions.

The Investment Sector led the improvement in the market during the first half of the year. Sales of the Investment Sector rose by 94% compared to the first half of 2017. The Commercial Sector also improved, with sales increasing by 47% on an annually basis. On the other hand, the housing Sector sales declined by 15% for the same period, and the figure was similar in terms of the number of transactions, as the index rose by 33% in the Investment Sector, by 58% in the Commercial Sector and 9% in the Housing Sector.

The index of the average value of the transaction rose by 51% in the Investment Sector during the first half of 2018 compared to the first half of 2017, while it has declined for the Housing Sector by 7% and in the Commercial Sector by 18% for the same period.

### **The second half**

In the second half, the performance indicators of the Real Estate Market continued to improve compared to the past months. The total sales index reached 326 million dinars in October (Contracts and Agencies), increasing by 44% from the levels recorded in October 2017.

Economic reports showed the increase of index of the transactions number recorded by 42%, with a number of 710 transactions compared to 466 transactions in October 2017. Average values of transaction index reached KD 459 thousand, with an increase of more than 1%.

The improvement in the Real Estate Local Market indexes included all its major sectors. The sales of the Housing Sector increased by 28% on an annually basis to reach KD 149 million and the number of transactions in the sector increased by a similar rate to reach 483 transactions.

The average value of the transaction index has maintained its value recorded in the sector at KD 309 thousand per transaction, while the Investment Sector continued to outperform the other sectors, recording the highest growth rate of sales in October 2018 and on an annually basis, as its sales amounted to KD 104 million Compared to KD 60 million in October 2017.

The number of transactions index in the sector increased by 92% on an annually basis to reach 202 transactions, while the average value of the transaction reached KD 515 million, declining by 10% on an annually basis.

Sales of the Commercial Sector increased by 4% on an annually basis to reach KD 48 million, distributed over 10 transactions, to reach KD 4.8 million.

The indexes also showed that prices maintained levels close to those recorded in October 2017. As the average price per square meter declined by less than 2% in the Housing Sector to reach 620 dinars on average, while the average price per square meter in the Investment Sector reached 1599 dinars, declining by less than half a percentage point.

Continuing in the distribution of sales of the Kuwaiti Real Estate Market in accordance with the governorates, Al-Ahmadi governorate became first, accounting for 31% of the total market sales, followed by Hawally with 26% of sales. Both governorates ranked first in terms of the number of transactions by 34 and 21 percent, respectively, of the total number of transactions recorded in the Market.



According to statistical reports, the total sales of the real estate from the beginning of the year until the end of October 2018 amounted to about KD 2.9 billion, compared to KD 2.2 billion during the same period of 2017, the index of total sales increased by 34%.

The index of total number of transactions for the same period of 2018 reached 5203 transactions, increasing by 14% from the levels recorded in 2017, which shows the improvement in the performance of the indexes of the market during that year.

#### **Dear brothers,**

Over the past few years, the world has witnessed one of the worst financial crises in the recent history, amid a blurring of economic events in the coming years, which required preventive measures to reduce the repercussions of that crisis and other measures to deal with any subsequent economic crises.

Tijara immediately adopted a policy based on diversifying its investments and recycling its portfolios, striving to secure the necessary liquidity so as to avoid any negative effects of any crisis and thus increases its revenues, and even enter the race of competition for preference among local and regional Real Estate companies.

Today, thanks to this policy, the Company has a range of local and non-local investments that contribute effectively and fundamentally to securing a very good income, and amid the suffering of many local and regional companies to maintain their survival and continuity.

Locally, the real estate portfolio of the Company is diversified across sectors such as the Investment, Commercial and Industrial Sectors, which were incorporated in 2017 and all have high occupancy rates and very good rental rates compared to the Local Market.

The Company is also considering the possibility of developing these investments to increase its revenues, as well as its continued monitoring of locally offered investment opportunities which can be incorporated into the existing portfolio of the company.

As for the Real Estate investments of the company abroad, it is considered stable in spite of the volatile economic and political conditions of the past years. It is constantly being assessed and monitored. In this context we would like to point out that the company owns local and non-local income-producing assets represent 84% of its total real-estate assets, with an increase of 15% in revenues compared to 2017. That confirms the success of the Company's Management in its strategy, which led to a rise in rental income, as revenues are expected to continue to increase during the next period.

Net profit for 2018 was KD 953,815 compared to 2017, when the net profit was KD 706,250. The share achieved a profit of 2.58 fils per share in 2018, compared to 1.91 fils per share in 2017.

Total revenues and expenses for 2018 amounted to KD 4,017,804 and KD 3,063,989 respectively.

#### **Finally ...**

We would like to thank the Administrative and Executive Bodies of the company and all the officials and employees for their sincere efforts and thank the members of the Sharia Supervisory Board and the auditors.

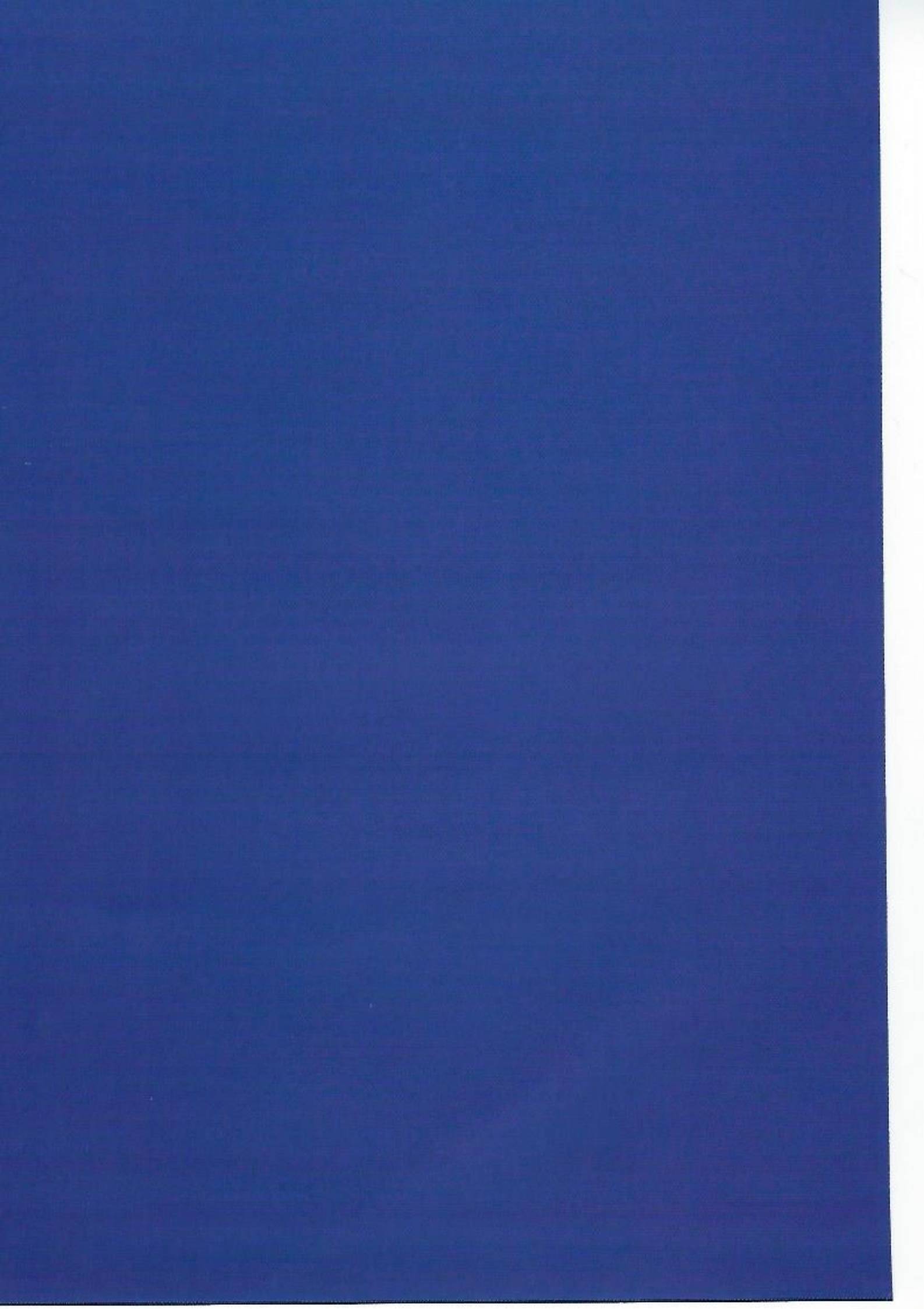
We also would like to extend our thanks to all the shareholders who have entrusted and supported us during the previous period. And we ask God to guide us to work for the interest of the company.

Peace be upon you



**Sheikha/ Yasmeen Mubarak Al-Jaber Al-Sabah**  
 Chairman






Kuwait on 20/03/2019

**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, 2018 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	







## CORPORATE GOVERNANCE REPORT

During the past years, we have been working on building a solid basis for the best international applications to be the main platform on which all our businesses are based. This basis is the corporate governance. The Board of Directors has exerted all efforts to develop its frameworks and mechanisms to conform our operations to lead to the sustainability of our works.

We have exerted our best efforts to comply with the requirements of corporate governance issued by the Capital Markets Authority in accordance with the Corporate Governance Act No. (15) of 2010 on the establishment of the Capital Market Authority and the regulation of securities activity and its amendments. We have embarked on a new phase its pillars are involved in developing a culture of governance in our business forms and the practices of our employees.

We have worked to keep pace with the developments of governance through our periodic reviews of developments and follow-up best practices to meet the challenges that may arise from time to time in our markets and in international markets.

We have adopted several criteria and elements to assess all elements for the purpose of sustainability and the preservation of shareholders' rights. We have activated channels of communication and disclosure with shareholders, investors and stakeholders to be in constant contact with the company's advances in a neutral and transparent manner. The disclosures included all main events and final and periodic financial statements, showing them our financial position clearly.

The confidence of investors in the data and information provided by the company represents one of the assets that the company seeks to maintain and consolidate. Therefore, the company did not only establish a clear mechanism to ensure the safety and integrity of the financial statements, but extended its efforts to include activating the role of supervision and auditing on the accounting and financial statements of the company by the Audit Committee in accordance with the best international applications.

Enhancing professional conduct and ethical values within the company is considered one of the main incentives for executing the business of the company. Therefore, we pay attention to the need to verify the commitment of all employees of the company, whether board members, executive management employees or other employees. In addition to the mechanisms of reducing the return of interests, in the hope that it will lead to the realization of the interests of all the parties involved in the company, in particular the shareholders, without any contradictions to the interests and a large degree of transparency.

The company is aware of the significance of transparency and disclosure as it is one of the basic features of its follow-up methods and assessment of its performance. The Company also made some updates to disclosure mechanisms in addition to periodically updating the board of directors' disclosure and executive management.

The Corporate governance framework ensures that shareholders exercise their fundamental rights in a fair and an equal manner to ensure equal treatment for all shareholders. This is clearly stated in the Company's internal statute and regulations, as well as updating the mechanisms of participating in the General Assembly meetings to ensure that all shareholders are encouraged to participate and vote at those meetings.

The Company is aware that the stakeholders form a significant source to establish its competitive capability and support the profitability levels. Therefore, the Company supports all ways of cooperation with the stakeholders. In order to do so, the Company adopted a policy that ensures the protection of recognition of the stakeholders' rights and encourages them to follow up the different activities of the Company.





In order to improve the performance of the Board and enhance its decisions, we assessed the performance of the Board, Board members and Executive Management through the use of the latest individual assessment methods. To adopt tracks we focus on that year to develop and improve the performance of the Board of Directors and Executive Management.

Tijara and Real Estate Investment Company is fully convinced of its vital role in contributing to the sustainable development of the society in general and of the Company's employees in particular, through focusing on the social responsibility of the company. The Company supported the development of a comprehensive policy of social responsibility to highlight the role of the Company in the field of social work.

### **Rule 1: Establishing a balanced structure of the Board of Directors**

Today, under the light of the rapid developments, diversity is considered as the key to success of the international business environment. Therefore, the Board of Directors of Tijara and Real Estate Investment Company is composed of individuals with extensive diverse knowledge, and skills, resulting in a balanced and positive form of the Board. That helps the Board to exercise its functions and responsibilities taking into account the needs of the renewable business.

The Board of Directors of Tijara and Real Estate Investment Company has a structure consistent with the size and nature of the activities of the company, as well as the tasks and responsibilities entrusted to its members. When composition of the Board, diverse of professional and practical experiences have been considered in addition to technical skills. Nominations and Remunerations Committee verifies that members of the Board of Directors and Executive Management employees meet all the requirements of the Company's Competency and Integrity Model Manual and reviewing the required skills for board membership and executive management employees on an annually basis.

The Board of Directors of Tijara and Real Estate Investment Company consists of (5) members, including (1) executive member, (4) non-executive members and (2 independent members). All members of the Board are professional and possess the necessary skills to fulfill this position's requirements, as well as the experience and knowledge in the field of real estate investment. The members of the Board of Directors are elected by the General Assembly each three years. The members were re-elected on the date of 12.05.2016. The following table states the composition of the Board of Directors:

Name	Classification of the member (Executive/ non-executive/ independent), secretary	Qualifications and practical experiences	Date of nomination/ appointment of the secretary
Sheikha / Yasmeeen Mubarak Al-Sabah	Non-executive	Qualifications and practical experience mentioned in details below	12.05.2016
Mr. Tareq Fareed Al-Othman	Executive		12.05.2016
Mr. Saad Nasser Faraj	Independent		12.05.2016
Ms. Anoud Fadel Al-Hathran	Independent		12.05.2016
Sheikh/ Abdullah Ali Khalifa Al-Sabah	Non-executive		12.05.2016
Mrs. Tahani Al-Ajmi	Secretary		12.05.2016



Particulars of qualifications and practical experiences detailed below.

The following table states the qualifications and practical experiences in detail:

**Sheikha/ Yasmeen Mubarak Al-Jaber  
Al-Sabah**

Bachelor Business Administration and an experience  
of 20 years in Business Administration

**Mr. Tareq Fareed Al-Othman**

Bachelor of Banks and Finance – 24 years of  
experience in Banks Sector and Real Estate

**Mr. Saad Nasser Faraj**

Certificate of General Education, 52 years of  
experience in Management and Real Estate

**Ms. Anoud Fadel Al-Hathran**

Master of Business Administration and 52 years of  
experience in Investment

**Sheikh/ Abdullah Ali Al-Khalifa  
Al-Sabah**

Bachelor of Business Administration and 5 years of  
experience in Real Estate Marketing

**Mrs. Tahani Muslat Al-Ajmi**

Master of Business Administration and 20 years of  
experience in investment.



**Meetings of the current Board of Directors for 2018:**

Meetings of the Board of directors shall be held at the presence of the majority of the members. In the fiscal year ending on 31<sup>st</sup> December 2018, 7 meetings of the Board of Directors have been held. The meeting of the Board of Directors shall be convened by a written invitation from the Chairman or at the written request of at least two members of the Board or Committees' Members. The invitation and the schedule of work shall be sent at least three working-days prior the date specified, so that the members of the Board will be able to study the issues and take appropriate decisions. The contract of the Company and its statutes shall regulate the attendance of these meetings of the board of directors of the company. As well as dealing with irregularities of Members attending these meetings.

The following table illustrates the Board meetings:

Name	Meeting No. 1 held on 10.01.2018	Meeting No. 2 held on 07.02.2018	Meeting No. 3 held on 06.03.2018	Meeting No. 4 held on 01.05.2018	Meeting No. 5 held on 19.07.2018	Meeting No. 6 held on 17.10.2018	Meeting No. 7 held on 25.12.2018	Number of meetings
<b>Sheikha/ Yasmeen Al-Sabah</b> (Chairman of the Board)	√	√	√	√	-	√	√	6
<b>Mr. Tareq Al-Othman</b> (Deputy Chairman of the Board)	√	√	√	√	√	√	√	7
<b>Mr. Saad Faraj</b> (Independent Member)	√	√	√	√	√	√	√	7
<b>Ms. Anoud Al-Hathran</b> (Independent Member)	√	√	√	-	√	-	√	5
<b>Sheikh/ Abdullah Ali Al-Khaleefa</b> (Member)	√	√	√	√	-	√	√	6
<b>Mrs. Tahani Al-Ajami</b> (Secretary)	√	√	√	√	√	√	√	7

**\* Summary of how to apply the registration requirements and keeping the minutes of the meetings of the Board of Directors of the company:**

The Company has a specific record in which the minutes of the Board meetings are recorded in consecutive figures for the year in which the meeting has been held. This Record shall include the location, date, start and end of the meeting, as well as preparing minutes of discussions and deliberations, including implemented voting processes, sorting and archiving so as to be easily referred to.

The Board appointed Mrs. Tahani Al-Ajami as the Secretary of the Board of Directors on 12/5/2016. There is a clear list of the duties and responsibilities of the Board Secretary, approved by the Board of Directors and is in compliance with the requirements of the Capital Markets Authority. Codification and keeping the signed minutes of the meetings of the Board of Directors and the reports submitted to the Board are the responsibility of the Secretary. Mrs. Tahani also shall inform the members of the Board of Directors of the



dates of the meetings of the Board at least three working days prior the date specified, and ensuring the effective access of the members of the Board to all minutes of the Board meetings and information related to the Company.

#### **Independent Members of the Board:**

Tijara and Real Estate Investment Company believes the independence of the members of the Board of Directors as a key advantage towards sound corporate governance policy. The standards of independence in the Tijara and Real Estate Investment Company comply with the laws as per the executive regulations of Law No. (7) of 2010 on the establishment of the Capital Markets Authority and Securities activity and its amendments.

Accordingly, the Board of Directors includes non-executive members and independent members of the management. In addition, the Nominations and Remunerations Committee reviews the independence of the members of the Board of Directors on an annually basis and verifies that they do not lack the status of independence in accordance with the Company's Board of Directors' statute which is approved by the Board and in compliance with regulatory requirements.

#### **Rule 2: Proper identification of duties and responsibilities**

The Company has a clear separation of competencies between the Board of Directors and the Executive Management, ensuring full independence, so that the Board can effectively assume its responsibilities.

#### **2.1 Summary of how the company defines the duties, responsibilities and obligations of the members of the Board of Directors and Executive Management in addition to the powers and authority delegated to the Executive Management:**

The Company has clearly defined the functions and responsibilities of the Board of Directors and Executive Management in the adopted policies and regulations, in a way that reflects the balance of powers and authorities between the Board of Directors and the Executive Management.

The Board of Directors of the Company shall have all the powers and authorities necessary to manage the Company. The final responsibility of the Company shall remain with the Board. The Board have also formed committees or authorizations of other parties or individuals to carry out some of its functions.

##### **2.1.1 Duties of the Board of Directors:**

The main duties of the Company's Board of Directors include (but are not limited to) the following:

1. Adopting the objectives, strategies, plans and policies of the company, including the following as a minimum:
  - The company's overall strategy and main plans of work, its review and orientation.
  - The perfect capital structure of the company and its financial objectives.
  - A clear policy to distribute profits to the benefit of the shareholders and the company.
  - Performance objectives and control of the execution and the comprehensive performance in the company.
  - Organizational and functional structures of the company and conducting periodic review thereon.
2. Approving the annual estimated budgets and approving the interim and annual financial statements.





3. To supervise the main capital expenditures of the company, as well as ownership and disposal of the assets.
4. Ensuring the extent of the company's compliance with policies and procedures that ensure the company's respect for the internal regulations and laws applicable.
5. To ensure the accuracy and safety of data and information to be disclosed in accordance with the applicable disclosure and transparency policies and procedures.
6. Periodically disclosing and announcing the progress of the company's activity and all the developments that affect its works.
7. Establishing effective channels of communication which would allow the shareholders of the Company to have constant and periodic access to the various aspects of the Company's activities and any significant advances.
8. Develop a system of corporate governance and general supervision of the company and to monitor its effectiveness and modify this system when needed.
9. The formation of specialized committees affiliated to the Board in accordance with a charter that clarifies the duration of the committee, its authorities and responsibilities, and the manner of supervision by the Board thereon. The decision of formation also includes naming members, defining their duties, rights and obligations. In addition to assessing the performance and work of these committees and their main members.
10. Ensure that the organizational structure of the Company is transparent and clear; so as to facilitate the decision-making process and achieve the principles of good governance, and separation of powers and authorities between the Board of Directors and the Executive Management. In this regard, the Board shall:
  - Adopt the internal regulations and internal statutes related to the work of the Company and its development, and the subsequent determination of the duties, competencies, obligations and responsibilities between different organizational levels.
  - Adopt the policy on authorization and implementation of the work of the Executive Management.
11. Defining the powers assigned to the Executive Management and decision-making procedures.
12. Control and supervision on the performance of members of the Executive Management, and ensuring that they perform all their duties. The Board of Directors carries out the following:
  - Ensure that the Executive Management works according to policies and regulations adopted by the Board of Directors.
  - Holding periodic meetings with the Executive Management to discuss the work and the obstacles and problems, as well as to review and discuss significant information related to the activity of the company.
  - The development of performance standards for the Executive Management consistent with the objectives and strategy of the company.
13. Determine the remunerations segments that will be awarded to employees.
14. Appointment or dismissal of any member of the Executive Management and Chief Executive Officer.
15. Develop a policy regulates the relationship with stakeholders in order to preserve their rights.
16. Adopt a mechanism to regulate transactions with related parties in order to reduce conflicts of interest.



17. Periodically ensure the effectiveness and adequacy of the Company's internal control systems, including:

- Ensuring the integrity of financial and accounting systems, including those related to the preparation of financial reports;
- Ensuring that appropriate risk management and control systems are in place by identifying the range of risks that the company may face and establishing a risk-aware environment of risks reduction at the Company level, and communicating this culture transparently with stakeholders and relevant parties.

### **2.1.2 Chairman and CEO of the Company**

The duties and responsibilities of the Chairman and Chief Executive Officer of the Company are fully clear and separated. Both positions are independent of each other and there is a clear division of duties and responsibilities assigned to both.

### **2.1.3 Duties and Responsibilities of the Chairman of the Board**

The Chairman of the Board of Directors is responsible for the proper functioning of the Board of Directors in an appropriate and effective manner, including obtaining full and correct information in a timely manner. The duties and responsibilities of the Chairman include, but are not limited to, the following:

1. Ensuring that the Board discusses all main issues in an effective and timely manner.
2. Representing the company before third parties in accordance with the company contract.
3. Encourage all members of the Board to participate fully and effectively in the conduct of the affairs of the Board to ensure that the Board is acting for the interest of the Company.
4. Ensure actual communication with shareholders and communicate their views to the Board of Directors.
5. Encourage positive relationships and active participation between the Board and the Executive Management and between executive, non-executive and independent members.
6. Adopt a culture that encourages positive criticism on issues around which there is a divergence of views among the Members of the Board.

### **2.1.4 Duties and Responsibilities of the Executive Management**

The executive management of the Company consists of a group of persons assigned to manage the company's daily operations. The main role of the executive management would be as follows:

- Implementation of the Company's strategic plans and associated internal policies and regulations, and ensure their efficiency and effectiveness.
- Full responsibility for the overall performance of the Company and its business results, through establishing a management structure that enhances accountability and transparency.

The following are some of the duties and responsibilities of the Executive Management to be complied with, in the light of the powers and authorities granted assigned by the Board of Directors:

1. Implementation of all internal policies, regulations and statutes of the Company, approved by the Board of Directors.
2. Implementation of the strategy and the annual plan approved by the Board of Directors.





3. Preparation of periodic reports (financial and non-financial) on the progress of the Company's activity, in light of the strategic plans and objectives of the Company, and presenting these reports to the Board of Directors.
4. Adopt an integrated accounting system that keeps books, records and accounts that accurately and in detail reflect the financial statements and income accounts, in order to maintain the Company's assets and prepare the financial statements in accordance with international accounting standards.
5. Management of daily work and running the activity, rather than managing the Company's resources in a perfect manner, and work to maximize profits and reduce expenses, in line with the objectives and strategy of the company.
6. Effective participation in establishing and developing a culture of ethical values in the Company.
7. Develop internal control systems and risk management, ensure the effectiveness and adequacy of these systems, and ensure compliance with risk tendency adopted by the Board of Directors.

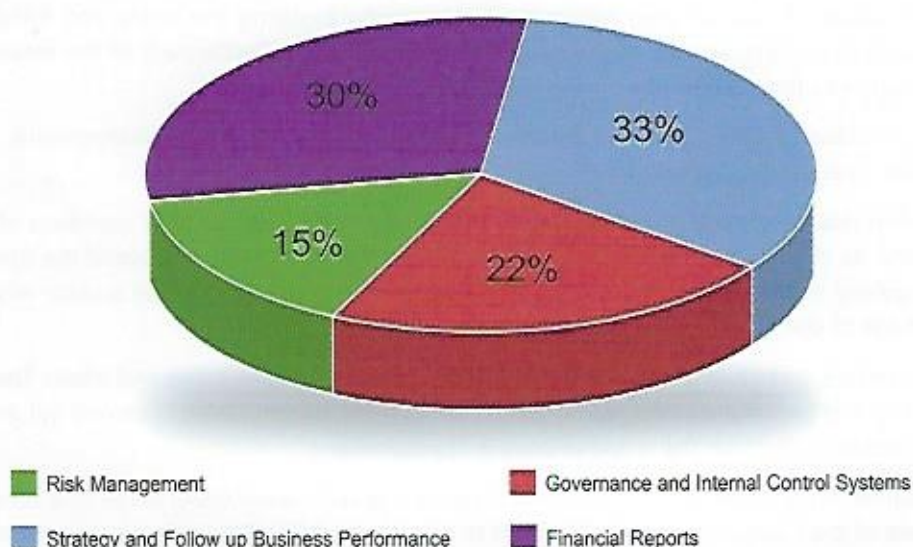
#### **Board of Directors Achievements in 2018**

The achievements of the Board of Directors during the financial year ended on 31/12/2018 in respect of corporate governance applications were multiple. The most prominent achievements, (for example not limited to, considering that all the achievements were presented in detail in the other sections of the Annual Report) as follows:

- Discussion and approval of the Corporate Governance Report for 2018.
- View, discussion and approval of the signature of facility contracts for the company.
- View, discussion and approval of the financial statements of the company.
- Discussion and approval of new investments and purchase of real estate.
- Review and discussion of the legal status of the company and the status of current cases of or against lessees.
- Review and discussion of the position of the company's owned properties and the problems facing these investments.
- Review the periodic Risk Management Reports after being discussed by the Risk Management Committee.
- Discussion and updating of the company's organizational structure.
- Discussion of the company's activities towards social responsibility during 2018.
- Update and adoption of the disclosure schedule in accordance with legislative and regulatory advances.
- Review and approval of the minutes of the committees.
- Discussion of the actual performance compared to the estimated budget.
- Holding training courses for members of the Board of Directors to raise the efficiency of the members.

Based on the Board of Directors' meetings, the following summary was prepared. The summary illustrates the distribution of time and effort exerted by the Board of Directors during the 2018, divided according to the following categories:

- Strategy and follow up business performance.
- Governance and internal control systems.
- Risk Management.
- Financial reports.



### Annual Summary of the Board Meetings

#### 2.3 Summary of the application of the requirements for the formation of specialized independent committees by the Board of Directors:

Committees shall be formed and appointed by the Board of Directors after each election session of the Board. The committees affiliated to the Board are considered as links between the Executive Management and the Board of Directors. The purpose of these committees is to enable the Board to carry out its duties effectively.

The Board of Directors of Tijara and Real Estate Investment Company has three main committees as follows:

1. Audit Committee (date of formation and selection of members of the Audit Committee is 15.06.2016 and the duration of the work of the Committee shall be three years starts from the date of formation to be consistent with the validity duration of the Board).
2. Risk Management Committee (date of the formulation and selection of the members of the Risk Management Committee is 15.06.2016 and the duration of the work of the Committee shall be three years starts from the date of formation to be consistent with the validity duration of the Board).
3. Nominations and Remunerations Committee (date of the formulation and selection of the members of the Nominations and Remunerations Committee is 15.06.2016 and the duration of the work of the Committee shall be three years starts from the date of formation to be consistent with the validity duration of the Board).



The Board of Directors of the Company approved the rules and procedures of all the committees, which include specifying the duties of each committee and the duration of its work and the powers granted to it during this period and the manner of control of the board of directors in a specific work charter for each committee. The duties and powers of the committees have been determined in addition to authorization of these duties and powers to the Committees by the Board of Directors.

### **2.3.1 Audit Committee**

The Company is fully convinced that the establishment of an independent audit committee is one of the main characteristics of the application of the rules of good governance. The Audit Committee would work to establish a culture of commitment within the Company by ensuring the safety and integrity of the Company's financial reports, as well as ensuring the efficiency and effectiveness of the Internal control Systems applicable to the company.

The Audit Committee of Tijara and Real Estate Investment Company is fully independent, and all its members have specialized experiences.

The Audit Committee consists of three members, two of whom are independent members of the Board of Directors, and its chairman is a non-executive board member. The representative of the Internal Audit Office also regularly attends meetings, as well as a representative of the external auditor who regularly attends meetings of the committee.

The Audit Committee, on behalf of the Board of Directors, supervises audit issues and affairs. Therefore, the Audit Committee has the responsibility to be convinced that the internal audit is carried out according to the professionalization and that the scope of work is appropriate.

The meetings of the Audit Committee shall be held in such a way as to take account of the time considerations for the issuance of the Company's financial reports to third parties. The Committee convenes at least four times annually on a quarterly basis.

#### **2.3.1.1 Duties and Responsibilities of the Audit Committee**

Duties and Responsibilities of the Audit Committee include, but not limited to, the following:

1. Reviewing the periodic financial statements prior presenting them to the Board of Directors, providing the consultancy and recommendations on these statements to the Board of Directors for the purpose of ensuring the fair and transparency of the financial statements.
2. Recommend to the Board of Directors the appointment, re-appointment or change of the external auditors and the determination of their fees; taking into account when recommending with the appointment to ensure their independence, and review letters of their appointment.
3. Follow-up the work of external auditors, and ensure that they do not provide services to the company except for the services required by the Audit profession.
4. Considering the remarks and observations of the external auditors on the financial lists of the Company and following what have been taken on its regard.
5. Studying the followed accounting policies and giving consultancy and recommendation to the Board of Directors thereon.
6. Assessment of the efficiency extent of the applied internal control systems in the Company. Preparing reports include the consultancy and recommendations of the Committee in this regard.
7. Supervising the internal audit office in the company in order to verify its effectiveness in carrying out the tasks and tasks specified by the Board of Directors.



8. Recommendation on the nomination of the Internal Audit Office, assessment of its performance and re-appointment.
9. Review and adopt the audit plan suggested by the Internal Audit Office and giving remarks thereon.
10. Reviewing the internal audit reports and ensuring that the necessary corrective actions have been taken on the feedback listed in the reports.
11. Reviewing the reports of the regulatory bodies and ensuring that the necessary actions have been taken.
12. Ensuring the Company's compliance with related applicable laws, policies, regulations and instructions.

### **2.3.1.2 Number of Audit Committee meetings**

The Committee convened five times in 2018 on a quarterly basis as follows:

Members / Committee meetings	Annual Sr. Number	1	2	3	4	5
	Date of meeting/ Position	07.02.2018	01.05.2018	19.07.2018	17.10.2018	25.12.2018
<b>Anoud Al-Hathran</b>	Head of the Committee	-	√	√	-	√
<b>Abdullah Al-Sabah</b>	Committee Member	√	√	-	√	√
<b>Saad Faraj</b>	Committee Member	√	√	√	√	√

### **2.3.1.3 Summary of the Audit Committee achievements during 2018**

- Discussion of financial statements and providing recommendations.
- Review of the accounting policies with the external auditor.
- Review and recommend the performance and independence of external auditors.
- Review the report of the internal auditor and providing recommendations.
- Reviewing and discussing the internal audit plan for the current year.
- Reviewing and discussing the ICR report during the previous year.
- Meeting with the External Auditor and discussing the independent financial statements of the Company.
- Discussion of updating the organizational structure.
- Recommendation to renew the contract with the internal auditor.
- Reviewing the most significant organizational and legislative advances.
- Recommendation to renew the contract with Internal Audit Review Office.
- Reviewing and discussing the disclosure table and ensure its compliance with the laws of the regulatory authorities.





During 2018, the Audit Committee assessed the adequacy of the internal control systems of the Company. The Committee considered that the internal control systems applied are sufficient to verify the impact of the risks that the Company face and that its financial statements fairly reflect the financial performance of the Company.

### **2.3.2 Risk Management Committee**

The Risk Management Committee of Tijara and Real Estate Investment Company develops risk management policies and regulations in consistent with the Company's risk tendency.

The Risk Management Committee consists of three members, two of whom are independent Board Members, and its Head is a non-executive Board Member.

#### **2.3.2.1 Duties and Responsibilities of the Risk Management Committee**

Duties and Responsibilities of the Risk Management Committee include but not limited to:

1. Prepare and review risk management strategies and policies prior being approved by the Board of Directors, and ensure the implementation of these strategies and policies, and to ensure that these policies are in conformity with the nature and size of the activities of the company.
2. Ensure providing adequate resources and systems for risk management.
3. Assessing the systems and mechanisms for identifying, measuring and monitoring the different types of risks that the Company may face in order to determine failures.
4. To assist the Board of Directors in identifying and assessing the acceptable level of risk in the Company and to ensure that the Company does not exceed this level of risk upon being approved by the Board of Directors.
5. Reviewing the organizational structure of risk management and make recommendations thereon before being approved by the Board of Directors.
6. Ensuring the independence of risk management personnel from the activities that result in the company being exposed to risks.
7. Ensuring that risk management personnel are fully aware of the risks surrounding the company, and work to increase awareness and knowledge of employees about the culture of risk.
8. Prepare periodic reports on the nature of the risks to which the company is exposed and submit these reports to the Board of Directors.
9. Review the issues that are risk-related raised by the audit committee that may affect the Company's risk management.

#### **2.3.2.2 Number of Risk Management Committee Meetings**

Risk Management Committee shall convene periodically at least 4 times a year, and whenever necessary, and shall record the minutes of its meetings.

The Committee convened 4 times during 2018 as follows:



Members / Committee meetings	Annual Sr. Number	1	2	3	4
	Date of meeting/ Position	07.02.2018	01.05.2018	19.07.2018	17.10.2018
<b>Saad Faraj</b>	Head of the Committee	√	√	√	√
<b>Tareq Al-Othman</b>	Committee Member	√	√	√	√
<b>Anoud Al-Hathran</b>	Committee Member	-	√	√	-

### 2.3.2.3 Summary of the Risk Management Committee achievements during 2018

- Reviewing the Periodic Risk Report.
- Discussion and approval of the risk management framework draft update.
- Measuring the risk level to assist the Board of Directors to identify and assess the acceptable risk level of the Company
- Review and discuss the risk management function
- Reviewing and discussing the disaster response plan.
- Ensure the independence of the risk management officer.
- Reviewing the organizational structure of risk management.

### 2.4 Remunerations and Nominations Committee

The availability of professional expertise and technical capabilities, as well as the personal and moral qualities of the person nominated for membership in the Board of Directors or the Executive Management of the company is one of the main pillars of the financial safety of the company and an important step to prevent the risks that may be encountered. The recognition of fair financial rewards contributes mainly to attracting cadres Human resources professional skills and high technical capabilities, as well as supporting the principle of belonging to the company and thus maintains good cadres, and motivates employees at different levels of functions working to achieve the objectives of the company and raise its status.

The Remunerations and Nominations Committee consists of three members, one of whom is independent Board Member, and its Head is a non-executive Board Member

#### 2.4.1 Duties and Responsibilities of Remunerations and Nominations Committee

Duties and Responsibilities of the Remunerations and Nominations Committee include but not limited to:

1. Recommending nomination and re-nomination to the Board of Directors, Board Committees and Executive Management, taking into account the non-nomination of any person does not meet the regulatory requirements, and taking into account the number of attendance times, the quality and effectiveness of the participation of members in the meetings of the Board and their commitment to their duties and responsibilities.
2. Annual review of the required skills required for the Board of Directors, as well as to attract applicants to fill executive positions as needed, and to study and review these requests.
3. Recommending the nomination and re-nomination of independent members to be elected by the



General Assembly, and ensuring the non-abstinence of independency of the independent Board member.

4. Adopting a clear policy on the remunerations of the Board Members and senior Executive employees.
5. Periodic review of the policy (annually) of awarding bonuses, and assessing the effectiveness of this policy in achieving the desired objectives of the recruitment of human cadres and maintain the staff with professional competence and technical capabilities necessary to raise the company status.

#### **2.4.2 Number of Remunerations and Nominations Committee meetings during 2018**

Remunerations and Nominations Committee shall hold its meeting periodically, at least one time a year, and when necessary, it shall record the minutes of its meetings.

The Committee convened during 2018 as follows:

Members / Committee meetings	Annual Sr. Number	1	2	3	4
	Date of meeting/ Position	10.01.2018	07.02.2018	19.07.2018	25.12.2018
<b>Yasmeen Al-Sabah</b>	Head of the Committee	√	√	-	√
<b>Tareq Al-Othman</b>	Committee Member	√	√	√	√
<b>Saad Faraj</b>	Committee Member	√	√	√	√

#### **2.4.3 Summary of the Nomination and Remunerations Committee achievements during 2018**

During 2018, the Nominations and Remunerations Committee made several effective recommendations to strengthen the corporate governance framework of the company, including but not limited to the following:

- Reviewing and updating the assessment policy and rewards for the Executive Body.
- Reviewing and ensuring the independency of the independent members.
- Discussion of Remunerations Report.
- Reviewing and discussing vacancies in the organizational structure.
- Viewing the training programs for members of the Board of Directors.
- Assessing the members of Board of Directors.

#### **2.5 Summary of how to apply the requirements that allow members of the Board of Directors to obtain information and data in an accurate and timely manner:**

In order to ensure the flow of information between the Executive Management and the Board of Directors, the Board of Directors has adopted a policy that regulates the access of members of the Board to financial statements and any reports from the Company's departments by submitting periodic reports to the Board of Directors on the performance of the Executive Body. Any Board Member may request any information or a report from any department and in coordination with the board as organized by the above policy, and this can be performed through a package of periodic reports submitted to the Board of Directors and the Committees.



### **Rule 3: Selection of qualified members for the Board of Directors membership and Executive Management**

#### **3.1 A Summary of application of Nominations and Remunerations Committee Formation Requirements:**

In addition to what is referred to in the item (2.4.1), the Nominations and Remunerations Committee is in compliance with all the regulatory requirements in respect of formation procedures, meetings and carrying out the duties entrusted to the Committee (including but not limited to) the following:

- Preparing annual reports that include the overall remunerations awarded to members of the Board of Directors.
- Reviewing the performance assessment of the Board members, executive management and committees affiliated to the Board of Directors.
- Verification on the non-existence of interest contradiction cases for the members of the Board of Directors.
- Verification of the availability of the appropriate level of training and identification for the members of the Board of Directors and the Executive Management.

#### **3.2 Report of remunerations awarded to the members of the Board of Directors and Executive Management**

##### **A- Bonuses of the members of the Board of Directors:**

The proposed remuneration package for the Board of Directors for 2018 is 30,000 Kuwaiti Dinar and is subject to the approval of the General Assembly of the Company.

##### **B- Bonuses of the Executive Management:**

The executive management remuneration system is linked to the performance of the company and the long-term growth objectives and to the size, nature and degree of risks to the job. The remuneration includes a fixed segment represented by salaries, bonuses and other fixed benefits plus a changeable segment represented by variable bonuses.

### **Rule 4: Ensuring the integrity of financial reports**

#### **4.1 Written undertakings by the Board of Directors and the Executive Management of the safety and integrity of the reports:**

- The Executive Management undertakes to the Board of Directors that the financial statements of Tijara and Real Estate Investment Company are presented properly and fairly and that these statements show all financial aspects of the Company and are prepared in accordance with the International Financial Reporting Standards adopted by the Capital Market Authority and other regulatory bodies. The Executive Management is fully responsible for the accuracy and adequacy of the statements.
- Similarly, the Board of Directors of Tijara and Real Estate Investment Company undertakes to present the financial statements of the Company in a sound, fair and accurate manner to shareholders and investors.

#### **4.2 Application of Audit Committee Formation Requirements:**

In addition to what is referred to in Section (2.3.1), the Audit Committee is in compliance with all regulatory



requirements in terms of procedures for formation, meetings and execution of the functions entrusted to it, including (but not limited to):

- The Committee reviewed the periodic financial statements before presenting them to the Board of Directors and expressed their opinion and recommendation thereon to the Board of Directors with a view to ensuring the fairness and transparency of the financial reports.
- The Committee has assessed the adequacy of internal control systems applied within the Company and prepared reports containing the Committee's opinion and recommendations in this regard.
- The Committee has overseen the internal audit department of the Company in order to verify its effectiveness in carrying out the work and duties specified by the Board of Directors.
- The Audit Committee has reviewed and approved the proposed audit plans of the Internal Auditor.
- The Committee reviewed the results of the internal audit reports and ascertained that corrective actions have been taken on the observations and remarks contained in the reports.
- The Committee has verified the compliance of the Company with relevant laws, policies, regulations and instructions.
- The Committee has conducted the verification of the independence of the external auditors and reviewed their letters of appointment.

**4.3 There were no conflicts between the recommendations of the Audit Committee and the Board of Directors during 2018.**

**4.4 Emphasis on the independence and neutrality of the external auditor**

Tijara and Real Estate Investment Company has its own certified policy regarding the appointment and selection of the external auditor to ensure the independence and neutrality of the external auditor.

During 2018, the Audit Committee of the Company verified the independence and neutrality of the auditor in accordance with the conditions stipulated in the internal policies and regulations of the company and in line with the requirements of the regulatory bodies, including but not limited to the following:

- Verification of the external auditor independency of the Company and its Board of Directors, and shall not carry out any additional works for the company not included in the auditing and reviewing works, which may affect neutrality or independence.
- Ensuring that the External auditors are listed in the private register at the Capital Market Authority, so that all the conditions stipulated in the decision of the Capital Markets Authority regarding the system of registering the external auditors have been met.
- The external auditor has attended the meetings of the Audit Committee to discuss his views with the Audit Committee prior submitting the annual accounts to the Board of Directors for taking the necessary actions.
- The External Auditor has been verified to attend meetings of the General Assemblies and to read out his report to the Shareholders.

**Rule 5: Developing sound systems for risk management and internal control**

**5.1 A summary on the application of risk management formation:**

In addition to what is referred to in item 2.3.2, the Risk Management Committee is in line with all regulatory requirements in terms of formation procedures, meetings and carrying out the duties entrusted. The most



significant duties are to prepare and review risk management strategies and policies and submit them to the Board of Directors for approval. Ensuring availability of adequate systems and sources necessary for risk management and periodic reporting on the nature of the risks to which the Company is exposed.

#### **5.2 A summary of application of Risk Management Committee formation requirements:**

The Company has its own risk management policy that affiliated directly to the Risk Committee according to the organizational structure of the Company.

#### **5.3 Internal control and monitoring systems:**

Tijara and Real Estate Investment Company is consistently seeking to promote the principles of internal control. In the context of that, the Company has specified in detail the powers and responsibilities through the procedures and policies and statements traded between the departments to achieve the credibility of accounting statements and to achieve efficiency and effectiveness of operational processes. In addition, the Company separated in the list of powers approved by the Board of Directors and keen on such complete separation of tasks assigned to each department and keenness on non-conflict of interests. It also ensured that the internal audit of all the departments of the company was covered during 2018 and follow-up of its decision to address all the observations of the internal auditor.

#### **5.4 A summary of the application of the internal audit office formation requirements:**

The company contracted with an independent internal audit firm and provided an independent internal audit coordinator through its technical subordination to the Board of Directors, appointment and follow up of its duties and responsibilities by the Audit Committee. The Company also commissioned an independent audit office to assess and review internal control systems and prepare an ICR report.

### **Rule 6: Promote professional behavior and ethical values**

#### **6.1 A summary of Code of Conduct**

As Tijara and Real Estate Investment Company is committed to ensuring that its board of directors and executive staff perform their duties in the best possible way to enhance the status of the company and its efforts to achieve its objectives, the company has drawn up a code of conduct which aims to guide and provide the members of the board with standards of professional conduct and work ethics. All the members of the Board of Directors and employees of the Executive Body signed a commitment and a declaration of compliance with this Action Charter.

#### **6.2 Summary of policies and mechanisms on reducing conflicts of interest**

The Company has its own clear policy for reducing conflicts of interest, approved by the Board of Directors. During 2018, all members of the Board of Directors and Executive Management signed an annual declaration on compliance with procedures to reduce conflicts of interest.

### **Rule 7: Disclosure and transparency in adequate and timely manner**

The Company is aware of the importance of transparency and disclosure as it is one of the basic features of the company's follow-up methods and performance assessment. It has therefore made sure to update its disclosure mechanisms in addition to periodically updating the board of directors' disclosure and Executive Management.



### **7.1 Summary of the application of the presentation mechanisms and the precise and transparent procedures that define the aspects, areas and characteristics of disclosure**

Tijara and Real Estate Investment Company has a certified manual on policies and mechanisms of disclosure and transparency, which includes, but not limited to, the following:

- Methods of disclosure about the information and the financial and non-financial statements relating to the financial position, performance and ownership of the company.
- How to transparently and timely disclose all information and data to all stakeholders without distinction, provided that the data and information are accurate, correct and not misleading.
- Classification of information disclosed in nature (financial information, non-financial information), or periodically disclosed, in addition to material information.

Transparency and disclosure policies and procedures have been developed according to the best international applications in line with all regulatory requirements.

### **7.2 Summary about the application of the requirements of the disclosure record of the Board of Directors and Executive Management.**

The Company has its own specific record of the disclosures of the members of the Board of Directors and the Executive Management, including all transactions and data reflecting the true conditions of the related parties. It is available for review by all shareholders without any charges or fees. The Company updates data of this record periodically.

### **7.3 Summary of application of the Investor Affairs Unit formation requirements:**

The company has an investor affairs unit, which shall be responsible for providing the necessary data, information and reports to potential investors. The Management has the appropriate independence (according to the approved organizational structure of the board) to provide timely and accurate data, information and reports through the methods of Disclosures, including but not limited to the website of the company.

### **7.4 A summary of how IT infrastructure is developed and how reliable is it in disclosures**

The company continuously seeks to establish methods and channels to communicate with shareholders, investors and stakeholders, All the latest information and data that helps shareholders, current and potential investors to exercise their rights and assess the performance of the company.

## **Rule 8: Respect for Shareholders' Rights**

The corporate governance framework of the Company ensures that shareholders exercise their fundamental rights in a fair and equal manner to ensure equal treatment for all shareholders. This is clearly stated in the Company's main statute and regulations, as well as updating the mechanisms of participation in the General Assembly meetings to ensure that all shareholders are encouraged to participate and Vote in these meetings.

### **8.1 Summary of the requirements to define and protect the general rights of shareholders to ensure fairness and equality among all shareholders:**

The Company Contract and its internal regulations clearly include the necessary procedures and controls to ensure that all shareholders exercise their rights in order to achieve fairness and equality, in a manner that does not contradict with the applicable laws and regulations, as well as the decisions and instructions issued in this regard.

### **8.2 Summary of maintaining a special record kept by the Kuwait Clearing Company**

The Company shall maintain a special record kept by the Kuwait Clearing Agency in which the names,



nationality and domicile of the shareholders shall be recorded and the number of shares owned by each of them. Any changes on the data recorded in the shareholders' register shall be referred to in accordance with the data received by the Company or the Kuwait Clearing Company.

### **8.3 Summary of how to encourage shareholders to participate and vote in the Company meetings:**

The company has its own policies and procedures approved by the Board of Directors and it is in compliance with all regulatory requirements, including in particular the mechanism of participation in the meetings of the General Assembly of shareholders and the procedures of the Assembly in such a manner as to ensure the following:

- To allow the shareholders to participate actively in the General Assembly meetings, discuss the issues on the schedule of works and the related questions related to different aspects of activity, and ask questions to the members of the Board of Directors and the External Auditor. The Board of Directors and the External Auditor shall answer these questions to the extent that they do not expose the interests of the company for damage.
- To enable shareholders who have a five percent share of the company's capital to add items to the schedule of works of the General Assembly meetings.
- To provide the shareholders with access to all the data contained in the register of the disclosures of the members of the Board of Directors and members of the Executive Management.
- The issues presented to the General Assembly shall be accompanied by sufficient information to enable shareholders to make their decisions properly.

In respect of voting mechanisms, the Company has mechanisms approved by the Board of Directors and is in compliance with all regulatory requirements to ensure that all shareholders have the right to vote without placing any obstructions that lead to the ban of voting, as voting is considered a right of the shareholder and may not be canceled in any way.

## **Rule 9: Understanding the role of stakeholders**

### **9.1 Summary of the systems and policies that ensure protection and recognition of stakeholders' rights:**

Tijara Real-Estate Investment Company is obliged to protecting the rights of stakeholders and creating opportunities for operation and continuity through sound financial projects. This is part of the policy to ensure that the Company respects and protects the rights of stakeholders stipulated in the laws applicable in the State of Kuwait. If any of the rights of stakeholders are violated, the policy defines stakeholders as shareholders, regulatory bodies, customers, employees and parties involved.

The Company ensures that all rights of stakeholders are treated fairly and equally. The Company's transactions guarantee fair treatment without any discrimination with the Board of Directors, related parties and stakeholders. The Company also guarantees to the shareholders appropriate compensation in case of violation of any of their rights in the official contracts signed with them or those are generally recognized by regulations.

### **9.2 Summary on how to encourage stakeholders to participate in the follow-up of the company's activities:**

Within the framework of encouraging the stakeholders of the Company to participate in the follow-up of the company's business and any developments on its business, the company provides the stakeholders, when necessary, with any data related to their activities to be relied upon.

The Company has also adopted a reporting policy that allows any stakeholder to submit his or her complaint to the Board of Directors, ensuring that stakeholders are not exposed to inconveniences.



**Rule 10: Enhancement, Improvement and Performance:**

For the purpose of improving the performance of the Board and enhance its decisions, the company assessed the performance of the Board, Board members and members of the Executive Management through an individual questionnaire for members, according to the best international applications for analyzing the questionnaires and developing tracks that we focus on during that year to develop the performance of the Board.

**10.1 Summary about the application of the requirements for the adoption of mechanisms that allow the access of members of the Board of Directors and Executive Management to the training programs and courses on a continuous basis**

The company has its own mechanisms that allow it to take care of the training aspects of each of the members of the Board of Directors and Executive Management through the development of induction programs for newly-appointed members in addition to the existence of plans for training programs in a manner that helps in carrying out their duties.

**10.2 Summary of how to assess the performance of the Board of Directors as a whole and the performance of each member of the Board of Directors and Executive Management**

The Company has a clear and approved Board of Directors' policy on performance assessment, including clear and written objective performance indicators. During 2018, an assessment has been made for all Board members and Executive Management as well as the Board as a whole by the Nominations and Remunerations Committee.

**10.3 Summary of the efforts of the Board of Directors to establish the institutional values of the employees of the company, through the strategy and improve performance rates:**

The Board of Directors of the company is working to establish values within the company in the short, medium and long term through the development of mechanisms and procedures that work to achieve the company's strategic objectives and improve the performance rates, which effectively contributes in establishing the institutional values of employees and motivating them to work continuously in order to maintain the financial integrity of the company.

The company is constantly developing its integrated internal reporting systems to become more comprehensive, as it helps both Board members and Executive Management in making decisions in a systematic and proper manner, thereby achieving the interests of shareholders.

**Rule 11 The significance of social responsibility****11.1 Summary of a policy that ensures a balance between the company's objectives and society:**

The Company believes in its responsibility towards the society and is obliged to contributing to its development insofar as its potential allows it by working to attract national manpower, improve the living conditions of its employees and their families and allocate a percentage of the profits for social services and projects.

**11.2 A summary of programs and mechanisms that show the exerted efforts in the field of social work:**

Social responsibility includes the employees of the company and the society. It also focuses on fair treatment in employment and responsibility for health and safety in view of the nature of the company as well as the responsibility of preserving the environment. For example, the company contracted Loyac to train the students believing that the real investment is investing in the human cadres. The company also provided a dedicated hall for the Blood Bank and the Blood Bank has received more than the expected number of people.



Tijara & Real Estate Investment Co. K.S.C. (Public)

## **Audit Committee Report**

for the fiscal year ended on 31<sup>st</sup> December, 2018

### **Introduction**

\* The Audit Committee consists of the following persons:

- |   |                       |
|---|-----------------------|
| 1. <b>Anoud Fadel Al-Hathran</b>            | Head of the Committee |
| 2. <b>Saad Nasser Faraj</b>                 | Member                |
| 3. <b>Abdullah Ali Al-Khaleefa Al-Sabah</b> | Member                |

### **Meetings and achievements of the Committee:**

During 2018, the Committee convened 5 times, and its achievements included the following:

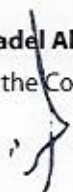
- Discussion of financial statements and setting recommendations.
- Recommendation on renewal of the contract with the internal auditor and the Internal Audit Office.
- Update and discussion of the ICR Report of the previous year.
- Discussion of organizational chart update.
- Review of the accounting policies with the external auditor.
- Review and discussion of the disclosure table and assuring of its conformity with the control bodies.
- Review and discussion of the internal auditor report and setting recommendations.
- Review and recommendation on the independency and performance of the external auditors.
- Update and discussion of audit plan of the current year.
- Viewing the key organizational and legislative advances.

### **Statement of the Committee regarding the internal control environment in the Company:**

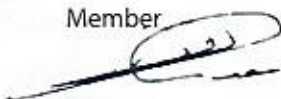
Upon 2018 monitoring and revision of the Committee on internal risk-based audit assessment, the Committee believes that the Company has an adequate and effective control environment. No significant lapses have been identified during that year, and there were no significant failures in the application of internal control systems.

The Committee also noted the devotion of the Executive Body to implement the mechanisms and systems of internal control to ensure the protection of the assets of the company and to ensure the validity of the financial statements in addition to the efficiency of the operational processes continuity of the company and the efficiency of their financial and administrative aspects.

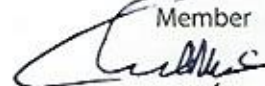
**Anoud Fadel Al-Hathran**  
Head of the Committee



**Saad Nasser Faraj**  
Member



**Abdullah Ali Al-Khalifa Al-Sabah**  
Member







## 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
728,930.350 K.D	57,000/- K.D	671,930.350 K.D

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

There are not any fundamental deviations

Tahani Al Ajmi  
Secretary of the BOD

Tariq F. Al Othman  
Member

Saad N. Faraj  
Member

Yasmin Mubarak Al Sabah  
Head of Committee





MANDR

Date: 28/3/2018

## **Report of Sharia Control Authority**

For period from 1/1/2018 till 31/12/2018

Praise be only to Allah, and Peace be upon the last Messenger, all His Family and Companions

To shareholders : **Tijara Real-Estate Investment Company.**

Peace be with you,

Pursuant to agreement signed between us, the Authority of Fatwa and Sharia Control hereby provides the following report:

We at the Authority of Fatwa and Sharia Control have controlled and audited the agreements related to transactions and activities provided by the company during the period from 1/1/2018 till 31/12/2018 and we made due control and revision to give opinion about whether the company has complied with provisions and principles of Islamic sharia, and so fatwa, resolutions, principles and guidelines issued by us, yet our liability is limited to giving independent opinion about extent of company compliance and this is upon our revision.

We have supervised and reviewed contracts and procedures applicable at the company on the basis of choice for every type of operations, and so we collected all information and interpretations necessary for issuing the opinion about how far company business cope with Islamic sharia provisions.

In our opinion, the contracts, documents and operations made by the company during the period from 1/1/2018 till 31/12/2018, which we inspected, have been made pursuant to provisions and principles of Islamic sharia, and kindly be noted that the company does not issue Zakat on behalf of shareholders.

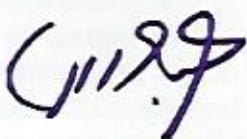
And we ask Allah Almighty to provide success to company stakeholders to serve our reverend religion and dear homeland and achieve for all the great success and good conduct.

Peace, mercy and blessings of Allah be upon you.

### **Sharia Control Authority**

**Prof. Abdulaziz AlQassar**

Chairman of Sharia Control  
Committee



**Dr. Eisa Zaki Eisa**

Member of Sharia Control  
Committee



**Dr. Ali Ibrahim Alrashid**

Member of Sharia Control  
Committee







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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TIJARA & REAL ESTATE INVESTMENT COMPANY K.S.C.P.

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

#### Basis for Opinion

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

#### Key Audit Matters

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

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

#### Valuation of Investment properties

Investment properties of the Group represent a significant portion of the total assets as at 31 December 2018 and are carried at fair value. The Management of the Group determines the





fair value of its investment properties and uses external appraisers to support the valuation as of 31 December 2018. 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. Due to the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we identified this as a key audit matter. The Group's policies for fair valuation of investment properties are presented in accounting policies in Note 2 of the consolidated financial statements.

Our audit procedures included, among others, the following:

- 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 have 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.
- We have considered the objectivity, independence and expertise of the external appraisers.
- We assessed that the significant assumptions and related uncertainties are appropriately reflected in the sensitivity disclosure in Note 8 to the consolidated financial statements.

#### *Other information included in the Group's 2018 Annual report*

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the 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 auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *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.



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In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

#### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

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





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

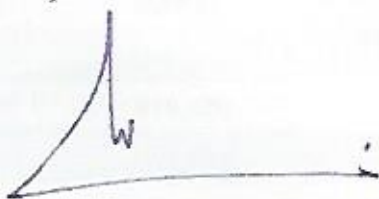
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### 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 2018, 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

20 March 2019  
 Kuwait





## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
Rental income		4,186,580	3,628,661
Other services and operating income		25,183	84,217
Property operating expenses		(209,331)	(269,869)
Change in fair value of investment properties	8	56,477	(152,463)
<b>Net profit on investment properties</b>		<b>4,058,909</b>	<b>3,290,546</b>
Sale of inventory properties		27,041	209,854
Cost of sales	6	(43,321)	(283,019)
<b>Loss on sale of inventory properties</b>		<b>(16,280)</b>	<b>(73,165)</b>
Impairment loss on inventory properties	6	(143,123)	(32,363)
<b>Net loss on inventory properties</b>		<b>(159,403)</b>	<b>(105,528)</b>
Share of results of an associate	7	(185,181)	119,058
<b>Net investment (loss) gain</b>		<b>(185,181)</b>	<b>119,058</b>
Administrative expenses		(918,573)	(1,003,392)
Foreign exchange gain (loss)		88,753	(101,724)
Other income		5,395	10,039
<b>Operating profit</b>		<b>2,889,900</b>	<b>2,208,999</b>
Finance costs		(1,766,459)	(1,467,555)
Provision for expected credit losses		(91,776)	-
<b>PROFIT FOR THE YEAR BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND BOARD OF DIRECTORS' REMUNERATION</b>		<b>1,031,665</b>	<b>741,444</b>
KFAS		(9,285)	(6,673)
NLST		(28,569)	(20,603)
Zakat		(9,996)	(7,918)
Board of directors' remuneration		(30,000)	-
<b>PROFIT FOR THE YEAR</b>		<b>953,815</b>	<b>706,250</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	4	<b>2.58 Fils</b>	<b>1.91 Fils</b>

The attached notes 1 to 19 form part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

		2018	2017
	Notes	KD	KD
<b>PROFIT FOR THE YEAR</b>		<b>953,815</b>	<b>706,250</b>
<b>Other comprehensive income (loss):</b>			
Item that are (or) may be reclassified subsequently to consolidated statement of income:			
Foreign currency translation adjustments of foreign operations		<b>27,910</b>	(73,367)
Foreign currency translation adjustments of an associate	7	<b>24,805</b>	(72,020)
<b>Other comprehensive income (loss) for the year</b>		<b>52,715</b>	(145,387)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,006,530</b>	<b>560,863</b>

The attached notes 1 to 19 form part of these consolidated financial statements.



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2018

	Notes	2018 KD	2017 KD
<b>ASSETS</b>			
Bank balances and cash		<b>1,229,252</b>	1,820,862
Accounts receivable and prepayments	5	<b>1,667,601</b>	763,066
Inventory properties	6	<b>2,255,987</b>	3,115,869
Investment in an associate	7	<b>6,278,732</b>	6,123,656
Investment properties	8	<b>60,179,738</b>	57,733,468
Property and equipment		<b>26,727</b>	13,492
<b>TOTAL ASSETS</b>		<b>71,638,037</b>	69,570,413
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accruals	9	<b>801,842</b>	715,678
Islamic financing payables	10	<b>31,289,925</b>	29,172,101
Employees' end of service benefits		<b>783,736</b>	816,630
<b>Total liabilities</b>		<b>32,875,503</b>	30,704,409
<b>Equity</b>			
Share capital	12	<b>37,000,000</b>	37,000,000
Statutory reserve	12	<b>260,718</b>	157,551
General reserve	12	<b>260,718</b>	157,551
Share options reserve		<b>142,253</b>	142,253
Foreign currency translation reserve		<b>260,257</b>	207,542
Treasury shares reserve		<b>18,132</b>	18,132
Retained earnings		<b>820,456</b>	1,182,975
<b>Total equity</b>		<b>38,762,534</b>	38,866,004
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>71,638,037</b>	69,570,413



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



**Tareq Fareed Al Othman**  
 Vice Chairman and Executive President

The attached notes 1 to 19 form part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital KD	Statutory reserve KD	General reserve KD	Share options reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Retained earnings KD	Total KD
At 1 January 2018	37,000,000	157,551	157,551	142,253	207,542	18,132	1,182,975	38,866,004
Profit for the year	-	-	-	-	-	-	953,815	953,815
Other comprehensive income for the year	-	-	-	-	52,715	-	-	52,715
Total comprehensive income for the year	-	-	-	-	52,715	-	953,815	1,006,530
Transfer to reserves	-	103,167	103,167	-	-	-	(206,334)	-
Distribution of dividends (Note 12)	-	-	-	-	-	-	(1,110,000)	(1,110,000)
<b>At 31 December 2018</b>	<b>37,000,000</b>	<b>260,718</b>	<b>260,718</b>	<b>142,253</b>	<b>260,257</b>	<b>18,132</b>	<b>820,456</b>	<b>38,762,534</b>
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)	-
At 31 December 2017	37,000,000	157,551	157,551	142,253	207,542	18,132	1,182,975	38,866,004

The attached notes 1 to 19 form part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year before KFAS, NLST, Zakat and board of directors' remuneration		1,031,665	741,444
Adjustments to reconcile profit for the year before KFAS, NLST, Zakat and board of directors' remuneration to net cash flows:			
Depreciation		13,971	58,201
Provision for employees' end of service benefits		110,897	133,084
Realised loss on sale of inventory properties	6	16,280	73,165
Impairment loss on inventory properties	6	143,123	32,363
Share of results of an associate	7	185,181	(119,058)
Change in fair value of investment properties	8	(56,477)	152,463
Finance costs		1,766,459	1,467,555
Provision for expected credit losses		91,776	-
Foreign exchange (gain) loss		(88,753)	101,724
		3,214,122	2,640,941
Changes in operating assets and liabilities:			
Accounts receivable and prepayments		(322,502)	(267,187)
Inventory properties		27,041	209,854
Accounts payable and accruals		(4,618)	(79,512)
Cash flows from operations		2,914,043	2,504,096
Employees' end of service benefits paid		(143,791)	(82,760)
Board of directors' remuneration paid		(30,000)	-
Net cash flows from operating activities		2,740,252	2,421,336
<b>INVESTING ACTIVITIES</b>			
Additions to investment in an associate		(315,452)	(386,141)
Additions to investment properties	8	(2,323,000)	(5,959,000)
Additions to property and equipment		(27,206)	(7,135)
Net cash flows used in investing activities		(2,665,658)	(6,352,276)
<b>FINANCING ACTIVITIES</b>			
Proceeds from islamic financing payables		8,837,176	5,726,700
Repayment of islamic financing payables		(6,628,837)	(887,351)
Finance costs paid		(1,880,831)	(1,326,542)
Dividends paid		(1,067,448)	-
Net cash flows (used in) from financing activities		(739,940)	3,512,807
<b>NET DECREASE IN BANK BALANCES AND CASH</b>		<b>(665,346)</b>	<b>(418,133)</b>
Net foreign exchange difference		73,736	(2,312)
Bank balances and cash at 1 January		1,820,862	2,241,307
<b>BANK BALANCES AND CASH AT 31 DECEMBER</b>		<b>1,229,252</b>	<b>1,820,862</b>

The attached notes 1 to 19 form part of these consolidated financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

### 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 2018 were authorised for issue in accordance with a resolution of the board of directors on 20 March 2019. The General Assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements in the Annual General Assembly meeting of the Parent Company's shareholders.

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved by the shareholders of the Parent Company in the annual general assembly meeting held on 1 March 2018.

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).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### Basis of preparation

The consolidated financial statements have been 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 Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments that requires retrospective application. However, the Group has decided to implement these standards on partial retrospective basis, as allowed under the provisions of these standards. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 and IFRS 15 are summarised below:

#### IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard 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. This standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

The Group has adopted IFRS 15 using cumulative effect method (modified retrospective approach) with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018).

As the Group's revenue is mainly arising from the rental income and related services generated from the operating leases, the adoption of this standard did not result in any change in accounting policies of the Group and does not have any material effect on the Group's consolidated financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### IFRS 9 Financial Instruments

The Group has adopted IFRS 9 effective from 1 January 2018. IFRS 9 brings together the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has not restated comparative information for the financial year 2017, in respect to adoption of this standards, as permitted by the transitional provisions of the standard. Therefore, the information presented for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for the year ended 31 December 2018.

The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

2018	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re- measurement ECL	New carrying amount under IFRS 9
			KD	KD	KD
Financial assets					
Bank balances and cash	Loans and receivables	Amortised cost	1,820,862	-	1,820,862
Accounts receivables	Loans and receivables	Amortised cost	692,228	-	692,228
Financial liabilities					
Accounts payable and accruals	Amortised cost	Amortised cost	715,678	-	715,678
Islamic financing payables	Amortised cost	Amortised cost	29,172,101	-	29,172,101



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

### (a) Classification and measurement

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

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

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

Financial assets at FVTPL comprise equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. As of 31 December 2018, the Group has no equity securities, accordingly, the classification and measurement is not required.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018.

The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### (b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

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

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

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

### (c) Hedge accounting

The Group did not have any impact resulting from the new guidance relating to hedge accounting included in IFRS 9, as the Group is not dealing in any derivative instruments.

### (d) Other adjustments

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary financial statements such investment in associates (arising from the financial instruments held by these entities), tax expense, retained earnings and exchange differences on translation of foreign operations were adjusted as necessary.

## 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards issued is those that the Group reasonably expects to have an impact on disclosures, consolidated financial position or performance when applied at a future date. The Group intends to adopt these standards 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 2019, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

Additional disclosures will be made in the consolidated financial statements when these standards, revisions and amendments become effective.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 2.4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (collectively the "Group") as at 31 December 2018.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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 consolidated 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
	2018	2017		
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 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,



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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 IFRS 9 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 IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### Revenue recognition applied from 1 January 2018

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is acting as an agent in all of its revenue arrangements.

The following specific recognition criteria described below must also be met before revenue is recognised.

- Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term.
- Income from real estate investment portfolio.
- Gain or loss on sale of inventory properties.
- Dividend income is recognised when the Group's right to receive payment is established.
- In determining the transaction price for the services, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer (if any). The Group does not have any effect from these considerations since the Group is acting as an agent in all its revenue arrangements.

### Revenue recognition applied up to 31 December 2017

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

of ownership have passed to the buyer and the amount of revenue can be measured reliably.

### 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, subsequent measurement and derecognition

In the current year, the Group has adopted IFRS 9 Financial Instruments. See section 2.2



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

### (i) Financial assets

#### Initial recognition and measurement

##### Policy effective from 1 January 2018 (IFRS 9)

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (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, accounts receivable and prepaymetns.

##### Policy effective before 1 January 2018 (IAS 39)

The Group classifies its financial assets at initial recognition into the following categories, in accordance with IAS 39:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 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:

#### Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the consolidated statement of income when the asset is derecognised, modified or impaired.

### 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:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

- (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

#### Policy effective from 1 January 2018 (IFRS 9)

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For accounts receivable and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### Policy effective before 1 January 2018 (IAS 39)

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:

#### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 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.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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,



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 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.

### 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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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

- Sensitivity analysis disclosures Note 8;
- Financial risk management and policies Note 16;
- Capital management Note 17.

### Judgements

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

### Classification of financial assets - applicable from 1 January 2018

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

### Business combinations

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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.

### 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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the 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 18.**

### **Impairment of financial assets at amortised cost – policy applicable from 1 January 2018**

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

### **Impairment of receivables- applicable before 1 January 2018**

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.

## **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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

of all the dilutive potential ordinary shares into ordinary shares. As at the reporting date, the Group had no outstanding dilutive potential shares.

	2018	2017
Profit for the year (KD)	953,815	706,250
Weighted average number of shares outstanding during the year (excluding treasury shares)	370,000,000	370,000,000
Basic and diluted earnings per share	2.58 fils	1.91 fils

### 5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2018	2017
	KD	KD
Rent receivables	847,459	596,035
Provision for expected credit losses	(91,776)	-
Net rent receivables	755,683	596,035
Prepaid expenses	22,338	20,838
Staff receivables	33,161	36,319
Receivable from property developer* (Note 6)	744,221	-
Other receivables	112,198	109,874
	<b>1,667,601</b>	<b>763,066</b>

\*During the year ended 31 December 2018, the Group has reclassified its inventory property of KD 744,221 (AED: 9,011,360) to "Receivable from property developer" to exchange the previously acquired property with another property.

As at 31 December 2018, rent receivables at nominal value of KD 91,776 (31 December 2017: KD Nil) were impaired and fully provided for.

Movement in the allowance for expected credit losses were as follows:

	2018	2017
	KD	KD
At 1 January	-	-
Charge for the year	91,776	-
At the end of the year	91,776	-



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

Unimpaired rent receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables.

### 6 INVENTORY PROPERTIES

	2018	2017
	KD	KD
At 1 January	3,115,869	3,431,251
Disposals	(43,321)	(283,019)
Reclassified to advance payment (Note 5)	(673,438)	-
Impairment loss on inventory properties	(143,123)	(32,363)
At 31 December	2,255,987	3,115,869

### 7 INVESTMENT IN AN ASSOCIATE

The Group has the following investment in an associate:

Name of company	Country of incorporation	Equity interest as at 31 December		Principal activities
		2018	2017	
		%	%	
Al Madar Al Thahabia Company W.L.L. ("Al Madar")	Kingdom of 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:

	2018	2017
	KD	KD
At 1 January	6,123,656	5,661,832
Additions to investment in an associate	315,452	414,786
Share of result	(185,181)	119,058
Foreign currency translation adjustments	24,805	(72,020)
At 31 December	6,278,732	6,123,656



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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

	2018	2017
	KD	KD
Current assets	864,274	309,266
Non-current assets	34,474,645	34,192,306
Current liabilities	(923,731)	(919,640)
Non-current liabilities	(8,253,804)	(8,153,314)
Equity	26,161,384	25,428,618
Adjustment to the carrying value of investment in an associate*	-	86,615
	<u>26,161,384</u>	<u>25,515,233</u>
Proportion of the Group's ownership	24 %	24 %
Group's share in the equity	<u>6,278,732</u>	<u>6,123,656</u>

Summarised statement of income for associate is as follows:

	2018	2017
	KD	KD
Rental income	1,216,303	136,582
Property operating expenses	(982,293)	(31,630)
Staff costs	(138,270)	(482,346)
Administrative expenses	(337,723)	(482,910)
Finance cost	(491,139)	(475,492)
Change in fair value of investment property	48,198	-
Loss for the year	(684,924)	(1,335,796)
Adjustment to the carrying value of investment in an associate*	(86,664)	1,831,869
	<u>(771,588)</u>	<u>496,073</u>
Proportion of the Group's ownership	24 %	24 %
Group's share of (loss) income	<u>(185,181)</u>	<u>119,058</u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 8 INVESTMENT PROPERTIES

	2018	2017
	KD	KD
At 1 January	57,733,468	52,141,406
Additions	2,323,000	5,959,000
Change in fair value of investment properties	56,477	(152,463)
Net foreign exchange gain (loss)	66,793	(214,475)
	60,179,738	57,733,468
At 31 December		

As at 31 December 2018, investment properties of KD 24,637,547 (2017: KD 24,679,455) are held in the name of a third party under Ijara agreement (Note 10).

As at 31 December 2018 certain investment properties amounting to KD 18,713,000 (2017: KD 17,848,000) are pledged as a security against Murabaha agreement of KD 7,524,700 (2017: KD 5,201,700) (Note 10)

The fair value of the investment properties amounting to KD 60,179,738 (31 December 2017: KD 57,733,468) have been determined based on valuations obtained from 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. The other is a local reputable accredited valuer who has valued the local investment properties using the income capitalization approach. For foreign properties the valuation has been performed by a reputable accredited valuer who has valued these properties using the income capitalization approach.

As required by the Capital Market Authority (CMA), the Group has selected the lower of these valuations (2017: the lower of valuations). Based on these valuations, the Group has recorded a fair value gain of KD 56,477 (2017: fair value loss of KD 152,463) in the consolidated statement of income.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

2018	Kuwait	GCC
Estimated market price for the land (per sqm) (KD)	1,708	668
Construction costs (per sqm) (KD)	409	264
Average monthly rent (per sqm) (KD)	9	4
Yield rate	9 %	8 %
Vacancy rate	15 %	23 %

2017

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 %

### 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 KD	GCC KD
2018			
Estimated market price for the land	5 %	1,395,900	438,064
Average rent	5 %	2,107,375	835,506
Yield rate	5 %	2,007,024	795,720
Vacancy rate	5 %	2,107,375	835,506
2017			
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 9 ACCOUNTS PAYABLE AND ACCRUALS

	2018 KD	2017 KD
Advances from tenants	175,011	181,733
Refundable deposits	242,151	214,305
Other payables	384,680	290,995
Amount due to related party (Note 13)	-	28,645
	<b>801,842</b>	<b>715,678</b>

### 10 ISLAMIC FINANCING PAYABLES

2018	Ijara KD	Tawaruq KD	Murabaha KD	Total KD
Gross amount	20,079,458	5,724,993	9,386,338	35,190,789
Less: deferred profit	(1,406,127)	(616,147)	(1,878,590)	(3,900,864)
	<b>18,673,331</b>	<b>5,108,846</b>	<b>7,507,748</b>	<b>31,289,925</b>
2017	Ijara KD	Tawaruq KD	Murabaha KD	Total KD
Gross amount	20,288,018	5,789,622	6,628,199	32,705,839
Less: deferred profit	(1,585,359)	(504,257)	(1,444,122)	(3,533,738)
	<b>18,702,659</b>	<b>5,285,365</b>	<b>5,184,077</b>	<b>29,172,101</b>

Islamic finance payables represent facilities obtained from Islamic financial institutions and carry an average profit rate of 1.875% to 3.25% (2017: 1.875% 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 2018, Ijara payable of KD 17,550,000 (2017: KD 17,481,874) are secured by the investment properties of KD 24,637,547 (31 December 2017: KD 24,679,455) (Note 8).

As at 31 December 2018, Murabaha payable of KD 7,524,700 (2017: KD 5,201,700) are secured by the investment properties of KD 18,713,000 (2017: KD 17,848,000) (Note 8).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 11 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2018 KD	Cash Flows in/(out) KD	Other in/(out) KD	31 December 2018 KD
Ijara payable	18,702,659	(1,083,742)	1,054,413	18,673,330
Tawarruq payable	5,285,365	(554,028)	377,511	5,108,848
Murabaha payable	5,184,077	1,965,278	358,392	7,507,747
	<u>29,172,101</u>	<u>327,508</u>	<u>1,790,316</u>	<u>31,289,925</u>
	1 January 2017 KD	Cash Flows in/(out) KD	Other in/(out) 31 KD	31 December 2017 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
	<u>24,394,816</u>	<u>3,512,807</u>	<u>1,264,478</u>	<u>29,172,101</u>

### 12 SHARE CAPITAL, GENERAL ASSEMBLY MEETING AND RESERVES

#### a) Share capital, general assembly meeting

The authorised, issued and fully paid up share capital at 31 December 2018, comprises 370,000,000 shares (2017: 370,000,000 shares) of 100 fils (2017: 100 fils) each paid up in cash.

The Directors of the Parent Company in the meeting held on 20 March 2019, proposed to distribute a cash dividend of 2 fils per share (2017: 3 fils per share) for the year ended 31 December 2018.

#### Statutory reserve

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before contributions to KFAS, NLST, Zakat and board of directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's board of directors. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital.

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 payment of a dividend of that amount.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

As at and for the year ended 31 December 2018

**General reserve**

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before contributions to KFAS, NLST, Zakat and board of directors' remuneration is required to be transferred to the general reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

**13 RELATED PARTY TRANSACTIONS AND BALANCES**

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 in the consolidated financial statements are as follows:

	Subsidiary KD	2018 KD	2017 KD
Consolidated statement of income:			
Foreign currency exchange differences*	31,507	<b>31,507</b>	(100,223)
Consolidated statement of financial position:			
Amount due to a related party (Note 9) **	-	-	28,645
		2018 KD	2017 KD
Compensation of key management personnel:			
Salaries and short-term benefits		<b>249,200</b>	274,140
Employees' end of service benefits		<b>48,421</b>	98,533
		<b>297,621</b>	372,673

\*The Group has recognized a gain of KD 31,507 (2017: loss of KD 100,223) in the consolidated statement of income for the year ended 31 December 2018 on foreign exchange rate fluctuation in SAR relating to the amounts due from one of the Group's subsidiary of SAR 129,148,712 (2017: SAR 97,080,290).

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 14 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 2018, the Group has contingent liabilities representing a letter of guarantee amounting to KD Nil (2017: KD 4,063,020) and from which it is anticipated that no material liability will arise.

### 15 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.

1 December 2018	Real estate activities KD	Investment activities KD	Others KD	Total KD
Segment revenue	4,211,763	-	-	4,211,763
Segment results	2,235,973	-	-	2,235,973
Change in fair value of investment properties	56,477	-	-	56,477
Realised loss on sale of inventory properties	(16,280)	-	-	(16,280)
Impairment loss on inventory properties	(143,123)	-	-	(143,123)
Share of results of an associate	-	(185,181)	-	(185,181)
Other income	-	-	5,395	5,395
Provision for expected credit losses	(91,776)	-	-	(91,776)
Unallocated expenses - net	-	-	(907,670)	(907,670)
<b>Segment profit (loss)</b>	<b>2,041,271</b>	<b>(185,181)</b>	<b>(902,275)</b>	<b>953,815</b>
<b>Segment assets</b>		<b>6,278,732</b>	<b>26,727</b>	<b>71,638,037</b>
<b>Segment liabilities</b>	<b>32,091,767</b>	<b>-</b>	<b>783,736</b>	<b>32,875,503</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

1 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
Change in fair value of investment properties	(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)		119,058	(1,130,271)	706,250
Segment assets	63,433,265	6,123,656	13,492	69,570,413
Segment liabilities		-	816,630	30,704,409

## 16 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.

### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

### 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 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. With respect to accounts receivables, the Group minimises concentrations of credit risk by undertaking transactions with a large number of tenants. In addition, accounts receivable balances are monitored on an ongoing basis.

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 2018	Gross maximum exposure 2017
	KD	KD
Cash and bank balances (excluding cash on hand)	1,225,883	1,818,350
Accounts receivable	901,042	742,228
<b>Total credit risk exposure</b>	<b>2,126,925</b>	<b>2,560,578</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

As at and for the year ended 31 December 2018

**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:

	2018				2017			
	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
<b>Kuwait</b>	<b>1,176,058</b>	<b>247,138</b>	<b>49,936</b>	<b>1,473,132</b>	<b>1,527,513</b>	<b>186,219</b>	<b>42,194</b>	<b>1,755,926</b>
<b>GCC</b>	<b>49,825</b>	<b>576,712</b>	<b>27,256</b>	<b>653,793</b>	<b>290,837</b>	<b>508,806</b>	<b>5,009</b>	<b>804,652</b>
	<b>1,225,883</b>	<b>823,850</b>	<b>77,192</b>	<b>2,126,925</b>	<b>1,818,350</b>	<b>695,025</b>	<b>47,203</b>	<b>2,560,578</b>

**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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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

31 December 2018	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
<b>LIABILITIES</b>						
Accounts payable and accruals (excluding advances from tenants)	-	-	626,831	-	-	626,831
Islamic financing payables	880,882	491,106	408,961	8,187,364	25,222,476	35,190,789
<b>TOTAL LIABILITIES</b>	<b>880,882</b>	<b>491,106</b>	<b>1,035,792</b>	<b>8,187,364</b>	<b>25,222,476</b>	<b>35,817,620</b>

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
<b>LIABILITIES</b>						
Accounts payable and accruals (excluding advances from tenants)	-	-	533,945	-	-	533,945
Islamic financing payables	667,406	697,597	893,917	10,149,956	20,296,963	32,705,839
<b>TOTAL LIABILITIES</b>	<b>667,406</b>	<b>697,597</b>	<b>1,427,862</b>	<b>10,149,956</b>	<b>20,296,963</b>	<b>33,239,784</b>

### 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.

#### 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 10). Other than this the Group is not exposed to any other significant profit risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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
<b>2018</b>	<b>1% +/-</b>	<b>309,472</b>
2017	1% +/-	287,151

### 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:

Currency	2018		2017	
	Change in exchange rate %	Effect on profit for the year KD	Change in exchange rate %	Effect on profit for the year KD
SAR	3% +/-	319,480	3% +/-	236,496
USD	3% +/-	102,407	3% +/-	-

## 17 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. No changes were made in objectives, policies or processes for managing capital during the year ended 31 December 2018 and 31 December 2017 as disclosed in Note 12 to the consolidated financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at and for the year ended 31 December 2018

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.

	2018 KD	2017 KD
Accounts payable and accruals (excluding advances from tenants)	626,831	533,945
Islamic financing payables	31,289,925	29,172,101
Less: Bank balances and cash	(1,229,252)	(1,820,862)
Net debt	30,687,504	27,885,184
Equity	38,762,534	38,866,004
Total capital and net debt	69,450,038	66,751,188
Gearing ratio	44%	42%

## 18 FAIR VALUE MEASUREMENTS

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

	Level 3 KD	Total KD
As at 31 December 2018		
Investment properties	60,179,738	60,179,738
As at 31 December 2017		
Investment properties	57,733,468	57,733,468

During the year ended 31 December 2018, 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 8.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

As at and for the year ended 31 December 2018

**19 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 2018	Within 1 year KD	1 to 5 years KD	Total KD
<b>ASSETS</b>			
Bank balances and cash	1,229,252	-	1,229,252
Accounts receivable and prepayments	1,667,601	-	1,667,601
Inventory properties	2,255,987	-	2,255,987
Investment in an associate	-	6,278,732	6,278,732
Investment properties	-	60,179,738	60,179,738
Property and equipment	-	26,727	26,727
<b>TOTAL ASSETS</b>	<b>5,152,840</b>	<b>66,485,197</b>	<b>71,638,037</b>
<b>LIABILITIES</b>			
Accounts payable and accruals	801,842	-	801,842
Islamic financing payables	826,882	30,463,043	31,289,925
Employees' end of service benefits	-	783,736	783,736
<b>TOTAL LIABILITIES</b>	<b>1,628,724</b>	<b>31,246,779</b>	<b>32,875,503</b>

31 December 2018	Within 1 year KD	1 to 5 years KD	Total KD
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>	<b>5,699,797</b>	<b>63,870,616</b>	<b>69,570,413</b>
<b>LIABILITIES</b>			
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
<b>TOTAL LIABILITIES</b>	<b>1,982,048</b>	<b>28,722,361</b>	<b>30,704,409</b>