# Annual Review 2014

شركة العقارات المتحدة
United Real Estate Co

Dar al-Athar al-Islamiyyah, one of Kuwait's leading cultural organizations, was created to manage activities related to The al-Sabah Collection. The collection includes one of the world's finest assemblages of arts from the Islamic world. The collection consists of over 30,000 priceless objects, including manuscripts, scientific instruments, carpets, fabrics, jewelry, ceramics, ivory, metalwork and glass from countries such as Spain, India, China and Iran.

This year, the annual reports of KIPCO Group companies each feature a different key ivory artifact from The al-Sabah Collection. The images used within the reports reflect KIPCO's commitment to protecting and promoting Kuwait's heritage, while helping to build the nation's future.

The item pictured here (LNS 19 I) is a lathe-turned and carved elephant ivory box made in Spain during the early 5th century AH/early 11th century CE. The image is reproduced with the kind permission of The al-Sabah Collection, Dar al-Athar al-Islamiyyah.

## Contents

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

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

## United Real Estate Company (URC):

United Real Estate Company (URC) is one of the MENA region's leading real estate developers. Founded in 1973, and listed on the Kuwait Stock Exchange since 1984, URC primarily operates in the Middle East and North Africa (MENA) region through a number of operational subsidiaries and investments arms.

The company's portfolio includes retail complexes, hotels, resorts, residential buildings, high-rise office buildings, as well as mixed-use developments.

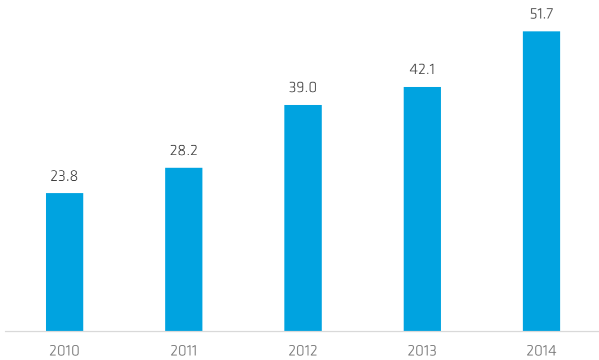
## Key Achievements in 2014:

- Official Inauguration of "Abdali Boulevard" in the Hashemite Kingdom of Jordan
- Execution of the European Bank for Reconstruction and Development "EBRD" contract for financing "Abdali Mall" project, which is the first project in the Hashemite Kingdom of Jordan to be financed by "EBRD"
- Acceleration of sales activities for "Aswar Residences" and "Raouche View at 1090"
- Attained three prestigious international awards which were two MEED awards for Salalah Gardens Mall & Residences, and one corporate award as Best Retail Developer in the Middle East by the World Finance Awards

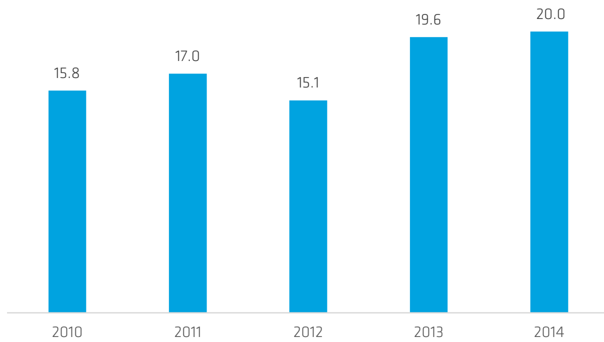
## 2014 Financial Results Summary:

- Increase in total revenue by 23% compared to the same period in 2013
- Increase in total profit by 2.5% compared to the same period in 2013
- Increase in revenues of subsidiaries by 73% compared to the same period in 2013
- Increase of total assets by 10% compared to the same period in 2013, to reach KD 521 million as of December 31st 2014

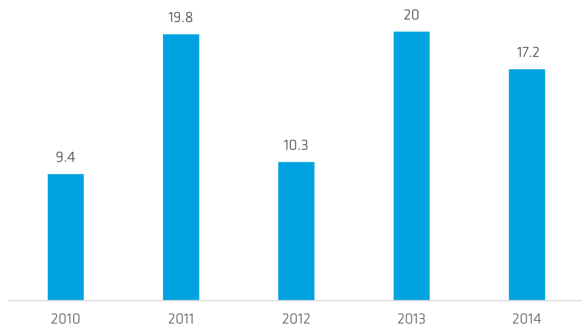
### Revenue in KD million



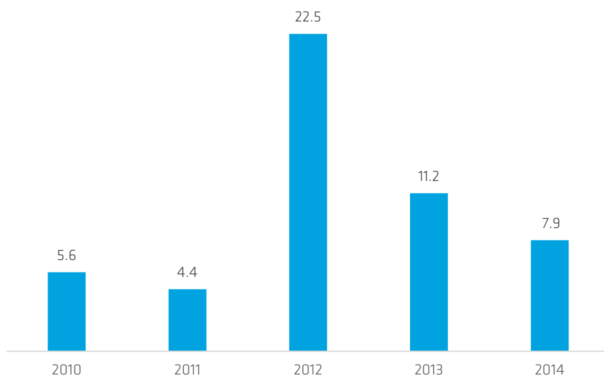

### Gross Profit in KD million




### Operating Profit in KD million

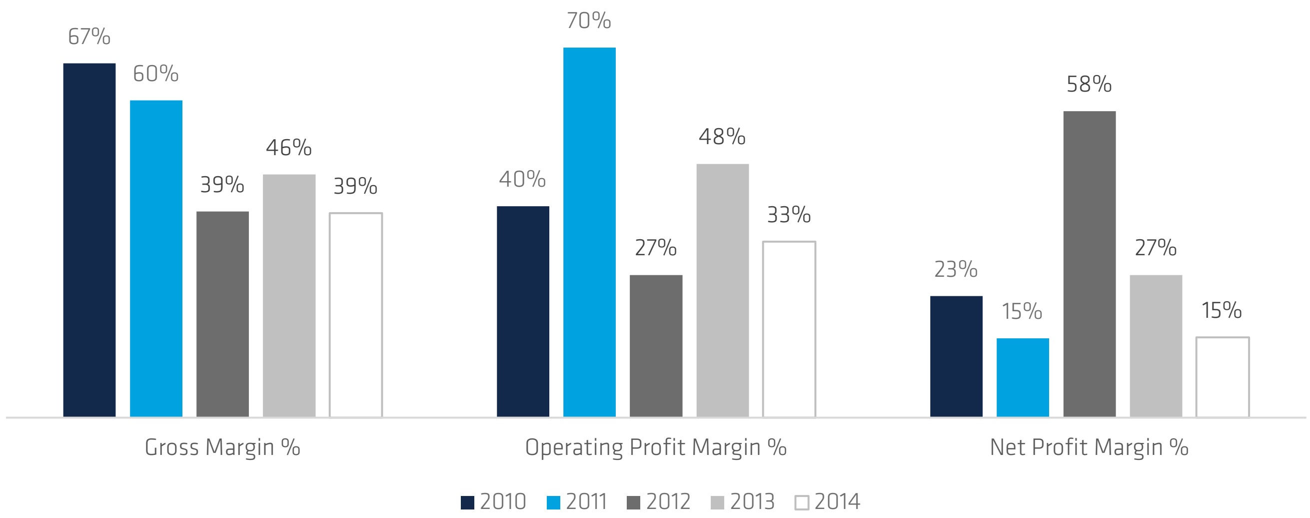



### Net Profit in KD million

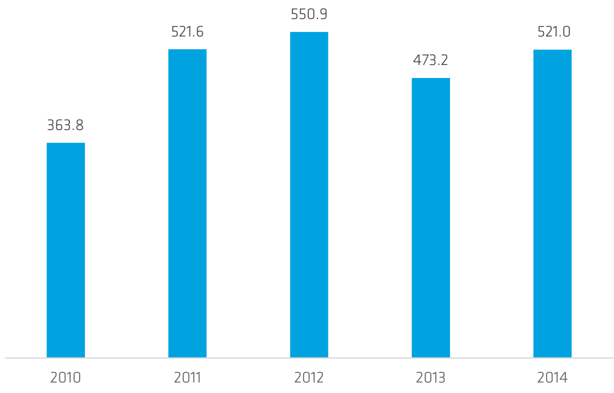


# FINANCIAL HIGHLIGHTS

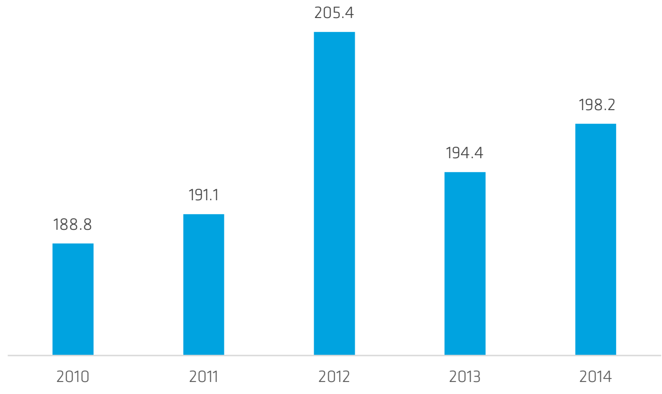
## Profit Margins %



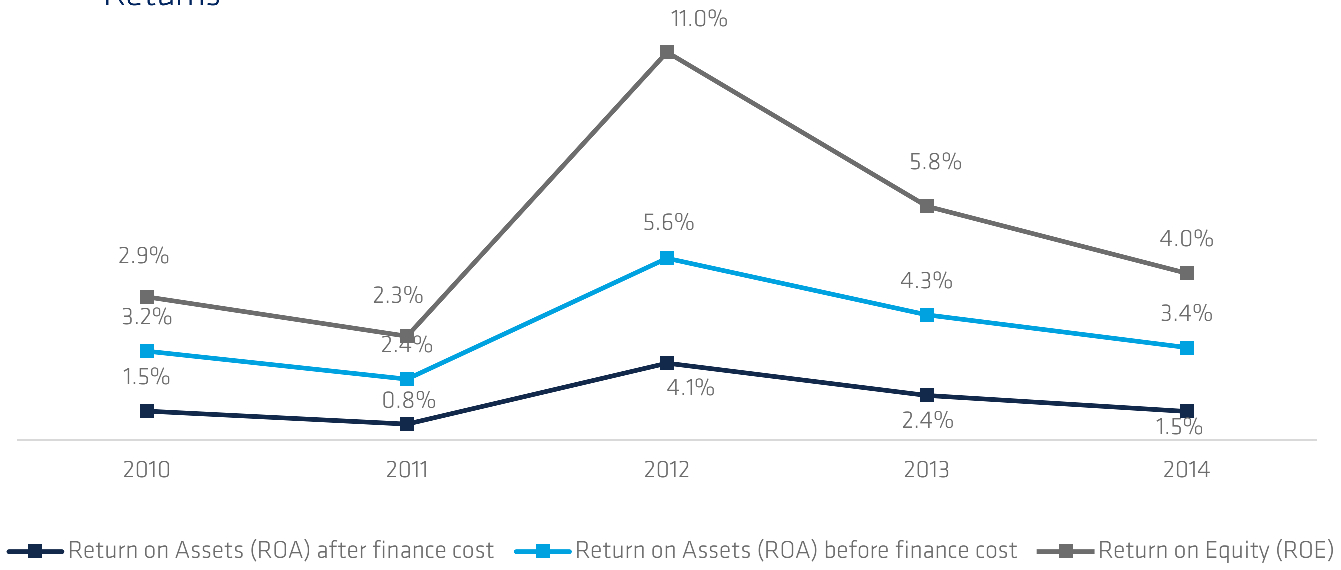

## Total Assets in KD million



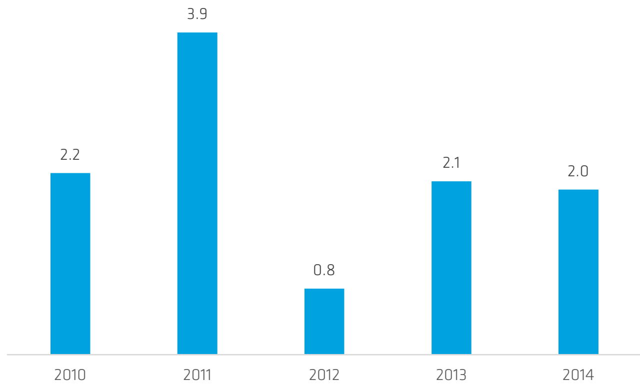

## Shareholders' Equity in KD million



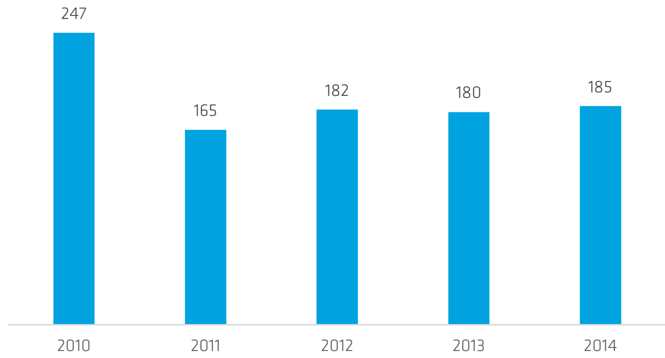

## Returns



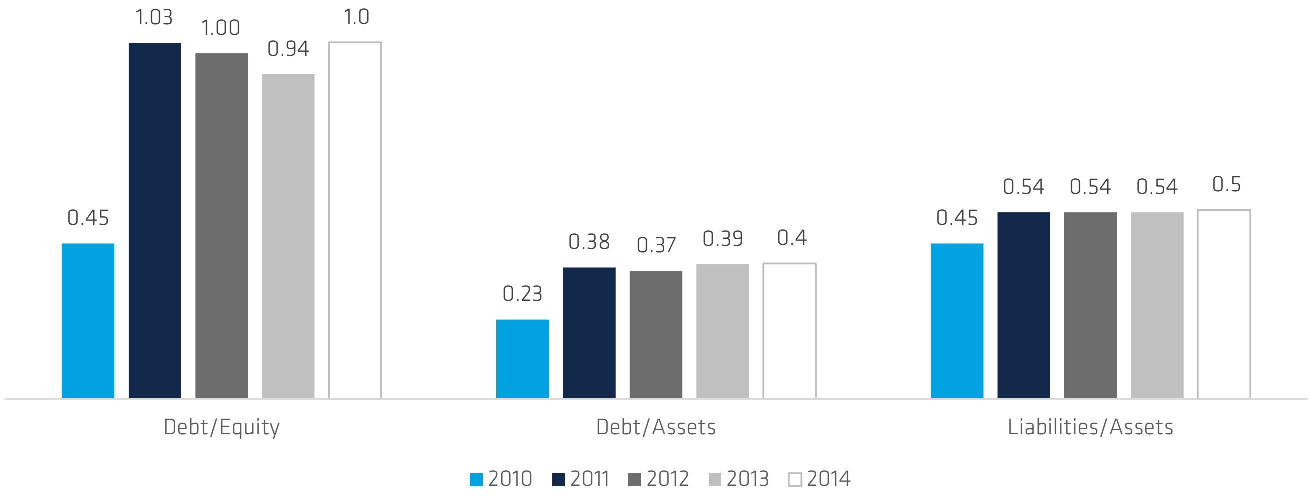

## Interest Coverage Ratio




## Book Value per Share in Fils




## Leverage




## Indicator Calculations

| | |
|---|---|
| Gross Margin % | Gross Profit / Revenue |
| Operating Profit Margin % | Operating Profit / Revenue |
| Net Profit Margin % | Net Profit / Revenue |
| Return on Assets (ROA) before Finance Cost | Net Profit Before Finance Cost / Total Assets |
| Return on Assets (ROA) afer Finance Cost | Net Profit After Finance Cost / Total Assets |
| Return on Equity (ROE) | Net Profit / Equity |
| Interest Coverage Ratio | Operating Profit / Finance Cost |
| Book Value per Share | Equity Attributable to Equity Holders of Parent Company / Weighted Average Number of Shares Outstanding |
| Shareholders Equity | Equity Attributable to Equity Holders of Parent Company |

Dear Shareholders,

I am pleased to present United Real Estate Company's (URC) Annual Report for the year 2014, which demonstrates our company's continuity in achieving positive financial results and our success in diversifying our sources of income and our activities.

Over the past several years, URC's corporate strategy focused on creating steady equilibrium between various sources of income and on structuring a diversified portfolio of assets and businesses to achieve balanced returns that meets the Shareholders' expectations. Accordingly, the Company developed assets in different locations throughout the MENA region for operations and for sale.

Our operational assets that underwent development over the recent years include a mixed-use retail and hospitality project in Salalah, Oman 'Salalah Gardens', as well as two retail projects in Amman, Jordan, which are 'Abdali Boulevard' and 'Abdali Mall'. Salalah Gardens Mall & Residences and Abdali Boulevard have been operational since 2013 and 2014 respectively, while Abdali Mall's development status is well under way for upcoming construction completion. Other developments soon to be launched include 'Aswar Residences', a private residential community in Cairo and 'Raouche View at 1090', an upscale residential building in Beirut.

In addition to our strategic vision of diversifying our real estate development projects, we aimed to further support, develop and strengthen our subsidiaries who specialize in a number of different businesses such as contracting, property and facilities management, as well as construction and project management. This vision was clearly achieved, where we witnessed significant growth in those subsidiary revenues by approximately 70% in addition to the growth in other activities that led to a 23% growth in total revenue and an increase in gross profit to reach KD 20 million, compared to KD 19.5 million in 2013.

Furthermore, over the past few years, URC's Executive Management diligently worked towards tactically selling non-income generating assets, the strategy that enabled the company to maintain adequate assets for future project development and expansion plans.

It is noteworthy to mention that in 2014, URC recorded a net profit amount of KD 7.9 million, compared to KD 11.2 million in 2013. This decline was a result of asset re-evaluations gains recognized in 2013.

Among other financial results, our total assets increased to KD 521 million at the end of 2014, compared to KD 473 million during the same period in 2013. Our total equity increased as well and was recorded at KD 198 million at the end of 2014.

As a result of our financial earnings in 2014, URC's Board of Directors proposed distributing cash dividends of 5 fils per share. We also proposed remuneration to the Board of Directors, amounting to KD 90,000 for the 2014 financial year.

The Management Report section of this Annual Report includes updates on our current projects under development. In the Hashemite Kingdom of Jordan, 'Abdali Mall' is the first retail and entertainment center of its kind in the Abdali area, and one of the largest shopping malls in Jordan. The project is expected to be ready before the end of 2015.

In Egypt, improved security and political conditions helped enhance and stimulate sales of 'Aswar Residences' located in the emerging city of New Cairo. This project is a residential community consisting of 75 villas, and includes a variety of areas and is scheduled for completion during 2015.

In Lebanon, demonstrating our reach across the MENA region and variety in project types, "Raouche View 1090" is URC's upscale residential building, located directly in front of the famous Raouche rocks in Beirut. The development is expected to be completed soon, where the year 2014 witnessed strong signs of demand for luxury apartments in the city.

We are hopeful for security and stability throughout the Arab nation for the sake of reviving development and prosperity within the region, and to support the economies of all Arab countries. Consequently, we plan to continue our strategy during 2015 by seeking opportunities that will increase operating income and will further reduce non-income-generating assets in our portfolio. In addition, we hope to announce the launch of new and exciting projects in the region as part of implementing this strategy.

To conclude, I would like to extend my sincerest gratitude and appreciation to our Shareholders for their continued support and valued trust. I would also like to commend the sincere efforts of URC's Executive Management Team, as well as of all our employees, subsidiaries and affiliates.

I would also like to extend my wishes of continued prosperity and success to the State of Kuwait under the leadership of HH the Amir of the State of Kuwait, and HH the Crown Prince of the State of Kuwait.

Sincerely,

Tariq Mohammed AbulSalam
Chairman

# A First of its Kind in Jordan's Capital City
## Abdali Mall, Amman

Awarded as 'Best Retail Project' by the World Finance Construction Awards 2013, Abdali Mall is an iconic shopping mall and the first of its kind in the Abdali area, located in the heart of Jordan's capital, Amman. The development incorporates advanced techniques of building sustainability which reduce water and energy usage, as well as unique open-air features and an aesthetic design.

The five-story mall covers a total built-up area of over 227,000 sqm, of which over 57,000 sqm is dedicated to gross leasable space. Abdali Mall will introduce large number of international brands and retail shops, an entertainment center, 9 screen cinema, a food court, a casual dining plaza, a supermarket, in addition to five basement floors to accommodate for 2,400 cars.

The Mall has already signed with a number of major tenants such as Azadea, AlShaya Group and Galaxy Park, as well as World Media Holding of Prime Cinemas to operate the Mall's 9 screen cinema. Additionally, the mall's construction progress and leasing rates were according to the plan set for 2014.

# Iconic Location & Modernity at its Best

## Raouche View at 1090, Beirut

Situated directly across Lebanon's iconic Raouche rocks, lies Raouche View at 1090, a high-end, exclusive residential building in Beirut. The project is an upscale, clean design which introduces this exclusive development in one of the region's most visited cities. Comprised of 22 floors, the luxury development includes 40 apartments and two duplex penthouses. Additionally, the building is equipped with a private health club which includes a gymnasium, sauna, steam room and indoor swimming pool. The building also provides residences a private landscaped garden with several amenities such as an outdoor swimming pool, a seating area, and a children's pool.

Raouche View at 1090 is expected to be complete in the first quarter of 2015.



# A Private Community in Cairo's Newest Hub

## Aswar Residences, New Cairo

Aswar Residences is URC's latest project in Egypt, a residential community of 75 three-story villas located in the new and up-and-coming, city of New Cairo, 40KM from Cairo, Egypt. Each three-story villa includes a private garden, basement parking and a rooftop seating area. The development was designed to incorporate community amenities such as landscaped gardens, walking paths, children's play areas, as well as a clubhouse with a gymnasium and an outdoor swimming pool.

In 2014, Aswar Residences was featured in two real estate exhibitions, 'Amar Ya Masr' and 'Cityscape Kuwait', showcasing the project among other new residential and hospitality developments in Egypt and the region. The project is expected to be completed in the second quarter of 2015.

### INJAZ-Kuwait

URC has a long standing partnership with INJAZ-Kuwait, a non-profit, non-governmental organization (NGO) driven by Kuwait's private sector. The local INJAZ chapter provides educational programs on entrepreneurial and leadership skills aimed at inspiring and educating youth in Kuwait, which URC supports year on year. The company has provided financial support and sponsorship in addition to non-monetary support through various volunteer and partnership opportunities. In 2014, URC provided its retail development, Marina Mall, as a platform for INJAZ-Kuwait participants to display and promote their products and services. Furthermore, URC promoted the INJAZ-Kuwait program internally by encouraging its colleagues to volunteer as mentors to participating students.

### OXAdventure

OXAdventure is another non-profit organization that sprung out of an initiative to engage youth in volunteering opportunities in underdeveloped, yet beautifully landscaped countries. As a supporter of youth, education, and development, URC was OX Adventure's Real Estate Partner for their 2014 initiative in Africa, OXRwanda. The initiative focused on a two-week journey to Rwanda to assist in the construction and renovation of homes and provide educational support to those in need.

### Venice Biennale

URC was the Real Estate Partner for the Kuwait Pavilion participating at the 14th International Architecture Exhibition of la Biennale di Venezia in Italy, which ran from June-November 2014. Commissioned by the National Council for Culture, Arts and Letters (NCCAL), the Kuwait Pavilion's theme was 100 years of modernity, from 1914-2014. The objective of sponsoring the Kuwait Pavilion was to support Kuwait and to increase its' international reach and showcase the country's history in urban architecture.

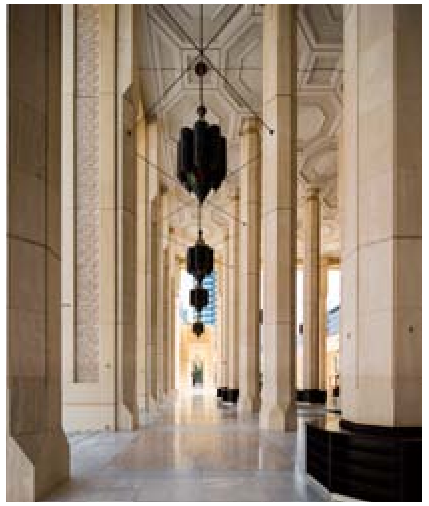

### Annual Blood Drive

In 2014, URC hosted its annual blood drive, aimed at raising awareness on the importance of blood donation. The yearly initiative was in coordination with the Kuwait Central Blood Bank, where URC invited its colleagues as well as the tenants and employees at its headquarters to donate blood. The blood drive is organized each year in effort to highlight the importance of donating blood, a scarce resource that can potentially save countless lives, as well as give back to the community and Kuwait.

### Corporate Achievements

In 2014, URC was awarded with three accolades, two for one of its projects and one on a corporate level. URC's Salalah Gardens Mall & Residences project won both the National and GCC "Leisure & Tourism Project of the Year" award, as part of the annual MEED Quality Awards. Additionally, the World Finance Real Estate Awards awarded URC as the "Best Retail Developer - Middle East, 2014".





### United Facilities Management (UFM)

A wholly owned subsidiary of URC, United Facilities Management (UFM) is a leading provider of integrated facilities management services across the MENA region for over a decade and was the first company in Kuwait to offer fully integrated facilities and property management services.

In 2014, UFM's received three ISO certifications, ISO 9001, ISO 14001, and ISO 18001. The company also participated in three major conferences and events including FM EXPO 2014 Dubai and FM CONFEX 2014 Dubai. Additionally, UFM officially launched its branch in the United Arab Emirates, following its expansion into Oman and Jordan in 2013.

### Kuwait United Construction Management Company (KUCM)

Kuwait United Construction Management Company (KUCM) is a subsidiary of URC which specializes in providing project management services for a range of different sectors. The company's portfolio includes construction projects such as Aswar Residences in Egypt, Salalah Gardens Mall in Oman, and the American United School in Kuwait as well as the renovation project of Radisson Blu Hotel in Kuwait.

In 2014, KUCM was awarded a construction management contract worth KD 20 million for the Emergency & Operation Center in Al-Ahmadi, and a contract for project management work for American United School's (AUS) second building worth KD 17 million.

### United Building Company (UBC)

United Building Company (UBC) is a wholly owned subsidiary of URC, and is one of Kuwait's pioneer companies in construction, building, contracting and engineering. Classified as a Grade 1 contracting company since 1984, the company's portfolio includes a range of residential, medical, hospitality, retail and mixed-use projects, in addition to a number of high-rise buildings and several iconic projects in Kuwait including the Grand Mosque, and Souk Al Mutahida and Souk Al Maseel buildings. UBC's scale of projects range from civil construction, to building and maintenance, with a focus on expanding into infrastructure work in the near future.

In 2014, UBC was awarded three substantial contracts, including the Fahaheel Medical Center, with a contracting value of KD 2,879,000, Public Prosecution Headquarters, worth KD 24,570,000, and the Public Welfare & BOT Agency, valued at KD 9,889,000.

Left:
Grand Mosque, Kuwait

Middle:
Construction of Fahaheel Medical Center

Right:
Al Mutahida Car Park & Commercial Center

# BOARD OF DIRECTORS

Tariq Mohammed AbdulSalam
Chairman

Ali Ibrahim Marafi
Vice Chairman

Sheikh Fadel Khaled Al-Sabah
Board Member

Sheikha Bibi Nasser Sabah Al-Ahmed Al-Sabah
Board Member

Samer Subhi Khanachet
Board Member

Mazen Issam Hawa
Board Member

Adel Jassem Al-Wugayan
Board Member



UNITED REAL ESTATE COMPANY - S.A.K.P.
AND SUBSIDIARIES

Consolidated Financial Statements
31 December 2014

EY
Building a better working world

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Al Aiban, Al Osaimi & Partners
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ALI OWAID RUKHAEYES

Member of The International Group of Accounting Firms
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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED REAL ESTATE COMPANY S.A.K.P.**

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of United Real Estate Company S.A.K.P. (the "Parent Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement and consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's responsibility for the consolidated financial statements*

Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

*Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Parent Company's management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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AL-WAHA
AUDITING OFFICE
ALI OWAID RUKHAEYES

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED REAL ESTATE COMPANY S.A.K.P. (continued)**

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 25 of 2012, as amended and its executive regulation, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 25 of 2012, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

ALI OWAID RUKHAEYES
LICENSE NO. 72A
MEMBER OF THE INTERNATIONAL ACCOUNTING GROUP

17 February 2015
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

| | Notes | *2014* *KD* | *2013* *KD* |
|---|---|---|---|
| ASSETS | | | |
| Cash, bank balances and short term deposits | 4 | **13,027,132** | 11,419,614 |
| Accounts receivable, prepayments and other assets | 5 | **22,969,186** | 19,229,721 |
| Properties held for trading | 6 | **58,849,241** | 49,817,762 |
| Available for sale investments | 7 | **15,770,438** | 13,171,405 |
| Investment in associates | 8 | **66,581,412** | 60,345,311 |
| Investment properties | 9 | **257,297,865** | 234,459,514 |
| Goodwill | | **12,496** | 12,496 |
| Property and equipment | 10 | **86,520,287** | 84,738,604 |
| TOTAL ASSETS | | **521,028,057** | 473,194,427 |
| LIABILITIES AND EQUITY | | | |
| **Liabilities** | | | |
| Accounts payable, accruals and other payables | 11 | **57,730,359** | 51,094,554 |
| Deferred tax liabilities | 20 | **10,137,338** | 9,060,921 |
| Interest bearing loans and borrowings | 12 | **157,531,320** | 134,318,428 |
| Bonds | 13 | **60,000,000** | 60,000,000 |
| **Total liabilities** | | **285,399,017** | 254,473,903 |
| EQUITY | | | |
| Share capital | 14 | **118,797,442** | 118,797,442 |
| Share premium | 14 | **15,550,698** | 15,550,698 |
| Statutory reserve | 15 | **18,416,444** | 17,584,786 |
| Voluntary reserve | 16 | **2,582,767** | 2,582,767 |
| Treasury shares | 17 | **(14,538,991)** | (15,094,549) |
| Treasury shares reserve | | **514,316** | 773,205 |
| Other reserve | | **146,930** | 146,930 |
| Cumulative changes in fair values | | **78,834** | 34,142 |
| Foreign currency translation reserve | | **410,214** | (3,772,512) |
| Employees' share option reserve | | - | 56,971 |
| Retained earnings | | **56,236,030** | 57,746,975 |
| **Equity attributable to equity holders of the Parent Company** | | **198,194,684** | 194,406,855 |
| **Non-controlling interests** | | **37,434,356** | 24,313,669 |
| **Total equity** | | **235,629,040** | 218,720,524 |
| TOTAL LIABILITIES AND EQUITY | | **521,028,057** | 473,194,427 |

Tariq M. Abdulsalam
Chairman

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2014

| | Notes | 2014 KD | 2013 KD |
|---|---|---|---|
| REVENUE | | | |
| Gross rental income | | 17,260,761 | 16,127,427 |
| Hospitality income | | 19,032,826 | 17,810,763 |
| Contracting and services revenue | | 8,590,335 | 4,966,815 |
| Sale of properties held for trading | | 4,939,031 | 71,930 |
| Other operating revenue | | 1,889,117 | 3,095,029 |
| | | 51,712,070 | 42,071,964 |
| COST OF REVENUE | | | |
| Properties operating costs | | (1,654,883) | (1,738,822) |
| Rental expense on leasehold properties | | (201,115) | (208,674) |
| Hospitality costs | | (12,629,945) | (12,114,365) |
| Depreciation of hospitality assets | 10 | (4,227,521) | (3,488,922) |
| Contracting and services costs | | (8,847,031) | (4,928,664) |
| Cost of properties held for trading sold | 6 | (4,106,092) | (34,125) |
| | | (31,666,587) | (22,513,572) |
| GROSS PROFIT | | 20,045,483 | 19,558,392 |
| Investment income | 18 | 39,759 | 390,209 |
| General and administrative expenses | 19 | (7,180,755) | (6,917,769) |
| Depreciation of property and equipment | 10 | (480,470) | (390,975) |
| Gain on disposal of investment properties | | 2,968,175 | 3,257,251 |
| Valuation gain on investment properties | 9 | 2,224,983 | 4,706,632 |
| Provision for maintenance on leasehold properties | | (235,680) | (187,887) |
| Write down of properties held for trading | 6 | (5,405) | (58,758) |
| Net impairment of accounts receivable and other assets | 5 | (123,609) | (87,864) |
| Impairment loss on available for sale investments | 7 | - | (245,983) |
| OPERATING PROFIT | | 17,252,481 | 20,023,248 |
| Interest income | | 667,356 | 307,384 |
| Finance costs | | (9,886,882) | (9,148,493) |
| Share of results of associates | 8 | 961,159 | 130,588 |
| Foreign exchange gain | | 357,411 | 901,597 |
| PROFIT BEFORE TAXATION AND DIRECTORS' REMUNERATION | | 9,351,525 | 12,214,324 |
| Taxation | 20 | (1,536,398) | (1,078,671) |
| Directors' remuneration | 23 | (90,000) | (90,000) |
| PROFIT FOR THE YEAR | | 7,725,127 | 11,045,653 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | 7,876,473 | 11,198,765 |
| Non-controlling interests | | (151,346) | (153,112) |
| | | 7,725,127 | 11,045,653 |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY | | | |
| BASIC EARNINGS PER SHARE | 21 | 7.4 fils | 10.4 fils |
| DILUTED EARNINGS PER SHARE | 21 | 7.3 fils | 10.3 fils |

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

| | *2014* | *2013* |
|---|---|---|
| | *KD* | *KD* |
| Profit for the year | 7,725,127 | 11,045,653 |
| Other comprehensive income (loss): | | |
| *Other comprehensive income (loss) for the year to be reclassified to consolidated income statement in subsequent periods:* | | |
| Net changes in fair value of available for sale investments | 44,692 | 105,017 |
| Exchange difference on translation of foreign operations | 2,806,118 | (683,610) |
| Other comprehensive income (loss) for the year | 2,850,810 | (578,593) |
| Total comprehensive income for the year | 10,575,937 | 10,467,060 |
| Attributable to: | | |
| Equity holders of the Parent Company | 12,103,891 | 10,620,172 |
| Non-controlling interests | (1,527,954) | (153,112) |
| | 10,575,937 | 10,467,060 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

| | *Equity attributable to equity holders of the Parent Company* | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Share premium* | *Statutory reserve* | *Voluntary reserve* | *Treasury shares* | *Treasury shares reserve* | *Other reserve* | *Cumulative changes in fair values* | *Foreign currency translation reserve* | *Employees' share option reserve* | *Retained earnings* | *Sub total* | *Non-controlling interests* | *Total equity* |
| | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* |
| As at 1 January 2014 | 118,797,442 | 15,550,698 | 17,584,786 | 2,582,767 | (15,094,549) | 773,205 | 146,930 | 34,142 | (3,772,512) | 56,971 | 57,746,975 | 194,406,855 | 24,313,669 | 218,720,524 |
| Profit (loss) for the year | - | - | - | - | - | - | - | - | - | - | 7,876,473 | 7,876,473 | (151,346) | 7,725,127 |
| Other comprehensive income (loss) for the year | - | - | - | - | - | - | - | 44,692 | 4,182,726 | - | - | 4,227,418 | (1,376,608) | 2,850,810 |
| Total comprehensive income (loss) for the year | - | - | - | - | - | - | - | 44,692 | 4,182,726 | - | 7,876,473 | 12,103,891 | (1,527,954) | 10,575,937 |
| Dividends paid (Note 22) | - | - | - | - | - | - | - | - | - | - | (8,555,760) | (8,555,760) | - | (8,555,760) |
| Transfer to statutory reserve | - | - | 831,658 | - | - | - | - | - | - | - | (831,658) | - | - | - |
| Change in fair value of employees share options reserve | - | - | - | - | - | - | - | - | - | (56,971) | - | (56,971) | - | (56,971) |
| Sale of treasury shares | - | - | - | - | 555,558 | (258,889) | - | - | - | - | - | 296,669 | - | 296,669 |
| Increase in share capital of a subsidiary* | - | - | - | - | - | - | - | - | - | - | - | - | 14,648,641 | 14,648,641 |
| **At 31 December 2014** | **118,797,442** | **15,550,698** | **18,416,444** | **2,582,767** | **(14,538,991)** | **514,316** | **146,930** | **78,834** | **410,214** | **-** | **56,236,030** | **198,194,684** | **37,434,356** | **235,629,040** |

* *During the year non-controlling interests paid its share of unpaid capital in Abdali Mall Company P.S.C.*

The attached notes 1 to 29 form part of these consolidated financial statements.

| | *Equity attributable to equity holders of the Parent Company* | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Share premium* | *Statutory reserve* | *Voluntary reserve* | *Treasury shares* | *Treasury shares reserve* | *Other reserve* | *Cumulative changes in fair values* | *Foreign currency translation reserve* | *Employees' share option reserve* | *Retained earnings* | *Sub total* | *Non-controlling interests* | *Total equity* |
| | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* |
| As at 1 January 2013 (as previously reported) | 118,797,442 | 15,550,698 | 16,402,512 | 2,582,767 | (9,670,663) | 773,205 | 146,930 | (70,875) | (3,088,902) | 56,971 | 69,664,781 | 211,144,866 | 47,994,942 | 259,139,808 |
| Adjustment due to recognition of deferred tax liabilities | - | - | - | - | - | - | - | - | - | - | (5,748,032) | (5,748,032) | (1,152,831) | (6,900,863) |
| As at 1 January 2013 (restated) | 118,797,442 | 15,550,698 | 16,402,512 | 2,582,767 | (9,670,663) | 773,205 | 146,930 | (70,875) | (3,088,902) | 56,971 | 63,916,749 | 205,396,834 | 46,842,111 | 252,238,945 |
| Profit (loss) for the year | - | - | - | - | - | - | - | - | - | - | 11,198,765 | 11,198,765 | (153,112) | 11,045,653 |
| Other comprehensive income (loss) for the year | - | - | - | - | - | - | - | 105,017 | (683,610) | - | - | (578,593) | - | (578,593) |
| Total comprehensive income (loss) for the year | - | - | - | - | - | - | - | 105,017 | (683,610) | - | 11,198,765 | 10,620,172 | (153,112) | 10,467,060 |
| Dividends paid | - | - | - | - | - | - | - | - | - | - | (16,186,265 ) | (16,186,265) | - | (16,186,265) |
| Transfer to statutory reserve | - | - | 1,182,274 | - | - | - | - | - | - | - | (1,182,274) | - | - | - |
| Purchase of treasury shares | - | - | - | - | (5,423,886) | - | - | - | - | - | - | (5,423,886) | - | (5,423,886) |
| Ownership change in subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | (22,375,330) | (22,375,330) |
| At 31 December 2013 | 118,797,442 | 15,550,698 | 17,584,786 | 2,582,767 | 15,094,549) | 773,205 | 146,930 | 34,142 | (3,772,512) | 56,971 | 57,746,975 | 194,406,855 | 24,313,669 | 218,720,524 |

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

| | Notes | 2014 KD | 2013 KD |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit for the year | | 7,725,127 | 11,045,653 |
| Adjustments for: | | | |
| Depreciation | 10 | 4,707,991 | 3,879,897 |
| Gain on disposal of investment properties | | (2,968,175) | (3,257,251) |
| Valuation gain on investment properties | 9 | (2,224,983) | (4,706,632) |
| Provision for maintenance on leasehold properties | | 235,680 | 187,887 |
| Write down of properties held for trading | 6 | 5,405 | 58,758 |
| Investment income | 18 | (39,759) | (390,209) |
| Net impairment of accounts receivable and other assets | 5 | 123,609 | 87,864 |
| Impairment loss on available for sale investments | 7 | - | 245,983 |
| Interest income | | (667,356) | (307,384) |
| Finance costs | | 9,886,882 | 9,148,493 |
| Share of results of associates | 8 | (961,159) | (130,588) |
| Foreign exchange gain | | (357,411) | (901,597) |
| | | 15,465,851 | 14,960,874 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, prepayments and other assets | | (2,837,548) | (1,215,284) |
| Properties held for trading | | (9,042,164) | (6,165,965) |
| Accounts payable, accruals and other payables | | 9,391,545 | (10,660,389) |
| Net cash from (used in) operating activities | | 12,977,684 | (3,080,764) |
| INVESTING ACTIVITIES | | | |
| Purchase of available for sale investments | | (2,554,341) | (5,228,981) |
| Proceeds from sale of available for sale investments | | - | 1,585,527 |
| Additions to investment in associates | 8 | (4,552,140) | (3,283,699) |
| Additions to lands for development | 9 | (255,754) | (1,920,198) |
| Additions to developed properties | 9 | (3,063,666) | (9,144,013) |
| Payments for properties under construction | 9 | (20,382,632) | (14,907,869) |
| Purchase of property and equipment | 10 | (6,489,674) | (8,331,052) |
| Dividend income received | | 39,000 | 50,953 |
| Proceeds from disposal of investment properties | | 6,173,481 | 29,341,986 |
| Interest income received | | - | 178,777 |
| Net cash used in investing activities | | (31,085,726) | (11,658,569) |
| FINANCING ACTIVITIES | | | |
| Proceeds from interest bearing loans and borrowings | | 18,606,067 | 33,286,704 |
| Repayment of interest bearing loans and borrowings | | (9,582,930) | (18,901,868) |
| Proceeds from issue of bonds | | - | 60,000,000 |
| Repayment of bonds | | - | (40,000,000) |
| Proceeds from sale of treasury shares | | 296,669 | - |
| Purchase of treasury shares | | - | (5,423,886) |
| Dividend paid | 22 | (8,555,760) | - |
| Share in capital increase of a subsidiary | | 14,648,641 | - |
| Finance costs paid | | (9,886,882) | (9,148,493) |
| Net cash from financing activities | | 5,525,805 | 19,812,457 |
| (DECREASE ) INCREASE IN CASH AND CASH EQUIVALENTS | | (12,582,237) | 5,073,124 |
| Cash and cash equivalents at the beginning of the year | | 11,326,299 | 6,253,175 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 4 | (1,255,938) | 11,326,299 |

The attached notes 1 to 29 form part of these consolidated financial statements.

UNITED REAL ESTATE COMPANY - S.A.K.P.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
31 December 2014

## 1 CORPORATE INFORMATION

United Real Estate Company ("URC") S.A.K.P. (the "Parent Company") is a public shareholding company incorporated in the State of Kuwait in accordance with an Amiri Decree issued in 1973, and is listed on the Kuwait Stock Exchange. The address of the Parent Company's registered office is P.O. Box 2232 Safat, 13023 - State of Kuwait.

The Parent Company is a subsidiary of Kuwait Projects Company Holding K.S.C.P. (the "Ultimate Parent Company"), which is listed on the Kuwait Stock Exchange.

The consolidated financial statements of the Group for the year ended 31 December 2014 were authorised for issue by the Board of Directors of the Parent Company on 17 February 2015, and are issued subject to the approval of the Ordinary General Assembly of the shareholders of the Parent Company. The shareholders' General Assembly has the power to amend the consolidated financial statements after issuance.

The activities of the Parent Company are carried out in accordance with the Articles of Association. The principal activities of the Parent Company are:

- Dealing in various real estate activities particularly the purchase, sale, leasing and renting of land and buildings.
- Construction of private and public buildings and projects directly or through others and sale of properties in cash or on instalments and managing or renting properties in Kuwait and abroad.
- Construction and operation of hotels in Kuwait and abroad.
- Management of third party properties in Kuwait and abroad.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for certain available for sale investments and investment properties that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), being the functional and presentational currency of the Parent Company.

### Statement of compliance

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

### Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of the following amended IASB Standards during the year:

*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

*Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

*IAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendment)*

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. Though these amendments have not resulted in any additional disclosures currently, the same would continue to be considered for future disclosures.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Changes in accounting policies and disclosures (continued)

*IFRIC 21 Levies*
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

### New and revised IASB standards issued but not yet effective
The following new and amended IASB Standards have been issued but are not yet mandatory, and have not been adopted by the Group:

*IFRS 9: Financial Instruments: Classification and Measurement*
The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

*IFRS 15 – Revenue from Contracts with customers*
IFRS 15 was issued by IASB on 28 May 2014 and is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Company is in the process of evaluating the effect of IFRS 15 and does not expect any significant impact on adoption of this standard.

Annual improvements for 2010-2012 and 2011-2013 cycle which are effective from 1 July 2014 are not expected to have a material impact on the group.

### Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries (investees which are controlled by the Parent Company) including special purpose entities. 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

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 financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

Profit or loss and each component of OCI are attributed to the equity holders of the Parent 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 related assets (including goodwill), liabilities, non-controlling interest and other component of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The principal subsidiaries of the Group are as follows:

| *Name of company* | *Equity interest as at 31 December* | | *Country of incorporation* | *Principal business* |
|---|---|---|---|---|
| | *2014* | *2013* | | |
| *Directly held* | | | | |
| United Building Company S.A.K. (Closed) | **98%** | 98% | Kuwait | Real estate development |
| Souk Al-Muttaheda Joint Venture – Salhia | **92.17%** | 92.17% | Kuwait | Real estate development |
| Tamleek United Real Estate Company W.L.L. | **99%** | 99% | Kuwait | Real estate development |
| Kuwait United Construction Management Company W.L.L. | **96%** | 96% | Kuwait | Facilities management |
| United Facilities Management Company S.A.K. (Closed) | **96.8%** | 96.8% | Kuwait | Facilities management |
| United Facility Development Company K.S.C. (Closed) | **63.5%** | 63.5% | Kuwait | Real estate development |
| Mena Homes Real Estate Company K.S.C. (Closed) | **77%** | 77% | Kuwait | Real estate development |
| United Building Company Egypt, S.A.E. | **100%** | 100% | Egypt | Real estate development |
| United Real Estate Investment Company S.A.E. | **100%** | 100% | Egypt | Investment company |
| United Real Estate Jordan P.S.C. | **100%** | 100% | Jordan | Real estate development |
| United Areej Housing Company W.L.L. | **100%** | 100% | Jordan | Real estate development |
| United Real Estate Company W.L.L. | **70%** | 70% | Syria | Real estate development |
| United Company for Investment W.L.L. | **95%** | 95% | Syria | Real estate development |
| United Lebanese Real Estate Company S.A.L. (Holding) | **99.9%** | 99.9% | Lebanon | Real estate development |
| Al Reef Real Estate Company S.A.O.(Closed) | **100%** | 100% | Oman | Real estate development |
| Al Dhiyafa Holding Company K.S.C. (Closed) | **81.07%** | 80.55% | Kuwait | Real estate development |
| Universal United Real Estate W.L.L. | **63%** | 63% | Kuwait | Real estate development |
| United Gulf Realty International Limited | **100%** | 100% | British Virgin Islands | Real estate development |
| Greenwich Quay Limited | **100%** | 100% | UK | Real estate development |
| **Held through United Real Estate Investment Company S.A.E.** | | | | |
| United Ritaj for Touristic investment S.A.E. (Closed) | **100%** | 100% | Egypt | Touristic development |
| Manazel United Real Estate Company S.A.E. | **81.29%** | 81.29% | Egypt | Real estate development |
| Aswar United Real Estate Company S.A.E. | **100%** | 100% | Egypt | Real estate development |
| **Held through Al Dhiyafa Holding Company K.S.C. (Closed)** | | | | |
| Al Dhiyafa – Lebanon SAL (Holding Company) | **100%** | 100% | Lebanon | Real estate development |
| Gulf Egypt Hotels and Tourism S.A.E.** | **85.9%** | 85.9% | Egypt | Real estate development |
| Bhamdoun United Real Estate Company SAL * | **75%** | 75% | Lebanon | Hotel management |
| Raouche Holding SAL * | **55%** | 55% | Lebanon | Real estate development |
| United Lebanese Real Estate Company SAL (owned by Raouche Holding SAL) | **100%** | 100% | Lebanon | Real estate development |
| **Held through United Real Estate Jordan P.S.C.** | | | | |
| Abdali Mall Company P.S.C. | **60%** | 60% | Jordan | Real estate development |

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

* The Parent Company holds 45% in S.A.L. Raouche Holding SAL and 25% in Bhamdoun United Real Estate SAL through United Lebanese Real Estate Company SAL (Holding).

** The Parent Company holds directly 14.1% in Gulf Egypt Hotels and Tourism S.A.E.

### Business combinations and goodwill

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

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

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated income statement.

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated income statement.

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments

#### Financial assets

*Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as "loans and receivables" and "available for sale investments". The Group determines the appropriate classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs.

Regular way purchases or sales of financial assets are recognised using trade date accounting.

#### Subsequent measurement

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition loans and receivables are carried at amortised cost using the effective interest rate (EIR) method, less impairment losses, if any. Amortised cost is calculated by taking into account any discount or premium arising on acquisition and fees or costs that are an integral part of the EIR method. The EIR method amortisation is included in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement.

"Bank deposits" and "accounts receivable" are classified as loans and receivables.

*Available for sale investments*

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables. After initial recognition at cost including transaction costs associated with the acquisition, financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Changes in fair value of available for sale investments are reported as a separate component of other comprehensive income until the investment is derecognised or the investment is determined to be impaired, at which time, the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated income statement.

#### Financial liabilities

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include "accounts payable", "interest bearing loans and borrowings" and "bonds".

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

*Interest bearing loans and borrowings*

After initial recognition interest bearing loans and borrowings are subsequently measured at amortised cost using EIR method. Gain and losses are recognised in consolidated income statement when the liabilities are derecognised as well as through effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of EIR. The EIR amortisation is included as finance costs in consolidated income statement.

*Bonds*

Bonds are carried on the consolidated statement of financial position at their principal amount, net of directly related costs of issuing the bonds to the extent that such costs have not been amortised. These costs are amortised through the consolidated income statement over the life of the bonds using the effective interest rate method.

Interest is charged as an expense as it accrues, with unpaid amounts included in other liabilities.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Derecognition of financial assets and financial liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

#### Offsetting of financial instruments
Financial assets and financial liabilities are offset and net amount is reported in the consolidated statement of financial position when the Group has currently legal enforceable legal right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

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

*Financial assets carried at amortised cost*
For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Impairment of financial assets (continued)

*Available for sale investments*

For available for sale investments, the Group assess at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale 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 equity investment below its cost. 'Significant' is evaluated against the original cost of investment and 'prolonged' against the period in which fair value has been below its cost. Where 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 those financial assets available for sale previously recognised in the consolidated income statement is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses in equity investments are not reversed through consolidated income statement; increase in their fair value after impairment is recognised directly in other comprehensive income.

### Fair values measurement

The Group measures financial instruments, such as, available for sale investment, 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.

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. An analysis of fair values of financial instruments and and non-financial assets and further details as to how they are measured are provided in Note 26 and Note 9 respectively.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Traded in the active marketbased on closing bid price
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair values measurement (continued)

For assets and liabilities that are recognised in the financial statements 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.

### Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

### Properties held for trading

Properties acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, are held as properties held for trading and are measured at lower of cost and net realisable value.

Cost includes free hold and leasehold rights for land, amount paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated cost of sale. Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

The cost of properties held for trading recognised in consolidated income statement on disposal is determined with reference to the specific cost incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold. Write down of properties held for trading are charged to other operating expenses.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate, an entity in which the Group has significant influence, is accounted for using the equity method. Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. 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 aggregate of the Group's share of profit or loss of an associate is shown on the face of consolidated income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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 consolidated income statement.

### Investment properties

Investment property comprises of developed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a lease is classified as an investment property when the definition of an investment property is met.

Investment property is 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. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is carried at fair value that is determined based on valuation performed by accredited independent valuators periodically using valuation methods consistent with the nature and usage of investment properties. Gains or losses arising from changes in the fair values are included in the consolidated income statement in the year in which they arise. For the purposes of these consolidated financial statements the assessed fair value is:

- Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.
- Increased by the carrying amount of any liability to the superior leaseholder or freeholder included in the consolidated statement of financial position as a finance lease obligation.

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

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period consolidated financial statements.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties (continued)
Transfers are made to investment property 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 property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sell.

### 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 other assets to their residual values as follows:

| | |
|---|---|
| Building | 20 - 50 years |
| Tools and equipment | 3 to 5 years |
| Computer hardware and software | 3 to 5 years |
| Furniture and fixtures | 3 to 5 years |
| Motor vehicles | 4 to 5 years |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

### 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 to sell and its value in use and 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. Where 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 to sell, recent market transactions are taken into account, if available. 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 subsidiaries 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 cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering 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 are recognised in the consolidated income statement.

### End of service indemnity
The Group provides end of service benefits to its employees. Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment. These liabilities which are unfunded represents the amount payable to each employee as a result of involuntary termination on the reporting date.

With respect to its national employees, the Parent Company makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The Parent Company's obligations are limited to these contributions, which are expensed when due.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Treasury shares

Treasury shares consist of the Parent 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 a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. 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 bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

### Other reserve

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when payment is being made. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognised:

- Rental income from operating leases recognised except for contingent rental income which is recognised when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.
- Hospitality income is recognised when rooms are occupied and services have been rendered.
- A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.
- Interest income is recognised as it accrues using the EIR.
- Dividend income is recognised when the right to receive payment is established.

### Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate and where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be incurred to settle the obligation. Where 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 income statement 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 interest and other costs that an entity incurs in connection with the borrowing of funds.

### Contingencies

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

*Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)*
The Parent Company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

*National Labour Support Tax (NLST)*
The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

*Zakat*
Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007.

*Taxation on overseas subsidiaries*
Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

### Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance and the reporting is consistent with the internal reports provided to the chief operation decision maker. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

### Foreign currency

The consolidated financial statements are presented in Kuwaiti Dinars which is also the functional of the Parent Company. Each entity in the Group determines its own functional currency and items included in financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currency (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair values are recognised in the consolidated income statement.

Assets (including goodwill) and liabilities, both monetary and non-monetary, of foreign operations are translated to Kuwaiti Dinars at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average rates of exchange for the foreign operation’s period of operations. The resulting exchange differences are accumulated in a separate component of other comprehensive income (the foreign currency translation reserve) until the disposal of the foreign operation. On disposal of foreign operations, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

### 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.

*Group as a lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. 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.

*Group as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

A property interest that is held by the Group under an operating lease may be classified and accounted for as an investment property when the property otherwise meets the definition of an investment property, evaluated property by property, and based on management’s intention. The initial cost of a property interest held under a lease and classified as an investment property is determined at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

### Significant accounting judgments, estimates and assumptions

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

### *Judgments*

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

*Classification of property*

The Group determines whether a property is classified as investment property or property held for trading:

- Investment property comprises land and buildings which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Properties held for trading comprise property that is held for sale in the ordinary course of business.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Significant accounting judgments, estimates and assumptions (continued)

*Judgments (continued)*

*Operating Lease Commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases, which requires considerable judgement.

*Impairment of investments*

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires considerable judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

*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 described below:

The Group based its assumptions and estimation 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. Such changes are reflected in the assumptions when they occur.

*Estimation of net realisable value for properties held for trading*

Properties held for trading is stated at the lower of cost and net realisable value (NRV). NRV is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions.

*Valuation of investment properties*

Fair value of investment properties have been assessed by independent real estate appraisers. Two main methods were used to determine the fair value of property interests in investment properties; (a) Discounted cash flow analysis and (b) Property market value method as follows:

(a) Discounted cash flow is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.

(b) Property market value method is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

Volatility in the global financial system is reflected in commercial real estate markets. There was a significant reduction in transaction volumes in 2011 and, to a lesser extent, into 2012. Therefore, in arriving at their estimates of market values as at 31 December 2013 and 31 December 2014, valuers used their market knowledge and professional judgment and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investment properties than would exist in a more active market.

Investment property under construction is also valued at fair value as determined by independent real estate valuation experts, except if such values cannot be reliably determined. The fair value of investment properties under construction is determined using either the Discounted Cash Flow Method or the Residual Method.

The significant methods and assumptions used by valuers in estimating fair value of investment property are stated in note 9.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Significant accounting judgments, estimates and assumptions (continued)

*Estimates and assumptions (continued)*

*Techniques used for valuing investment properties*
The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the fair value of the property.

The Residual Method (or Hypothetical Development Approach) to estimating fair value is a combination of the Capitalisation (income) approach and a Cost approach (summation). The Residual Method is defined as: "A method of determining the value of a property which has potential for development, redevelopment or refurbishment. The estimated total cost of the work, including fees and other associated expenditures, plus allowance for interest, developer's risk and profit, is deducted from the gross value of the completed project. The resultant figure is then adjusted back to the date of valuation to give the residual value."

*Valuation of unquoted equity investments*
Valuation of unquoted equity investments is normally based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

## 3 MATERIAL PARTLY-OWNED SUBSIDIARIES

The Group has concluded that Abdali Mall Company P.S.C. ("Abdali Mall") and Al Dhiyafa Holding Company K.S.C. (Closed) ("Al-Dhiyafa") are the only subsidiaries with non-controlling interests that are material to the Group. Financial information of subsidiaries that have material non-controlling interests are provided below:

**Accumulated balances of material non-controlling interests:**

| | *2014* | *2013* |
|---|---|---|
| | *KD* | *KD* |
| Abdali Mall | 22,943,332 | 8,036,783 |
| Al-Dhiyafa | 10,675,455 | 10,227,413 |

**Loss allocated to material non-controlling interests:**

| | *2014* | *2013* |
|---|---|---|
| | *KD* | *KD* |
| Abdali Mall | (178,224) | (116,593) |
| Al-Dhiyafa | (3,779) | (82,195) |

## 3 MATERIAL PARTLY-OWNED SUBSIDIARIES

The summarised financial information of these subsidiaries is provided below. This information is based on amounts after inter-company eliminations.

Summarised income statement for the year ended 31 December:

| | *2014* | | *2013* | |
|---|---|---|---|---|
| | **Abdali Mall** | **Al-Dhiyafa** | Abdali Mall | Al-Dhiyafa |
| | ***KD*** | ***KD*** | *KD* | *KD* |
| Income | **262,275** | **18,084,435** | 704 | 13,847,546 |
| Expenses | **(707,834)** | **(18,662,702)** | (292,185) | (14,457,342) |
| **Total comprehensive loss for the year** | **(445,559)** | **(578,267)** | (291,481) | (609,796) |
| **Attributable to non-controlling interests** | **(178,224)** | **(3,779)** | (116,593) | (82,195) |

Summarised statement of financial position as at 31 December:

| | *2014* | | *2013* | |
|---|---|---|---|---|
| | **Abdali Mall** | **Al-Dhiyafa** | Abdali Mall | Al-Dhiyafa |
| | ***KD*** | ***KD*** | *KD* | *KD* |
| Total assets | **66,121,803** | **111,349,011** | 46,630,206 | 103,966,742 |
| Total liabilities | **(8,763,473)** | **(53,099,808)** | (26,538,248) | (46,086,007) |
| **Total equity** | **57,358,330** | **58,249,203** | 20,091,958 | 57,880,735 |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | **34,414,998** | **47,573,748** | 12,055,175 | 47,653,322 |
| Non-controlling interests | **22,943,332** | **10,675,455** | 8,036,783 | 10,227,413 |

Summarised cash flow information for year ended 31 December:

| | *2014* | | *2013* | |
|---|---|---|---|---|
| | **Abdali Mall** | **Al-Dhiyafa** | Abdali Mall | Al-Dhiyafa |
| | ***KD*** | ***KD*** | *KD* | *KD* |
| Operating | **(378,138)** | **(753,442)** | (535,551) | 4,230,945 |
| Investing | **(18,300,770)** | **(444,402)** | (13,602,524) | (433,714) |
| Financing | **20,036,695** | **3,090,447** | 14,121,409 | (4,240,430) |
| **Net increase (decrease) in cash and cash equivalents** | **1,357,787** | **1,892,603** | (16,666) | (443,199) |

## 4 CASH AND SHORT TERM DEPOSITS

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Cash at banks and on hand | 10,972,771 | 9,540,744 |
| Short term deposits | 2,054,361 | 1,878,870 |
| Cash and short term deposits | 13,027,132 | 11,419,614 |
| Less: Bank overdraft (Note 12) | (14,283,070) | (93,315) |
| Cash and cash equivalents for the purpose of statement of cash flows | (1,255,938) | 11,326,299 |

Short term deposits are made for varying periods ranging from one day and three months, and earn interest at the respective short term deposit rates.

Cash and short term deposits amounting to KD 88,685 (2013: KD 223,177) are placed with related parties (Note 23).

## 5 ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Accrued rental and hospitality income | 1,088,663 | 976,074 |
| Due from related parties (Note 23) | 4,678,920 | 1,098,003 |
| Prepayments | 959,502 | 1,144,341 |
| Other receivables | 18,292,446 | 17,938,039 |
| | 25,019,531 | 21,156,457 |
| Provision for impairment | (2,050,345) | (1,926,736) |
| | 22,969,186 | 19,229,721 |

As at 31 December 2014, accrued rental income and other receivables at a nominal value of KD 2,050,345 (2013: KD 1,926,736) were impaired and fully provided for.

Movement in the provision for impairment of receivables was as follows:

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| As at 1 January | 1,926,736 | 1,838,872 |
| Provided during the year | 123,609 | 87,864 |
| As at 31 December | 2,050,345 | 1,926,736 |

## 6 PROPERTIES HELD FOR TRADING

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| As at 1 January | 49,817,762 | 43,609,578 |
| Addition during the year | 13,145,862 | 6,200,090 |
| Disposals | (4,106,092) | (34,125) |
| Write down | (5,405) | (58,758) |
| Foreign exchange difference | (2,886) | 100,977 |
| As at 31 December | 58,849,241 | 49,817,762 |

The total capitalised finance costs included in the carrying value of properties held for trading (under construction) is KD 2,596,428 (2013: KD 1,267,996)

## 7 AVAILABLE FOR SALE INVESTMENTS

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Quoted equity shares | 398,423 | 369,513 |
| Unquoted equity shares | 10,431,166 | 7,647,378 |
| Unquoted debt securities | 4,940,849 | 5,154,514 |
| | 15,770,438 | 13,171,405 |

Unquoted equity shares amounting to KD 7,006,800 (2013: KD 6,873,759) and unquoted debt securities are carried at cost, less impairment, if any, due to the non-availability of reliable measures of their fair values. Management has performed a review of its available for sale investments to assess whether impairment has occurred in the value of these investments and has not recorded any impairment loss (2013: KD 245,983) in the consolidated income statement. Based on the latest available financial information, management is of the view that no impairment loss is required as at 31 December 2014 in respect of equity investments.

Investments with aggregate carrying amounts of KD 11,962,657 (2013: KD 11,994,100) represent investments in related parties (Note 23). Investments with aggregate carrying amounts of KD 1,436,675 (2013: KD 1,400,569), are managed by a related party (Note 23).

## 8 INVESTMENT IN ASSOCIATES

| *Name of company* | *Country of Incorporation* | *Equity interest* | | *Carrying value* | |
|---|---|---|---|---|---|
| | | *2014* | *2013* | *2014* *KD* | *2013* *KD* |
| Kuwait Hotels Company K.S.C.(a) | Kuwait | 27.39% | 27.39% | 1,579,842 | 1,702,498 |
| Dar SSH International Engineering Consultants Co. W.L.L. | Kuwait | 28.5% | 28.5% | 1,638,918 | 816,715 |
| Abdali Boulevard Company P.S.C. ("Abdali") | Jordan | 40% | 40% | 33,926,328 | 28,776,145 |
| Al-Fujeira Real Estate Limited | United Arab Emirates | 50% | 50% | 7,214,898 | 7,084,918 |
| United Towers Holding Company K.S.C. (Closed) ("UTC") | Kuwait | 35.11% | 35.11% | 22,121,426 | 21,965,035 |
| Ikarus United for Marine Services Company S.A.K. (Closed) | Kuwait | 20% | - | 100,000 | - |
| | | | | 66,581,412 | 60,345,311 |

(a) Quoted on Kuwait Stock Exchange, with a market value of KD 2,801,883 (2013: KD 2,373,165)

The movement in the carrying amount of investment in associates during the year is as follows:

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| At the beginning of the year | 60,345,311 | 34,963,311 |
| Additions during the year | 4,552,140 | 3,283,699 |
| Share of results | 961,159 | 130,588 |
| Foreign currencies translation adjustments | 722,802 | 148,255 |
| Transfer from subsidiaries | - | 21,819,458 |
| At 31 December | 66,581,412 | 60,345,311 |

The additions during the year mainly represents additions in Abdali towards capital calls made during the year amounting to KD 4,452,140 (2013: 3,283,699)

## 8 INVESTMENT IN ASSOCIATES (continued)

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

| | Abdali | | UTC | | Others | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | **KD** | KD | **KD** | KD | **KD** | KD |
| Total assets | **138,809,238** | 121,338,750 | **121,700,774** | 123,480,161 | **42,086,934** | 36,920,937 |
| Total liabilities | **(53,993,419)** | (49,398,388) | **(58,694,719)** | (60,919,537) | **(15,818,605)** | (13,626,753) |
| Net assets | **84,815,819** | 71,940,362 | **63,006,055** | 62,560,624 | **26,268,329** | 23,294,184 |
| Proportion of the Group's ownership | **40%** | 40% | **35.11%** | 35.11% | | |
| **Group's share in the net assets** | **33,926,328** | 28,776,145 | **22,121,426** | 21,965,035 | **10,533,658** | 9,604,131 |
| Revenues | **15,188** | 2,948 | **5,293,965** | 420,107 | **40,476,276** | 27,362,731 |
| **(Loss) profit for the year** | **(1,053,562)** | (526,467) | **445,432** | (628,171) | **3,717,761** | 1,550,920 |
| **Group's share in (loss) profit for the year** | **(421,425)** | (210,587) | **156,391** | (220,551) | **1,226,193** | 561,726 |

## 9 INVESTMENT PROPERTIES

| | 2014 KD | 2013 KD |
|---|---|---|
| Lands for development (a) | 60,753,762 | 64,029,822 |
| Investment properties under construction (b) | 72,406,273 | 52,019,464 |
| Developed properties (c) | 124,137,830 | 118,410,228 |
| | 257,297,865 | 234,459,514 |

Valuation of lands for development, investment properties under construction and developed properties were conducted as at 31 December 2014 by independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of investment property being valued. The discounted future cash flow method or property market value method have been used for developed properties as deemed appropriate considering the nature and usage of the property. The fair value of lands for development and investment property under construction has been determined through market value method.

### a) Lands for development

The movement in lands for development during the year was as follows:

| | 2014 KD | 2013 KD |
|---|---|---|
| As at 1 January | 64,029,822 | 93,813,111 |
| Additions | 255,754 | 1,920,198 |
| Transfer to project under construction (Note 9(b)) | - | (7,701,139) |
| Disposals | (3,205,306) | (20,785,404) |
| Transfer to developed property (Note 9(c)) | - | (3,646,115) |
| Valuation (loss) gain | (439,157) | 479,436 |
| Foreign currency adjustments | 112,649 | (50,265) |
| As at 31 December | 60,753,762 | 64,029,822 |

Lands for development includes a land in Sharm El Sheikh, Egypt amounting to KD 9,266,000 which is not yet registered in the name of the subsidiary (Gulf Egypt) and the subsidiary is not permitted to register it until it completes its construction project on this land.

### b) Investment properties under construction

| | 2014 KD | 2013 KD |
|---|---|---|
| As at 1 January | 52,019,464 | 156,804,439 |
| Capital expenditure | 20,382,632 | 14,907,869 |
| Transfer from lands for development (Note 9 (a)) | - | 7,701,139 |
| Valuation gain | 4,177 | 34 |
| Transfer to developed property | - | (23,097,007) |
| Disposal on derecognition of investment in subsidiary | - | (87,591,000) |
| Transfer to property and equipment (Note 10) | - | (16,656,878) |
| Foreign currency adjustments | - | (49,132) |
| As at 31 December | 72,406,273 | 52,019,464 |

## 9 INVESTMENT PROPERTIES (continued)

### c) Developed properties

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Developed land and buildings: | | |
| Developed land and buildings | 27,428,700 | 21,755,125 |
| Buildings erected on land leased from the Government | 96,709,130 | 96,655,103 |
| | 124,137,830 | 118,410,228 |

The lease periods for the plots of land leased from the Government of Kuwait and others range from 2 to 50 years.

The movement during the year was as follows:

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| As at 1 January | 118,410,228 | 115,622,768 |
| Additions | 3,063,666 | 9,144,013 |
| Transfer from lands for development (Note 9(a)) | - | 3,646,115 |
| Transfer from project under construction | - | 23,097,007 |
| Disposals | - | (5,299,331) |
| Disposal on derecognition of investment in subsidiary | - | (32,027,000) |
| Valuation gain | 2,659,963 | 4,227,162 |
| Foreign currency adjustments | 3,973 | (506) |
| As at 31 December | 124,137,830 | 118,410,228 |

*Fair value hierarchy*
The fair value measurement of investment properties has been categorised as level 3 fair value based on inputs to the valuation technique used. The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values:

| 2014 | *Office* *KD* | *Retail outlets* *KD* | *Total* *KD* |
|---|---|---|---|
| Opening balance | 9,412,623 | 225,046,891 | 234,495,514 |
| Purchases | 253,983 | 23,448,069 | 23,702,052 |
| Disposals | - | (3,205,306) | (3,205,306) |
| Valuation gain | 488,394 | 1,736,589 | 2,224,983 |
| Foreign currency adjustments | - | 116,622 | 116,622 |
| **Closing balance** | 10,155,000 | 247,142,865 | 257,297,865 |

| 2013 | *Office* *KD* | *Retail outlets* *KD* | *Total* *KD* |
|---|---|---|---|
| Opening balance | 120,409,500 | 245,830,818 | 366,240,318 |
| Purchases | 3,635,904 | 56,780,437 | 60,416,341 |
| Disposals | (114,649,000) | (82,154,874) | (196,803,874) |
| Valuation gain | 16,219 | 4,690,413 | 4,706,632 |
| Foreign currency adjustments | - | (99,903) | (99,903) |
| Closing balance | 9,412,623 | 225,046,891 | 234,459,514 |

## 9 INVESTMENT PROPERTIES (continued)

Significant assumptions used for valuation of investment properties with the same characteristics are as follows:

| | *Offices* | | *Retail outlets* | |
|---|---|---|---|---|
| | ***2014*** | *2013* | ***2014*** | *2013* |
| | **%** | *%* | **%** | *%* |
| Average net initial yield | **9.50** | 9.50 | **9.75** | 9.75 |
| Average reversionary yield | **10.50** | 10.50 | **10.75** | 10.75 |
| Average inflation rate | **3.50** | 3.85 | **3.50** | 3.85 |
| Long-term vacancy rate | **10.00** | 10.00 | **10.00** | 10.00 |
| Long-term growth in real rental rates | **3.00** | 3.00 | **3.00** | 3.00 |

*Sensitivity analysis*
The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment properties.

| | | *Impact on fair value* | | | |
|---|---|---|---|---|---|
| | | ***2014*** | | *2013* | |
| *Significant unobservable inputs* | *Sensitivity* | ***Offices*** | ***Retail outlets*** | *Offices* | *Retail outlets* |
| | | ***KD*** | ***KD*** | *KD* | *KD* |
| Average net initial yield | +/- 1% | **428,340**<br>**(406,240)** | **4,280,390**<br>**(3,890,700)** | 416,677<br>(565,017) | 4,544,900<br>(4,036,100) |
| Average reversionary yield | +/- 1% | **498,320**<br>**(483,050)** | **6,483,670**<br>**(5,289,300)** | 377,843<br>(282,509) | 7,100,000<br>(6,400,000) |
| Average inflation rate | +/- 25 basis points | **70,203**<br>**(68,290)** | **2,650,360**<br>**(2,030,480)** | 141,254<br>(101,255) | 2,880,000<br>(2,200,000) |
| Long-term vacancy rate | +/- 1% | **62,320**<br>**(56,205)** | **2,900,890**<br>**(2,620,570)** | 169,504<br>(188,339) | 2,800,000<br>(3,040,000) |
| Long-term growth in real rental rates | +/- 1% | **35,390**<br>**(32,250)** | **2,870,305**<br>**(3,204,360)** | 207,172<br>(175,605) | 3,400,000<br>(2,980,000) |

## 10 PROPERTY AND EQUIPMENT

| | *Freehold land KD* | *Buildings KD* | *Tools and equipment KD* | *Computer hardware and software KD* | *Furniture and fixtures KD* | *Motor vehicles KD* | *Total KD* |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| As at 1 January 2014 | 8,688,634 | 76,264,792 | 9,499,699 | 2,328,627 | 7,246,790 | 355,121 | 104,383,663 |
| Additions | - | 5,028,348 | 550,439 | 246,636 | 548,590 | 115,661 | 6,489,674 |
| As at 31 December 2014 | 8,688,634 | 81,293,140 | 10,050,138 | 2,575,263 | 7,795,380 | 470,782 | 110,873,337 |
| Depreciation: | | | | | | | |
| As at 1 January 2014 | - | (9,220,042) | (4,229,677) | (2,309,489) | (3,675,387) | (210,464) | (19,645,059) |
| Charge for the year | - | (3,293,977) | (268,501) | (140,923) | (928,550) | (76,040) | (4,707,991) |
| As at 31 December 2014 | - | (12,514,019) | (4,498,178) | (2,450,412) | (4,603,937) | (286,504) | (24,353,050) |
| **Net carrying amount** | | | | | | | |
| **As at 31 December 2014** | **8,688,634** | **68,779,121** | **5,551,960** | **124,851** | **3,191,443** | **184,278** | **86,520,287** |

**10 PROPERTY AND EQUIPMENT (continued)**

| | *Freehold land KD* | *Buildings KD* | *Tools and equipment KD* | *Computer hardware and software KD* | *Furniture and fixtures KD* | *Motor vehicles KD* | *Total KD* |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| As at 1 January 2013 | 8,518,408 | 53,539,077 | 8,425,679 | 2,163,230 | 6,580,293 | 169,046 | 79,395,733 |
| Additions | 170,226 | 6,068,837 | 1,074,020 | 165,397 | 666,497 | 186,075 | 8,331,052 |
| Transfer from investment properties (Note 9b) | - | 16,656,878 | - | - | - | - | 16,656,878 |
| As at 31 December 2013 | 8,688,634 | 76,264,792 | 9,499,699 | 2,328,627 | 7,246,790 | 355,121 | 104,383,663 |
| Depreciation: | | | | | | | |
| As at 1 January 2013 | - | (7,550,341) | (3,573,340) | (2,142,907) | (2,337,862) | (160,712) | (15,765,162) |
| Charge for the year | - | (1,669,701) | (656,337) | (166,582) | (1,337,525) | (49,752) | (3,879,897) |
| As at 31 December 2013 | - | (9,220,042) | (4,229,677) | (2,309,489) | (3,675,387) | (210,464) | (19,645,059) |
| Net carrying amount | | | | | | | |
| As at 31 December 2013 | 8,688,634 | 67,044,750 | 5,270,022 | 19,138 | 3,571,403 | 144,657 | 84,738,604 |

Depreciation charge amounting to KD 4,227,521 (2013: KD 3,488,922) has been allocated to cost of revenue.

## 11 ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

| | *2014* | *2013* |
|---|---|---|
| | *KD* | *KD* |
| Rent received in advance | 5,521,934 | 6,623,672 |
| Accounts payable | 20,928,928 | 19,111,108 |
| Refundable deposits | 5,637,182 | 5,376,410 |
| Due to related parties (Note 23) | 1,109,606 | 284,845 |
| Other payables | 24,532,709 | 19,698,519 |
| | 57,730,359 | 51,094,554 |

## 12 INTEREST BEARING LOANS AND BORROWINGS

| | *2014* | *2013* |
|---|---|---|
| | *KD* | *KD* |
| Loans | 143,248,250 | 134,225,113 |
| Bank overdrafts | 14,283,070 | 93,315 |
| | 157,531,320 | 134,318,428 |

The following table shows the current and non-current portion of the Group's loans and Sukuk Musharaka obligations:

| | *Current portion* | *Non-current portion* | *Total 2014* | *Total 2013* |
|---|---|---|---|---|
| | *KD* | *KD* | *KD* | |
| Bank overdrafts | 14,283,070 | - | 14,283,070 | 93,315 |
| Short term loans | 62,218,075 | - | 62,218,075 | 68,119,920 |
| Term loans | 25,631,759 | 55,398,416 | 81,030,175 | 66,105,193 |
| | 102,132,904 | 55,398,416 | 157,531,320 | 134,318,428 |

Term loans are obtained for varying periods ranging from one year to ten years, and carry interest rates ranging from 4% to 8.75% (2013: 4% to 9.25%).

Interest bearing loans and borrowings amounting to KD 29,014,617 (2013: KD 20,217,508) are due to related parties (Note 23).

The following table shows the current and non-current portions (analysed by currency) of the Group's loan obligations:

| | *Current portion* | *Non-current portion* | *Total 2014* | *Total 2013* |
|---|---|---|---|---|
| | *KD* | *KD* | *KD* | *KD* |
| US Dollars | 5,823,938 | 38,172,759 | 43,996,697 | 35,208,409 |
| Omani Riyal | 1,524,000 | 7,965,636 | 9,489,636 | 9,794,335 |
| British Pound | - | 1,760,021 | 1,760,021 | 1,352,449 |
| Kuwaiti Dinars | 94,784,966 | 7,500,000 | 102,284,966 | 87,963,235 |
| | 102,132,904 | 55,398,416 | 157,531,320 | 134,318,428 |

Included in interest bearing loans are loans amounting to KD 55,246,354 (2013: KD 46,355,193) which are obtained and availed by subsidiaries in the Group.

## 13 BONDS

| | *2014* | *2013* |
|---|---|---|
| | ***KD*** | *KD* |
| *On 24 June 2013, the Parent Company issued unsecured bonds in the principal amount of KD 60,000,000 composed of bonds in two series as follows:* | | |
| • Due on 24 June 2018, carrying interest at a fixed rate of 5.75% per annum payable quarterly in arrears. | **36,450,000** | 36,450,000 |
| • Due on 24 June 2018, carrying interest at a variable rate of 3.25% over the Central Bank of Kuwait discount rate payable quarterly in arrears. | **23,550,000** | 23,550,000 |
| | **60,000,000** | 60,000,000 |

## 14 SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2014, the Parent Company's authorised, issued and fully paid share capital consists of 1,187,974,420 shares of 100 fils each (2013: 1,187,974,420 shares of 100 fils each) which is fully paid in cash.

The share premium is not available for distribution.

## 15 STATUTORY RESERVE

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and directors' remuneration has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up capital. The statutory reserve is not available for distribution except in certain circumstances stipulated by law.

## 16 VOLUNTARY RESERVE

In accordance with the Parent Company's Articles of Association, 10% of profit for the year attributable to equity holders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax, Zakat and directors' remuneration is to be transferred to the voluntary reserve. Such annual transfers have been discontinued by a resolution of the shareholders' Annual General Assembly upon a recommendation by the Board of Directors.

## 17 TREASURY SHARES

| | ***2014*** | *2013* |
|---|---|---|
| Number of treasury shares | **114,142,873** | 118,504,467 |
| Percentage to issued shares | **9.61%** | 9.98% |
| Market value in KD | **11,414,287** | 13,983,527 |

Reserves equivalent to the cost of treasury shares are not available for distribution throughout the period these shares are held by the Group.

## 18 INVESTMENT INCOME

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Dividend income | 39,759 | 50,953 |
| Realised gain on sale of available for sale investments | - | 339,256 |
| | 39,759 | 390,209 |

## 19 GENERAL AND ADMINISTRATIVE EXPENSES

Included in the general and administration expenses are the following staff related costs:

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Wages and salaries | 2,827,603 | 2,796,058 |
| Post-employment benefits | 803,480 | 628,580 |
| | 3,631,083 | 3,424,638 |

## 20 TAXATION

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Contribution to KFAS | 71,612 | 109,221 |
| NLST | 198,923 | 303,393 |
| Zakat | 79,569 | 121,357 |
| *Taxation on overseas subsidiaries* | | |
| Current tax | 109,877 | 45,310 |
| Deferred tax | 1,076,417 | 499,390 |
| | 1,536,398 | 1,078,671 |

The tax rate applicable to the taxable overseas subsidiary companies is in the range of 10% to 20% (2013: 10% to 20%). For the purpose of determining the taxable results for the year, the accounting profit of the overseas subsidiary companies were adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices of each overseas subsidiary companies jurisdiction.

Deferred tax relates to the following:

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Revaluation of investment properties to fair value | (7,331,191) | (9,060,921) |
| Deferred tax – relating to origination and reversal of temporary differences | (2,806,147) | - |
| **Deferred tax liabilities** | (10,137,338) | (9,060,921) |

Reconciliation of deferred tax liabilities:

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| As at 1 January | (9,060,921) | (8,561,531) |
| Expense for the year | (1,076,417) | (499,390) |
| As at 31 December | (10,137,338) | (9,060,921) |

## 21 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is computed by dividing the profit for the year attributable to the equity holders of the Parent Company by the weighted average number of shares outstanding during the year less treasury shares.

Diluted earnings per share is calculated by dividing the profit for the year attributable to the equity holders of the Parent 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 the conversion of all employees stock options. The Parent Company has outstanding share options, issued under the employee stock options plan, which have a dilutive effect on earnings.

### Basic earnings per share

| | *2014* | *2013* |
|---|---|---|
| | *KD* | *KD* |
| Earnings: | | |
| Profit for the year attributable to the equity holders of the Parent Company | **7,876,473** | 11,198,765 |
| | *Shares* | *Shares* |
| Number of shares outstanding: | | |
| Weighted average number of paid up shares | **1,187,974,420** | 1,187,974,420 |
| Less: Weighted average number of treasury shares | **(116,715,420)** | (109,605,377) |
| Weighted average number of shares outstanding for basic earnings per share | **1,071,259,000** | 1,078,369,043 |
| Basic earnings per share attributable to equity holders of the Parent Company | **7.4 fils** | 10.4 fils |

### Dilutive earnings per share

| | *2014* | *2013* |
|---|---|---|
| | *KD* | *KD* |
| Earnings: | | |
| Profit for the year attributable to the equity holders of the Parent Company | **7,876,473** | 11,198,765 |
| Number of shares outstanding | *Shares* | *Shares* |
| Weighted average number of shares outstanding for basic earnings per share | **1,071,259,000** | 1,078,369,043 |
| Effect of share options | **593,614** | 4,958,114 |
| Weighted average number of shares outstanding for diluted earnings per share | **1,071,852,614** | 1,083,327,157 |
| Diluted earnings per share attributable to equity holders of the Parent Company | **7.3 fils** | 10.3 fils |

## 22 DIVIDEND

During the board meeting held on 17 February 2015, the Board of Directors of the Parent Company recommended 5% cash dividends for the year ended 31 December 2014. This proposal is subject to the approval by the Shareholders' Annual General Assembly.

The Shareholders' Annual General Assembly held on 16 April 2014 approved the audited consolidated financial statements of the Group for the year ended 31 December 2013. The Shareholders' Annual General Assembly and the regulatory authorities approved 8% cash dividend for the year ended 31 December 2013 amounting to KD 8,555,760.

## 23 RELATED PARTY TRANSACTIONS

These represent transactions with the related parties, i.e. the Ultimate Parent Company, major shareholders, associates, directors and key management of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management. Balances and transactions with related parties are as follows:

| | *Ultimate Parent Company KD* | *Other major shareholders KD* | *Associates KD* | *Other related parties KD* | ***2014 KD*** | *2013 KD* |
|---|---|---|---|---|---|---|
| ***Consolidated statement of financial position*** | | | | | | |
| Cash and short term deposits (Note 4) | - | - | - | 88,685 | **88,685** | 223,177 |
| Accounts receivable, prepayments and other assets (Note 5) | - | - | - | 4,678,920 | **4,678,920** | 1,098,003 |
| Available for sale investments (Note 7) | - | - | - | 11,962,657 | **11,962,657** | 11,994,100 |
| Accounts payable, accruals and other payables (Note 11) | 60,840 | 1,046,696 | - | 2,070 | **1,109,606** | 284,845 |
| Interest bearing loans and borrowings (Note 12) | - | - | - | 29,014,617 | **29,014,617** | 20,217,508 |
| ***Consolidated income statement*** | | | | | | |
| General and administrative expenses | - | - | 203,052 | - | **203,052** | 195,363 |
| Finance costs | 801,370 | - | - | 481,638 | **1,283,008** | 466,752 |
| Interest income | - | - | - | 363,218 | **363,218** | 13,736 |
| Other operating revenue | - | - | - | 84,304 | **84,304** | 259,685 |
| Contracting and services revenue | - | - | 673,025 | - | **673,025** | 325,826 |

Certain available for sale investments with carrying value of KD 1,436,675 (2013: 1,400,569) are managed by a related party (Note 7).

### Key management personnel compensation

| | ***2014 KD*** | *2013 KD* |
|---|---|---|
| Salaries and short-term employee benefits | **721,576** | 819,412 |
| End of service benefits | **75,278** | 92,576 |
| | **796,854** | 911,988 |

## 24 CONTINGENT LIABILITIES AND COMMITMENTS

### Contingent liabilities
At 31 December 2014 the Group had contingent liabilities in respect of bank, other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 7,485,177 (31 December 2013: KD 7,379,197).

### Capital commitments
The Group has capital commitments in respect of the following:

- The group has agreed construction contracts with third parties and is consequently committed to future capital expenditure in respect of investment property under construction amounting to KD 3.7 million (31 December 2013: KD 25.3 million) and in respect of property held for trading amounting to KD 11.3 million (31 December 2013: KD 20.8 million).
- Uncalled capital in investments in associate amounting to KD 9.5 million (31 December 2013: KD 6 million)

### Operating lease commitments – Group as a lessor
The Group has entered into commercial leases for certain investment properties in the normal course of business. Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Within one year | 19,725,610 | 17,710,055 |
| After one year but not more than three years | 45,954,808 | 35,420,110 |
| | 65,680,418 | 53,130,165 |

### Operating lease commitments – Group as a lessee
The Group has entered into commercial leases for investment properties in the normal course of business. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Within one year | 190,629 | 200,864 |
| After one year but not more than three years | 381,258 | 1,461,658 |
| | 571,887 | 1,662,522 |

## 25 SEGMENT INFORMATION

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss as explained in the table below.

Segment results include revenue and expenses directly attributable to a segment.

The Group has following reportable segments:

- Rental operations: consist of leasing of properties.
- Hospitality operations: consist of hospitality services provided through Marina Hotel, Fairmount Hotel, Bhamdoun Hotel and Salalah Residence.
- Property trading: consist of purchase and resale of properties.
- Contracting and services: consist of managing third party properties.
- Real estate development: consist of development of real estate properties.

The following table presents revenue and profit information regarding the Group's operating segments:

**31 December 2014**

| | *Rental operations KD* | *Hospitality operations KD* | *Property trading KD* | *Contracting and services KD* | *Real estate development KD* | *Total KD* |
|---|---|---|---|---|---|---|
| Segment revenues | 19,149,878 | 19,032,826 | 4,939,031 | 8,590,335 | - | **51,712,070** |
| Segment results | 12,056,935 | 2,175,360 | 827,534 | (256,696) | 2,533,198 | **17,336,331** |
| Unallocated expenses | | | | | | **(9,611,204)** |
| **Profit for the year** | | | | | | 7,725,127 |
| Segment assets | 263,297,930 | 90,497,972 | 58,912,217 | 6,100,981 | 61,341,304 | **480,150,404** |
| Unallocated assets | | | | | | **40,877,653** |
| **Total assets** | | | | | | 521,028,057 |
| Segment liabilities | 53,233,736 | 28,174,202 | 12,588,553 | 1,892,012 | 20,274,676 | **116,163,179** |
| Unallocated liabilities | | | | | | **169,235,838** |
| Total liabilities | | | | | | **285,399,017** |
| **Other segmental information:** | | | | | | |
| Valuation gain on investment properties | 2,659,116 | - | - | - | (434,133) | **2,224,983** |
| Share of results of associates | 68,910 | (43,951) | - | - | 936,200 | **961,159** |
| Investment in associates | 63,362,652 | 1,579,842 | - | - | 1,638,918 | **66,581,412** |

## 25 SEGMENT INFORMATION (continued)

31 December 2013

| | *Rental operations KD* | *Hospitality operations KD* | *Property trading KD* | *Contracting and services KD* | *Real estate development KD* | *Total KD* |
|---|---|---|---|---|---|---|
| Segment revenues | 19,222,456 | 17,810,763 | 71,930 | 4,966,815 | - | 42,071,964 |
| Segment results | 10,754,022 | 2,207,476 | (20,953) | 38,151 | 6,988,189 | 19,966,885 |
| Unallocated expenses | | | | | | (8,921,232) |
| Profit for the year | | | | | | 11,045,653 |
| Segment assets | 146,657,833 | 82,944,162 | 49,817,762 | 6,156,087 | 144,825,431 | 430,401,275 |
| Unallocated assets | | | | | | 42,793,152 |
| Total assets | | | | | | 473,194,427 |
| Segment liabilities | 32,978,219 | 25,322,924 | 6,543,095 | 1,664,089 | - | 66,508,327 |
| Unallocated liabilities | | | | | | 187,965,576 |
| Total liabilities | | | | | | 254,473,903 |
| Other segmental information: | | | | | | |
| Valuation gain on investment properties | 4,472,641 | - | - | - | 233,991 | 4,706,632 |
| Share of results of associates | 315,284 | 83,587 | - | - | (268,283) | 130,588 |
| Impairment loss on available for sale investments | - | (155,964) | - | - | (90,019) | (245,983) |
| Investment in associates | 57,826,098 | 1,702,498 | - | - | 816,715 | 60,345,311 |

## 25 SEGMENT INFORMATION (continued)

### Geographic information

*Revenue*

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Kuwait | 29,364,318 | 27,337,524 |
| Egypt | 13,126,012 | 12,798,733 |
| Lebanon | 4,601,051 | 187,800 |
| UAE | 24,163 | 13,750 |
| Oman | 3,135,809 | 1,019,356 |
| Bahrain | 180,744 | 22,453 |
| UK | 570,479 | 87,081 |
| USA | 709,494 | 605,267 |
| | 51,712,070 | 42,071,964 |

*Non-current assets*

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Kuwait | 117,614,080 | 111,986,656 |
| Egypt | 115,091,599 | 112,164,240 |
| Lebanon | 28,865,600 | 27,307,998 |
| UAE | 17,482,181 | 17,881,201 |
| Syria | 3,327,910 | 3,209,424 |
| Oman | 68,968,616 | 64,474,648 |
| Jordan | 108,219,402 | 82,797,571 |
| Bahrain | 4,635,266 | 4,617,085 |
| USA | 6,683,573 | 5,812,623 |
| KSA | 1,976,213 | 1,965,506 |
| UK | 2,996,392 | 2,858,075 |
| Morocco | - | 5,283,122 |
| | 475,860,832 | 440,358,149 |

Non-current assets for this purpose consist of long term account receivables, properties held for trading, available for sale investments, investment in associates, investment properties, property and equipment and goodwill (refer Note 27 of maturity analysis of assets and liabilities).

## 26 FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities that are not carried at fair value is not materially different from their carrying amounts except for available for sale investments carried at cost amounting to KD 11,947,649 as at 31 December 2014 (31 December 2013: KD 12,028,273).

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

| 2014 | *Level: 1* *KD* | *Level: 3* *KD* | *Total* *KD* |
|---|---|---|---|
| **Assets measures at fair value** | | | |
| Investment properties (Note 9): | - | 257,297,865 | **257,297,865** |
| Financial assets available for sale (Note 7): | | | |
| Quoted equity shares | 398,423 | - | **398,423** |
| Unquoted equity shares | - | 3,424,366 | **3,424,366** |
| | **398,423** | **260,722,231** | **261,120,654** |

| 2013 | *Level: 1* *KD* | *Level: 3* *KD* | *Total* *KD* |
|---|---|---|---|
| Assets measures at fair value | | | |
| *Investment properties (Note 9):* | | 234,459,514 | 234,459,514 |
| Financial assets available for sale (note 7): | | | |
| Quoted equity shares | 369,513 | - | 369,513 |
| Unquoted equity shares | - | 773,619 | 773,619 |
| | 369,513 | 235,233,133 | 235,602,646 |

Unquoted equity shares are valued based on net book value method using latest available financial statements of the investee entities, where in the underlying assets are fair valued.

The impact on the consolidated statement of financial position or the consolidated statement of shareholder's equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

Movement in the level 3 financial instrument is as follows.

| | **2014** *KD* | 2013 *KD* |
|---|---|---|
| As at 1 January | **773,619** | 734,407 |
| Net purchases, (sales and settlements) | **2,606,493** | - |
| Gain recorded in other comprehensive income | **44,692** | 105,017 |
| Impairment recorded during the year | **(438)** | (65,805) |
| As at 31 December | **3,424,366** | 773,619 |

## 27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturity profile of short term deposits, accounts receivable, prepayments and other assets, accounts payable and accruals, interest bearing loans and borrowings, and bonds at the year-end is based on contractual repayment arrangements. The maturity profile for the remaining assets and liabilities is determined based on the management estimate of liquidation of those financial assets.

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

| *31 December 2014* | *Within one year* | | | | | |
|---|---|---|---|---|---|---|
| | *Within 3 months KD* | *3 to 6 months KD* | *6 to 12 months KD* | ***Sub total KD*** | *Over 1 year KD* | *Total KD* |
| ASSETS | | | | | | |
| Cash, bank balances and short term deposits | 13,027,132 | - | - | 13,027,132 | - | 13,027,132 |
| Accounts receivable, prepayments and other assets | 1,391,961 | 2,974,281 | 9,475,497 | 13,841,739 | 9,127,447 | 22,969,186 |
| Properties held for trading | - | - | 13,357,504 | 13,357,504 | 45,491,737 | 58,849,241 |
| Available for sale investments | 4,940,850 | - | - | 4,940,850 | 10,829,588 | 15,770,438 |
| Investment in associates | - | - | - | - | 66,581,412 | 66,581,412 |
| Investment properties | - | - | - | - | 257,297,865 | 257,297,865 |
| Goodwill | - | - | - | - | 12,496 | 12,496 |
| Property and equipment | - | - | - | - | 86,520,287 | 86,520,287 |
| TOTAL ASSETS | 19,359,943 | 2,974,281 | 22,833,001 | 45,167,225 | 475,860,832 | 521,028,057 |
| LIABILITIES | | | | | | |
| Accounts payable, accruals and other payables | 3,340,276 | 5,479,784 | 5,790,444 | 14,610,504 | 43,119,855 | 57,730,359 |
| Deferred tax liabilities | - | - | - | - | 10,137,338 | 10,137,338 |
| Interest bearing loans and borrowings | 2,837,735 | 2,836,985 | 96,458,184 | 102,132,904 | 55,398,416 | 157,531,320 |
| Bonds | - | - | - | - | 60,000,000 | 60,000,000 |
| TOTAL LIABILITIES | 6,178,011 | 8,316,769 | 102,248,628 | 116,743,408 | 168,655,609 | 285,399,017 |

## 27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

| *31 December 2013* | *Within 3 months KD* | *Within one year 3 to 6 months KD* | *6 to 12 months KD* | *Sub total KD* | *Over 1 year KD* | *Total KD* |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash, bank balances and short term deposits | 11,419,614 | - | - | 11,419,614 | - | 11,419,614 |
| Accounts receivable, prepayments and other assets | 4,697,933 | 2,888,860 | 2,102,010 | 9,688,803 | 9,540,918 | 19,229,721 |
| Properties held for trading | - | - | 7,962,555 | 7,962,555 | 41,855,207 | 49,817,762 |
| Available for sale investments | 560,000 | - | - | 560,000 | 12,611,405 | 13,171,405 |
| Investment in associates | - | - | - | - | 60,345,311 | 60,345,311 |
| Investment properties | - | - | 3,205,306 | 3,205,306 | 231,254,208 | 234,459,514 |
| Property and equipment | - | - | - | - | 84,738,604 | 84,738,604 |
| Goodwill | - | - | - | - | 12,496 | 12,496 |
| TOTAL ASSETS | 16,677,547 | 2,888,860 | 13,269,871 | 32,836,278 | 440,358,149 | 473,194,427 |
| LIABILITIES | | | | | | |
| Accounts payable, accruals and other payables | 6,673,595 | 2,318,977 | 1,653,925 | 10,646,497 | 40,448,057 | 51,094,554 |
| Interest bearing loans and borrowings | 10,095,400 | 3,243,805 | 75,378,680 | 88,717,885 | 45,600,543 | 134,318,428 |
| Deferred tax liabilities | - | - | - | - | 9,060,921 | 9,060,921 |
| Bonds | - | - | - | - | 60,000,000 | 60,000,000 |
| TOTAL LIABILITIES | 16,768,995 | 5,562,782 | 77,032,605 | 99,364,382 | 155,109,521 | 254,473,903 |

As at 31 December 2014 the Group has short term loans and overdrafts amounting to KD 75,784,215 (31 December 2013: KD 68,213,235) which are renewable on a yearly basis.

## 28 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

The major risks to which the Group is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value are outlined below.

### Risk management structure

The Board of Directors of the Parent Company are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

### Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

## 28 RISK MANAGEMENT

### 28.1 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 manages credit risk by setting limits for individual counter-parties, monitors credit exposures, and continually assesses the creditworthiness of counterparties, with the result that the Group's exposure to bad debts is not significant.

The Group trades only with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Group management.

With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances and short term deposits, the Group's exposure to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying amount of bank balances, short term deposits and accounts receivable.

Due to the nature of the Group's business, the Group does not take possession of collaterals.

*28.1.1 Gross maximum exposure to credit risk*

The table below shows the gross maximum exposure to credit risk across financial assets.

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Bank balances and short term deposits | **13,005,265** | 11,412,171 |
| Accounts receivable and other assets | **22,009,684** | 18,085,380 |
| Available for sale investments | **4,940,849** | 5,154,514 |
| | **39,955,798** | 34,652,065 |

As at 31 December 2014, the maximum credit exposure to a single counterparty amounts to KD 2,934,163 (2013: KD 3,075,025).

The financial assets of the Group are distributed over the following geographical regions:

| <u>Geographical regions</u> | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Kuwait | **25,479,497** | 25,465,610 |
| Jordan | **4,444,781** | 1,456,064 |
| Egypt | **4,830,954** | 2,468,946 |
| Lebanon | **2,489,774** | 2,283,640 |
| Oman | **1,328,337** | 1,701,534 |
| USA | **867,200** | 988,445 |
| UK | **39,864** | 159,219 |
| Morocco | **475,391** | 128,607 |
| | **39,955,798** | 34,652,065 |

The Group's exposure is predominately to real estate and construction sectors.

There is no concentration of credit risk with respect to real estate receivables, as the Group has a large number of tenants.

## 28 RISK MANAGEMENT (continued)

## 28 Credit risk (Continued)

### *28.1.2 Credit quality of financial assets that are neither past due nor impaired*

The Group neither uses internal credit grading system nor external credit grades. The Group manages credit quality by ensuring that credit is granted only to known creditworthy parites.

### *28.1.3 Past due but not impaired*

The Group does not have any past due but not impaired financial assets as at 31 December 2014 and 31 December 2013.

### 28.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank deposits and loans.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities.

| | *Within* one year | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2014** | *Within 1 month KD* | *Within 3 months KD* | *3 to 12 months KD* | *Sub total KD* | *1 to 5 years KD* | *Total KD* |
| Accounts payable, accruals and other payables | 1,113,426 | 2,226,850 | 11,270,228 | 14,610,504 | 43,119,855 | 57,730,359 |
| Interest bearing loans and borrowings | 584,856 | 4,318,461 | 104,264,247 | 109,167,564 | 62,963,663 | 172,131,227 |
| Bonds | - | 831,034 | 2,502,234 | 3,333,268 | 68,264,677 | 71,597,945 |
| TOTAL LIABILITIES | 1,698,282 | 7,376,345 | 118,036,709 | 127,111,336 | 174,348,195 | 301,459,531 |

| | *Within* one year | | | | | |
|---|---|---|---|---|---|---|
| 31 December 2013 | *Within 1 month KD* | *Within 3 months KD* | *3 to 12 months KD* | *Sub total KD* | *1 to 5 years KD* | *Total KD* |
| Accounts payable, accruals and other payables | 2,404,101 | 4,269,494 | 3,972,903 | 10,646,498 | 40,448,056 | 51,094,554 |
| Interest bearing loans and borrowings | 6,887,238 | 4,665,650 | 81,700,177 | 93,253,065 | 55,482,274 | 148,735,339 |
| Bonds | - | 830,977 | 2,502,063 | 3,333,040 | 71,597,155 | 74,930,195 |
| TOTAL LIABILITIES | 9,291,339 | 9,766,121 | 88,175,143 | 107,232,603 | 167,527,485 | 274,760,088 |

## 28 RISK MANAGEMENT (continued)

### 28.3 Market risk

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

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

### 28.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. Interest rate risk is managed by the finance department of the Parent Company. The Group is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits, loans and borrowings and bonds) as a result of mismatches of interest rate repricing of assets and liabilities. It is the Group's policy to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep a substantial portion of its borrowings at variable rates of interest.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the Group's profit before directors' remuneration and taxation, based on floating rate financial assets and financial liabilities held at 31 December 2014 and 31 December 2013. There is no impact on equity.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible increase in interest rates, with all other variables held constant.

| | *50 basis points increase Effect on profit before directors' remuneration and taxation* | |
|---|---|---|
| | ***2014*** | *2013* |
| | ***KD*** | *KD* |
| US Dollars | **(219,983)** | (176,042) |
| Kuwaiti Dinars | **(740,009)** | (739,350) |
| British Pound | **(8,800)** | (6,762) |
| Omani Riyal | **(47,448)** | (48,972) |

The effect of decrease in the basis points on the results will be symmetric to the effect in increased in the basis points.

### 28.3.2 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's quoted investments are quoted on the regional Stock Exchanges.

The effect on other comprehensive income as a result of a change in the fair value of equity instruments held as available for sale financial assets at 31 December 2014 and 31 December 2013 due to 5% increase in the following market indices with all other variables held constant is as follows:

| Market indices | *Effect on equity* | |
|---|---|---|
| | ***2014*** | *2013* |
| | ***KD*** | *KD* |
| Kuwait | **14,492** | 13,886 |
| Others | **5,067** | 4,227 |

The effect on the profit before directors' remuneration and taxation represents decrease in fair value of impaired available for sale investments which will be recorded in the consolidated income statement. Sensitivity to equity price movements will be on a symmetric basis to the effect of increase in equity prices.

## 28 RISK MANAGEMENT (continued)

### 28.3 Market risk (continued)

#### 28.3.3 Foreign currency risk

Currency risk is the risk that the value of the financial instrument on monetary items will fluctuate due to changes in the foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the Kuwaiti Dinar. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a change in currency rate by 1%, with all other variables held constant:

| | *Increase by 1% Effect on profit before directors' remuneration and taxation* | |
|---|---|---|
| | ***2014*** | *2013* |
| | ***KD*** | *KD* |
| US Dollars | **(175,021)** | (82,318) |
| Egyptian Pounds | **(246,648)** | (261,416) |
| EURO | **54,162** | 51,545 |
| Saudi Riyal | **560** | 458 |
| British Pound | **(17,453)** | (11,428) |
| Bahraini Dinar | **(9,454)** | (10,590) |
| UAE | **5,232** | 4,807 |
| Omani Riyal | **(125,773)** | (102,871) |
| Syrian Lira | **867** | 867 |
| Jordanian Dinar | **(5,474)** | (25,367) |

The effect of decrease in the currency rate by 1% will be symmetric to the effect of increase in the basis.

## 29 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, maximise shareholder value and remain within the quantitative loan covenants.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013.

The Group monitors capital using a gearing ratio as per the debt covenant for their loans, which is net debt divided by net equity. The Group's policy is to keep the gearing ratio below 150%. In accordance with the debt covenants of their loans, the Group includes within net debt, interest bearing loans and borrowings and bonds, less cash and short term deposits. The Group has restated its comparative information to be in line with debt covenants of loans.

| | ***2014*** | *2013* |
|---|---|---|
| | ***KD*** | *KD* |
| Interest bearing loans and borrowings | **157,531,320** | 134,318,428 |
| Bonds | **60,000,000** | 60,000,000 |
| Less: Cash, bank balances and short term deposits | **(13,027,132)** | (11,419,614) |
| Net debt | **204,504,188** | 182,898,814 |
| Total equity | **198,194,684** | 194,406,855 |
| Gearing ratio | **103.18 %** | 94.08% |

شركة العقارات المتحدة
United Real Estate Co



This year, the annual reports of KIPCO Group companies each feature a key ceramic artifact from The al-Sabah Art Collection – one of the world's finest collections of Islamic art. These images are reproduced with the kind permission of the Dar al-Athar al-Islamiyyah.

## How to obtain our 2014 Financial Statements:

Shareholders attending our General Assembly meeting will be provided with a draft printed copy of the Financial Statements for their approval. To request a copy of the Financial Statements before the General Assembly meeting, please contact URC's Marketing & Corporate Communications Department at mcc@urc.com.kw or +965 2295 3500 Ext.3670 to arrange this.

Shareholders can request a copy of the Financial Statements to be sent to them by email seven days before the advertised date of the General Assembly; please contact mcc@urc.com.kw to arrange this.

Shareholders can download a PDF copy of the Financial Statements seven days before the advertised date of the General Assembly from our company website www.urc.com.kw

For further information on our 2014 Financial Statements or for extra copies of this Review, please call +965 2295 3500 Ext.3670

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