# ANNUAL REVIEW 2017

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 piece of wooden 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 featured here LNS 53 W is a wooden panel carved with a geometricized vegetal pattern in 'bevelled style'. The item was made in Egypt during the 9th century CE. The image is reproduced with the kind permission of The al-Sabah Collection, Dar al-Athar al-Islamiyyah.

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

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

# Contents

# MESSAGE FROM THE BOARD

# Message from the Board

**Dear Shareholders,**

I am pleased to present to you United Real Estate Company's (URC) Annual Report, which reflects the company's financial results during the year 2017 and demonstrates the progress of URC's developments in Kuwait and the MENA region.

First of all, I would like to state the most significant financial highlights that took place during the year ending December 31st 2017. The year 2017 witnessed several challenges, including the increase in the discount rate of the Central Bank of Kuwait, which led to an increase in financing costs. Furthermore, our hotel revenues decreased due to hotel renovations in Kuwait and the change of the hotel operator in Egypt. However, despite these challenges, the company achieved a total operating revenue of KD 87 million, with an increase of 23% in 2017, as compared to KD 71 million in 2016, and a net operating profit of KD 21 million.

These financial results reflect the company's resilience in adapting to different economic conditions and challenges to achieve both balanced financial figures and significant milestones on project levels. This indicates the effectiveness of URC's strategy, which seeks to balance the sources of income and the company's diversified assets in the Middle East and North Africa.

In 2017, URC's total assets increased by 5.37% to reach KD 602 million, as compared to KD 572 million in 2016 and a profit of KD 2.2 million.

Last year, we announced our commitment to further develop and support our subsidiaries, United Buildings Company (UBC), United Facilities Management Company (UFM) and United International Project Management Company (UIPM). In 2017, we witnessed remarkable progress, clearly reflected in the increase in revenues of contracting and services by 72% and the total profit increased by 79%.

Furthermore, we announced in 2017 the Board of Director's commitment to take serious and effective measures to ensure the company's adherence to the highest level of corporate governance and internal control, in line with URC's nature of business as a leading company in the real estate market. This was achieved last year, and will continue to be adhered to in 2018. Additionally, we announced the restructuring of our assets and business portfolio to focus on diversity and balance, which was achieved through the establishment of a new food and beverage line in 2017.

We are also pleased to provide you today with an overview on the progress of our ongoing projects that are geographically distributed across Kuwait and the MENA region and range from retail complexes, hotels, residential properties, high-rise office buildings and mixed-use projects.

In the Kingdom of Morocco, URC achieved notable progress for Phase 2 of "Assoufid", a development that covers more than 2 million square meters consisting of a first-class golf course. Phase 2 will consist of a five-star hotel and a residential component, comprising villas and high-end apartments and will include several facilities and services.

# Message from the Board

In the Arab Republic of Egypt, “Avaris”, is the second residential project for URC in the country. Avaris is comprised of apartments, and a commercial and office complex covering an area of more than 108 thousand square meters.

In Kuwait, the company made significant progress in “Hessah Towers”, URC’s first residential offering in the Hessah Al Mubarak District, one of the largest ongoing developments in the country. The District is comprised of a variety of residential, retail, commercial, clinics, wellness and office components.

Launching in 2018, Hessah Towers covers a total built-up area of over 63,000 square meters. Each tower includes 40 floors, consisting of apartments, duplexes and townhouses, with panoramic views of the Arabian Gulf and Kuwait City. Additionally, this new landmark will include facilities and services such as a health club, gymnasium, children’s recreation areas, private gardens for residents, a swimming pool and multi-story parking.

In conclusion, I would like to extend my gratitude and appreciation to our Shareholders for their continued support and unwavering trust. I would also like to commend the sincere efforts of the Executive Management and the valued employees of URC and its subsidiaries and affiliates.

My sincerest wishes for continued the success and prosperity of our beloved country under the guidance and leadership of HH the Amir of the State of Kuwait and HH the Crown Prince.

Sincerely,

Tariq Mohammed AbdulSalam
Chairman


## 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 Isam Hawwa**
Board Member

**Adel Jassem Al Waqayan**
Board Member

# Management Team

**Ahmad Kasem**
Acting Chief Executive Officer

**Ravi Veeraraghavan**
Group Chief Financial Officer

**Oussama Zeitoun**
Chief Development Officer

**Augostino Sfeir**
Chief Investment Officer

**Youssef Saliba**
Chief Legal & Compliance Officer

**Ala'a Beidas**
Group Chief Audit Executive

**Samir Harmouche**
Senior Vice President, Property Management

**Satish Kumar**
Senior Vice President, Procurement

**Hamad Al Mulaifi**
Director of Sales & Marketing

**Mahmoud Alanezi**
Head of Human Resources & Administration

**Shadi Mekdashi**
Head of Risk Management

# United Real Estate Company (URC)

United Real Estate Company is one of Kuwait's leading real estate development companies, operating in the Middle East and North African region, with consolidated assets of KD 602 million (US$ 2 Billion) as of 31 December 2017. URC was founded in 1973 and listed on the Kuwait Stock Exchange in 1984.

URC primarily operates through a number of operational subsidiaries and investment arms. The company's core business is real estate development and it enjoys a diversified portfolio of assets that include retail complexes, hotels, residential properties, high-rise office buildings, and mixed-use developments.

URC's operations extend to construction and contracting, facility management, and project management through its various subsidiaries. The company's portfolio of assets and businesses are geographically spread across a number of countries through several projects such as Hessah Towers, Marina World, Marina Hotel, and KIPCO Tower in Kuwait, Salalah Gardens Mall & Residences in Oman, Abdali Mall in Jordan, Raouche View 1090 in Lebanon, Avaris and Aswar Residences in Egypt, and Assoufid in Morocco.

URC's majority shareholder is KIPCO Group, one of the biggest holding companies in the Middle East and North Africa, with consolidated assets of US$ 34.5 billion as at 31 December 2017. The Group has significant ownership interests in over 60 companies operating across 24 countries. The group's main business sectors are financial services, media, real estate and manufacturing. Through its core companies, subsidiaries and affiliates, KIPCO also has interests in the education and medical sectors.

# Key Achievements in 2017:

- Acquired land plots for URC's section in the Hessah AlMubarak District.
- Substantial completion of  Avaris, a residential community development in New Cairo, Egypt.
- Established a new F&B business line through a URC affiliate, as part of URC's diversification strategy.
- Acquired Insha'a Holding, a leading building and construction materials company.

# Projects Under Development

# Projects Under Development

## Assoufid

Covering a total area of 2 million square meters, Assoufid is an award-winning integrated tourism and residential resort situated in the vibrant city of Marrakech. The first phase of the development included an 18-hole high-end golf club, complete with a signature restaurant, pro shop, member's lounge, and a private pavilion. The golf course lies on a naturally undulating terrain, with the beautifully snow-capped Atlas Mountains as its backdrop, providing golfers with an exciting and challengingly diverse experience.

The second phase of the project will consist of a five-star hotel and a residential component of luxury branded villas and apartments. Additionally, the second phase includes an array of amenities and services, providing a uniquely exceptional lifestyle experience.

# Projects Under Development

## Avaris

Marking the second residential project for URC in Egypt, Avaris is a high-end residential community located in the heart of New Cairo. The development covers an area of 108,000 square meters and is comprised of 468 units that include apartments and duplexes. Furthermore, Avaris consists of a retail complex and office units.


# Projects Under Development

## Hessah Towers

Situated in the prestigious Hessah AlMubarak District, Hessah Towers is URC's first residential offering in the District. The District is the first of its kind in Kuwait, offering residents and visitors alike a new destination that defines the finest in premium, modern living. Hessah Towers consists of two towers, 40 floors each, offering three residential types of apartments, duplexes and townhouses. Each single unit was designed to optimize visual and living experiences, allowing residents to enjoy panoramic views of the sea and city.

The towers cover a total built-up area of over 63,000 square meters and will include a number of facilities and services, such as swimming pool, private gardens, recreational and entertaining areas, health club and gym, as well as multi-story parking.

# URC

# Subsidiaries

# Subsidiaries

## United Facilities Management (UFM)

Mr. Ahmed Yousef Al Kandari

Vice Chairman & CEO

UFM is a wholly owned subsidiary of United Real Estate Company (URC) and is one of the leading companies in the field of integrated facilities management services.

Established in 2007, UFM was the first company to offer complete integrated facilities and property management services in Kuwait and continues to apply innovation, technology and excellent operational standards to its services. The company's services include maintenance, safety, security, cleaning, management and business support services. UFM's portfolio ranges from providing commercial, retail and hospitality, to residential and mixed-use facilities management services across the MENA region, including Kuwait, Sultanate of Oman, Kingdom of Jordan, Arab Republic of Egypt, and United Arab Emirates.

2017 marked the celebration of UFM's tenth anniversary and its acquisition of a large percentage of contracts in Kuwait, which has reflected positively on the company's revenues. UFM signed contracts with companies in both the private and governmental sectors in Kuwait, including the Ministry of Finance, the Ministry of Foreign Affairs, the Central Bank of Kuwait, Viva Telecom and the Kuwait Exhibition Ground.

## United Building Company (UBC)

Mr. Mohammed Salem Al Wetayan

Chief Executive Officer

United Building Company (UBC) is a pioneer in the Kuwait building and construction industry. Classified as a Grade 1 civil contracting company since 1984, UBC has a long track record with several landmark projects in Kuwait. Currently, UBC has various projects under construction valued at approximately KD 153 million.

The year 2016-2017 marked a significant expansion period for UBC. The company executed a large number of contracts, achieving a 95% growth in turnover. The signed contracts were with the Ministry of Justice - Public Prosecution Head Quarters, the Ministry of Public Works MPW (EPW & BOT Head Quarters), the Ministry of Public Works - Expert Department, and with the Ministry of Public Health - Shaikha Salwa Al-Sabah Center-Stem Cell & Umbilical Cord. Other contracts included Kuwait University and the Public Authority for Housing Welfare. The acquisition of a 40% stake in Insha'a Holding, a company specialized in manufacturing buildings materials, further supported this expansion.

## United International Project Management Company (UIPM)

Mr. Yousef Ghazi Al Saqabi

Chief Operations Officer

United International Project Management Company (UIPM), formerly known as KUCM, is a wholly owned subsidiary of United Real Estate Company, established in Kuwait since 1988. Established in Kuwait since 1988, UIPM has over 30 years of expertise in the project management sector and offers a full range of multidisciplinary management services for mega projects in different sectors, specialties, complexities and scales.

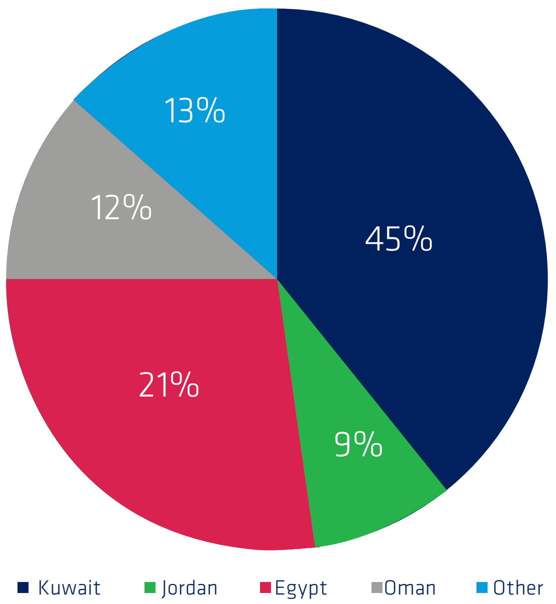
UIPM extended its activities beyond Kuwait and GCC region to North Africa by establishing a branch in Egypt in 2010, named EUPM, currently handling the project management services for URC's Aswar and Avaris residential compounds in New Cairo. In 2016, UIPM extended its reach to another market, Morocco, named UPM- Morocco, currently managing URC's Assoufid development in the city of Marrakesh.

In 2017, UIPM signed several collaboration agreements with first-class international project management consultants to promote and advance the quality of the company's services to the highest international standards.

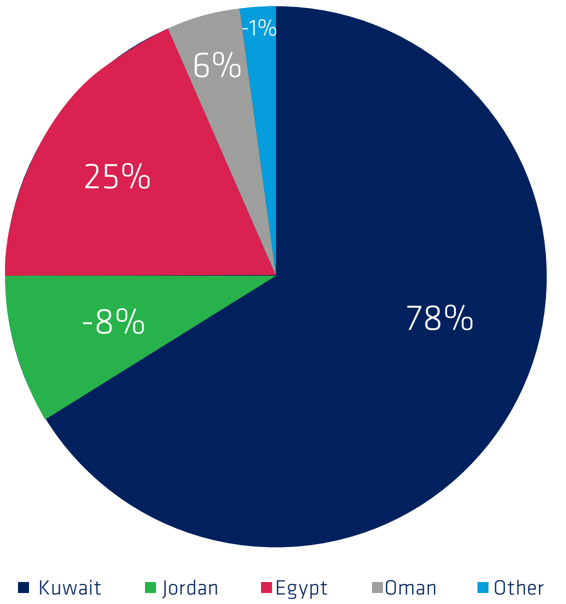
# Company Performance

# URC Geography & Sector

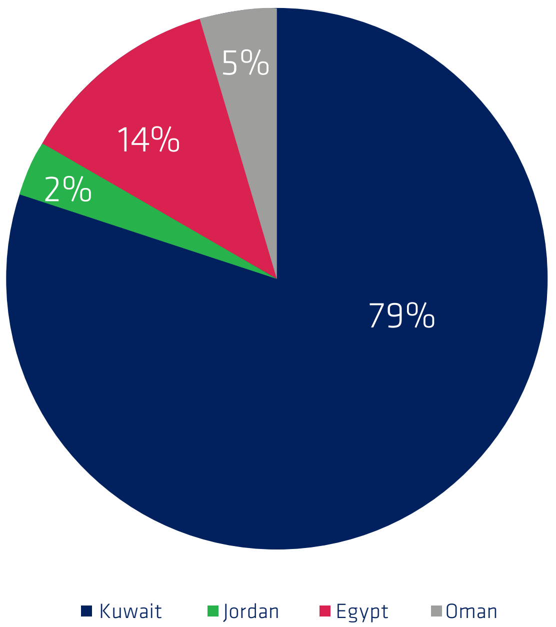
## Assets by Geography KD 602.4 Million



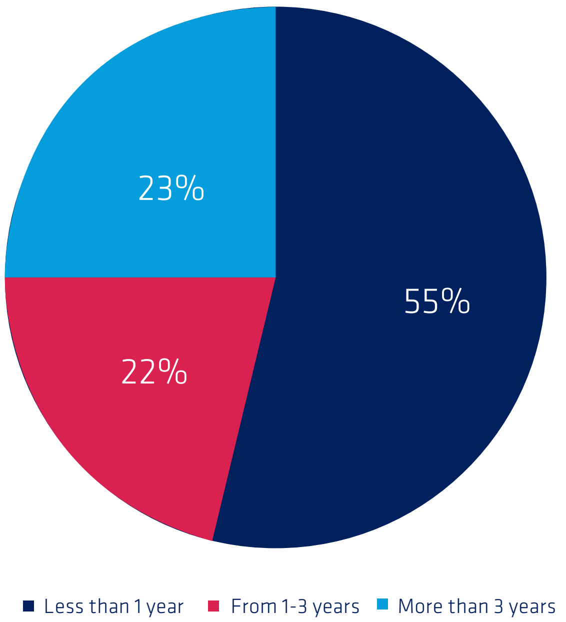

## Operating Profit by Geography KD 21 Million



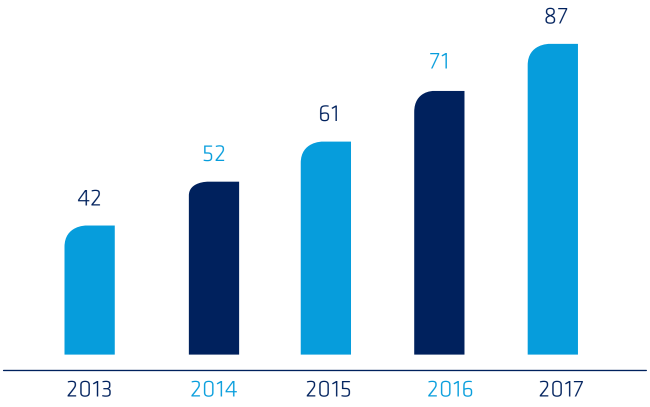

## Revenue by Geography KD 87 Million



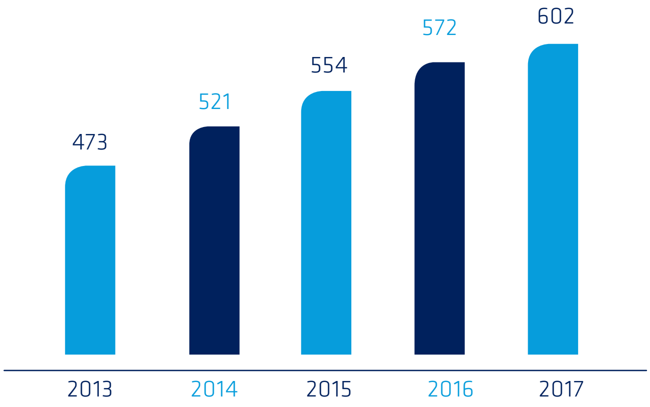

## Net Debt Maturity KD 276 Million



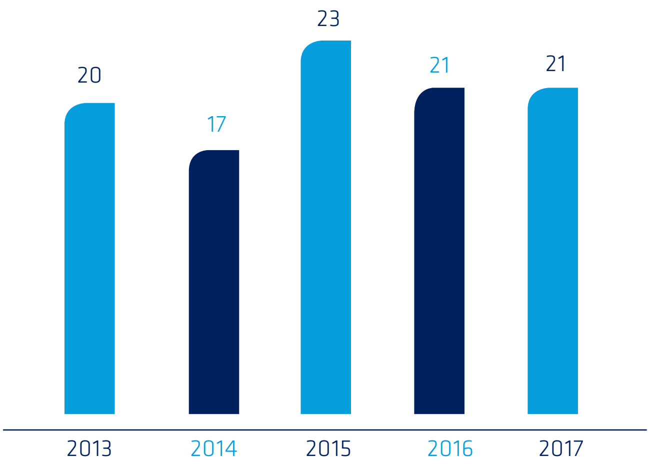
# Key Financial Highlights



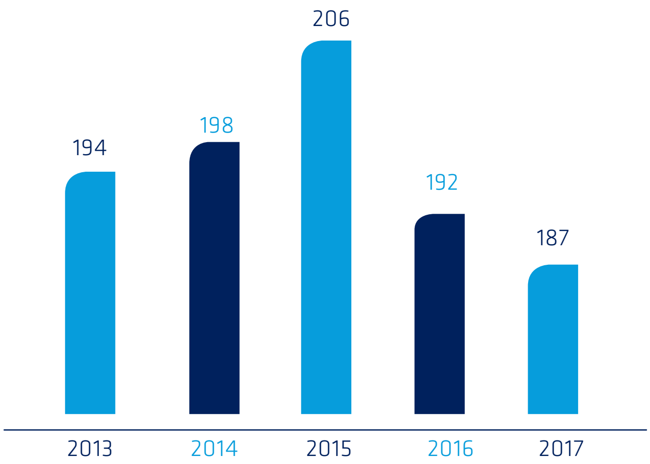

REVENUE
KD million



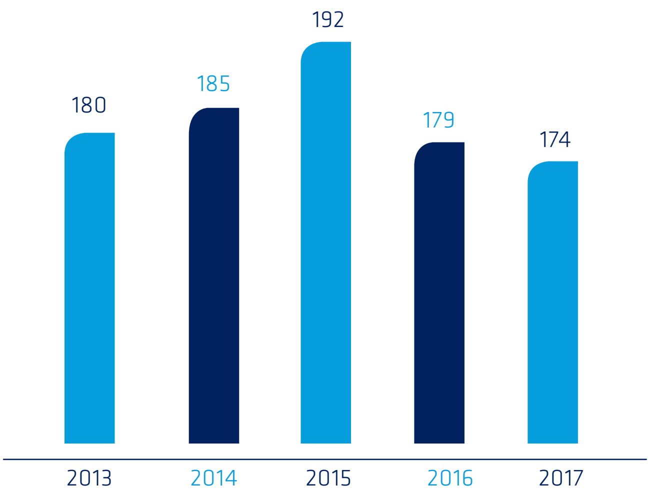

TOTAL ASSESTS
KD million




OPERATING PROFIT
KD million




SHEREHOLDERS EQUITY
KD million




BOOK VALUE PER SHARE
Fils

# UNITED REAL ESTATE COMPANY S.A.K.P.

# AND SUBSIDIARIES

# CONSOLIDATED FINANCIAL STATEMENTS

# 31 DECEMBER 2017

Date: April 16, 2018
Messrs. Esteemed Shareholders

Subject: Confirmation of soundness and accurateness of financial reports for the financial year ended on the 31st of December 2017

Reference is hereby made to the above-mentioned subject, and in compliance with United Real Estate Co KSCP. ("The Company") policies and procedures to ensure the soundness and accurateness of its financial statements as one of the major indicators of the Company's integrity, credibility and transparency in presenting its financial position to increase investors' confidence and the realization of shareholders' rights, and in compliance with Article No. 5-3 of the Corporate Governance Rules of book No. 15, chapter No. 5 of the CMA executive bylaws;

We, members of Board of Directors of United Real Estate Co KSCP., hereby confirm that to the best of our knowledge and to our periodic review of the interim financial statements results, the Company's financial reports for the financial year ended on the 31st of December 2017 are presented accurately and soundly, and expose all of the Company's financial aspects including information and results related to the Company's activities, furthermore, said financial reports have been prepared in accordance with international financial reporting standards.

Tariq M. AbdulSalam
Chairman

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# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED REAL ESTATE COMPANY S.A.K.P.

## Report on the Audit of Consolidated Financial Statements

### Qualified Opinion

We have audited the consolidated financial statements of United Real Estate Company S.A.K.P. (the "Parent Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary significant accounting policies.

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Qualified Opinion

As at 31 December 2017, the consolidated financial statements include the carrying value and share of loss of the Group's associate, Abdali Boulevard Company P.S.C. ("ABC"), amounting to KD 36,396,145 and KD 3,045,387 respectively based on management accounts due to unavailability of audited financial statements. We were unable to carry out any audit procedures to satisfy ourselves as to the completeness and accuracy of share of results and the carrying value of ABC included in the Group's consolidated financial statements. Consequently, we were unable to determine whether any adjustment to the Group's investment in associates as at 31 December 2017 and share of results of the associates for the year ended 31 December 2017 was necessary.

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

### Key Audit Matters (continued)

*Valuation of investment properties*
Investment properties are significant to the Group's consolidated financial statements. Investment properties constitute of lands for development, properties under construction and developed properties. Management determined the fair value of its investment properties and has used external appraisals to support the valuation as at 31 December 2017. The valuation of the investment properties at fair value is highly dependent on estimates and assumptions, such as average net initial yield, reversionary yield, inflation rate, vacancy rates, growth in rental rates, market knowledge and historical transactions. Due to the estimation uncertainty, this is considered a key audit matter. The Group's policies on fair valuation of investment properties are presented in accounting policies section and in Notes 9 of the consolidated financial statements.

As part of our audit procedures, we evaluated the quality and objectivity of the valuation process and the independence and expertise of external appraisers. We also evaluated the accuracy of the property data provided by the Group to the external appraisers, which are used as input for the purpose of valuations. We engaged our own specialist for challenging the external valuations, including the assumptions, estimates and the applied methods used. We evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions on the fair value of investment properties. We further assessed that the main assumptions and related uncertainties are appropriately reflected in the sensitivity disclosure in Note 9 of the consolidated financial statements.

### Other information included in the Group's 2017 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2017 Annual Report after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the Basis for qualified opinion section above, we were unable to obtain sufficient appropriate audit evidence about the carrying value of Group's investment in ABC as at 31 December 2017. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

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

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

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017, that might have had a material effect on the business of the Company or on its financial position.

| | |
|---|---|
| BADER A. AL-ABDULJADER<br>LICENCE NO. 207-A<br>EY<br>AL AIBAN, AL OSAIMI & PARTNERS | ALI MOHAMMED KOUHARI<br>LICENCE NO.156-A<br>Member of PrimeGlobal |

12 March 2018
Kuwait

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | Notes | 2017 KD | 2016 KD |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 10 | **80,104,450** | 84,288,546 |
| Investment properties | 9 | **294,627,605** | 286,950,163 |
| Investment in associates | 8 | **77,960,687** | 78,780,297 |
| Available for sale investments | 7 | **14,452,576** | 14,678,335 |
| Intangible assets | | **2,332,402** | 764,311 |
| | | **469,477,720** | 465,461,652 |
| **Current assets** | | | |
| Properties held for trading | 6 | **58,639,720** | 54,114,363 |
| Accounts receivable, prepayments and other assets | 5 | **57,785,729** | 34,307,228 |
| Cash, bank balances and short term deposits | 4 | **16,527,864** | 17,826,257 |
| | | **132,953,313** | 106,247,848 |
| **TOTAL ASSETS** | | **602,431,033** | 571,709,500 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 12 | **124,885,062** | 131,710,953 |
| Deferred tax liabilities | 20 | **16,740,732** | 15,657,341 |
| Bonds | 13 | **-** | 60,000,000 |
| | | **141,625,794** | 207,368,294 |
| **Current liabilities** | | | |
| Interest bearing loans and borrowings | 12 | **107,779,324** | 72,733,055 |
| Bonds | 13 | **60,000,000** | - |
| Accounts payable, accruals and other payables | 11 | **61,890,933** | 53,067,059 |
| | | **229,670,257** | 125,800,114 |
| **Total liabilities** | | **371,296,051** | 333,168,408 |
| **EQUITY** | | | |
| Share capital | 14 | **118,797,442** | 118,797,442 |
| Share premium | 14 | **15,550,698** | 15,550,698 |
| Statutory reserve | 15 | **20,511,526** | 20,253,562 |
| Voluntary reserve | 16 | **2,582,767** | 2,582,767 |
| Treasury shares | 17 | **(14,478,743)** | (14,478,743) |
| Treasury shares reserve | | **491,325** | 491,325 |
| Other reserve | | **152,073** | 152,073 |
| Cumulative changes in fair values | | **79,553** | 38,415 |
| Foreign currency translation reserve | | **(14,445,961)** | (11,839,198) |
| Retained earnings | | **57,485,872** | 60,897,549 |
| **Equity attributable to equity holders of the Parent Company** | | **186,726,552** | 192,445,890 |
| **Non-controlling interests** | | **44,408,430** | 46,095,202 |
| **Total equity** | | **231,134,982** | 238,541,092 |
| **TOTAL LIABILITIES AND EQUITY** | | **602,431,033** | 571,709,500 |

Tariq M. AbdulSalam
Chairman

The attached notes 1 to 28 form part of these consolidated financial statements.

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

| | Notes | *2017* *KD* | *2016* *KD* |
|---|---|---|---|
| **REVENUE** | | | |
| Gross rental income | | **21,608,612** | 21,128,714 |
| Hospitality income | | **16,484,841** | 20,238,161 |
| Contracting and services revenue | | **46,038,026** | 26,759,922 |
| Sale of properties held for trading | | **-** | 194,542 |
| Other operating revenue | | **2,928,111** | 2,414,660 |
| | | **87,059,590** | 70,735,999 |
| **COST OF REVENUE** | | | |
| Properties operating costs | | **(4,298,664)** | (3,531,744) |
| Rental expense on leasehold properties | | **(1,987,998)** | (1,669,130) |
| Hospitality costs | | **(11,385,389)** | (13,538,278) |
| Depreciation of hospitality assets | 10 | **(3,995,113)** | (4,168,355) |
| Contracting and services costs | | **(44,362,815)** | (25,825,466) |
| Cost of properties held for trading sold | 6 | **-** | (150,725) |
| | | **(66,029,979)** | (48,883,698) |
| **GROSS PROFIT** | | **21,029,611** | 21,852,301 |
| Investment income | 18 | **10,164** | 127,951 |
| General and administrative expenses | 19 | **(7,341,661)** | (7,031,059) |
| Depreciation of property and equipment | 10 | **(413,771)** | (350,329) |
| Loss from disposal of investment properties | | **(98,916)** | - |
| Valuation gain on investment properties | 9 | **9,046,491** | 7,517,473 |
| Provision for maintenance on leasehold properties | | **(264,000)** | (415,000) |
| Provision for a legal case | 24 | **(1,135,924)** | - |
| Write down of properties held for trading | 6 | **-** | (7,308) |
| Net reversal (provision) during the year | 5 | **162,542** | (246,000) |
| **OPERATING PROFIT** | | **20,994,536** | 21,448,029 |
| Gain on disposal of investment in a subsidiary | 8 | **98,801** | - |
| Gain on disposal of property and equipment | | **2,444** | 6,007 |
| Interest income | | **289,715** | 328,536 |
| Other income | | **838,843** | 243,293 |
| Finance costs | | **(14,686,040)** | (11,813,254) |
| Share of results of associates | 8 | **(4,342,545)** | (505,551) |
| Foreign exchange (loss) gain | | **(92,623)** | 4,297,122 |
| **PROFIT BEFORE TAXATION AND DIRECTORS' REMUNERATION** | | **3,103,131** | 14,004,182 |
| Taxation expense | 20 | **(1,582,055)** | (3,504,281) |
| Directors' remuneration | | **(42,000)** | (85,000) |
| **PROFIT FOR THE YEAR** | | **1,479,076** | 10,414,901 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | **2,217,810** | 8,708,237 |
| Non-controlling interests | | **(738,734)** | 1,706,664 |
| | | **1,479,076** | 10,414,901 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY** | | | |
| Basic earnings per share | 21 | **2.1 fils** | 8.1 fils |
| Diluted earnings per share | 21 | **2.1 fils** | 8.1 fils |

The attached notes 1 to 28 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| **Profit for the year** | **1,479,076** | 10,414,901 |
| **Other comprehensive loss:** | | |
| *Items that are or may be reclassified subsequently to consolidated income statement:* | | |
| Realised gain (loss) on sale of available-for-sale investments transferred to the consolidated income statement | **18,518** | (7,517) |
| Net changes in fair value of available-for-sale investments | **22,620** | 25,151 |
| Exchange difference on translation of foreign operations | **(3,554,801)** | (17,624,848) |
| **Other comprehensive loss for the year** | **(3,513,663)** | (17,607,214) |
| **Total comprehensive loss for the year** | **(2,034,587)** | (7,192,313) |
| **Attributable to:** | | |
| Equity holders of the Parent Company | **(347,815)** | (8,135,292) |
| Non-controlling interests | **(1,686,772)** | 942,979 |
| | **(2,034,587)** | (7,192,313) |

The attached notes 1 to 28 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | *Equity attributable to equity holders of the Parent Company* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD* | *Share premium KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *Treasury shares KD* | *Treasury shares reserve KD* | *Other reserve KD* | *Cumulative changes in fair values KD* | *Foreign currency translation reserve KD* | *Retained earnings KD* | *Sub total KD* | *Non-controlling interests KD* | *Total equity KD* |
| As at 1 January 2017 | 118,797,442 | 15,550,698 | 20,253,562 | 2,582,767 | (14,478,743) | 491,325 | 152,073 | 38,415 | (11,839,198) | 60,897,549 | 192,445,890 | 46,095,202 | 238,541,092 |
| Profit (loss) for the year | - | - | - | - | - | - | - | - | - | 2,217,810 | 2,217,810 | (738,734) | 1,479,076 |
| Other comprehensive loss for the year | - | - | - | - | - | - | - | 41,138 | (2,606,763) | - | (2,565,625) | (948,038) | (3,513,663) |
| Total comprehensive (loss) income for the year | - | - | - | - | - | - | - | 41,138 | (2,606,763) | 2,217,810 | (347,815) | (1,686,772) | (2,034,587) |
| Dividends paid (Note 22) | - | - | - | - | - | - | - | - | - | (5,371,523) | (5,371,523) | - | (5,371,523) |
| Transfer to statutory reserve | - | - | 257,964 | - | - | - | - | - | - | (257,964) | - | - | - |
| **At 31 December 2017** | **118,797,442** | **15,550,698** | **20,511,526** | **2,582,767** | **(14,478,743)** | **491,325** | **152,073** | **79,553** | **(14,445,961)** | **57,485,872** | **186,726,552** | **44,408,430** | **231,134,982** |

The attached notes 1 to 28 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2017

| | *Equity attributable to equity holders of the Parent Company* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD* | *Share premium KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *Treasury shares KD* | *Treasury shares reserve KD* | *Other reserve KD* | *Cumulative changes in fair values KD* | *Foreign currency translation reserve KD* | *Retained earnings KD* | *Sub total KD* | *Non-controlling interests KD* | *Total equity KD* |
| As at 1 January 2016 | 118,797,442 | 15,550,698 | 19,320,503 | 2,582,767 | (14,478,743) | 491,325 | 152,073 | 20,781 | 5,021,965 | 58,493,894 | 205,952,705 | 45,152,223 | 251,104,928 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 8,708,237 | 8,708,237 | 1,706,664 | 10,414,901 |
| Other comprehensive income (loss) for the year | - | - | - | - | - | - | - | 17,634 | (16,861,163) | - | (16,843,529) | (763,685) | (17,607,214) |
| Total comprehensive income (loss) for the year | - | - | - | - | - | - | - | 17,634 | (16,861,163) | 8,708,237 | (8,135,292) | 942,979 | (7,192,313) |
| Dividends paid (Note 22) | - | - | - | - | - | - | - | - | - | (5,371,523) | (5,371,523) | - | (5,371,523) |
| Transfer to statutory reserve | - | - | 933,059 | - | - | - | - | - | - | (933,059) | - | - | - |
| At 31 December 2016 | 118,797,442 | 15,550,698 | 20,253,562 | 2,582,767 | (14,478,743) | 491,325 | 152,073 | 38,415 | (11,839,198) | 60,897,549 | 192,445,890 | 46,095,202 | 238,541,092 |

The attached notes 1 to 28 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | Notes | *2017* *KD* | *2016* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **1,479,076** | 10,414,901 |
| Adjustments for: | | | |
| Depreciation | 10 | **4,408,884** | 4,518,684 |
| Valuation gain on investment properties | 9 | **(9,046,491)** | (7,517,473) |
| Gain on disposal of properties held for trading | | **-** | (43,817) |
| Gain on disposal of property and equipment | | **(2,444)** | (6,007) |
| Loss on disposal of investment properties | | **98,916** | - |
| Gain on disposal of investment in subsidiary | | **(98,801)** | - |
| Loss (gain) on sale of available-for-sale investments | 18 | **18,518** | (7,517) |
| Provision for maintenance on leasehold properties | | **264,000** | 415,000 |
| Write down of properties held for trading | 6 | **-** | 7,308 |
| Dividend income | 18 | **(28,682)** | (120,434) |
| Provision for a legal case | 24 | **1,135,924** | - |
| Net provision (reversal) provided during the year | 5 | **(162,542)** | 246,000 |
| Interest income | | **(289,715)** | (328,536) |
| Finance costs | | **14,686,040** | 11,813,254 |
| Share of results of associates | 8 | **4,342,545** | 505,551 |
| Foreign exchange loss (gain) | | **92,623** | (4,297,122) |
| End of service benefit charge for the year | | **413,239** | 320,479 |
| | | **17,311,090** | 15,920,271 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, prepayments and other assets | | **(24,203,355)** | (14,421,554) |
| Properties held for trading | | **(2,124,732)** | 10,590,579 |
| Accounts payable, accruals and other payables | | **7,423,950** | 1,619,411 |
| End of service benefit paid | | **(174,750)** | (234,064) |
| Net cash (used in) from operating activities | | **(1,767,797)** | 13,474,643 |
| **INVESTING ACTIVITIES** | | | |
| Additions to available-for-sale investments | | **(1,129,754)** | - |
| Additions and capital contribution in investment in associates | 8 | **(5,371,856)** | (3,163,022) |
| Additions to lands for development | 9 | **(68,679)** | (816,134) |
| Additions to developed properties | 9 | **(2,138,286)** | (7,329,350) |
| Payments for properties under construction | 9 | **(172,354)** | (123,992) |
| Purchase of property and equipment | 10 | **(2,442,711)** | (3,563,235) |
| Proceed from disposal of property and equipment | | **4,904** | 9,503 |
| Proceeds from disposal of investment properties | | **1,382,823** | - |
| Proceed from disposal of investment in subsidiary | | **546,185** | - |
| Proceeds from disposal of properties held for trading | | **-** | 194,542 |
| Proceeds from disposal of available-for-sale investments | | **1,378,133** | - |
| Interest received | | **289,715** | 90,725 |
| Dividend from an associate | 8 | **819,946** | 324,900 |
| Dividend income received | | **28,682** | 116,842 |
| Net cash used in investing activities | | **(6,873,252)** | (14,259,221) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from interest bearing loans and borrowings | | **68,257,757** | 45,020,561 |
| Repayment of interest bearing loans and borrowings | | **(40,037,379)** | (22,260,914) |
| Dividend paid | 22 | **(5,371,523)** | (5,371,523) |
| Finance costs paid | | **(18,012,720)** | (11,813,255) |
| Net cash from financing activities | | **4,836,135** | 5,574,869 |
| **(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | | **(3,804,914)** | 4,790,291 |
| Foreign currency translation adjustments | | **1,451,042** | (9,042,936) |
| Cash and cash equivalents at the beginning of the year | | **6,096,449** | 10,349,094 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 4 | **3,742,577** | 6,096,449 |

The attached notes 1 to 28 form part of these consolidated financial statements.

## 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 2017 were authorised for issue by the Board of Directors of the Parent Company on 7 March 2018, 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:

- Owning, selling and acquiring real estate properties and lands and developing the same to the account of the Parent Company inside the State of Kuwait and abroad; and managing properties for third parties in accordance with the provisions stipulated under the existing laws and the restrictions on construction of private housing plots in the manner stipulated under these laws.
- Owning, selling and acquiring stocks and bonds of real estate companies for the account of the Parent Company in the State of Kuwait and abroad.
- Preparing studies and providing real estate advisory services provided that certain required conditions are met.
- Carry-out maintenance works of buildings and real estate properties owned by the Parent Company and others , including all civil, mechanical and electrical works, elevators and air conditioning works and other related maintenance work to ensure the safety of the buildings.
- Owning, managing, operating, investing, leasing and renting hotels, clubs, motels, entertainment houses, rest places, gardens, parks, exhibitions, restaurants, cafes, residential compounds, touristic and health spas, entertainment and sports facilities and stores at all degrees and levels, including all the original and supporting services, the related facilities and other necessary services whether inside or outside the State of Kuwait.
- Organizing real estate exhibitions related to the real estate projects of the Parent Company.
- Holding real estate bids pursuant to the regulations set forth by the Ministry.
- Owning commercial markets and residential compounds.
- Utilizing financial surpluses available for the Parent Company by investing the same in financial portfolios managed by competent companies and entities in the State of Kuwait and abroad.
- Contribution in establishment and management of real estate funds inside and outside the State of Kuwait.
- Direct contribution to development of infrastructure projects for residential, commercial and industrial areas in BOT system.

The Parent Company is allowed to conduct the above mentioned operations inside or outside the State of Kuwait by its own or as an agent for other parties.

## 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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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:

*Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). However, the application of this standard does not have significant impact on the Group's financial position.

*Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no significant effect on the Group's financial position and performance.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group.

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

*IFRS 9 Financial Instruments*
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9), the standard that will replace IAS 39 Financial instruments: recognition and measurement for annual periods on or after 1 January 2018, with early adoption permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date from 1 January 2018. The Group will avail the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment change. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

*(a) Classification and measurement*
The new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through other comprehensive income instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss, unless an accounting mismatch in profit or loss would arise.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards issued but not yet effective (continued)**

*IFRS 9 Financial Instruments (continued)*

Upon adoption of IFRS 9 the Group expects certain changes in classification of financial assets and related reclassifications between retained earnings and fair value reserve. The Group does not expect a material impact on equity due to changes in classification of financial assets.

*(b) Impairment*

IFRS 9 requires the Group to record expected credit losses on all its investments, loans and receivables, either on a 12 month or lifetime basis. The Group will apply a simplified approach and record lifetime expected losses on all investments, trade receivables and other receivables which management has assessed and will not have a material impact on the consolidated financial statements of the Group.

*(c) Hedge Accounting*

The management does not expect any impact on the consolidated financial statements of the Group resulting from hedge accounting under IFRS 9 as currently, the Group has not entered into any such instruments.

*(d) Disclosure*

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

*IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases). Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. During 2017, the Group has performed a detailed evaluation of the effect of IFRS 15 on the Group's consolidated financial statements, based on which the Group does not expect any significant impact on adoption of this standard.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in the financial year 2018, when the Group will adopt IFRS 15.

*IFRS 16 Leases*

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards issued but not yet effective (continued)**

*IFRS 16 Leases (continued)*

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

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is in the process of evaluating the impact of IFRS 16 on the Group's consolidated financial statements.

**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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. All inter-group balances and transactions, including inter-group profits and unrealised profits and losses and dividends are eliminated on consolidation.

Non-controlling interests represent the equity in the subsidiaries not attributable directly, or indirectly, to the shareholders of the Parent Company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of comprehensive income (OCI) and consolidated statement of changes in equity.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

The principal subsidiaries of the Group are as follows:

| *Name of company* | *Equity interest as at 31 December* 2017 | 2016 | *Country of incorporation* | *Principal business* |
|---|---|---|---|---|
| ***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 |
| United International Project 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) ("Mena Homes") (Note 8) | **-** | 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%** | 81.07% | Kuwait | Real estate development |
| Universal United Real Estate W.L.L. | **63%** | 63% | Kuwait | 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 for Real Estate Investment Company S.A.E. (Note 24) | **91.49%** | 91.49% | 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.(2) | **85.9%** | 85.9% | Egypt | Real estate development |
| Bhamdoun United Real Estate Company SAL (1) | **75%** | 75% | Lebanon | Hotel management |
| Raouche Holding SAL (1) | **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 |
| **Held through United Facilities Management Company S.A.K.** | | | | |
| United Facilities Management L.L.C. | **100%** | 100% | Oman | Facilities management |
| UFM for Cleaning and Technical Services L.L.T. | **100%** | 100% | UAE | Technical Services and Cleaning |
| UFM Facilities Management Services L.L.C. | **100%** | 100% | UAE | Services Facilities |
| ABM1 Building Maintenance L.L.C. | **100%** | 100% | UAE | Buildings Service and management |

(1) The Parent Company holds 45% in Raouche Holding SAL and 25% in Bhamdoun United Real Estate SAL through United Lebanese Real Estate Company SAL (Holding).
(2) The Parent Company holds directly 14.1% in Gulf Egypt Hotels and Tourism S.A.E.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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.

The Group's financial assets include cash in hand and at banks, accounts receivables and available for sale investments.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**
***Financial assets (continued)***

***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.

*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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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 different reporting period as the Group, which is three months. 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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment properties (continued)**
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.

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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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

**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.
- Revenue associated with the contract is recognized by reference to the stage of completion of the contracting activity as at the reporting date (the percentage of completion method). Provision is made in full for the amount of anticipated losses on uncompleted contracts in the year such losses are first projected.
- 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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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)**

*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 2017 and 31 December 2016, 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 United Real Estate Company P.S.C. ("URC Jordan") 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:**

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| URC Jordan | **25,834,327** | 27,338,643 |
| Al Dhiyafa | **8,596,817** | 9,200,538 |

**(Loss) Profit allocated to material non-controlling interests:**

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| URC Jordan | **(1,156,799)** | 480,598 |
| Al Dhiyafa | **(480,003)** | 1,148,605 |

**3 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)**

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

**Summarised income statement for the year ended 31 December:**

| | *2017* | | *2016* | |
|---|---|---|---|---|
| | ***URC Jordan KD*** | ***Al Dhiyafa KD*** | *URC Jordan KD* | *Al Dhiyafa KD* |
| Income | **1,860,599** | **11,680,894** | 4,571,760 | 23,473,627 |
| Expenses | **(7,792,164)** | **(13,179,865)** | (4,620,785) | (16,751,930) |
| **Net (loss) income for the year** | **(5,931,565)** | **(1,498,971)** | (49,025) | 6,721,697 |
| **Total comprehensive (loss) income** | **(4,421,218)** | **(2,132,072)** | (2,268,887) | 4,052,705 |
| **Attributable to non-controlling interests** | **(1,156,799)** | **(480,003)** | 480,598 | 1,148,605 |

**Summarised statement of financial position as at 31 December:**

| | *2017* | | *2016* | |
|---|---|---|---|---|
| | ***URC Jordan KD*** | ***Al-Dhiyafa KD*** | *URC Jordan KD* | *Al Dhiyafa KD* |
| Non-current assets | **133,907,218** | **68,303,780** | 135,282,645 | 70,092,922 |
| Current assets | **4,803,793** | **41,431,417** | 5,991,713 | 42,780,969 |
| Non - current liabilities | **(19,550,145)** | **(19,947,684)** | (20,100,230) | (22,236,254) |
| Current liabilities | **(8,690,233)** | **(27,469,511)** | (6,282,277) | (26,187,563) |
| **Total equity** | **110,470,633** | **62,318,002** | 114,891,851 | 64,450,074 |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | **84,636,306** | **53,721,185** | 87,553,208 | 55,249,536 |
| Non-controlling interests | **25,834,327** | **8,596,817** | 27,338,643 | 9,200,538 |

**Summarised cash flow information for year ended 31 December:**

| | *2017* | | *2016* | |
|---|---|---|---|---|
| | ***URC Jordan KD*** | ***Al Dhiyafa KD*** | *URC Jordan KD* | *Al Dhiyafa KD* |
| Operating | **(1,918,699)** | **7,045,386** | (2,219,749) | 7,323,238 |
| Investing | **(3,608,552)** | **(377,282)** | (13,154,777) | (2,759,402) |
| Financing | **3,005,800** | **(6,914,158)** | 16,326,272 | (6,053,316) |
| **Net (decrease) increase in cash and cash equivalents** | **(2,521,451)** | **(246,054)** | 951,746 | (1,489,480) |

## 4 CASH, BANK BALANCES AND SHORT TERM DEPOSITS

| | ***2017 KD*** | *2016 KD* |
|---|---|---|
| Cash at banks and on hand | **7,138,368** | 16,990,768 |
| Short term deposits | **9,389,496** | 835,489 |
| Cash, bank balances and short term deposits | **16,527,864** | 17,826,257 |
| Less: Bank overdraft (Note 12) | **(12,785,287)** | (11,729,808) |
| Cash and cash equivalents for the purpose of consolidated statement of cash flows | **3,742,577** | 6,096,449 |

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 4,184,972 (2016: KD 6,070,527) are placed with related parties (Note 23).

## 5 ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

| | ***2017 KD*** | *2016 KD* |
|---|---|---|
| Accounts receivables | **40,078,555** | 24,316,233 |
| Accrued rental and hospitality income | **1,292,026** | 779,959 |
| Due from related parties (Note 23) | **13,670,169** | 7,643,842 |
| Prepayments | **570,161** | 638,466 |
| Other receivables | **4,310,131** | 3,226,583 |
| | **59,921,042** | 36,605,083 |
| Provision for impairment | **(2,135,313)** | (2,297,855) |
| | **57,785,729** | 34,307,228 |

As at 31 December 2017, accrued rental income and other receivables at a nominal value of KD 2,135,313 (2016: KD 2,297,855) were impaired and fully provided for.

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

| | ***2017 KD*** | *2016 KD* |
|---|---|---|
| As at 1 January | **2,297,855** | 2,051,855 |
| Provided during the year | **83,458** | 246,000 |
| Reversal of provisions during the year | **(246,000)** | - |
| As at 31 December | **2,135,313** | 2,297,855 |

## 6 PROPERTIES HELD FOR TRADING

| | ***2017 KD*** | *2016 KD* |
|---|---|---|
| As at 1 January | **54,114,363** | 64,855,667 |
| Additions during the year | **5,451,412** | 4,440,493 |
| Disposals | **-** | (150,725) |
| Write down | **-** | (7,308) |
| Foreign exchange difference | **(926,055)** | (15,023,764) |
| As at 31 December | **58,639,720** | 54,114,363 |

## 6 PROPERTIES HELD FOR TRADING (continued)

The total capitalised finance costs included in the carrying value of properties held for trading (under construction) is KD 3,326,680 (2016: KD 3,357,816 ). The rate used to determine the amount of borrowing costs eligible for capitalization was 5.86% (2016: 5.86%).

## 7 AVAILABLE-FOR-SALE INVESTMENTS

| | ***2017*** ***KD*** | *2016* *KD* |
|---|---|---|
| Quoted equity shares | **477,678** | 545,013 |
| Unquoted equity shares | **5,300,348** | 6,782,319 |
| Unquoted debt securities | **8,674,550** | 7,351,003 |
| | **14,452,576** | 14,678,335 |

Unquoted equity shares amounting to KD 4,563,198 (2016: KD 4,645,540) 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 any impairment has occurred in the value of these investments and has not recorded any impairment loss in the consolidated income statement for the years ended 31 December 2017 and 31 December 2016.

Investments with aggregate carrying amounts of KD 13,020,104 (2016: KD 13,215,813) represent investments in related parties (Note 23). Investments with aggregate carrying amounts of KD 1,495,445 (2016: KD 1,565,575), are managed by a related party (Note 23).

## 8 INVESTMENT IN ASSOCIATES

| *Name of company* | *Country of Incorporation* | *Equity interest* | | *Carrying value* | |
|---|---|---|---|---|---|
| | | ***2017*** | *2016* | ***2017*** ***KD*** | *2016* *KD* |
| Kuwait Hotels Company K.S.C.(a) | Kuwait | **27.26%** | 27.26% | **1,547,568** | 1,646,304 |
| Dar SSH International Engineering Consultants Co. W.L.L. | Bahrain | **22.50%** | 22.50% | **639,461** | 1,280,535 |
| Abdali Boulevard Company P.S.C. (“Abdali”) | Jordan | **40.00%** | 40.00% | **36,396,145** | 39,951,788 |
| Al Thaniya Real Estate Company P.S.C. | Jordan | **50.00%** | 50.00% | **8,700** | 8,818 |
| Al-Fujeira Real Estate Limited (“Fujaira”) | United Arab Emirates | **50.00%** | 50.00% | **7,813,783** | 8,344,777 |
| United Towers Holding Company K.S.C. (Closed) (“UTHC”) | Kuwait | **39.165%** | 39.165% | **24,840,729** | 24,395,770 |
| Ikarus United for Marine Services Company S.A.K. (Closed) | Kuwait | **20.00%** | 20.00% | **307,194** | 142,711 |
| Assoufid B.V. | Netherlands | **49.00%** | 49.00% | **154,658** | 3,009,594 |
| Insha’a Holding Company K.S.C.C (b) | Kuwait | **40.00%** | - | **5,812,037** | - |
| Mena Homes Real Estate Company K.S.C. (Closed) (c) | Kuwait | **33.33%** | - | **440,412** | - |
| | | | | **77,960,687** | 78,780,297 |

**8 INVESTMENT IN ASSOCIATES (continued)**

(a) Quoted on Kuwait Stock Exchange, with a market value of KD 3,872,311 (2016: KD 4,171,343).
(b) During the year, the Group acquired 40% in Insha's Holding Company for a consideration of KD 5,171,856.
(c) During the year, the Parent Company sold 43.67% equity interest in Mena Homes Real Estate Company K.S.C. (Closed) and remaining effective equity interest of 33.33% was classified as an investment in associate on date of disposal at fair value. Upon disposal, the Group recognised gain of KD 98,801 in consolidated income statement.

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

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| At the beginning of the year | **78,780,297** | 75,400,255 |
| Additions and capital contributions during the year | **5,371,856** | 3,163,022 |
| Transfer from investment in subsidiaries (c) | **440,412** | - |
| Share of results | **(4,342,545)** | (505,551) |
| Foreign exchange differences | **(1,469,387)** | 1,047,471 |
| Dividends received during the year | **(819,946)** | (324,900) |
| At 31 December | **77,960,687** | 78,780,297 |

## 8 INVESTMENT IN ASSOCIATES (continued)

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

| | Abdali Boulevard | | UTHC | | Others | |
|---|---|---|---|---|---|---|
| | ***2017*** | *2016* | ***2017*** | *2016* | ***2017*** | *2016* |
| | ***KD*** | *KD* | ***KD*** | *KD* | ***KD*** | *KD* |
| Non-current assets | **152,498,794** | 155,543,293 | **114,482,723** | 115,409,968 | **209,330,761** | 60,719,356 |
| Current assets | **2,421,432** | 4,724,456 | **2,911,795** | 2,694,888 | **25,107,821** | 25,963,632 |
| Non-current liabilities | **(44,860,621)** | (42,152,079) | **(49,773,731)** | (401,668) | **(172,027,786)** | (37,907,171) |
| Current liabilities | **(19,069,243)** | (18,236,199) | **(4,194,481)** | (55,413,004) | **(16,722,246)** | (16,705,775) |
| Equity | **90,990,362** | 99,879,471 | **63,426,306** | 62,290,184 | **45,688,550** | 32,070,042 |
| Proportion of the Group’s ownership | **40%** | 40% | **39.165%** | 39.165% | | |
| **Group’s share in the net assets** | **36,396,145** | 39,951,788 | **24,840,729** | 24,395,770 | **16,723,813** | 14,432,739 |
| Revenues | **5,324,391** | 4,929,367 | **6,212,866** | 6,021,623 | **48,115,824** | 44,232,017 |
| **(Loss) profit for the year** | **(7,613,468)** | (3,086,047) | **1,136,337** | (25,245) | **(4,366,265)** | 1,543,895 |
| **Total comprehensive (loss) income for the year** | **(7,613,468)** | (3,086,047) | **1,136,337** | (25,245) | **(4,366,265)** | 1,543,895 |
| **Group’s share in (loss) profit for the year** | **(3,045,387)** | (1,234,419) | **445,043** | (9,887) | **(1,742,201)** | 738,755 |

Investment in Abdali Boulevard is carried based on management accounts as at 31 December 2017 due to the absence of audited financial statements. The Group is a non-controlling shareholder in Abdali Boulevard and thus only exert influence on the company through participation in the board of directors.

**9 INVESTMENT PROPERTIES**

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| Land for development (a) | **74,816,622** | 69,963,716 |
| Investment properties under construction (b) | **11,199,212** | 11,115,669 |
| Developed properties (c) | **208,611,771** | 205,870,778 |
| | **294,627,605** | 286,950,163 |

Valuation of lands for development, investment properties under construction and developed properties were conducted as at 31 December 2017 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 or depreciation cost replacement method.

**a) Land for development**

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

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| As at 1 January | **69,963,716** | 63,840,361 |
| Additions | **68,679** | 816,134 |
| Valuation gain | **5,324,051** | 6,774,609 |
| Foreign exchange differences | **(539,824)** | (1,467,388) |
| As at 31 December | **74,816,622** | 69,963,716 |

Land for development include a plot of land in Sharm El Sheikh, Egypt amounting to KD 15,425,561 (2016: KD 13,994,260) 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**

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| As at 1 January | **11,115,669** | 95,223,076 |
| Capital expenditure | **172,354** | 123,992 |
| Transfer to developed properties | **-** | (83,950,459) |
| Foreign exchange differences | **(63,601)** | (279,948) |
| Valuation loss | **(25,210)** | (992) |
| As at 31 December | **11,199,212** | 11,115,669 |

## 9 INVESTMENT PROPERTIES (continued)

### c) Developed properties

| | *2017* | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| Developed land and buildings: | | |
| Developed land and buildings | **112,138,887** | 113,697,143 |
| Buildings constructed on land leased from the Government | **96,472,884** | 92,173,635 |
| | **208,611,771** | 205,870,778 |

The lease periods for the plots of land leased from the Government of Kuwait and others range from less than 1 year to 50 years.

The movement during the year was as follows:

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| As at 1 January | **205,870,778** | 113,196,030 |
| Additions | **2,138,286** | 7,329,350 |
| Transfer from properties under construction | **-** | 83,950,459 |
| Disposal of investment properties | **(1,481,739)** | - |
| Valuation gain | **3,747,650** | 743,856 |
| Foreign exchange differences | **(1,663,204)** | 651,083 |
| As at 31 December | **208,611,771** | 205,870,778 |

***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:

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| Opening balance | **286,950,163** | 272,259,467 |
| Additions and capital expenditures | **2,379,319** | 8,269,476 |
| Disposals and transfers | **(1,481,739)** | - |
| Valuation gain | **9,046,491** | 7,517,473 |
| Foreign exchange differences | **(2,266,629)** | (1,096,253) |
| **Closing balance** | **294,627,605** | 286,950,163 |

**9 INVESTMENT PROPERTIES (continued)**

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

| | ***2017*** | *2016* |
|---|---|---|
| | ***%*** | *%* |
| Average net initial yield | **9.50** | 9.25 |
| Average reversionary yield | **10.75** | 10.75 |
| Average inflation rate | **3.25** | 3.25 |
| Long-term vacancy rate | **10.00** | 10.00 |
| Long-term growth in real rental rates | **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*** | |
|---|---|---|---|
| ***Significant unobservable inputs*** | ***Sensitivity*** | ***2017*** | *2016* |
| | | ***KD*** | *KD* |
| | | **1,828,330** | 2,046,960 |
| Average net initial yield | +/- 1% | **(1,802,430)** | (1,973,960) |
| | | **3,355,830** | 3,908,160 |
| Average reversionary yield | +/- 1% | **(2,960,784)** | (3,381,772) |
| | +/- 25 | **1,720,448** | 1,930,757 |
| Average inflation rate | basis points | **(1,280,446)** | (1,587,302) |
| | | **1,897,338** | 2,039,558 |
| Long-term vacancy rate | +/- 1% | **(1,826,520)** | (2,009,569) |
| | | **1,822,730** | 1,975,038 |
| Long-term growth in real rental rates | +/- 1% | **(1,984,700)** | (2,144,766) |

## 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* | *Working under progress KD* | *Total KD* |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| As at 1 January 2017 | 10,432,767 | 80,597,743 | 10,303,793 | 3,065,394 | 6,647,328 | 847,526 | 2,074,303 | 113,968,854 |
| Additions | - | 122,150 | 1,002,618 | 69,071 | 1,047,706 | 168,409 | 32,757 | 2,442,711 |
| Disposal | - | - | - | - | (20,996) | (28,573) | - | (49,569) |
| Exchange adjustment | (286,211) | (2,207,922) | (380,948) | - | (199,614) | (24,487) | (47,912) | (3,147,094) |
| As at 31 December 2017 | 10,146,556 | 78,511,971 | 10,925,463 | 3,134,465 | 7,474,424 | 962,875 | 2,059,148 | 113,214,902 |
| Depreciation: | | | | | | | | |
| As at 1 January 2017 | - | (15,501,102) | (5,726,821) | (2,897,798) | (5,169,987) | (384,600) | - | (29,680,308) |
| Charge for the year | - | (2,042,819) | (1,019,952) | (113,163) | (1,200,718) | (32,232) | - | (4,408,884) |
| Disposal | - | - | - | - | 18,536 | 28,573 | - | 47,109 |
| Exchange adjustment | - | 480,232 | 267,101 | - | 173,648 | 10,650 | - | 931,631 |
| As at 31 December 2017 | - | (17,063,689) | (6,479,672) | (3,010,961) | (6,178,521) | (377,609) | - | (33,110,452) |
| **Net carrying amount** | | | | | | | | |
| **As at 31 December 2017** | **10,146,556** | **61,448,282** | **4,445,791** | **123,504** | **1,295,903** | **585,266** | **2,059,148** | **80,104,450** |

Depreciation charge amounting to KD 3,995,113 (2016: KD 4,168,355) has been allocated to cost of revenue.

**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* | *Working under progress KD* | *Total KD* |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| As at 1 January 2016 | 10,634,721 | 81,634,141 | 9,592,951 | 2,849,022 | 5,954,397 | 673,004 | 1,314,850 | 112,653,086 |
| Additions | - | 523,789 | 911,184 | 276,382 | 847,655 | 204,618 | 799,607 | 3,563,235 |
| Disposal | - | - | (884) | (671) | (26,047) | (13,690) | - | (41,292) |
| Exchange adjustment | (201,954) | (1,560,187) | (199,458) | (59,339) | (128,677) | (16,406) | (40,154) | (2,206,175) |
| As at 31 December 2016 | 10,432,767 | 80,597,743 | 10,303,793 | 3,065,394 | 6,647,328 | 847,526 | 2,074,303 | 113,968,854 |
| Depreciation: | | | | | | | | |
| As at 1 January 2016 | - | (13,664,359) | (4,939,103) | (2,744,992) | (4,042,716) | (382,792) | - | (25,773,962) |
| Charge for the year | - | (2,136,809) | (899,351) | (209,491) | (1,250,090) | (22,943) | - | (4,518,684) |
| Disposal | - | - | 775 | 591 | 22,740 | 13,690 | - | 37,796 |
| Exchange adjustment | - | 300,066 | 110,858 | 56,094 | 100,079 | 7,445 | - | 574,542 |
| As at 31 December 2016 | - | (15,501,102) | (5,726,821) | (2,897,798) | (5,169,987) | (384,600) | - | (29,680,308) |
| Net carrying amount | | | | | | | | |
| As at 31 December 2016 | 10,432,767 | 65,096,641 | 4,576,972 | 167,596 | 1,477,341 | 462,926 | 2,074,303 | 84,288,546 |

## 11 ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

| | ***2017 KD*** | *2016 KD* |
|---|---|---|
| Rent received in advance | **833,338** | 2,606,101 |
| Accounts payable | **36,385,320** | 28,331,841 |
| Refundable deposits | **5,633,130** | 5,851,777 |
| Due to related parties (Note 23) | **782,016** | 302,095 |
| Other payables | **18,257,129** | 15,975,245 |
| | **61,890,933** | 53,067,059 |

## 12 INTEREST BEARING LOANS AND BORROWINGS

| | ***2017 KD*** | *2016 KD* |
|---|---|---|
| Loans | **219,879,099** | 192,714,200 |
| Bank overdrafts | **12,785,287** | 11,729,808 |
| | **232,664,386** | 204,444,008 |

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

| | *Current portion KD* | *Non-current portion KD* | ***Total 2017 KD*** | *Total 2016 KD* |
|---|---|---|---|---|
| Bank overdrafts (Note 4) | 12,785,287 | - | **12,785,287** | 11,729,808 |
| Short term loans | 60,669,816 | - | **60,669,816** | 37,397,908 |
| Term loans | 34,324,221 | 124,885,062 | **159,209,283** | 155,316,292 |
| | 107,779,324 | 124,885,062 | **232,664,386** | 204,444,008 |

Term loans are obtained for varying periods ranging from one year to ten years, and carry interest rates ranging from 4% to 19.52% (2016: 4.00% to 16.85%).

As at 31 December 2017, the Group has short term loans and overdrafts amounting to KD 73,455,103 (31 December 2016: KD 49,127,716) which are renewable on a yearly basis.

Interest bearing loans and borrowings amounting to KD 10,504,203 (2016: KD 37,763,501) 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 KD* | *Non-current portion KD* | ***Total 2017 KD*** | *Total 2016 KD* |
|---|---|---|---|---|
| US Dollar | 7,712,279 | 35,708,614 | **43,420,893** | 48,433,543 |
| Omani Riyal | 1,583,927 | 4,095,780 | **5,679,707** | 7,363,577 |
| British Pound | - | 162,313 | **162,313** | 1,446,059 |
| Egyptian Pound | 3,715,331 | - | **3,715,331** | - |
| Kuwaiti Dinar | 94,767,787 | 84,918,355 | **179,686,142** | 147,200,829 |
| | 107,779,324 | 124,885,062 | **232,664,386** | 204,444,008 |

## 12 INTEREST BEARING LOANS AND BORROWINGS (continued)

Included in interest bearing loans are loans amounting to KD 65,330,928 (2016: KD 60,818,344) which are obtained and availed by subsidiaries in the Group.

## 13 BONDS

| | ***2017*** | *2016* |
|---|---|---|
| | ***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 2017, the Parent Company's authorised, issued and fully paid share capital consists of 1,187,974,420 shares of 100 fils each (2016: 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, as amended, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before taxation and board of directors' remuneration shall be transferred to the statutory reserve. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital

## 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 taxation 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

| | ***2017*** | *2016* |
|---|---|---|
| Number of treasury shares | **113,669,873** | 113,669,873 |
| Percentage to issued shares | **9.568%** | 9.568% |
| Market value in KD | **9,093,590** | 10,684,968 |
| Cost in KD | **14,478,743** | 14,478,743 |
| Market Value for the weighted average number of shares in KD | **10,282,288** | 10,706,354 |

Reserves, retained earnings and share premium 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

| | *2017* *KD* | *2016* *KD* |
|---|---|---|
| Dividend income | **28,682** | 120,434 |
| (Loss) gain on sale of available-for-sale investment | **(18,518)** | 7,517 |
| | **10,164** | 127,951 |

## 19 GENERAL AND ADMINISTRATIVE EXPENSES

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

| | *2017* *KD* | *2016* *KD* |
|---|---|---|
| Wages and salaries | **4,192,267** | 4,092,986 |
| Post-employment benefits | **949,274** | 645,604 |
| | **5,141,541** | 4,738,590 |

Wages, salaries and post-employment benefits charged to cost of revenue is amounting to KD 9,752,620 (2016: KD 8,245,186).

## 20 TAXATION

| | *2017* *KD* | *2016* *KD* |
|---|---|---|
| Contribution to KFAS | **9,797** | 107,329 |
| NLST | **267,084** | 307,161 |
| Zakat | **42,952** | 122,864 |
| *Taxation on overseas subsidiaries* | | |
| Current tax | **289,271** | 11,091 |
| Deferred tax | **972,951** | 2,955,836 |
| | **1,582,055** | 3,504,281 |

The tax rate applicable to the taxable overseas subsidiaries companies is in the range of 10% to 22.5% (2016: 10% to 25%). 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:

| | *2017* *KD* | *2015* *KD* |
|---|---|---|
| Revaluation of investment properties to fair value | **(11,584,234)** | (11,059,555) |
| Deferred tax – relating to origination and reversal of temporary differences | **(5,156,498)** | (4,597,786) |
| Deferred tax liabilities | **(16,740,732)** | (15,657,341) |

Reconciliation of deferred tax liabilities:

| | *2017* *KD* | *2016* *KD* |
|---|---|---|
| As at 1 January | **(15,657,341)** | (11,372,899) |
| Expense for the year | **(972,951)** | (2,955,836) |
| Foreign exchange differences | **(110,440)** | (1,328,606) |
| As at 31 December | **(16,740,732)** | (15,657,341) |

## 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**

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| *Earnings* | | |
| Profit for the year attributable to the equity holders of the Parent Company | **2,217,810** | 8,708,237 |
| | ***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 | **(113,669,873)** | (113,669,873) |
| Weighted average number of shares outstanding for basic earnings per share | **1,074,304,547** | 1,074,304,547 |
| Basic earnings per share attributable to equity holders of the Parent Company | **2.1 fils** | 8.1 fils |

**Dilutive earnings per share**

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| *Earnings* | | |
| Profit for the year attributable to the equity holders of the Parent Company | **2,217,810** | 8,708,237 |
| *Number of shares outstanding* | ***Shares*** | *Shares* |
| Weighted average number of shares outstanding for basic earnings per share | **1,074,304,547** | 1,074,304,547 |
| Effect of share options | **12,000** | 12,000 |
| Weighted average number of shares outstanding for diluted earnings per share | **1,074,316,547** | 1,074,316,547 |
| Diluted earnings per share attributable to equity holders of the Parent Company | **2.1 fils** | 8.1 fils |

## 22 DIVIDEND

During the board meeting held on 7 March 2018, the Board of Directors of the Parent Company has not proposed any cash dividend for the distribution to the shareholders (31 December 2016: 5% cash dividends). This proposal is subject to the approval by the Shareholders' Annual General Assembly.

The shareholders' annual general assembly held on 17 April 2017 approved the audited consolidated financial statements of the Group for the year ended 31 December 2016. The shareholders' annual general assembly and the regulatory authorities approved distribution of 5% cash dividend for the year ended 31 December 2016 amounting to KD 5,371,523 (31 December 2015: 5% cash dividend KD 5,371,523).

## 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* | *Associates KD* | *Other related parties KD* | ***2017 KD*** | *2016 KD* |
|---|---|---|---|---|---|
| ***Consolidated statement of financial position*** | | | | | |
| Cash and short term deposits (Note 4) | - | - | 4,184,972 | **4,184,972** | 6,070,527 |
| Accounts receivable, prepayments and other assets (Note 5) | 185,128 | 9,573,952 | 3,911,089 | **13,670,169** | 7,643,842 |
| Available-for-sale investments (Note 7) | - | - | 13,020,104 | **13,020,104** | 13,215,813 |
| Accounts payable, accruals and other payables (Note 11) | 10,350 | 206,496 | 565,170 | **782,016** | 302,095 |
| Interest bearing loans and borrowings (Note 12) | - | - | 10,504,203 | **10,504,203** | 37,763,501 |
| ***Consolidated income statement*** | | | | | |
| General and administrative expenses | - | 193,044 | 160,453 | **353,497** | 419,887 |
| Finance costs | - | - | 1,260,337 | **1,260,337** | 919,082 |
| Rental income | - | 2,400 | - | **2,400** | 2,400 |
| Dividend income | - | - | (5,023) | **(5,023)** | 80,539 |
| Interest income | - | 150,855 | - | **150,855** | 218,646 |
| Other operating revenue | - | 340,912 | - | **340,912** | 333,809 |
| Contracting and services revenue | - | 1,161,422 | - | **1,161,422** | 1,021,002 |

Certain available for sale investments with carrying value of KD 1,495,445 (2016: KD 1,565,575) are managed by a related party (Note 7).

**Key management personnel compensation**

| | ***2017 KD*** | *2016 KD* |
|---|---|---|
| Salaries and short-term employee benefits | **682,997** | 575,149 |
| End of service benefits | **79,749** | 70,683 |
| | **762,746** | 645,832 |

## 24 CONTINGENT LIABILITIES AND COMMITMENTS

**Contingent liabilities**
At 31 December 2017 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 13,512,926 (31 December 2016: KD 9,444,620).

On 16 April 2014, the Group entered into an agreement with Al Agha family ("buyer") for disposal of certain shares in a subsidiary; Manazel United for Real Estate Investment Company S.A.E. ("Manazel"). However, no considerations as per the agreement were paid by the buyer and accordingly the agreement was not honoured by the Group.

Consecutively, multiple suits were filed against the Group and other shareholders of the Group in respect to the dispute, claiming rights to the shares of Manazel. During previous years, lower court decisions were in favour of the Group and other shareholders, however, during the current year, the rulings of lower courts were overturned by the Court of Cassation on 43.3% equity interest of the Group in Manazel.

However, as per the legal counsel of the Group, the provision of the repeal issued and validity and the effectiveness of contracts for the sale issued by the Court of Cassation is contrary to the previous rulings in similar cases issued by the Court of Cassation itself. Additionally, the judgment involving the final rulings may be reconsidered as the Group believes that there is sufficient evidence of counterfeiting of documentation submitted by the counter-party and, consequently, the legal counsel believes that the decisions of the Court of Cassation will be overturned.

Notwithstanding the above, management has recorded a provisional loss of KD 1,135,924 in the consolidated statement of income as the loss of 43.3% equity interest in Manazel during the current year and recorded a provisional loss of KD 1,135,924 in the consolidated statement of income during the current year.

**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 3,754,344 (31 December 2016: KD 1,729,490) and in respect of property held for trading amounting to KD 8,194,767 (31 December 2016: KD 5,643,486).

**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:

| | ***2017*** ***KD*** | *2016* *KD* |
|---|---|---|
| Within one year | **23,094,122** | 23,800,901 |
| After one year but not more than three years | **43,579,594** | 45,332,535 |
| | **66,673,716** | 69,133,436 |

**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:

| | ***2017*** ***KD*** | *2016* *KD* |
|---|---|---|
| Within one year | **1,987,998** | 1,669,130 |
| After one year but not more than three years | **2,622,771** | 1,985,037 |
| | **4,610,769** | 3,654,167 |

## 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 2017**

| | *Rental operations* | *Hospitality operations* | *Property trading* | *Contracting and services* | *Real estate development* | *Total* |
|---|---|---|---|---|---|---|
| | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* |
| Segment revenues | 24,536,723 | 16,484,841 | - | 46,038,026 | - | **87,059,590** |
| Segment results | (1,068,477) | (774,423) | 3,635 | 344,047 | 4,298,471 | **2,803,253** |
| Unallocated expenses | | | | | | **(1,324,177)** |
| **Profit for the year** | | | | | | **1,479,076** |
| Segment assets | 306,169,273 | 84,859,599 | 66,201,767 | 34,960,297 | 75,761,427 | **567,952,363** |
| Unallocated assets | | | | | | **34,478,670** |
| **Total assets** | | | | | | **602,431,033** |
| Segment liabilities | 60,356,998 | 16,160,309 | 14,676,426 | 14,354,879 | 33,481,464 | **139,030,076** |
| Unallocated liabilities | | | | | | **232,265,975** |
| Total liabilities | | | | | | **371,296,051** |
| **Other segmental information:** | | | | | | |
| Valuation gain on investment properties | 3,747,649 | - | - | - | 5,298,842 | **9,046,491** |
| Share of results of associates | (4,536,018) | 296,345 | - | 538,202 | (641,074) | **(4,342,545)** |
| Investment in associates | 69,952,921 | 1,547,568 | - | 5,812,037 | 648,161 | **77,960,687** |

**25 SEGMENT INFORMATION (continued)**

31 December 2016

| | *Rental operations KD* | *Hospitality operations KD* | *Property trading KD* | *Contracting and services KD* | *Real estate development KD* | *Total KD* |
|---|---|---|---|---|---|---|
| Segment revenues | 23,543,374 | 20,238,161 | 194,542 | 26,759,922 | - | 70,735,999 |
| Segment results | 1,502,939 | 4,223,101 | 83,273 | 943,564 | 6,794,814 | 13,547,691 |
| Unallocated expenses | | | | | | (3,132,790) |
| Profit for the year | | | | | | 10,414,901 |
| Segment assets | 305,777,846 | 89,167,789 | 56,612,101 | 20,507,420 | 71,507,698 | 543,572,854 |
| Unallocated assets | | | | | | 28,136,646 |
| Total assets | | | | | | 571,709,500 |
| Segment liabilities | 62,284,320 | 17,583,503 | 12,000,967 | 11,125,364 | 31,314,682 | 134,308,836 |
| Unallocated liabilities | | | | | | 198,859,572 |
| Total liabilities | | | | | | 333,168,408 |
| Other segmental information: | | | | | | |
| Valuation gain on investment properties | 743,856 | - | - | - | 6,773,617 | 7,517,473 |
| Share of results of associates | (530,916) | 2,637 | - | - | 22,728 | (505,551) |
| Investment in associates | 75,844,640 | 1,646,304 | - | - | 1,289,353 | 78,780,297 |

## 25 SEGMENT INFORMATION (continued)

**Geographic information**

***Revenue***

| | ***2017*** ***KD*** | *2016* *KD* |
|---|---|---|
| Kuwait | **68,722,420** | 50,950,612 |
| Egypt | **11,561,709** | 14,300,878 |
| Lebanon | **86,343** | 131,576 |
| UAE | **15,570** | 30,355 |
| Oman | **4,634,899** | 4,149,615 |
| Jordan | **1,800,315** | 637,717 |
| Morocco | **176,329** | 231,321 |
| Europe | **62,005** | 303,925 |
| | **87,059,590** | 70,735,999 |

***Non-current assets***

| | ***2017*** ***KD*** | *2016* *KD* |
|---|---|---|
| Kuwait | **118,938,775** | 109,689,990 |
| Egypt | **100,849,971** | 98,074,868 |
| Lebanon | **6,454,493** | 6,698,957 |
| UAE | **16,964,871** | 17,515,033 |
| Syria | **3,241,192** | 3,241,189 |
| Oman | **69,780,484** | 71,409,391 |
| Bahrain | **64,539** | 91,794 |
| Jordan | **141,071,914** | 143,994,535 |
| Morocco | **9,031,202** | 10,360,597 |
| Europe | **1,350,279** | 2,655,298 |
| KSA | **1,730,000** | 1,730,000 |
| | **469,477,720** | 465,461,652 |

## 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 13,237,749 as at 31 December 2017 (31 December 2016: KD 11,996,543).

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

| **2017** | ***Level: 1*** ***KD*** | ***Level: 3*** ***KD*** | ***Total*** ***KD*** |
|---|---|---|---|
| **Assets measures at fair value** | | | |
| Investment properties (Note 9) | - | 294,627,605 | **294,627,605** |
| Financial assets available for sale (Note 7) | | | |
| Quoted equity shares | 477,678 | - | **477,678** |
| Unquoted equity shares | - | 737,150 | **737,150** |
| | **477,678** | **295,364,755** | **295,842,433** |

| 2016 | *Level: 1* *KD* | *Level: 3* *KD* | *Total* *KD* |
|---|---|---|---|
| Assets measures at fair value | | | |
| Investment properties (Note 9) | - | 286,950,163 | 286,950,163 |
| Financial assets available for sale (Note 7): | | | |
| Quoted equity shares | 545,013 | - | 545,013 |
| Unquoted equity shares | - | 2,136,779 | 2,136,779 |
| | 545,013 | 289,086,942 | 289,631,955 |

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.

| | ***2017*** ***KD*** | *2016* *KD* |
|---|---|---|
| As at 1 January | **2,136,779** | 3,497,357 |
| Net purchases, (sales and settlements) | **(1,027,168)** | (1,385,729) |
| (Loss) gain recorded in other comprehensive income | **(372,461)** | 25,151 |
| As at 31 December | **737,150** | 2,136,779 |

## 27 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.

### 27.1 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.

***27.1.1 Gross maximum exposure to credit risk***

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

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| Bank balances and short term deposits | **16,518,289** | 17,822,910 |
| Accounts receivable and other assets | **57,215,568** | 33,668,762 |
| Available for sale investments | **8,674,550** | 7,351,003 |
| | **82,408,407** | 58,842,675 |

As at 31 December 2017, the maximum credit exposure to a single counterparty amounts to KD 6,220,588 (2016: KD 5,206,407).

**27 RISK MANAGEMENT (continued)**

**27.1 Credit risk (continued)**

***27.1.1 Gross maximum exposure to credit risk (continued)***

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

| Geographical regions | ***2017*** ***KD*** | *2016* *KD* |
|---|---|---|
| Kuwait | **59,198,045** | 41,029,444 |
| Jordan | **6,218,361** | 7,425,320 |
| Egypt | **5,451,065** | 825,330 |
| Lebanon | **315,576** | 348,571 |
| Oman | **1,731,498** | 1,290,470 |
| Europe | **104,810** | 83,847 |
| UAE | **69,321** | 43,281 |
| Syria | **86,718** | 86,718 |
| Bahrain | **232,803** | 232,803 |
| Morocco | **9,000,210** | 7,476,891 |
| | **82,408,407** | 58,842,675 |

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.

***27.1.2 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.

***27.1.3 Past due but not impaired***

The Group does not have any past due but not impaired financial assets as at 31 December 2017 and 31 December 2016.

**27.2 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.

**27 RISK MANAGEMENT (continued)**

**27.2 Liquidity risk (continued)**

| **31 December 2017** | ***Within* one year** | | | | | |
|---|---|---|---|---|---|---|
| | ***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 | **1,626,065** | **3,252,130** | **57,012,738** | **61,890,933** | **-** | **61,890,933** |
| Interest bearing loans and borrowings | **2,315,990** | **4,631,979** | **125,438,130** | **132,386,099** | **212,642,816** | **345,028,915** |
| Bonds | **292,406** | **584,813** | **60,877,219** | **61,754,438** | - | **61,754,438** |
| **TOTAL LIABILITIES** | **4,234,461** | **8,468,922** | **243,328,087** | **256,031,470** | **212,642,816** | **468,674,286** |

| 31 December 2016 | *Within* one year | | | | | |
|---|---|---|---|---|---|---|
| | *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 | 1,348,767 | 2,697,535 | 49,020,757 | 53,067,059 | - | 53,067,059 |
| Interest bearing loans and borrowings | 2,193,312 | 4,386,625 | 95,544,990 | 102,124,927 | 267,079,831 | 369,204,758 |
| Bonds | 287,500 | 575,000 | 2,587,500 | 3,450,000 | 61,725,000 | 65,175,000 |
| TOTAL LIABILITIES | 3,829,579 | 7,659,160 | 147,153,247 | 158,641,986 | 328,804,831 | 487,446,817 |

Interest bearing loans and borrowings includes an amount of short term loans and overdraft KD 89,472,361 (2016: KD 49,127,716). The balance is due within one year from the reporting date and is renewable on maturity.

**27.3 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.

**27 RISK MANAGEMENT (continued)**

**27.3.1 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 2017 and 31 December 2016. 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* | |
|---|---|---|
| | ***2017 KD*** | *2016 KD* |
| US Dollars | **(217,104)** | (242,168) |
| Kuwaiti Dinars | **(1,016,181)** | (853,754) |
| British Pound | **(812)** | (7,230) |
| Omani Riyal | **(28,399)** | (36,818) |
| Egyptian Pound | **(18,577)** | - |

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

**27.3.2 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 2017 and 31 December 2016 due to 5% increase in the following market indices with all other variables held constant is as follows:

| Market indices | *Effect on equity* | |
|---|---|---|
| | ***2017 KD*** | *2016 KD* |
| Kuwait | **20,657** | 22,661 |
| Others | **3,227** | 4,590 |

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.

## 27 RISK MANAGEMENT (continued)

### 27.3 Market risk (continued)

#### 27.3.3 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* | |
|---|---|---|
| | ***2017*** | *2016* |
| | ***KD*** | *KD* |
| US Dollars | **(8,483)** | (50,207) |
| Egyptian Pounds | **1,055,822** | 1,029,589 |
| EURO | **93,569** | 104,865 |
| Saudi Riyal | **17,300** | 17,300 |
| British Pound | **14,706** | 15,720 |
| Bahraini Dinar | **10,249** | 10,521 |
| UAE Dirham | **180,972** | 186,213 |
| Omani Riyal | **594,519** | 610,672 |
| Syrian Pound | **33,279** | 33,279 |
| Jordanian Dinar | **1,402,264** | 1,408,665 |

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

## 28 CAPITAL MANAGEMENT

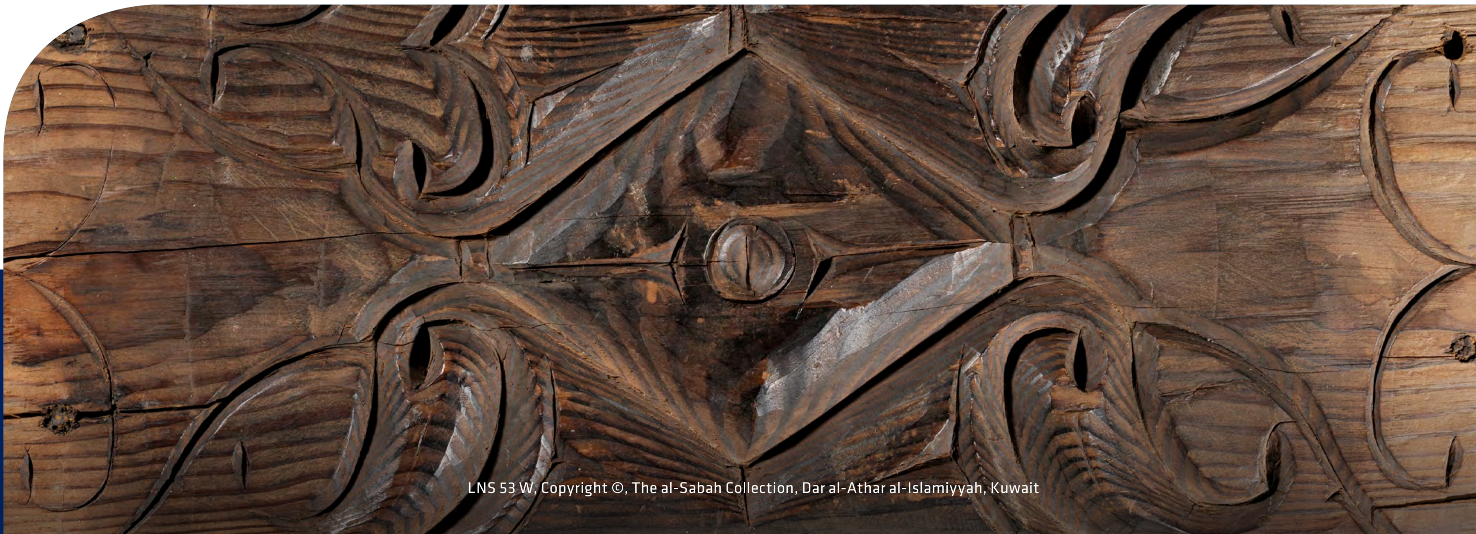
The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business, maximise shareholder value and remain within the quantitative loan covenants.

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 2017 and 31 December 2016.

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.

| | ***2017*** | *2016* |
|---|---|---|
| | ***KD*** | *KD* |
| Interest bearing loans and borrowings | **232,664,386** | 204,444,008 |
| Bonds | **60,000,000** | 60,000,000 |
| Less: Cash, bank balances and short term deposits | **(16,527,864)** | (17,826,257) |
| Net debt | **276,136,522** | 246,617,751 |
| Total equity attributable to equity holders of the Parent Company | **186,726,552** | 192,445,890 |
| Gearing ratio | **147.88%** | 128.15% |

شركة العقارات المتحدة
United Real Estate Co



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## How to obtain our 2017 Financial Statements:

Shareholders attending our General Assembly meeting will be provided with a draft printed copy of the Financial Statements for their approval. Shareholders can request a printed copy of the Financial Statements to be sent to them by courier seven days before the advertised date of the General Assembly; please call URC's Sales & Marketing Department on +965 2295 3500 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 info@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 2017 Financial Statements or for extra copies of this Review, please call +965 2295 3500

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