

ANNUAL
REPORT

2018



Sokouk Holding Company K.S.C.P



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



His Highness Sheikh
Nawaf Al-Ahmed Al-Jaber Al-Sabah
Crown Prince



His Highness Sheikh
Jaber Mobarak Al-Hamad Al-Sabah
Prime Minister



Sokouk Holding Company K.S.C.P

Integrated Real Estate Synergy . . .

Establish date 23 August 1998

**Paid-up Capital
KD 59,314,500**

**Divided into
593,145,000 shares**

Nominal value per share 100 Fils

**Commercial Licence 1998/574/ع.م
Commercial Register 74323**

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سكوك العقارية
SOKOUK REAL ESTATE



بيت الإعمار الخليجي
Gulf Development House



منشات

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COMPANY OVERVIEW

Sokouk Holding Company was established as a Kuwaiti shareholding company (closed) in 23 August 1998 under the name (Intermediate Real Estate Development Company). After the Company had been restructured in 17 July 2005 and its objectives and goals were expanded, its name was changed to (Sokouk Real Estate Development Company), the Company has launched new investment and finance instruments in the form of Sharia Compliant time share sokouk which have become the most important instrument through which the Company has taken up real estate investment and trading. After the resounding successes it has accomplished in this field, the Company strived to expand its activities by virtue of creating specialized entities capable of developing the products and innovating new investment instruments. Therefore, the Company was changed to a holding company (Sokouk Holding Company) in August 2005, and further changed into a public transformed in 2014.

BOARD OF DIRECTORS



Mr. Nawaf Musaed Al Osami
Chairman



Mr. Ahmad Abdulaziz Al Nafisi
Vice Chairman



Mr. Mohammad Mubarak Rashed Al Hajri
Board Member



Mr. Abdulmohsen Yaseen Al Oumi
Board Member



Mr. Eissa Bader Abdulkareem Al Mutawaa
Board Member - Independent

Chairman's Speech

Board of Directors Report to Shareholders
on the Company's Performance during the
Financial Year Ended 31 December 2018



Mr. Nawaf Musaed Al Osaimi
Chairman

Our Valued Shareholders,

It is my pleasure, personally and on behalf of the directors of the Board and the executive management, to extend to you my sincere appreciation for your continuous support during the past year. I am also pleased to present you the annual report through which we exhibit the prominent achievements that the Company has managed during the year, as well as the Governance report, Sharia supervisory board report, auditors' report and the consolidated financial statements for the financial year ended on December 31, 2018.

Our Valued Shareholders,

The Company has faced some challenges during 2018 as a result of the decline in the pace of economic growth and the changes in the region resulting, direct and indirect, repercussions and unfavorable impacts on the investment environment in the Arab region, especially in the sector of real estate investment, based on Sokouk's concern to absorb the negative reflections of these incidents and changes, the Company has gone to extremes to mitigate these direct and indirect negative effects on its investment activity, however Sokouk and its subsidiaries and associates were not immune to this decline under the obscurity of those changes and the developments will be mentioned further more in this report.

Local and Regional Real Estate Projects

- **Gulf Development House Real Estate Company (Subsidiary):** Its most important project is "Millennium Hotel & Convention Center Kuwait" which is the first hotel to bear the trademark of the five-star hotel chain of Millennium & Copthorne in Kuwait.
- **Sokouk Real Estate Company (Subsidiary):** operating in the field of direct real estate investment by developing investment opportunities. Its current activity is concentrated in investment in local real estate investment sector through a set of selected real estate opportunities.
- **Munshaat Real Estate Projects Company (Associate):** Its most important projects are " Zamzam Pullman Mecca Hotel" which is considered as a five -star hotel, "Zamzam Pullman Medina" which is a five-star hotel, " Bakka Tower" which is one of the towers of Al Safwah residential complex " Al-Mehrab Tower ".

Our Valued Shareholders,

Sokouk Holding Company has been able to achieve the objectives set out in the Company's strategy during the past year, settle and repay its full indebtedness and financing costs with one of the local banks, in addition to achieving profits from the sale of a property, a piece of land, under development in the Dasman area in Kuwait. The Company has also worked on reducing the costs and monthly financials to the maximum extent possible, falling by about 17.52%, compared to the previous year. According to the financial statements for the past year, the Company faced some challenges in the last quarter through its ownership in its subsidiaries and associates, which had the financial impact of lowering the profits and shareholders' equity, as a result of settling the tax claim with the Zakat and Income Tax Authority in Saudi Arabia with an associate company, in addition to the decline in the value of real estate investments in subsidiaries, due to the general stagnation in the real estate market.

As part of the strategic plan, which included a set of quantitative and qualitative objectives, Sokouk Holding Company

has completed several requirements for this period. The objectives achieved during the year are: completing the updating the regulations and procedures governing the Company's operations, as shall be later presented in the governance report. With regard to the Company's compliance with corporate governance rules relating to the integrity of financial reporting, the Board of Directors assures you of the accuracy and integrity of the financial statements for 2018 and the reports related to the Company's activity.

Financial Performance

Total assets of the Company for the year 2018 decreased by 23% to KD 76,608,215 (Seventy Six Million Six Hundred and Eight Thousand Two Hundred and Fifteen Kuwaiti Dinars) compared to last year, with a value of KD 99,673,156 (Ninety Nine Million Six Hundred and Seventy Three Thousand One Hundred and Fifty Six Kuwaiti Dinars).

Shareholders' equity decreased by 26% to reach KD 49,038,980 (Forty Nine Million Thirty Eight Thousand and Nine Hundred and Eighty Kuwaiti Dinars) for the current year, compared to KD 65,883,474 (Sixty Five Million Eight Hundred and Eighty Three Thousand Four Hundred and Seventy Four Kuwaiti Dinars) in 2017.

The Company's losses increased during the year 2018, as it recorded a net loss of KD 14,523,334 (Fourteen Million, Five Hundred and Twenty Three Thousand Three Hundred and Thirty Four Kuwaiti Dinars) compared to an estimated loss of KD 5,113,936 (Five Million One Hundred and Thirteen Thousand Nine Hundred and Thirty Six Kuwaiti Dinars) in the previous year 2017, and the loss per share amounted to 25.41 fils for the current year, compared to 8.95 fils per share in 2017.

In conclusion,

I would like to seize this opportunity on behalf of the Board of Directors to extend my sincere appreciation to our valuable shareholders for their continuous support and their trust in the Board of Directors and the executive management. We pray to Allah the Almighty to grant us success in promoting the Company's performance and achieving best results. We are confident that the company will be able to maximize the financial performance during the upcoming years. We hope that the year 2019 will witness real growth of the Company and the development and completion of projects in progress, which will lead to stability in cash flows and diversification of income sources.

Mr. Nawaf Musaed Al Osaimi
Chairman

Sharia Board

Almashoorah and Al Raya for Islamic Financial Consulting undertakes the duties of the Sharia Controller, and appoints the Sharia Committee of the Company which is formed of the following members:

His Eminence Dr. Abdul Aziz K. Al Qassar

His Eminence Dr. Essa Zaki Essa

His Eminence Dr. Ali Ibrahim Al-Rashed

The Committee undertakes its duties by controlling the Company's businesses and providing the Sharia consultancies in relation to such businesses.

External Auditor

The external auditor of the company is Mr. Bader Al Abdjader, representing The office of Al Aiban, Al Osaimi & Partners - Ernst & Young for external audit functions and preparing data & financial reports.

**SUBSIDIARIES OF
SOKOUK HOLDING CO.**



Gulf Development House Real Estate Company K.S.C.C

Establishment: October 2002

Capital: KD 13,500,000 million.

Company Profile

Gulf Development House is a Kuwaiti shareholding company (closed) with an authorized capital of KD 13,500,000 million. Sokouk Holding Company owns 87.99% of the Company's shares. The Company represents the main arm of Sokouk Holding Company for working in fields of specialized real estate development, in addition to managing real estate investment and commercial projects, and managing investment funds and portfolios with real estate character. Furthermore, Gulf Development House works in various real estate fields including owning, developing and selling real estates inside and outside State of Kuwait.

Company's Projects

Millennium Hotel & Convention Centre Kuwait

Millennium Hotel & Convention Center Kuwait is a five-star hotel, located in the Salmiya area and strategically positioned at the major intersection of the 4th Ring Road and Fahaheel Highway.

A 15 minutes' drive from Kuwait International Airport, and 10 minutes' drive from Kuwait City's financial and business district-make it the preferred destination for the business travelers.





سكوك العقارية
SOKOUK REAL ESTATE

Sokouk Real Estate Company K.S.C.C

Establishment: June 2006

Capital: KD 15 million.

Sokouk Real Estate Company (K.S.C.C) was established in June 2006 with a capital of KD 5 million. In June 2008, the capital was increased to KD 15 million.

Company Profile

Sokouk Real Estate Company is a 100% owned subsidiary of Sokouk Holding Company, which operates in direct real estate investments and acts as a real estate arm for Sokouk Holding Company. At present, it mainly focuses on local real estate investments. The company owns a number of units in Zamzam Pulman Madina hotel.

The company mainly acts as an investor, developer and trader of local & GCC real estate properties. It can also be engaged in Sharia compliant real estate funds and portfolios in line with its article of association. The company's vision is to provide leadership and specialty in high quality real estate projects that yield added value to investors.

AFFILIATES OF SOKOUK HOLDING CO.



Munshaat Real Estate Projects Company K.S.C.P

Establishment: April 2003

Capital: KD 32,200,000 million.

Company's Business:

Munshaat Real Estate Projects Co. (K.S.C.P) core business is primarily focused on the local and international real estate industry through the professional and unique development and management of real estate products and projects, targeting extraordinary markets and projects, using innovative Sharia'h-compliant investment instruments and participation in investment projects on the (Build, Own, Transfer) B.O.T basis.

Company's Projects

ZamZam Tower - The Abraj Al- Bait Complex - Mecca

The ZamZam Pullman Mecca hotel is one of the largest hotels of Munshaat Company in Mecca, and is considered as a five-star hotel. It enjoys a privileged location, as it is a few steps away from the Holy Mosque in Mecca, facing the King Abdul Aziz gate, which is located in the ZamZam tower, one of the residential Abraj Al- Bait complex's towers.

ZamZam Pullman Medina Hotel

Dar Al Qiblah - Medina

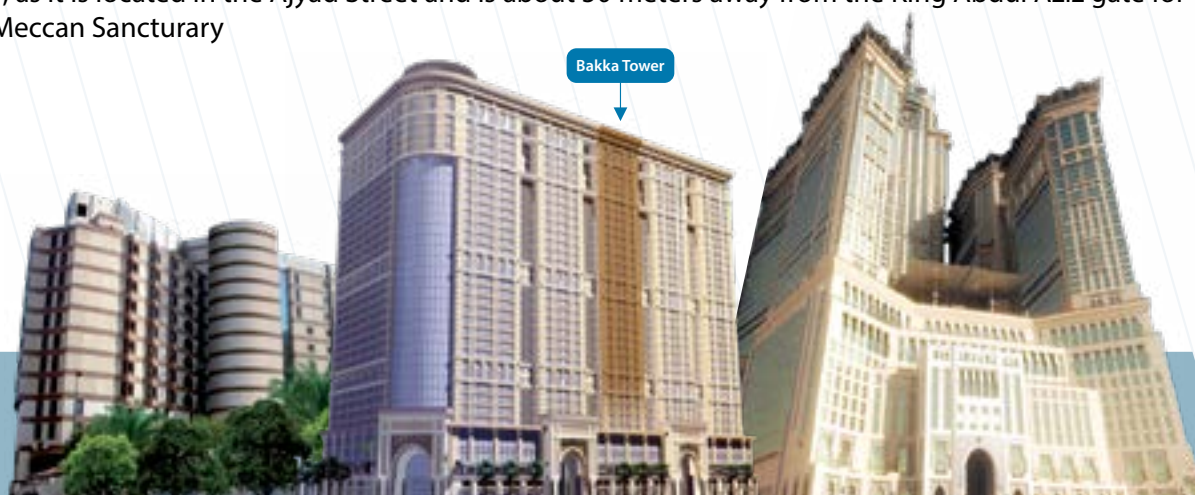
"ZamZam Pullman Medina" is the brand hotel name for the five-star Dar Al Qiblah tower.

This exceptional hotel is distinguished by its proximity to the Prophet's mosque and for providing the best available hospitality service in Medina.

Bakka Tower

Mecca / The Kingdom of Saudi Arabia

It is one of the residential Abraj Al Safwah towers, which is characterized by its close proximity to the Sanctuary, as it is located in the Ayyad Street and is about 50 meters away from the King Abdul Aziz gate for the Holy Meccan Sanctuary



ZamZam Pullman Medina Hotel

Abraj Al Safwah

ZamZam Pullman Mecca Hotel

**CORPORATE GOVERNANCE
REPORT 2018**

CORPORATE GOVERNANCE REPORT 2018

Reference to the application of the “Corporate Governance” System, in accordance with the provisions of Article (186) of Chapter Nine (Public Shareholding Companies) of the Companies Law No. (01/2016), which states that “ The concerned Supervisory Authorities shall set the principles of corporate governance of the companies that are subject to their respective supervision, in a manner that ensures the best protection and balance between the interests of the management of the company and its shareholders, as well as, other interested parties in relation to it. In addition, the principles shall set out the requirements to be satisfied by the independent members of the board of directors” and in line with the Capital Markets Authority (CMA)’s commitment to issue corporate governance rules, under its supervision, as described in Chapter (15) of the Executive Regulation of Law No. (07/2010) on the establishment of the Capital Markets Authority and the instructions issued in this respect.

Sokouk Holding issues, on a yearly basis, a Corporate Governance Report that reflects its commitment to applying the best practice in the field of corporate governance, stemming from a belief that the fundamentals of sound management and the efficiency of institutions depend on the continued application of these standards. For this purpose, Sokouk Holding is committed to implementing the principles of CMA for the governance listed companies listed in Kuwait Stock Exchange, in order to consolidate and develop a culture of governance in all its activities and among its employees to achieve the best protection and balance between the interests of the Company’s management, its shareholders and other related stakeholders. The Company, represented by its board of directors and its Executive Management, has established a corporate governance system in the Company through the policies, rules and regulations that regulate the Company’s business and defines the responsibilities and duties of each management member, as developed and amended when necessary to ensure the objectives thereof.

Board & committees Structure, and main functions of the Board

The Board of Directors of Sokouk Holding Company consists of five non-executive members, one of whom is an independent member, are elected at an ordinary general assembly meeting of the Company for a period of three years. The structure of the Company’s Board of Directors is generally characterized by a suitable number of members and diverse professional experience, academic qualifications and knowledge in the fields of accounting, finance, strategic planning, governance, internal control and risk management, as well as excellence in the vast experiences in local and regional business environment. The Board bears the overall responsibility for the Company, responsibility for developing its strategic objectives and all responsibilities related to the financial safety of the company. The Board of Directors has always sought to safeguard the interests of shareholders and all other concerned parties. The Board has also formed its own specialized committees; Audit Committee, Risk Committee and Nominations and Remuneration Committee. The responsibilities of the Board of Directors and its committees include ensuring that regulatory standards are followed, along with the compliance with ethical standards in all transactions of the Company.

Composition of the Board of Directors:

Board Member Name	Member classification (executive/non-executive /independent) secretary	Composition date
Mr. Nawaf MUSAED Al Osaimi Chairman	Non-Executive	27 June 2018
Mr. Ahmad Abdulaziz Al Nafisi Vice Chairman	Non-Executive	27 June 2018
Mr. Mohammad Mubarak Rashed Al-Hajri Board Member	Non-Executive	06 May 2018
Mr. Abdulmohsen Yaseen Al Oumi Board Member	Non-Executive	27 June 2018
Mr. Eissa Bader Abdulkareem Al Mutawaa Board Member– Independent	Independent	06 May 2018

A new Board Member was elected for a three-year term at the Annual Ordinary General Assembly of Shareholders held on the 6th of May 2018. In accordance with formal and transparent procedures, the Board of Directors was formed under the provisions of the Companies Law and its Executive Regulations and according to Article (2.2) of Chapter Two of the “Corporate Governance” book, on the 6th of May 2018. During the period, there were some changes, where the Board of Directors was reconstituted on 27/06/2018, to complete its current session. These changes were immediately disclosed through the Company’s page on Kuwait Stock Exchange website and through the Company’s website, according to the requirements of disclosure of key information given in Article (1.1.4) of Chapter Ten “Disclosure and Transparency” of the Executive Regulations of the Capital Markets Authority.

Induction Program:

New members of the Board are subject to an induction program, during which their rights, obligations and duties, as Board members, are declared. New members are assigned to this program with a view to obtain all comprehensive information regarding the Company, its activity and the latest developments, so as to be able to fulfill their responsibilities to the fullest.

Qualifications and experience of the Company’s Board Members

<p>Mr. Nawaf Musaed Al Osaimi Chairman</p>	<p>Mr. Ahmad Abdulaziz Al Nafisi Vice Chairman</p>
<p>Academic qualification and practical experience Bachelor of Business Administration, Finance specialization, University of Portland, USA, in 1999. Term of work experience in the field of investment: More than 19 years.</p>	<p>Academic qualification and practical experience Bachelor of Administrative Sciences, 2008</p>
<p>Mr. Nawaf Musaed Al Osaimi is the Chairman of the Board of Directors of Sokouk Holding Company. He is also the Vice Chairman of Munshaat Real Estate Projects Company and is currently the Acting CEO of Aref Investment Group</p>	<p>Mr. Ahmad Abdulaziz Al Nafisi is the Vice Chairman of Sokouk Holding Company. He is also a member of the Board of Directors of Munshaat Real Estate Projects Company. He is currently the Senior Manager of Private Equity and Direct Investment in KFH.</p>
<p>Mr. Mohammad Mubarak Rashed Al Hajri Board Member</p>	<p>Mr. Abdulmohsen Yaseen Al Oumi Board Member</p>
<p>Academic qualification and practical experience Bachelor of Finance and Financial Facilities, 2004</p>	<p>Academic qualification and practical experience Bachelor of Finance and Financial Facilities, 2010</p>
<p>Mr. Mohammad Mubarak Rashed Al Hajri is a member of the Board of Directors of Sokouk Holding Company. He is also a Board Member of Munshaat Real Estate Projects Company. He is currently the Executive Director Operations & Monitoring at Aref Investment Group.</p>	<p>Mr. Abdulmohsen Yaseen Al Oumi is a member of the Board of Directors of Sokouk Holding Company. He is currently the Assistant Director of Private Equity and Direct Investment in KFH.</p>
<p>Mr. Eissa Bader Abdulkareem Al Mutawaa Board Member– Independent</p>	
<p>Academic qualification and practical experience Bachelor of Administrative Sciences, 2002</p>	
<p>Mr. Eissa Bader Abdulkareem Al Mutawaa is an independent Board Member. He joined the Board of Directors of Sokouk Holding Company in August 2016 and was re-elected in his current position in the recent Board elections. He is currently the Assistant General Manager of Bakka United General Trading and Contracting Company.</p>	

Members' Attendance of the Board Meetings

The Board of Directors held (16) meetings during the year 2018. The following table illustrates the details of such meetings and the number of meetings attended by each member.

Member's Name	Meeting (1) held on 12/02/2018	Meeting (2) held on 27/03/2018	Meeting (3) held on 27/03/2018	Meeting (4) held on 29/03/2018	Meeting (5) held on 11/04/2018	Meeting (6) held on 06/05/2018	Meeting (7) held on 10/05/2018	Meeting (8) held on 31/05/2018	Meeting (9) held on 27/06/2018	Meeting (10) held on 16/07/2018	Meeting (11) held on 13/08/2018	Meeting (12) held on 26/09/2018	Meeting (13) held on 18/10/2018	Meeting (14) held on 29/10/2018	Meeting (15) held on 07/11/2018	Meeting (16) held on 31/12/2018	No. of Meetings	
Mr. Nawaf Musaed Al Osaimi Chairman	Restructuring to complement the current session of the Council								√	√	√	√	√	√	√	√	√	8
Mr. Ahmad Abdulaziz Al Nafisi Vice Chairman	Restructuring to complement the current session of the Council								√	√	√	√	√	√	√	√	√	8
Mr. Mohammad Mubarak Rashed Al Hajri Board Member	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	
Mr. Abdulmohsen Yaseen Al Oumi Board Member	Restructuring to complement the current session of the Council								√	√	√	√	√	√	√	√	8	
Mr. Eissa Bader Abdulkareem Al Mutawaa Board Member-Independent	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	

Brief on how to apply the requirements for recording, coordinating and keeping minutes of Board Meetings

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

Company Board of Directors Working Policy

The Company Board of Directors Working Manual, stipulates that the company's board assumes the comprehensive responsibility for Sokouk Holding Company, including the laying down of the company strategic objectives, risk strategy, governance criteria, supervision responsibility over the executive management, safeguarding the interests of shareholders, creditors, personnel and all stakeholders, ensure that the company's management is carried out

wisely and under the framework of the applicable laws and effective instructions of the regulatory bodies, articles of association, internal rules and policies of the company. The following is a brief on the general duties of the board of directors:

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

Policies and procedures governing the work of the Executive Management

- The Board of Directors has adopted the working manual and the policies and procedures governing the work of all executive departments within the Company. Each manual contains all the tasks performed by each executive department in detail, accordance with the strategic objectives set by the Board of Directors and the internal regulations of the Company. These policies also clarify all the obligations of the Executive Management and chief executive in light of the responsibilities assigned to them by the Board of Directors.
- The Board of Directors has clearly separated the functions of the Chairman and the Chief Executive Officer (CEO) and authorized the Executive Board, headed by the Chief Executive Officer, to manage the day-to-day operations under the approved financial and operating powers, as approved in writing. Below is a summary of the CEO's most important achievements:
 - Working on the implementation of the Company's strategic plans and the associated internal policies and regulations and ensuring their adequacy and effectiveness.
 - Establishing a management structure that promotes accountability and transparency.
 - Implementing all internal policies, regulations and rules of the Company, as approved by the Board of Directors.
 - Working on the implementation of the strategic plan and the annual plan approved by the Board of Directors.
 - Preparing periodic (financial and non-financial) reports on the progress of the Company's activity in light of the strategic plans and objectives of the Company, submitting them to the Board of Directors.
 - Establishing an integrated accounting system that keeps books, records and accounts that accurately reflect detailed financial statements and income accounts, allowing the preservation of the Company's assets and preparing the financial statements in accordance with the international accounting standards adopted by the Authority.
 - Participating actively in building and developing a culture of ethical values within the Company.
 - Ensuring the effectiveness and adequacy of these systems, with keenness to adhere to the risk tendency adopted by the Board of Directors.

Achievements of the Board of Directors During the Year 2018

The Board of Directors of Sokouk Holding Company has been keen to follow up the implementation of the strategic plans and objectives it has developed, in addition to maintaining constant communication with the Executive Management in order to achieve these strategies. The Board of Directors has also exerted great significance to the corporate governance standards, not only to carry out the tasks required, but also to set such standards a modus operandi and strategy within the Company. During the year, several achievements were made by the Board in these areas, which can be summarized as follows:

- Periodic review of the Company's financial results and comparison with the financial statements issued for the various periods.
- Approving the interim and annual financial statements of Sokouk Holding Company.
- Adopting the policies and procedures complementing the corporate governance and regulatory compliance rules and approving the amendments made to certain policies and procedures as previously approved by the Board of Directors.
- Ensuring the accuracy and integrity of data and information to be disclosed in accordance with applicable disclosure and transparency policies, procedures and regulations.
- Overseeing the Company's major capital expenditures, owning and managing the assets.
- Discussing and adopting the strategy of the Company and discussing the risk trend and its impact on the Company's strategy.
- Reviewing the structure of the Board of Directors and ensuring to build a structure that complies with the regulatory and policy requirements of the Governance Manual, as well as ensuring that the functions of the Chairman and Chief Executive Officer are separated.
- Approval of the amendments to the (Job descriptions, salary scale) of Sokouk Holding Company.
- Following up all legal issues of the Company and holding meeting with the legal counsels of the Company to spot the status of all cases.
- Approving the completion of a real estate sale (land under development in the region of Dasman, owned by several parties, where Sokouk Holding owns a share of 12.07% of the total value of the property).
- Forming a new Board of Directors, electing a Chairman and Vice Chairman of the Board, reconstituting the committees emanating from the Board and appointing the Secretary of the Board.
- Forming specialized committees emanating from the Board of Directors in accordance with a code that clarifies the duration of the committee, its powers and responsibilities, how the Board monitors them, the formation and appointment of the members, their duties and rights. This is in addition to evaluating the performance and work of these committees and the key members therein.
- Adopting the policy of delegating and implementing the work of the Executive Management.
- Discussing the time plan/schedule for the Company's internal audit.
- Discussion of the Authority Matrix.
- Supervising and overseeing the performance of Executive Management members and ensuring that the Executive Management operates according to the policies and regulations approved by the Board of Directors.
- Following up the progress of the work of the Company through periodic meetings with the Executive Management and discussing the results of the Company and its subsidiaries through a series of periodic reports.
- Activating the governance system at the level of its subsidiary entities and ensuring that they are implemented in accordance with the Corporate Governance Manual.
- Continuing emphasis on identifying good governance practices by reviewing the means of ensuring professional and institutional values through the Code of Professional and Ethical Conducts.
- Reviewing the remuneration structure, reviewing the mechanism for linking bonuses to performance and risk exposure levels and updating bonus policy.
- Reviewing the reports and recommendations of the Audit Committee and the reports of the internal auditor and the summary of the Committee's work outcomes.
- Reviewing the reports and recommendations of the Nomination and Remuneration Committee and supervising the work of the Committee on the annual evaluation process of the Board of Directors and the Executive Board.
- Approval of contracting with an independent audit office to review and evaluate the internal audit performance of the Company over the past three years, submitting a report thereon to the Audit Committee and the Board of Directors.
- Adoption of the integrated report on the activities of Sokouk Holding.

- Nomination of the representatives of Sokouk Holding Company in the Board of Directors in subsidiaries and associate companies.
- Commitment of the Board of Directors and Executive Management to the integrity and correctness of the prepared financial reports and such pledges shall be made.
- Approving the annual reports of the Company relating to (Corporate Governance, Remuneration, Audit Committee, Social Responsibility) of Sokouk Holding Company.
- Preparing an annual report to be read at the Annual General Assembly of the Company, to include the requirements and procedures for updating the rules of corporate governance and the extent of compliance thereto.

Committees emanating from the Board of Directors

The Board of Directors of Sokouk Holding Company has formed the necessary number of specialized committees in accordance with the Corporate Governance Rules issued by the Capital Market Authority. The Board undertakes its work, supported by three specialized committees. The following three committees were reinstated during the year at the meeting number 10/2018. These committees are as follows:

First: Auditing Committee

The Board of Directors has formed an independent committee emanated therefrom, under the name Audit Committee, with a view to enable the Board to carry out its relevant functions effectively, in particular to review and supervise the Company's financial accounts and data, to ensure their integrity and correctness, in addition to ensuring the adequacy and effectiveness of the internal control systems applied in the Company. This Committee works according to a code approved by the Board of Directors, indicating its term, powers, functions and responsibilities, as well as the manner of the Board's control thereon, according to the following:

The Audit Committee consists of three members, including an independent member, and it is fully independent. There is no conflict between the recommendations of the Audit Committee and the Board of Directors.

Members of the Current Audit Committee			Composition date
Committee Chairman	Mr. Abdulmohsen Yaseen Al Oumi	Board Member - Non-Executive	16/07/2018
Committee Member	Mr. Mohammad Mubarak Rashed Al Hajri	Board Member - Non-Executive	16/07/2018
Committee Member	Mr. Eissa Bader Abdulkareem Al Mutawaa	Board Member - Independent	10/05/2018

Tasks and achievements of the Audit Committee

The Committee held a number of (9) periodic meetings during the period of 2018 and below are its key achievements:

- Approving the annual internal audit plan of the Company's departments for the year. 2018.
- Reviewing the written commitments of the Executive Management to the integrity of the prepared financial statements.
- Reviewing the reports of the internal auditor and the Company's departments, responding to the observations and comments included in those reports.
- Recommending the reappointment of the Company's external auditor and the nomination of Al-Aiban and Al-Osaimi Ernst & Young.
- Preparing the annual report on the activity of the Committee and approving that report in the Annual General Assembly of the Company.
- Reviewing and discussing the Company's internal policies and regulations, approving them and submitting them to the Board for approval.
- Coordinating with the external auditor, reviewing the interim and annual financial statements and submitting recommendations to the Board of Directors thereon.
- Discussing the results of the Internal Control Report (ICR).
- Discussing aspects of internal control related to IT systems and information security.
- Reviewing and discussing the contractual terms with the external auditor, approving the professional fees of the external auditors in respect of the audit services provided and ensuring the independence and neutrality of the external auditor.

- Discussing the findings of the External Auditor's report on the Internal Audit Unit.
- Evaluating the performance of the Head of the Internal Audit Department.
- Preparing the Policy and Procedures Manual for dealing with related parties and recommending it to the Board for approval.

Second: Risk Committee

The Board of Directors shall constitute a Risk Management Committee of at least three members and the Chairman of the Committee, from non-executive Board members. The Chairman of the Board of Directors or any Executive Board member shall not be a member of this Committee. Committee member shall have adequate scientific qualification and proper familiarity with the financial and administrative aspects, as well as the Company's nature of work. Once committee member shall be adequately qualified. The main role of the committee is to oversee all matters related to risk management and to contribute to the development of risk management policies and regulations in a manner consistent with the company's risk tolerance.

Members of the Current Risk Committee			Composition date
Committee Chairman	Mr. Ahmad Abdulaziz Al Nafisi	Board Member - Non-Executive	16/07/2018
Committee Member	Mr. Mohammad Mubarak Rashed Al Hajri	Board Member - Non-Executive	16/07/2018
Committee Member	Mr. Eissa Bader Abdulkareem Al Mutawaa	Board Member - Independent	10/05/2018

The Committee held (4) meetings during the year 2018 and below are its key achievements:

Functions and Achievements of the Risk Management Committee

- Reviewing and discussing the package of periodic risk management reports, including risk measurement indicators.
- Coordinating with the Nomination and Remuneration Committee to evaluate the proposed bonus package and its relevance to the risk limits.
- Discussing the control compliance observations at the Company and subsidiaries.
- Informing the members of the most important disclosure-related developments issued by the Capital Market Authority.
- Written undertakings by the Board of Directors and the Executive Management, as well as the integrity of the prepared financial reports.
- Ensuring the independence of the Risk Unit staff members.
- Nomination of staff names for the Risk Unit.

Third: Nominations and Remunerations Committee

The Board of Directors shall constitute a Nomination and Remuneration Committee with at least three members, where at least one member shall be an independent member, and the Chairman of the Committee shall be a non-executive Board member.

The Nominations and Remunerations Committee shall assist the Board in performing its duties related to compliance with the policies, procedures of the Nominations and Remuneration of the Board of Directors and the Executive Management of the Company, reviewing the selection criteria and appointment procedures for the Board members and senior management and ensuring that the policy and methodology of the nominations and awards achieve the strategic objectives.

Members of the Current Nominations and Remunerations Committee			Composition date
Committee Chairman	Mr. Nawaf Musaed Al Osaimi	Board Member - Non-Executive	16/07/2018
Committee Member	Mr. Ahmad Abdulaziz Al Nafisi	Board Member - Non-Executive	16/07/2018
Committee Member	Mr. Eissa Bader Abdulkareem Al Mutawaa	Board Member - Independent	10/05/2018

The Committee held (3) meetings during the year 2018 and below are its key achievements:

Functions and Achievements of the Nomination and Remuneration Committee

- Supervising the process of evaluating the Board's performance and self-evaluation of the members.
- Reviewing the structure of the Board of Directors and recommending the nomination mechanism for the election of the Board of Directors' members.
- Reviewing the needs of Board members in terms of training courses and professional skills, so as to help the members perform their supervisory duties.
- Reviewing the performance evaluation of the CEO and submitting recommendations to the Board of Directors for approval.
- Reviewing and developing the Nomination and Remuneration Policy, submitting the recommendations to the Board of Directors for approval.
- Reviewing 2018 Remuneration and Benefits Package based on performance measurement criteria and key risk measurement criteria and submitting the recommendations to the Board for approval.
- Conducting an annual review of the required skills requirements for Board membership and preparing a description of the capabilities and qualifications required for such membership.
- Making adjustments to the organizational structure, job descriptions, salary scale and recommending the same to the Board of Directors.
- Preparation of the annual report of all bonuses and remunerations granted in the Company, approving the same within the terms of the Annual General Assembly of the Company.

Overall framework for assessing the performance of the Board of Directors and the Executive Management

The Company has prepared clear mechanisms for conducting the annual evaluation of the members of the Board of Directors and Executive Management, based on the concept of self and comprehensive evaluation by the members. The evaluation is conducted through the Nomination and Remuneration Committee and is supervised by the Board of Directors, based on several objective indicators that measure the overall performance in an impartial and objective manner, helping in avoiding the mistakes and fixing the imbalance that hinders the proper application of governance procedures.

Mechanism of Board of Directors' members obtaining information and data accurately and in a timely manner

Sokouk Holding Company has provided mechanisms and tools that enable the Board members to obtain the required information and data in a timely manner by developing the IT environment within the Company, creating channels of direct communication between the Secretariat of the Board of Directors and its members, in addition to submitting the reports and topics of discussion for the meetings, with sufficient time prior to meeting's date, for deliberation and decision-making.

Report of the remuneration granted to members of the Board of Directors and Executive Management

Summary of Remuneration and Incentives Policy in the Company

The Remuneration Policy adopted by the Board of Directors of Sokouk Holding Company reflects the desire to retain the competencies of the Company within the Board of Directors, the Executive Management and the various groups of the Company, where the remunerations and incentives categories enjoy a competitive advantage between the various existing expertise and skills. The Nomination and Remuneration Committee in the Company works in the framework of that Policy, recommending the bonuses and remunerations to Board members and Executive Management, based on the procedures set by the Remuneration Policy, the performance criteria, the Company's success in achieving its objectives and the volume of profits achieved.

Application of the Remuneration Policy in the Company

- The Nomination and Remuneration Committee emanating from the Board of Directors manages the process of granting the remunerations and bonuses within the Company; from performance evaluation to preparation of the final report with the total remunerations and bonuses granted. The board is fully responsible for making final decisions regarding the approval of all incentives, remunerations and bonuses.
- The Board of Directors, through the Nomination and Remuneration Committee, conducts a periodic review of this Policy and monitors its effectiveness or the need for any amendment.
- The performance of the Board of Directors is evaluated periodically through self-assessment methodology of the members, based on the evaluation of each member, as well as a set of performance indicators that reflect the achievement of the Company's strategic objectives, quality of risk management and adequacy of internal control systems. Performance indicators include qualitative and quantitative indicators, for example:

Qualitative Indicators

- Degree of deviation between the estimated budget of the Company and the actual figures achieved.
- Progress towards achieving the desired objectives.
- Extent of response to the correction of feedback from regulators.
- Extent of rapid response to problem recognition and the ability to solve it.
- Turnover rate of employees, measuring the degree of belonging to the Company.
- Training courses attended and their relevance to the nature of work.

Quantitative Indicators

- Return on average assets
- Return on average shareholders' equity
- Net profit margin

Report of the remunerations granted to members of the Board of Directors and Executive Management

A recommendation was made to the Ordinary General Assembly not to pay any remunerations to the Board members for the fiscal year ended 31 December 2018 and to pay the independent member a remuneration of KD 7,500 (seven thousand and five hundred Kuwaiti Dinars).

Ensuring the correctness and integrity of the prepared financial reports

The Executive Management submits a written undertaking to the Board of Directors of Sokouk Holding Company to ensure the correctness and integrity of the financial statements of the Company, covering all financial aspects of operating data and results. Such reports shall be prepared in accordance with the International Financial Reporting Standards. The Board of Directors shall also submit to the shareholders of the Company an undertaking to ensure the integrity and correctness of the financial statements and the reports related to the activity of the Company. The Audit Committee, based on the powers granted to it by the Board of Directors, shall have the right to access and review all information, data, reports, records and correspondence relating to the Company's activities, risk management and other matters which the Committee deems necessary to access and review. The Board of Directors shall ensure the Committee and its members complete independence.

Independence and impartiality of the external auditor

The Board of Directors of Sokouk Holding Company has adopted the policy of the selection and independence of the External Auditor, prepared by the Audit Committee in accordance with the laws and regulations within the State of Kuwait, where this policy establishes the framework through which the Company's external auditor exercises his duties in the Company, which clearly indicates the mechanism of selecting the auditor and verifying his independence, as well as the standards of competence the auditor enjoys and the services permitted to be provided. The General Assembly of Sokouk Holding Company, held on the 6th of May 2018, approved the reappointment of Mr. Bader Adel Al-Abduljader, Al-Aiban and Al-Osaimi Office "Ernst & Young" as an external auditor for the Company's financial statements. Mr. Bader Al-Abduljader enjoys a good reputation and the integrity and independence required to perform his role, in addition to the fact that his is a member of the CMA approved list of auditors.

Internal Control Systems

Sokouk Holding Company relies on a set of control systems and control rules that cover all activities and management of the Company. These regulations and rules maintain the integrity of the financial position of the Company, the accuracy of its data and the efficiency of its operations in various aspects. The Company's organizational structure reflects the Four-Eyes Control Principles, including proper specifications of the powers and responsibilities, complete separation of functions and non-conflict of interests, double examination and control and double signing. The Company has appointed an independent consultant office to prepare an internal control report for the fiscal year ended 31 December 2018, in accordance with the instructions of the Capital Market Authority in this regard. The report has been submitted to the report.

The Company has established an independent unit with complete technical independence, through its subordination to the Risk Committee, which works to achieve effective internal control in the Company.

Code of Conduct and Ethical Values

Establishing the Code of Professional Conduct and Ethical Values in the Company enhances its integrity and sound financial states and it is deemed one of the most important components of the Company's governance system, where the Board of Directors and the Executive Management are keen on the quality of adherence to this code in the daily course of business, so as to achieve the interests of all related parties, stakeholders and shareholders, without a conflict of interest and with a high degree of transparency. The code is subject to periodic review to ensure that it complies with all updates and developments in the aspects of governance and the regulation of professional conduct. The Code of Professional Conduct and Work Ethic has been circulated to all employees of the Company and the Board members. Acceptance of this Code is a confirmation of commitment to the decisions contained therein.

Company policies and procedures to reduce conflicts of interest

The Board has established formal written policies covering all matters relating to conflicts of interest and their consequences, including, but not limited to, the following:

- Board members shall avoid any activities that are likely to lead to conflict of interest.
- Approval of the Board is required for any activity undertaken by a Board member that may result in a conflict of interest.
- Board members shall disclose any matters that may lead or have lead to a conflict of interest.
- Members shall abstain from voting on any matter that involve conflicts with the interests of the member, may have an impact on the voting objectivity or may adversely affect the member's ability to perform his duties in the Company properly.
- Appropriate measures shall be implemented to ensure that all transactions with related parties are on an equal footing, indicating how the Board shall deal with non-compliance with this Policy.

Disclosure and Transparency

The Board of Directors recognizes that disclosure is an effective tool to influence the Company's behavior, protect investors and enhance their trust in the Company. Stemming from the Board of Directors' commitment to establish a transparent work environment in accordance with the best governance rules in this regard. The Board of Directors has adopted a detailed Disclosure and Transparency Policy that specifies the material information to be disclosed and the manner and quality of that disclosure.

Sokouk is committed to provide the current and prospective shareholders and investors with accurate, comprehensive and detailed information that enables them to assess the Company's performance and make appropriate decisions in a timely manner by publishing information on the Kuwait Stock Exchange website and the Sokouk Holding website. Sokouk is committed to ensure that stakeholders have the opportunity to access the Company's available information about the Company's activities, by publishing information and data included in annual or quarterly reports on Sokouk Holding website. It is also committed to timely and accurate disclosure in accordance with the instructions of the Capital Markets Authority in terms of all issued materials and according to the approved policies, including, for example:

- Disclosure of shareholders who own 5% or more of the Company's capital and any change in that percentage.
- Disclosure of the names of the Board members and the names of the Executive Management members.
- Disclosure of material information.

Information Technology Infrastructure in the Company

During the year 2018, the Company continued to pay attention to the development and upgrade of its IT systems, the operation of the accompanying applications and programs, the update of the security and protection programs, in addition to the development and modernization of the backup systems, where some of the operating systems and networks were upgraded. The Company has also updated its website and created a special section thereon for corporate governance. Sokouk provides, through the website, all the information about the Company, its subsidiaries and associates, its local and abroad projects, as well as the various data, financial reports and other information, which is continuously updated.

Shareholders General Rights

The Board of Directors has established written policies and procedures covering all matters relating to the protection of shareholders' rights, including, for example:

- Receipt of dividends.
- Timely receipt of information and data related to the Company's activities and operational and investment strategies.
- Right to participate in meetings of the General Assembly and to give observations and recommendations (if any) regarding any improvements required.
- Participation in the meetings of the Shareholders General Assembly and voting on its decisions.
- Election of Board members.
- Accountability of the Board of Directors and Executive Management, raising cases of accountability in case of failure to perform the functions assigned to them.
- Kuwait Clearing Company keeps a record of the Company's shareholders, which shall be monitored on a weekly basis by the Company.
- The Company encourages its shareholders to attend the Annual General Assembly and other Assemblies or delegate their representatives to attend and vote. In case of inability to attend such meetings, the Company shall notify its shareholders or shall post on its website all the General Assembly's notices and explanatory materials. The shareholders may make statements at the meetings, ask questions and exercise their influence by voting on the topics included on the agenda.

Company general assembly meeting

Sokouk Holding Company is keen to organize the General Assembly Meetings of shareholders according to the rules of corporate governance and its governing laws and regulations, where the agenda items include the minimum items required according to the rules. The schedule data and information shall be provided to the shareholders well in advance of the Assembly meeting. The shareholders shall be able to participate effectively in the meetings of the General Assembly, discuss the issues listed therein and ask questions. The Company is keen to allow all shareholders to exercise their right to vote without any hindrances.

Rights of Stakeholders

The Company's corporate governance framework includes policies on the rules of procedures for dealing with stakeholders, in recognition of and keenness for the protection of their rights. These policies include the need to deal with stakeholders under the same conditions applied by the Company in dealing with the members of the Board of Directors, without any discrimination or preference for any of them. It also includes mechanisms to deal with stakeholders and meet their requirements properly, along with maintaining a good relationship, respecting their rights and maintaining the confidentiality of information. The Company seeks to encourage stakeholders to participate in the follow-up of its various activities, by providing timely and complete information and data, with full transparency, by adopting a policy that enables the stakeholders to report inappropriate practices by the Company and provide appropriate protection in its policy for the parties who report.

Investors Affairs Unit

The Company continued to provide an open and transparent dialogue with each of its shareholders through the Investor Relations Unit, which acts as a main contact with shareholders, investors and stakeholders. The Company has placed the name of the Unit's employee and his telephone number as the contact person on the Company's homepage on the website of the Kuwait Stock Exchange website. It also publishes information to investors and stakeholders periodically through the Company's website, which includes the latest data and figures, in addition to the other media channels.

Training Programs and Courses

- Sokouk Holding Company provides all members of the Board of Directors and Executive Management with the necessary training needed to increase their skills and knowledge, with a view to achieve better management and efficiency at work.
- Preparation of integrated internal reporting systems that will help the Board of Directors and the Executive Management to make decisions in a systematic and proper manner, thereby achieving the interests of shareholders.

Employees Corporate Values

In the Code of Professional and Ethical Conducts Manual, the Company identifies the fundamental principles underlying the Company's policy of creating corporate values on the basis that the Company's reputation depends on the conduct of the members of the Board and the Executive Management and the employees, where everyone must play a role in maintaining the Company's reputation by adhering to the highest ethical standards. The Board of Directors is responsible for setting the standards and criteria for the ethical values of the Company, where each member of the senior management and staff shall assist in the implementation of that Code, as part of his/her function and ethical responsibility, and shall inform the Board of Directors of any violation thereto.

The management of the Company has prepared the Employee Guide, guided by the Private Sector Labor Law in the State of Kuwait, in order to give a clear picture of the rights and duties of each employee, which enhances the employee's vital role in providing the highest quality services.

Community (Social Responsibility)

Sokouk Holding Company has paid attention to the importance of the Company's awareness of social responsibility which is linked to a number of high values and humanitarian standards, in addition to supporting and encouraging national manpower, raising its efficiency and providing training programs to develop the capabilities of university students, giving priority to Kuwaiti nationals. The Company also develops appropriate awareness and education programs that ensure the employees' awareness of the Company's social responsibility objectives on an ongoing basis, thus contributing to the improvement of the Company's performance. During 2018, the Company continued to focus on developing and training its employees.

Nawaf Musaed Al Osaimi
Chairman

Business report regarding the achievements of the Audit Committee for the year 2018

Proceeding with our keen obligation to provide you with all the developments and our commitment to applying the rules of corporate governance in regards to the Audit Committee Report, we are pleased to offer you this annual report on the achievements of the "Audit Committee" for the financial year that ended 31 December 2018, which sheds a light on the most vital economic developments and achievements within internal control systems, according to the following breakdown:

Review and approval of the financial statements:

The "audit committee" has reviewed the financial statements for quarterly and annually auditor's reports prior to submission to the Board of Directors to negotiate their opinions and recommendations in order to ensure a fair and transparent financial reporting. The financial statements were approved and there was no objection to this regarding the financial reporting.

External auditors

The "audit committee" have recommended to the Board of Directors to reappoint the company's external auditors, Mr. bader Al Abdul jader a representative of Al- Aiban, Al Osaimi and partners, for the fiscal year that ended on 31 December 2018, as the Committee has to follow up the work of the external audit and review their recommendations, the audit committee has met with the external audit (4) times during 2018 taking upon their recommendations by the committee and presenting them to the Board of Directors. The financial statements were approved quarterly and annually according to those recommendations, the Committee has also recommend to the Board of Directors to re-appoint the external auditors for the fiscal year, which ends on 31 December 2019, with the review of taking into account reviewing letters of appointment and ensuring their independence.

As the committee is keen on re-appointing the company's external auditors only for doing the auditing and no other services to the company.

Accounting Policy

The "Audit Committee" was specific and keen on studying and reviewing the accounting policies and criteria used in the company as well to expressing an opinion and recommendation to the Board of Directors before the approval of the quarter and annual financial statements.

Internal control systems

The "Audit Committee" was keen regarding applying the most ideal way for the internal control systems through the recommendation in hiring BDO office of Qais Mohammed Nisf Al-Nisf for the year ended 2018, where their office has examined the company departments and evaluated the control systems in those departments, and preparing an assessment report and a review of the internal control systems, the committee's recommendations forwarded to the Board of Directors regarding the report, it states the following:

- A. The internal control systems of the company are generated and maintained in accordance with the requirements of the CMA and the rules of corporate governance for companies.
- B. Recommendations that have been recognized and noted in the evaluation of internal controls do not affect an essential matter to a fair presentation of the financial statements of the Company for the year ended on 31 December 2018.
- C. The measures that have been taken by the company to address the observations that have been mentioned in the report are considered satisfied measures.

Internal Auditors Report:

The “audit committee” oversees on the work assigned to the internal audit office and verifies its effectiveness in implementing the audit work as specifies by the Board of Directors through the following:

1. The recommendation to renew with (KPMG) office to carry out with internal auditing, the secretary of the “Audit Committee” was chosen to be coordinated with the internal auditor.
2. The Committee has reviewed the internal auditors detailed reports within the department of Sokouk Holding Company for the financial year ended December 31, 2018, and have been working on the follow-up to end all recommendations in the reports and inform the board with procedures and solutions that will be taken, and then are reported and submitted to the Board of Directors.
3. The audit committee has met with internal audit (4) times during the year ended December 31, 2018.
4. A plan has been approved for internal audits for the Office of KPMG for the financial year ended December 31, 2018 to check on all departments of the company.

Compliance:

The Committee has approved a set of policies and procedures to ensure that the company’s complied to the laws, policies and regulations and instructions related to, and has review the compliance plan for the year 2018 and follow up with the fully implementation of governance and send annually report for CMA to avoid any possible violation in this regard.

In conclusion, we would like to emphasize that the developments and achievements that have been made but it is the grace of Almighty Allah and then your full support.

Yours sincerely accept with our respect and appreciation

Mr. Abdulmohsen Yaseen Al Oumi
Committee Chairman

THE SHARIA SUPERVISORY BOARD REPORT



11/04/2019

Final report of the Sharia Supervisory Committee For the financial period of 01/01/2018 to 31/12/2018

To The Shareholders of Sokouk Holding Company

Allah's peace, mercy and blessings be upon you

In accordance with the powers delegated to us by the members of the General Assembly of Sokouk Holding Company and under the Company's Articles of Association and the relevant regulatory directives, the Sharia Supervisory Committee submits its final report for the period from 01/01/2018 to 31/12/2018 It includes four items as follows:

First: The work of the Sharia Supervisory Committee

The Sharia Supervisory Committee carried out its work, which included examining the investment structures, contract forms, products, policies and procedures either directly or in coordination with the internal Sharia audit department in order to obtain all the information and explanations that it considered necessary to provide sufficient evidence and give reasonable assurance that the company did not violate the provisions of Islamic law in the light of the resolutions of the Sharia Supervisory Committee and the Sharia standards adopted by the Company and the decisions of the relevant regulatory bodies.

Second: Decisions of the Sharia Supervisory Committee

The Sharia Supervisory Committee of the Company responded to all the company's inquiries and issued 7 decisions.



Three: Decisions of the Sharia Supervisory Committee

The Sharia Supervisory Committee did not Approve any policies and procedures during the period.

Four: The final opinion:

In our opinion, after examining all the clarifications and assurances we have obtained, we confirm that:

1. The contracts, operations and transactions concluded by the Company during the period from 01/01/2018 to 31/12/2018 were made entirely in accordance with the provisions of the Islamic Sharia.
2. The responsibility to pay zakat falls on the shareholders.

Head of the Sharia
Supervisory Committee
Prof. Dr. Abdul Aziz Al Qassar

Member of the Sharia
Supervisory Committee
D. Issa Zaki Issa

Member of the Sharia
Supervisory Committee
D. Ali Ibrahim Al Rashed

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CONSOLIDATED FINANCIAL STATEMENTS



Sokouk Holding Company K.S.C.P

AND ITS SUBSIDIARIES

**For the Year Ended December 31, 2018
With Independent Auditor Report**



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sokouk Holding Company K.S.C.P. (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of Matters

We draw attention to Note 11 to the consolidated financial statements which describes that during the year 2015, the contractor of one of the properties of an associate of the Company i.e. Munshaat Real Estate Projects Company K.S.C.P. ("Munshaat"), situated in the Kingdom of Saudi Arabia has filed a claim against Munshaat for an amount equivalent to KD 41 million and Munshaat has filed a counterclaim against the same contractor for delay in completing the project for an amount equivalent to KD 51 million. The ultimate outcome of the matter cannot presently be determined, and accordingly no provision for any liability that may result has been recognised in the consolidated financial statements as at and for the year ended 31 December 2018. Our opinion is not modified in respect of this matter.

Key Audit Matters

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



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

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.

a. a) Impairment of investment in associates

The Group has investment in associates as at 31 December 2018 that are accounted for under the equity method of accounting, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition share of results and change in the Group's share of net assets of associates less any impairment losses.

The management assesses the need to recognise an impairment based on the comparison of the recoverable value of the associates to their carrying values in the books of account. The recoverable amount of the material associates is determined based on the fair value of the underlying leasehold properties that are determined by independent valuers who have experience in the valuation of properties in the relevant jurisdiction.

The fair values of underlying leasehold properties were determined based on a discounted cash flows model that is highly dependent on estimates and assumptions such as average room rate, revenue per available room, occupancy rate and discount rates. The share of results reflect the Group's share of results of operations of the associates based on the financial information of the associates.

As part of our audit procedures, we assessed whether the management has identified any indications of impairment in its investees, including significant adverse changes in economy, market, legal environment, industry or the political environment affecting the investees business also considering any changes in the investee's financial condition. We have reviewed the management's assessment of the reasonableness of key assumptions, including profit forecasts and the selection of growth rates. We challenged the management to substantiate its assumptions, including the comparison of relevant assumptions to industry benchmarks and economic forecasts. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions on the consolidated financial statements of the Group.

Additionally, we have also assessed the adequacy of disclosures relating to Group's investment in associates in Note 11 to the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b. Impairment of property and equipment

Property and equipment of the Group represent a significant part of the total assets of the Group and are carried at cost less accumulated depreciation and any impairment in value as at 31 December 2018. Property and equipment mainly include freehold land and building that is being used for Hotel operations. The management has assessed, in accordance with the requirements of relevant IFRS, whether there are any significant external adverse changes including market, economic, technological or legal environment factors in which the Group operates or internal observable factors including failure to meet budgeted and forecasted earnings in the current and prior years; that may trigger indicators of impairment that will either impact the carrying value or the remaining useful life of land and building. The management has also considered certain additional factors such as maintenance status, market knowledge and historical transactions. Further, the management obtained external valuation reports to support their judgment of whether any indicators of impairment exists as at the reporting date. The valuations provided by the external valuer are based on the market approach, which mainly uses the data of comparable properties.

Given the significance of these assets and the associated depreciation expense of the building to the consolidated financial statements as a whole and the assumptions used by the management in assessing whether there are any indicators of impairment, we have identified impairment of property and equipment as a key audit matter. The accounting policies relating to property and equipment and the judgments and assumptions used by the management in assessing the indicators of impairment are disclosed in Note 3.6 to the consolidated financial statements.

Our audit procedures included, among other things, evaluation of management's assessment of indicators of impairment as at the reporting date. As described above, the key inputs used by the management in assessing whether there are any indicators of impairment of property and equipment included market related data such as the local economic factors, technological or legal environment specifically to the State of Kuwait and also certain internal information relating to the cash flows generated by the Hotel operations.

We have challenged the assumptions and estimates made by management of the Group and the external valuers in the valuation methodology about the appropriateness of the property related data supporting the estimated recoverable amount.

We have also considered the objectivity, independence and competence of the external valuers. With respect to the valuation of land, we have evaluated the reasonableness of the value provided by the external valuer by benchmarking it with the publicly available real estate research reports. Further, we have also assessed the appropriateness of the disclosures relating to the property and equipment of the Group in Note 12 to the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

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' 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, 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.

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.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

- Furthermore, in our opinion proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the 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 Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, nor of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Company or on its financial position.

BADER A. AL-ABDULJADER

LICENCE NO. 207 A

EY

AL AIBAN, AL OSAIMI & PARTNERS

28 March, 2019
Kuwait

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
INCOME			
Hospitality income		4,473,935	4,569,300
Hospitality costs		(2,619,392)	(2,658,496)
Net hospitality income		1,854,543	1,910,804
Net income from investment properties	5	383,583	355,608
Net income from sokouk utilisation rights		-	195,667
Share of results of associates	11	(8,619,750)	(746,489)
Net foreign exchange differences		(11,741)	(2,419)
Management fees		50,536	66,573
Gain on sale of trading property	13	63,538	-
Other income		133,320	28,985
		(6,145,971)	1,808,729
EXPENSES			
Staff costs		(1,144,061)	(1,331,969)
Administrative expenses		(1,133,006)	(935,572)
Provisions and impairment losses	6	(690,566)	(1,450,850)
Amortisation of leasehold property	9	(159,137)	(186,348)
Change in fair value of investment properties	8	(52,000)	(208,000)
Finance costs		(1,546,196)	(1,615,725)
		(4,724,966)	(5,728,464)
LOSS FOR THE YEAR BEFORE TAX			
		(10,870,937)	(3,919,735)
Taxation	11	(3,731,672)	(1,350,000)
LOSS FOR THE YEAR			
		(14,602,609)	(5,269,735)
Attributable to:			
Equity holders of the Company		(14,523,334)	(5,113,936)
Non-controlling interests		(79,275)	(155,799)
		(14,602,609)	(5,269,735)
BASIC AND DILUTED LOSS PER SHARE			
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
	4	(25.41) fils	(8.95) fils

The attached notes 1 to 23 form part of these consolidated financial statements.

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

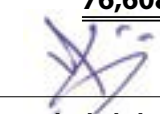
	2018	2017
Notes	KD	KD
LOSS for the YEAR	<u>(14,602,609)</u>	<u>(5,269,735)</u>
Other comprehensive loss		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange difference on translation of foreign operations	14,758	(163,079)
Share of other comprehensive loss of associates	11 <u>(1,618,797)</u>	<u>(439,526)</u>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	<u>(1,604,039)</u>	<u>(602,605)</u>
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Net loss on equity instruments designated at fair value through other comprehensive income	<u>(539,801)</u>	<u>-</u>
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods	<u>(539,801)</u>	<u>-</u>
Other comprehensive loss for the year	<u>(2,143,840)</u>	<u>(602,605)</u>
Total comprehensive LOSS for the YEAR	<u>(16,746,449)</u>	<u>(5,872,340)</u>
Attributable to:		
Equity holders of the Company	<u>(16,667,174)</u>	<u>(5,716,541)</u>
Non-controlling interests	<u>(79,275)</u>	<u>(155,799)</u>
	<u>(16,746,449)</u>	<u>(5,872,340)</u>

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 KD	2017 KD
ASSETS			
Cash and cash equivalents		2,090,867	1,147,770
Inventories		61,897	58,303
Accounts receivable and prepayments	7	1,351,894	7,851,221
Investment properties	8	5,400,000	5,452,000
Leasehold property	9	2,105,740	3,023,594
Available-for-sale financial assets	10	-	2,649,680
Financial assets at fair value through other comprehensive income	10	2,109,879	-
Investment in associates	11	30,800,004	44,579,656
Property and equipment	12	32,687,934	33,410,910
Trading property	13	-	1,500,022
TOTAL ASSETS		76,608,215	99,673,156
EQUITY AND LIABILITIES			
Equity			
Share capital	15	59,314,500	59,314,500
Statutory reserve	15	2,895,475	2,895,475
Voluntary reserve	15	2,895,475	2,895,475
Treasury shares	15	(1,769,871)	(1,769,871)
Effect of changes in other comprehensive income of associates		(1,845,850)	(227,053)
Foreign currency translation reserve		55,904	41,146
Fair value reserve		(3,394,528)	-
Other reserves		(272,250)	(258,172)
(Accumulated losses) / retained earnings		(8,839,875)	2,991,974
Equity attributable to equity holders of the Company		49,038,980	65,883,474
Non-controlling interests		1,221,944	1,289,380
Total equity		50,260,924	67,172,854
Liabilities			
Islamic finance payables	16	24,842,869	29,054,420
Accounts payable and accruals	17	1,007,004	2,938,543
Employees' end of service benefits		497,418	507,339
Total liabilities		26,347,291	32,500,302
TOTAL EQUITY AND LIABILITIES		76,608,215	99,673,156


Nawaf Musaed Abdulaziz Al-Osaimi
Chairman


Ahmad Abdulaziz Al-Nafisi
Vice Chairman

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

Attributable to equity holders of the Company

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Effect of changes in other comprehensive income of associates KD	Foreign currency translation reserve KD	Fair value reserve KD	Other reserves KD	Accumulated losses) / retained earnings KD	Subtotal KD	Non- controlling interests KD	Total equity KD
At 1 January 2018 (as previously reported)	59,314,500	2,895,475	2,895,475	(1,769,871)	(227,053)	41,146	-	(258,172)	2,991,974	65,883,474	1,289,380	67,172,854
Transition adjustment on initial application of IFRS 9 at 1 January 2018 (Note 3.3)	-	-	-	-	-	-	(2,854,727)	-	2,691,485	(163,242)	(2,239)	(165,481)
Adjusted balance as at	59,314,500	2,895,475	2,895,475	(1,769,871)	(227,053)	41,146	(2,854,727)	(258,172)	5,683,459	65,720,232	1,287,141	67,007,373
Loss for the year	-	-	-	-	-	-	-	-	(14,523,334)	(14,523,334)	(79,275)	(14,602,609)
Other comprehensive loss for the year	-	-	-	-	(1,618,797)	14,758	(539,801)	-	-	(2,143,840)	-	(2,143,840)
Total comprehensive loss for the year	-	-	-	-	(1,618,797)	14,758	(539,801)	-	(14,523,334)	(16,667,174)	(79,275)	(16,746,449)
Acquisition of non-controlling interests without change in control	-	-	-	-	-	-	-	(14,078)	-	(14,078)	14,078	-
At 31 December 2018	59,314,500	2,895,475	2,895,475	(1,769,871)	(1,845,850)	55,904	(3,394,528)	(272,250)	(8,839,875)	49,038,980	1,221,944	50,260,924

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2018

Attributable to equity holders of the Company

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Effect of changes in other comprehensive income of associates KD	Foreign currency translation reserve KD	Other reserves KD	Retained earnings KD	Subtotal KD	Non- controlling interests KD	Total equity KD
At 1 January 2017	59,314,500	2,895,475	2,895,475	(1,769,871)	212,473	204,225	(258,172)	8,105,910	71,600,015	1,071,911	72,671,926
Loss for the year	-	-	-	-	-	-	-	(5,113,936)	(5,113,936)	(155,799)	(5,269,735)
Other comprehensive loss for the year	-	-	-	-	(439,526)	(163,079)	-	-	(602,605)	-	(602,605)
Total comprehensive loss for the year	-	-	-	-	(439,526)	(163,079)	-	(5,113,936)	(5,716,541)	(155,799)	(5,872,340)
Dilution of equity interest in a subsidiary	-	-	-	-	-	-	-	-	-	373,268	373,268
At 31 December 2017	59,314,500	2,895,475	2,895,475	(1,769,871)	(227,053)	41,146	(258,172)	2,991,974	65,883,474	1,289,380	67,172,854

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
OPERATING ACTIVITIES			
Loss for the year before tax		(10,870,937)	(3,919,735)
Adjustments to reconcile loss for the year before tax to net cash flows:			
Share of results of associates	11	8,619,750	746,489
Dividend income		(11,123)	-
Depreciation	12	858,367	1,009,565
Provisions and impairment losses	6	690,566	1,450,850
Amortisation of leasehold property	9	159,137	186,348
Change in fair value of investment properties	8	52,000	208,000
Finance costs		1,546,196	1,615,725
Provision for employees' end of service benefits		95,482	208,667
		1,139,438	1,505,909
Working capital adjustments:			
Accounts receivable and prepayments		6,539,201	(387,909)
Inventories		(3,594)	(1,223)
Sokouk utilisation rights		-	(100,818)
Accounts payable and accruals		(456,539)	(93,702)
Trading property		1,500,022	-
Cash flows from operating activities		8,718,528	922,257
End of service benefits paid		(105,403)	(100,774)
Payments towards taxation		(5,081,672)	-
Net cash flows from operating activities		3,531,453	821,483
INVESTING ACTIVITIES			
Dividend income received		11,123	-
Purchase of property and equipment	12	(176,995)	(42,970)
Proceeds from partial redemption of an associate		3,335,263	1,533,080
Net cash flows from investing activities		3,169,391	1,490,110
FINANCING ACTIVITIES			
Repayment of Islamic finance payables		(4,154,792)	(1,344,528)
Finance costs paid		(1,602,955)	(1,656,686)
Net cash flows used in financing activities		(5,757,747)	(3,001,214)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		943,097	(689,621)
Cash and cash equivalents at 1 January		1,147,770	1,837,391
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		2,090,867	1,147,770
Non-cash items excluded from the consolidated statement of cash flows:			
ECL opening balance adjustment (Adjusted with accounts receivable and prepayments)	3.3	165,481	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

1. CORPORATE INFORMATION

The consolidated financial statements of Sokouk Holding Company K.S.C.P. (the "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 directors on 28 March 2019. The shareholders of the Company have the power to amend these consolidated financial statements at the annual general assembly meeting ("AGM").

The consolidated financial statements for the year ended 31 December 2017 were approved by the Company's shareholders at the AGM held on 6 May 2018. No dividends were declared by the Company.

The Company is registered in the State of Kuwait and was incorporated and authenticated at the Ministry of Justice - Real Estate Registration and Authentication Department on 23 August 1998 and registered in commercial register on 29 August 1998, and subsequent amendments thereto. The Company's registered address is at P.O. Box 29110 Safat- Postal code 13152- State of Kuwait. The Company's shares are publicly traded on Boursa Kuwait.

The Company is a subsidiary of Aref Investment Group S.A.K. ("Aref") (the "Parent Company"), a Kuwaiti share holding Company incorporated and domiciled in the State of Kuwait.

The Company's principal activities are as follows:

- Owning shares of Kuwaiti or foreign shareholding companies or units in Kuwaiti or foreign limited liability companies, or establishing, managing, financing and sponsoring such companies.
- Financing and sponsoring entities in which the Company has an ownership interest of not less than 20% in such entities.
- Owning industrial rights such as patents, industrial trademarks, sponsoring foreign companies or any other related industrial rights and leasing such rights for the benefit of companies inside or outside State of Kuwait.
- Owning movable assets or real estates required to pursue the Company's activities within the limits acceptable by law.
- Utilising available surplus funds by investing these funds in portfolios managed by specialised parties.

All activities are conducted in accordance with Islamic sharia'a as approved by the Company's Sharia'a Supervisory Board.

2. FUNDAMENTAL ACCOUNTING CONCEPT

The Group has incurred a net loss of KD 14,602,609 for the year ended 31 December 2018 (2017: KD 5,269,735). Further, as of that date, the Group's current liabilities exceeded its current assets by KD 1,545,215 (2017: KD 7,046,454). The ability of the Group to continue as a going concern is dependent on its future profitability and its ability to generate positive operating cash flows primarily through its hospitality operations, which has earned revenues amounting to KD 4,473,935 during the year (2017: KD 4,569,300) and has recognised an operating profit of KD 1,854,543 (2017: KD 1,910,804). The management expects that the hospitality operations will continue to generate positive cash flows in the foreseeable future. This consolidated financial statements has been prepared on a going concern basis as the management has reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and the ability to meet its funding requirements and to refinance or repay its banking facilities as they fall due. In addition, certain loans and borrowings are with a related party local Islamic financial institution, and the management expects the settlement of these facilities to be met out of the operating cash flows of the Group.

The consolidated financial statements does not include any adjustments relating to the recoverability and classification of the recorded asset amounts and classification of liabilities that may be necessary if the Group is unable to continue as a going concern.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared on a historical cost basis except for investment in equity securities and investment properties that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinar ("KD"), which is also the Company's functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**3.1 BASIS OF PREPARATION (continued)**

The Group presents its statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 19.

Certain prior year amounts have been reclassified to conform to the current year presentation. There is no effect of these reclassifications on the previously reported equity, total assets and loss for the year then ended.

3.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries (investees which are controlled by the Company) as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 BASIS OF CONSOLIDATION (continued)

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

Name of the entity	Country of incorporation	Equity interest as at		Principle activities
		31 December 2018	2017	
Gulf Real Estate Development House Company K.S.C. (Closed)	Kuwait	87.99%	87.59%	Real estate
Sokouk Investment Advisory Company*	Cayman Island	-	100%	Investment advisory
Sokouk Real Estate Company K.S.C. (Closed)*	Kuwait	96.52%	96.52%	Real estate
Sokouk Al Oula Trading Company W.L.L.**	Kuwait	99%	99%	Trading
Sokouk Al Kuwaitia Trading Company W.L.L.**	Kuwait	99%	99%	Trading

* During the year, the Company liquidated the underlying subsidiary.

**The Company's effective holding in these subsidiaries is 100%.

Material partly-owned subsidiary:

The management has determined that Gulf Real Estate Development House Company K.S.C. (Closed) is material to the Group.

Proportion of equity interest held by non-controlling interests:

Name of entity	2018	2017
Gulf Real Estate Development House Company K.S.C. (Closed)	12.01%	12.41%
	2018	2017
	KD	KD
Accumulated balances of material non-controlling interests:		
Gulf Real Estate Development House Company K.S.C. (Closed)	<u>1,221,944</u>	<u>1,289,380</u>
	2018	2017
	KD	KD
Loss allocated to material non-controlling interests:		
Gulf Real Estate Development House Company K.S.C. (Closed)	<u>(79,275)</u>	<u>(155,799)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 BASIS OF CONSOLIDATION (continued)

Material partly-owned subsidiary (continued):

Summarised financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

	2018	2017
	KD	KD
Summarised statement of profit or loss		
Revenue	4,107,679	4,180,558
Cost of revenues	(2,426,664)	(2,477,061)
Other income	25,366	12,185
Operating expenses	(1,142,511)	(1,727,298)
Finance costs	(1,208,381)	(1,244,428)
Total loss and comprehensive income	(644,511)	(1,256,044)
Attributable to non-controlling interests	(79,275)	(155,799)

	2018	2017
	KD	KD
Summarised statement of financial position		
Current assets	32,671,564	33,397,272
Non-current assets	849,773	1,041,409
Current liabilities	(777,754)	(1,220,995)
Non-current liabilities	(22,563,576)	(22,811,758)
Total equity	10,180,007	10,405,928
Attributable to non-controlling interests	1,221,944	1,289,380

	2018	2017
	KD	KD
Summarised cash flow information		
Operating	1,086,344	1,045,470
Investing	(164,672)	(28,108)
Financing	(855,899)	(1,213,651)
Net increase (decrease) in cash and cash equivalents	65,773	(196,289)

3.3 CHANGE IN ACCOUNTING POLICIES

New and amended standards and interpretations

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

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

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

IFRS 9 Financial Instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**3.3 CHANGE IN ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)****IFRS 9 Financial Instruments (continued)***a. Classification and measurement*

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

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 that 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 application of IFRS 9.

Financial assets at fair value through other comprehensive income comprise equity instruments which the Group had irrevocably elected, at transition, to classify at fair value through other comprehensive income. Under IAS 39, the Group's equity securities were classified as Available-for-sale (AFS) financial assets and were accounted at cost less impairment. At the date of initial application of IFRS 9, the Group measured the investment at fair value.

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 profit or loss.

b. Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Group's accounting policies for impairment of financial assets under IFRS 9 is explained in Note 3.5 Impairment of financial assets under Financial instruments.

c. Hedge accounting

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

IFRS 15 Revenue from Contracts with Customers

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

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

The adoption of IFRS 15 did not result in any significant change in accounting policies of the Group and did not have any material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 CHANGE IN ACCOUNTING POLICIES (continued)

Amendments to IAS 40 Transfers of Investment Property

The amendment is applied prospectively, however, retrospective application in accordance with IAS 8 is permitted if possible without the use of hindsight. The amendment clarifies when an entity should transfer property, including property under construction or development into, or out of, investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This is effective for accounting periods beginning on or after 1 January 2018. There has been no change in use of any of the Group's investment property.

Transitional provisions

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

- a. Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- b. The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - The determination of the business model within which a financial asset is held.
 - The determination of expected credit losses on applicable financial assets.
 - The election of certain financial assets as measured at FVOCI.

The total impact on the Group's fair value reserve, retained earnings and non-controlling interests as at 1 January 2018 is as follows:

	Fair value reserve KD	Retained earnings KD	Non- controlling interests KD
Closing balance under IAS 39 (31 December 2017)	-	2,991,974	1,289,380
Impact on reclassification and re-measurements:			
Reclassification of equity securities from AFS to FVOCI	(2,854,727)	2,854,727	-
Impact on recognition of ECL on receivables:			
Expected credit losses on receivables	-	(163,242)	(2,239)
Opening balance under IFRS 9 on date of initial application as of 1 January 2018	<u>(2,854,727)</u>	<u>5,683,459</u>	<u>1,287,141</u>

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

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

	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 KD	ECL recognised under IFRS 9 KD	Carrying amount under IFRS 9 KD
Investment securities	AFS	FVOCI	2,649,680	-	2,649,680
Accounts receivable*	Loans and receivables	Amortised cost	7,183,008	(165,481)	7,017,527
Bank balances	Loans and receivables	Amortised cost	1,147,770	-	1,147,770

*excluding prepaid expenses and advances

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**3.4 STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE**

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

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

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date. However, the Group does not expect the new standard to have a material impact on the consolidated financial statements.

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

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

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application

permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

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

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Revenue recognition**

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 assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that in most of the revenue arrangements it is acting as a principal.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The following specific recognition criteria must also be met before revenue is recognised:

Hospitality income

Hospitality income is recognised upon rendering of related services to the customers.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

Gain or loss on sale of investment properties and investment securities

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

Sale of sokouk

Sales of sokouk represent the total contracts' value of sokouk sold during the year. Revenue from sale of sokouk is recognised when significant risks and rewards of ownership of sokouk are transferred to the buyer.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss, net of any reimbursement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of profit and other costs that the Group incurs in connection with the borrowing of funds.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

Financial instruments

The Group has adopted IFRS 9 Financial Instruments effective from 1 January 2018. See section 3.3 for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

a. Recognition and initial measurement

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

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

b. Classification and subsequent measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

b. Classification and subsequent measurement (continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

b. Classification and subsequent measurement (continued)

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

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

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

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

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

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

Financial assets – Policy applicable before 1 January 2018

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments (continued)****c. Derecognition****Financial assets**

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

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

Financial liabilities

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

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

d. Offsetting

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

Impairment of financial assets - Policy applicable from 1 January 2018

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.

The Group applies a three stage approach to measure the expected credit loss as follows:

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains largely unchanged.

For trade receivables, the Group has applied the 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 balances and the Group's economic environment.

The management considers a financial asset in default when the contractual payments are 365 days past due. However, in certain cases, the management 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets - Policy applicable before 1 January 2018

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

Available-for-sale financial assets

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

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

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

Impairment of non-financial assets

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

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

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

Impairment losses of continuing operations, including impairment on sokouk utilisation rights, are recognised in the consolidated statement of profit or loss under provision and impairment losses.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Investment in associates**

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of investee, but is not control or joint control over those policies.

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 profit or loss 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 the consolidated statement of 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 result of an associate is shown on the face of the consolidated statement of profit or loss and represents results after tax and non-controlling interests in the subsidiaries of the associate. The reporting dates of the associates and the Group are identical and in case of different reporting date of an associate, which are not more than three months, from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. Where 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 profit or loss.

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 profit or loss.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 to 5 years

Capital work in progress is stated at cost. Following completion, capital working in progress is transferred into the relevant classification of property and equipment.

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 capitalised and the carrying amount of the component that is replaced is written off.

Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as the expense is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each item to its present location and condition. Cost represents purchase cost determined on a weighted average costs basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

Investment properties

Investment properties are measured initially at cost, including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. Subsequent to initial recognition, investment properties are stated at fair value, which reflects 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 profit or loss in the period in which they arise. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuers.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the period of derecognition.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. 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.

Leases

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

Leases where the Group is a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised 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 reflected in the consolidated statement of profit or loss.

Operating lease payments are recognised as expense on straight line basis over the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the assets or the lease term. Leasehold property is amortised over a period of 14 years, less any accumulated impairment.

Leases where the Group is a lessor

Leases where the Group doesn't transfer substantially all the risks and benefits of ownership of the assets are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they have earned.

Impairment of leasehold property

The carrying amounts of the leasehold property are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. The management assesses the leasehold property for impairment based on lower of two valuations carried out by external real estate appraisers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Trading property**

Trading property is held for short term purposes and is carried at the lower of cost and net realisable value determined on an individual basis. Cost comprises the purchase cost of real estate and other expenses incurred in order to complete the transaction. Net realisable value is based on estimated selling price less any further costs to be incurred on disposal of real estate.

Treasury shares

Treasury shares consist of the Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not 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 and then to the statutory and voluntary 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 paid on these shares. The issue of stock dividend increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Foreign currencies*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Group companies

The assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation 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 profit or loss.

Fair value measurement

The Group measures financial instruments and non-financial assets such as investment properties at fair value at each reporting date.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 21.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated financial statements based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Employees' end of service benefits

The Group provides end of service benefits to all its employees under the Kuwait Labour Law. The entitlement to these benefits is usually based upon the employees' length of salary calculated, up to 5 years, 30 days per annum; more than 5 years till 10 years, 45 days per annum and above 10 years, 60 days per annum salary. 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 the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

Contingent liabilities are not recognised but disclosed in the consolidated financial statements except when the possibility of an outflow of resources embodying economic benefits is remote.

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

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders.

3.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management of the Group to make judgements, 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 the assumptions and estimates could result in outcomes that require a material adjustment to the amount of the asset or liability affected in future periods.

Judgements other than estimates

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

Classification of real estate and leasehold property

Management decides on acquisition of real estate whether it should be classified as trading property, property held for development, leasehold property or investment property.

The management classifies real estate - as trading property if it is acquired principally for sale in the ordinary course of business, as property under development if it is acquired with the intention of development, as investment property or leasehold property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

Classification of financial assets

Effective from 1 January 2018 (IFRS 9)

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

Effective before 1 January 2018 (IAS 39)

On acquisition of an investment, the Group decides whether it should be classified as 'at fair value through profit or loss', 'available-for-sale' or 'held to maturity'. The Group follows the guidance of IAS 39 on classifying its investments.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related consolidated financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of investment in associates

Investment in associates are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associates less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the associate in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

Impairment of financial assets at amortised cost

Effective from 1 January 2018 (IFRS 9)

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

Effective before 1 January 2018 (IAS 39)

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

Impairment of available-for-sale financial assets

Effective before 1 January 2018 (IAS 39)

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, a significant or prolonged decline in the fair value below its cost; and the financial health of and short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The determination of what is "significant" or "prolonged" requires significant judgment.

Fair value measurement

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

Valuation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of profit or loss. For the investment property the valuer used a valuation technique based on comparable market data, rental value, recent market transactions and the maintenance status of the property. The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate.

Useful lives of property and equipment

Management of the Group assigns useful lives and residual values to property and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**3.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)****Impairment of non-financial assets**

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

4. BASIC AND DILUTED LOSS PER SHARE

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	2018	2017
Loss for the year attributable to equity holders of the Company (KD)	<u>(14,523,334)</u>	<u>(5,113,936)</u>
Weighted average number of ordinary shares (shares)*	<u>571,645,336</u>	<u>571,645,336</u>
Basic and diluted loss per share (fils)	<u>(25.41)</u>	<u>(8.95)</u>

* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year.

As there are no dilutive instruments outstanding, basic and diluted loss per share are identical.

5. NET INCOME FROM INVESTMENT PROPERTIES

	2018 KD	2017 KD
Rental income	<u>427,010</u>	407,880
Property operating costs	<u>(43,427)</u>	<u>(52,272)</u>
	<u>383,583</u>	<u>355,608</u>

6. PROVISIONS AND IMPAIRMENT LOSSES

	2018 KD	2017 KD
(Reversal of) provision for impairment of property and equipment (Note 12)	<u>(83,396)</u>	413,328
Impairment loss on leasehold property (Note 9)	<u>758,717</u>	517,011
Reversal of provision for impairment of receivables (Note 7)	-	(333,675)
Impairment loss on available-for-sale financial assets (Note 10)	-	275,819
Allowance for expected credit losses		
(2017: provision for impairment of receivables) (Note 7)	<u>15,245</u>	119,203
Provision on sokouk utilisation rights	<u>-</u>	<u>459,164</u>
	<u>690,566</u>	<u>1,450,850</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2018	2017
	KD	KD
Financial assets:		
Trade receivables	530,001	563,220
Amounts due from related parties (Note 14)	488,223	6,630,307
Other receivables	402,694	271,600
Less: Allowance for expected credit losses (2017: provision for impairment of receivables)	(445,419)	(271,043)
	<u>975,499</u>	<u>7,194,084</u>
Non-financial assets:		
Prepaid expenses	83,230	94,631
Advances	293,165	562,506
	<u>376,395</u>	<u>657,137</u>
	<u>1,351,894</u>	<u>7,851,221</u>

The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Note 20.1 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Group's trade receivables and amounts due from related parties. Other classes within accounts receivable do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

Movements in the impairment allowance for receivables are as follows:

	2018	2017
	KD	KD
At 1 January (under IAS 39)	271,043	584,863
Opening loss allowance as at 1 January 2018 - calculated under IFRS 9 (Note 3.3)	165,481	-
Opening provision for impairment of receivables	436,524	584,863
Allowance recognised in profit or loss during the year	15,245	119,203
Less: Reversal of provision (Note 6)	-	(333,675)
Less: Bad debts written off	(6,350)	(99,348)
At 31 December	<u>445,419</u>	<u>271,043</u>

The above comparative for impairment provisions refers to IAS 39 measurement basis which applied on incurred loss model, whereas the current year applies IFRS 9 which is on expected loss model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

8. Investment properties

	2018 KD	2017 KD
As at 1 January	5,452,000	5,660,000
Change in fair value	<u>(52,000)</u>	<u>(208,000)</u>
As at 31 December	<u>5,400,000</u>	<u>5,452,000</u>

Investment properties (continued)

Investment properties comprise of buildings located in Kuwait.

The fair value of the investment properties has been determined based on valuations obtained from independent valuers, who are industry specialists in valuing these types of investment properties. For each of the property one of these valuers is a local bank who has valued the investment properties using "Capitalisation of income method" and the other is a local reputable accredited valuer who has valued the investment properties using the combination of the market comparison approach for the land and cost approach for the construction work executed to date. In regard to measurement of investment properties in the consolidated financial statements, the management has considered the lower of the two valuations as per Law No. 7 of CMA regulations.

Investment properties are pledged as security for Islamic financing payables (Note 16).

Fair value hierarchy

The fair value measurement of investment properties has been categorised as level 2 within the fair value hierarchy based on inputs to the valuation technique used.

The significant inputs used in the fair value measurements, together with a quantitative sensitivity analysis as at 31 December 2018 and 2017 are set out below:

	2018 KD	Kuwait 2017 KD
Estimated market price for the land (per sqm) (KD)	1,525	1,643
Construction costs (per sqm) (KD)	126	122
Average monthly rent (per sqm) (KD)	3.7	3.5
Yield rate	7.88%	7.48%
Occupancy rate	96%	93%

Based on 5% increase/decrease in key assumptions, the value of investment properties would increase/decrease by total amount of KD 270,000 (2017: KD 272,600).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

9. LEASEHOLD PROPERTY

	2018	2017
	KD	KD
As at 1 January	3,023,594	3,726,953
Amortisation	(159,137)	(186,348)
Impairment loss (Note 6)	(758,717)	(517,011)
As at 31 December	<u>2,105,740</u>	<u>3,023,594</u>

Leasehold property represents the Group's investment in 8th floor of Al Qebalah Tower located in Al Madinah, Kingdom of Saudi Arabia. Leasehold property is amortised over the leasehold term of 21 years and is measured at cost less accumulated amortisation and impairment. Leasehold property was capitalised in February 2016 after receiving the notification of commencement of operations from the property manager.

At the reporting date, management has assessed impairment on leasehold property by determining its fair value, based on external valuations by accredited independent valuers, using market comparison approach.

10. INVESTMENT SECURITIES

	2018	2017
	KD	KD
Financial assets at fair value through other comprehensive income (IFRS 9):		
- Unquoted equity securities	2,109,879	-
Available-for-sale financial assets (IAS 39):		
- Unquoted equity securities	<u>-</u>	<u>2,649,680</u>
	<u>2,109,879</u>	<u>2,649,680</u>

The Group's investment in unquoted equity securities was previously accounted at cost less impairment (in accordance with IAS 39). At 31 December 2017, the management had carried out a detailed review of these investments, to assess whether there is objective evidence that these investments were impaired. As a result, the Group recorded an impairment loss amounting to KD 275,819 during the year then ended (Note 6).

The fair value hierarchy and basis of valuation is disclosed in Note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

11. INVESTMENT IN ASSOCIATES

The Group has investment in the following associates:

Name of entity	Country of incorporation	Equity interest		Carrying amount	
		2018 %	2017 %	2018 KD	2017 KD
Munshaat Real Estate Projects Company K.S.C.P. ("Munshaat")*	Kuwait	27.67	27.67	9,531,258	19,070,054
Joint Venture – Qitaf ("Qitaf JV")	Kuwait	36.43	36.43	2,587,100	2,892,529
The Zamzam 2013 JV ("Zamzam JV" or "Zamzam")	Kuwait	23.48	23.48	18,681,646	<u>22,617,073</u>
				30,800,004	<u>44,579,656</u>

The following table illustrates summarised financial information of the Group's investment in its associates:

	Munshaat KD	Qitaf JV KD	ZamZam JV KD	2018 KD	2017 KD
Non-current assets	122,475,954	6,857,207	82,528,810	211,861,971	257,009,712
Current assets	15,552,872	696,365	10,375,231	26,624,468	53,202,109
Non-current liabilities	(63,701,824)	-	-	(63,701,824)	(36,335,018)
Current liabilities	(29,109,581)	(451,607)	(11,032,465)	(40,593,653)	(84,207,959)
Non-controlling interests	1,591,218	-	-	1,591,218	(2,539,636)
Equity attributable to the equity holders of the associates	46,808,639	7,101,965	81,871,576	135,782,180	187,129,208
Proportion of the Group's ownership	27.67%	36.43%	23.48%		
Group's share in the equity	12,951,950	2,587,246	19,223,446	34,762,642	48,379,518
Associates' results for the year					
Revenue	10,617,787	1,060,549	20,121,309	31,799,645	31,003,004
Results for the year	(28,231,521)	(878,927)	(5,014,609)	(34,125,057)	(2,957,060)
Group's share of results for the year	(7,811,662)	(320,187)	(487,901)	(8,619,750)	(746,489)
Group's share of associates' other comprehensive (loss) income for the year	(1,727,479)	-	108,682	(1,618,797)	(439,526)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

11. INVESTMENT IN ASSOCIATES (continued)

The management has carried out the assessment of Group's investment in associates to identify any indicators of impairment. The management has considered factors such as changes in the investee's financial condition, any significant adverse changes in economy, market, legal environment, industry or the political environment affecting the investees business. Further, the management has assessed the recoverable value of the investment in associates based on fair value of leasehold properties carried in the books of the associates. The fair value of the underlying leasehold properties is determined by independent valuers using the discounted cash flow models using assumptions and inputs such as average room rate, revenue per available room, occupancy rate and the discount rates. Based on such analysis, the management has not identified any indications of impairment in Group's investment in associates at the reporting date.

The market value of investment in Munshaat as at 31 December 2018 is KD 8,909,740 (2017: KD 6,218,999).

Qitaf JV and Zamzam JV are unquoted and consequently do not have quoted market prices available for its shares. Management considers that the fair value is unlikely to be materially different from the carrying value.

*Tax claim related to Munshaat

On 5 January 2016, Munshaat received a tax demand notice for SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ("GAZT"), in the Kingdom of Saudi Arabia ("KSA") for the years 2003 to 2013 and claimed capital gains tax, corporate income tax, withholding tax and delay penalties ("tax claim").

The management of Munshaat appointed a tax advisor in KSA to review the tax claim and file an objection letter with GAZT. Accordingly, the tax advisor filed an objection letter on 2 March 2016 with GAZT.

Based on the advice received from the tax advisor, the management of Munshaat estimated and recorded a potential tax liability, including the aforementioned tax claim amounting to KD 30,444,311 in its consolidated statement of financial position as of the end of the immediately preceding financial year ended 31 December 2017. The potential tax liability recognised represented management's best estimate of the tax liability attributable to Munshaat and other related parties, including the Company (together referred to as the "tax entities") as of that date.

During the current year, Munshaat received an offer from GAZT to settle the tax claim (the "offer") amounting to SAR 288,536,073 for the fiscal period from 2003 to 2013 and SAR 122,920,182 for the fiscal period from 2014 to 2017, totalling to an amount of SAR 411,456,254 (equivalent to KD 33,299,155).

The board of directors of Munshaat in their meeting on 23 September 2018 resolved, on recommendation of the tax advisor, to accept the offer for the best interest of Munshaat and invite its shareholders for an ordinary general meeting for approval. Further, Munshaat formed an action committee to determine and allocate the tax liability attributable to each of the taxable entities and appointed an independent advisor to perform the allocation exercise. The allocation exercise was completed on 17 October 2018 and approved by Munshaat's board of directors on 18 October 2018.

Accordingly, the ordinary shareholders meeting of Munshaat held on 21 October 2018 approved Munshaat's board of directors' recommendation and authorised the directors to take the necessary measures to finalise the settlement.

As a result, Munshaat recognised an additional tax expense of SAR 28,677,075 (equivalent to KD 2,320,836) during the current year in the consolidated statement of profit or loss to reflect the tax settlement as of that date. The total tax liability recognised by Munshaat on the statement of financial position as at the reporting date amounted to SAR 447,682,629 (equivalent to KD 36,228,263) out of which an amount of SAR 46,107,087 (equivalent to KD 3,731,672) represents the share of the Company of the tax settlement and accordingly recognised by the Company within 'Taxation' in the statement of profit or loss for the year then ended.

During the year, Munshaat has settled the full amount to GAZT for the tax claims up to 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

11. INVESTMENTS IN ASSOCIATES (continued)**Legal claim contingency in respect of an associate**

During the year 2015, the contractor of one of the properties of Munshaat situated in the Kingdom of Saudi Arabia has claimed a penalty of SAR 501 million (equivalent to KD 41 million) from Munshaat for the delay in the execution of the project and various other related costs and Munshaat has counter claimed an amount of SAR 627 million (equivalent to KD 51 million) on the same contractor for the delay in handing over the project and the operational losses. The dispute has been referred to Saudi Arbitration Committee ("SAC") and as on the date of these consolidated financial statements, the trial proceedings and hearings are still in progress. However due to the considerable discrepancy in the technical reports submitted by the two parties in dispute, a specialised technical expert was appointed by SAC whose report issued on 20 March 2018 supported the Munshaat's position to a large extent.

Munshaat has been advised by its legal counsel that it is only possible, but not probable, that the action against Munshaat will succeed. Accordingly, Munshaat has not recognised any provision for any liability has been made in the consolidated financial statements.

12. PROPERTY AND EQUIPMENT

	Land KD	Building KD	Furniture, fixtures and equipment KD	Motor vehicles KD	Capital work in progress KD	Total KD
Cost:						
At 1 January 2018	10,297,000	23,940,033	2,071,052	107,877	10,715	36,426,677
Additions	-	-	39,443	-	137,552	176,995
Discount from a contractor	-	(125,000)	-	-	-	(125,000)
At 31 December 2018	10,297,000	23,815,033	2,110,495	107,877	148,267	36,478,672
Depreciation and impairment:						
At 1 January 2018	-	1,657,075	1,304,231	54,461	-	3,015,767
Reversal of previous recognised impairment loss (Note 6)	-	(83,396)	-	-	-	(83,396)
Charge for the year	-	467,876	368,917	21,574	-	858,367
At 31 December 2018	-	2,041,555	1,673,148	76,035	-	3,790,738
Net book value:						
At 31 December 2018	10,297,000	21,773,478	437,347	31,842	148,267	32,687,934
Cost:						
At 1 January 2017	10,297,000	23,940,033	2,028,082	107,877	10,715	36,383,707
Additions	-	-	42,970	-	-	42,970
At 31 December 2017	10,297,000	23,940,033	2,071,052	107,877	10,715	36,426,677
Depreciation and impairment:						
At 1 January 2017	-	764,244	794,647	33,983	-	1,592,874
Charge for the year	-	479,503	509,584	20,478	-	1,009,565
Impairment loss (Note 6)	-	413,328	-	-	-	413,328
At 31 December 2017	-	1,657,075	1,304,231	54,461	-	3,015,767
Net book value:						
At 31 December 2017	10,297,000	22,282,958	766,821	53,416	10,715	33,410,910

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12. PROPERTY AND EQUIPMENT (continued)

Cumulative borrowing costs amounting to KD 3,916,007 (2017: KD 3,916,007) has been capitalised in the carrying value of property and equipment as at the reporting date.

The management has assessed the impairment indicators of land and building through assessing factors such as significant external adverse changes including market, economic, technological or legal environment factors in which the Group operates or internal observable factors including failure to meet budgeted and forecasted earnings in the current and prior years; that may trigger indicators of impairment that will either impact the carrying value or the remaining useful life of land and building. The management has also considered certain additional factors such as maintenance status, market knowledge and historical transactions.

The management has also obtained two valuations of land and building carried out by independent valuers, with relevant experience in the market, and used the lower of two valuations to corroborate the judgments based on factors noted above. The independent valuers have provided the valuation of land and building using the cost approach.

Property and equipment with carrying value of KD 32,666,512 (2017: KD 33,381,422) is pledged as security for Islamic finance payables (Note 16).

13. TRADING PROPERTY

During the year 2012, the Company acquired a trading property at a fair value of KD 1,500,022 in lieu of settlement of a wakala receivable from the borrower. The title of this property was transferred to the Company on 16 September 2012. However, during the year 2016, the management became aware that there is an ongoing lawsuit between the borrower and a third party in relation to the ownership of this property. As a result, any transfer of the title of this property was subject to the final outcome of the ongoing lawsuit.

During the current year, the Court of Cassation has issued its final verdict in favour of the Company supporting the ownership of the trading property, following which the Group has sold the property during the year for a total consideration of KD 1,581,620. The resultant gain from this transaction amounted to KD 63,538 and is recognised in the consolidated statement of profit or loss.

14. RELATED PARTY DISCLOSURES

Related parties represent Parent Company, Ultimate Parent Company, major shareholders, associates, joint ventures, directors and key management personnel of the Group, and companies of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Company's management.

The following table shows the aggregate value of transactions and outstanding balances with related parties:

	Major shareholder of the Parent Company KD	Associates KD	2018 KD	2017 KD
Consolidated statement of profit or loss:				
Management fees	-	50,536	50,536	66,573
Finance costs	353,067	-	353,067	409,047

	Major shareholder of the Parent Company KD	Parent Company KD	Associates KD	Others KD	2018 KD	2017 KD
Consolidated statement of financial position:						
Amounts due from related parties	-	-	471,922	16,301	488,223	6,630,307
Amounts due to related parties	-	137,974	68,910	27,155	234,039	173,982
Islamic finance payables	2,402,869	-	-	-	2,402,869	6,454,420

Amounts due from / due to related parties are interest free and have no fixed repayment schedule.

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As at and for the year ended 31 December 2018

14. RELATED PARTY DISCLOSURES (continued)**Key management compensation**

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The aggregate value of transactions related to key management personnel were as follows:

	2018	2017
	KD	KD
Salaries and other short term benefits	285,179	348,783
End of service benefits	39,561	46,235
	<u>324,740</u>	<u>395,018</u>

15. EQUITY**a. Share capital**

Authorised, issued and fully paid-up capital amounting to KD 59,314,500 (2017: KD 59,314,500) consist of 593,145,000 (2017: 593,145,000) equity shares of 100 fils each, paid in cash.

b. Statutory reserve

In accordance with the Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the period before tax and Director's remuneration attributable to the equity holders of the Company shall be transferred to the statutory reserve. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital.

The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

During the year, no transfer has made to statutory reserve for the year since the Group has incurred losses.

c. Voluntary reserve

No transfers were made during the year as the Group has incurred losses.

d. Treasury shares

	2018	2017
Number of treasury shares	21,499,664	21,499,664
Percentage of capital	3.6%	3.6%
Cost – KD	1,769,871	1,769,871
Market value – KD	849,237	1,021,234
Weighted average market price – fils	47.2	48.8

Reserves equivalent to the cost of treasury shares held are not available for distribution during the holding period of such shares as per CMA guidelines.

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As at and for the year ended 31 December 2018

16. ISLAMIC FINANCE PAYABLES

	Currency	Effective interest rate (EIR)	2018 KD	2017 KD
Secured	Kuwaiti Dinar	6%	24,842,869	25,213,851
Unsecured	Kuwaiti Dinar	5.75%	-	3,840,569
			<u>24,842,869</u>	<u>29,054,420</u>

Islamic finance payables amounting to KD 24,842,869 (2017: KD 25,213,851) are secured by property and equipment of KD 32,666,512 (2017: KD 33,381,422) (Note 12) and investment properties of KD 5,400,000 (2017: KD 5,452,000) (Note 8).

As at 31 December 2018, Islamic finance payables are stated in the consolidated statement of financial position net of deferred finance costs amounting to KD 92,495 (2017: KD 210,549).

17. ACCOUNTS PAYABLE AND ACCRUALS

	2018 KD	2017 KD
Payable to suppliers	113,184	89,923
Advances from customers	64,065	13,978
Amounts due to related parties (Note 14)	234,039	173,982
Retentions payable	95,120	702,944
Staff payables	120,256	140,151
Other payables	380,340	1,817,565
	<u>1,007,004</u>	<u>2,938,543</u>

18. SEGMENT INFORMATION

For management purposes, the Group is organised into three major business segments. The principal activities and services under these segments are as follows:

- Hotel operations: Consist of the hospitality services provided through the Millennium hotel and convention centre, Kuwait;
- Real estate : Managing investment properties; and
- Investment : Managing direct investments and investments in subsidiaries and associates.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on return on investments. The Group does not have any inter-segment transactions.

The following table presents segment revenue, expenses, results information of the Group's operating segments for the year ended 31 December 2018 and 2017:

2018	Hotel operations KD	Real estate KD	Investment KD	Others KD	Total KD
Segment revenue	4,473,935	498,646	(8,608,627)	109,467	(3,526,579)
Segment expenses	(5,692,936)	(512,522)	(3,939,408)	(931,164)	(11,076,030)
Segment results	<u>(1,219,001)</u>	<u>(13,876)</u>	<u>(12,548,035)</u>	<u>(821,697)</u>	<u>(14,602,609)</u>

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As at and for the year ended 31 December 2018

18. SEGMENT INFORMATION (continued)

2017	Hotel operations KD	Real estate KD	Investment KD	Others KD	Total KD
Segment revenue	4,569,485	108,492	(746,489)	72,603	4,004,091
Segment expenses	<u>(5,597,222)</u>	<u>(1,039,900)</u>	<u>(1,850,114)</u>	<u>(786,590)</u>	<u>(9,273,826)</u>
Segment results	<u>(1,027,737)</u>	<u>(931,408)</u>	<u>(2,596,603)</u>	<u>(713,987)</u>	<u>(5,269,735)</u>

The following table presents assets and liabilities for the Group's operating segments as at the reporting date:

2018	Hotel operations KD	Real estate KD	Investment KD	Others KD	Total KD
Total assets	<u>33,375,104</u>	<u>8,308,134</u>	<u>34,598,632</u>	<u>326,345</u>	<u>76,608,215</u>
Total liabilities	<u>23,348,121</u>	<u>356,540</u>	<u>2,076,876</u>	<u>565,754</u>	<u>26,347,291</u>

2017	Hotel operations KD	Real estate KD	Investment KD	Others KD	Total KD
Total assets	<u>34,243,243</u>	<u>10,294,661</u>	<u>53,840,143</u>	<u>1,295,109</u>	<u>99,673,156</u>
Total liabilities	<u>23,956,741</u>	<u>2,717,214</u>	<u>3,840,569</u>	<u>1,985,778</u>	<u>32,500,302</u>

19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

31 December 2018	Within 1 year KD	Over 1 year KD	Total KD
ASSETS			
Cash and cash equivalents	2,090,867	-	2,090,867
Inventories	61,897	-	61,897
Accounts receivable and prepayments	1,151,894	200,000	1,351,894
Investment properties	-	5,400,000	5,400,000
Leasehold property	-	2,105,740	2,105,740
Financial assets at fair value through other comprehensive income	-	2,109,879	2,109,879
Investment in associates	-	30,800,004	30,800,004
Property and equipment	-	32,687,934	32,687,934
TOTAL ASSETS	<u>3,304,658</u>	<u>73,303,557</u>	<u>76,608,215</u>
LIABILITIES			
Islamic finance payables	3,842,869	21,000,000	24,842,869
Accounts payable and accruals	1,007,004	-	1,007,004
Employees' end of service benefits	-	497,418	497,418
TOTAL LIABILITIES	<u>4,849,873</u>	<u>21,497,418</u>	<u>26,347,291</u>
NET LIQUIDITY GAP	<u>(1,545,215)</u>	<u>51,806,139</u>	<u>50,260,924</u>

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19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

31 December 2017	Within 1 year KD	Over 1 year KD	Total KD
ASSETS			
Cash and cash equivalents	1,147,770	-	1,147,770
Inventories	58,303	-	58,303
Accounts receivable and prepayments	1,240,414	6,610,807	7,851,221
Investment properties	-	5,452,000	5,452,000
Leasehold property	-	3,023,594	3,023,594
Available-for-sale financial assets	-	2,649,680	2,649,680
Investment in associates	-	44,579,656	44,579,656
Property and equipment	-	33,410,910	33,410,910
Trading property	1,500,022	-	1,500,022
TOTAL ASSETS	3,946,509	95,726,647	99,673,156
LIABILITIES			
Islamic finance payables	8,054,420	21,000,000	29,054,420
Accounts payable and accruals	2,938,543	-	2,938,543
Employees' end of service benefits	-	507,339	507,339
TOTAL LIABILITIES	10,992,963	21,507,339	32,500,302
NET LIQUIDTY GAP	(7,046,454)	74,219,308	67,172,854

20. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The main risks arising from the Group's financial instruments are credit risk, liquidity risk and exposure to market risk is limited to foreign exchange risk as the Group does not have any interest bearing financial instruments or any financial asset listed on any stock exchange. Islamic finance payables are not exposed to interest rate risk since they are in accordance with Islamic Sharia'a and carries fixed rate of profit. The Group is also subject to prepayment risk and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The management of the Company is ultimately responsible for the overall risk management approach and for approving the risk strategy. The management reviews and agrees policies for managing each of these risks which are summarised below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

20. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**20.1 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

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

	2018	2017
	KD	KD
Cash and cash equivalents	2,090,867	1,147,770
Accounts receivables and prepayments*	975,497	7,194,084
	<u>3,066,364</u>	<u>8,341,854</u>

* excluding prepaid expenses and advances.

The amounts above show the maximum exposure to credit risk before the effect of mitigation through the use of master netting and collateral agreements, if any.

Cash and cash equivalents

Credit risk from cash and cash equivalents is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies. Further, the principal amounts of deposits in local banks (including saving accounts and current accounts) are guaranteed by the Central Bank of Kuwait in accordance with Law No. 30 of 2008 Concerning Guarantee of Deposits at Local Banks in the State of Kuwait which came into effect on 3 November 2008.

The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. Accordingly, management identified impairment loss to be immaterial.

Trade receivables

Expected credit loss assessment for trade receivables as at 1 January 2018 and 31 December 2018

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 365 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Set out below is the information about the credit risk exposure on the Group's trade receivables and certain amounts due from related parties (which are in the nature of trade receivables) using a provision matrix as at 1 January 2018 and 31 December 2018:

	Days past due		
	< 365 days	> 365 days	Total
31 December 2018	KD	KD	KD
Expected credit loss rate*	4.84%	54.02%	42.36%
Estimated total gross carrying amount at default	249,316	802,255	1,051,571
Expected credit loss	12,065	433,354	445,419
	Days past due		
	< 365 days	> 365 days	Total
1 January 2018	KD	KD	KD
Expected credit loss rate*	-	65.04%	40.03%
Estimated total gross carrying amount at default	419,454	671,122	1,090,576
Expected credit loss	-	436,522	436,522

* represents average credit loss rate

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20. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1 Credit risk (continued)

Amounts due from related parties and other receivables

As at the reporting date, the majority of the Group's counterparty exposure has a low risk of default and does not include any past-due amounts. Accordingly, management identified impairment loss to be immaterial.

20.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by the treasury department of the Company. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Group's liabilities based on contractual undiscounted repayment obligations.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future profit payments over the life of these financial liabilities. The liquidity profile of financial liabilities is as follows:

	On demand KD	Within 3 months KD	3 to 12 months KD	1 to 5 Years KD	Total KD
31 December 2018					
Islamic finance payables	-	304,013	3,316,259	23,026,215	26,646,487
Accounts payable and accruals*	234,039	358,427	350,473	-	942,939
TOTAL LIABILITIES	234,039	662,440	3,666,732	23,026,215	27,589,426
	On demand KD	Within 3 months KD	3 to 12 months KD	1 to 5 Years KD	Total KD
31 December 2017					
Islamic finance payables	-	-	6,468,336	22,796,633	29,264,969
Accounts payable and accruals*	727,959	134,724	2,061,882	-	2,924,565
TOTAL LIABILITIES	727,959	134,724	8,530,218	22,796,633	32,189,534

*excluding advances from customers

20.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to change in market prices. Market risks arise for open positions in interest rate, currency and equity product, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as foreign exchange rates, interest rates and equity prices.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the Company's Board of Directors and a continuous assessment of the Group's open positions and current and expected exchange rates movements. The Group does not engage in foreign exchange trading and does not use derivative financial instruments. Where necessary matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

20. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**20.3 Market risk (continued)***Foreign exchange risk (continued)*

The analysis below calculates the effect of a reasonably possible movement of the KD currency rate against the foreign currencies, with all other variables held constant, on the consolidated statement of profit or loss (due to the fair value of currency sensitive monetary assets and liabilities).

	Change in currency rate in %	Effect on loss for the year before tax	
		2018 KD	2017 KD
Currency			
US Dollars	+/-5	105,524	140,627

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The Group is not exposed to significant prepayment risk.

21. FAIR VALUE MEASUREMENT**a. Financial instruments**

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

Financial assets measured at fair value	Total KD	Fair value measurement using Significant observable inputs (Level 3) KD
31 December 2018		
Financial assets at fair value through other comprehensive income:		
Unquoted equity security	2,109,879	2,109,879

The Group's investment in unquoted security was previously accounted at cost less impairment (in accordance with IAS 39). At the date of initial application of IFRS 9, the Group measured the investment at fair value. As a result, the fair value measurement of the unquoted equity security was recognised in Level 3 for the first time.

Description of significant unobservable inputs to valuation

The fair value of unlisted equity investment have been estimated using a market based valuation technique. The Group determines comparable public companies (peers) based on industry, size and leverage and calculates an appropriate trading multiple for the comparable company identified. The multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company specific facts and circumstances.

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy, together with the quantitative sensitivity analysis as at 31 December 2018 are as shown below:

	Valuation techniques	Significant unobservable inputs	DLOM	Sensitivity of the input to fair value
Unquoted equity security	Price to book value multiple approach	DLOM *	25%	5% increase (decrease) in the discount would decrease (increase) the fair value by KD 138,352.

*Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

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21. FAIR VALUE MEASUREMENT (continued)

b. Non-financial assets

Non-financial assets consists of leasehold property and investment properties. The impairment assessment is performed using the income approach using valuation models consistent with the principles in IFRS 13. The leasehold property is carried at cost less accumulated amortisation and impairment in the consolidated financial statements of the Group.

Investment properties are measured at fair value. The fair value hierarchy and basis of valuation of investment properties is disclosed in Note 8.

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22. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and financial position of the Group.

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, accounts payable and accruals less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company.

	2018	2017
	KD	KD
Islamic finance payables	24,842,869	29,054,420
Accounts payable and accruals	1,007,004	2,938,543
Less: Cash and cash equivalents	(2,090,867)	(1,147,770)
Net debt	23,759,006	30,845,193
Equity attributable to the equity holders of the Company	49,038,980	65,883,474
Capital and net debt	72,797,986	96,728,667
Gearing ratio	33%	32%

No change were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

23. COMMITMENTS AND CONTINGENCIES

The Group had no contingent liabilities or capital commitments as at 31 December 2018 or 2017.