MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Emphasis of Matter

We draw attention to:

a) Note 6 to the consolidated financial statements, which states that the Parent Company has received a tax demand notice amounting to SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ('GAZT'), Kingdom of Saudi Arabia ("tax claim"). In response to the tax claim, the Parent Company has filed an objection letter with GAZT. Based on the advice obtained from an independent tax consultant, the management of the Parent Company has estimated and recorded a potential tax liability, including the aforementioned tax claim, of KD 30.4 million in the consolidated statement of financial position as at 31 December 2017 (2016: KD 14.5 million) that includes the Parent Company's share of KD 7.6 million (2016: KD 6.4 million) relating to this tax claim as detailed in Note 6. Notwithstanding the above facts, there is a significant material uncertainty related to the outcome of the tax claim and the provision made in the books of account as at 31 December 2017 represents best estimate of the ultimate liability on the tax claim by management.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Emphasis of Matters (continued)

b) Note 20 to the consolidated financial statements, which describes that, during the year 2015, the contractor of one of the properties of the Group in the Kingdom of Saudi Arabia has claimed an amount of SAR 501 million (equivalent to KD 41 million) from the Parent Company and the Parent Company has filed a counter claim for an amount of SAR 627 million (equivalent to KD 51 million) against the same contractor for the delay in completing the project. The claim is currently under arbitration with the Saudi Arbitration Committee. The management of the Parent Company, based on the advice received from an independent legal counsel, believes that the outcome of the arbitration ruling would most probably be in favour of the Parent Company. Accordingly no provision for any liability that may result has been made in the consolidated financial statements as at and for the year ended 31 December 2017.

Our opinion is not modified in respect of these matters.

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

a) Valuation of leasehold property
Leasehold property held by the Group as at 31 December 2017 is utilized as a Hotel that generates revenue from hotel operations. Leasehold property is measured at fair value and the recognition and measurement of leasehold rights is presented in the accounting policies in Note 2 to the consolidated financial statements. The fair value of the leasehold property was determined by an accredited independent valuer with recognised professional qualification and with relevant experience in the locations and category of the leasehold property being valued. The fair value was determined based on the discounted cash flow (DCF) method that is highly dependent on estimates and assumptions such as average room rate, revenue per available room, occupancy rate and discount rate. The significant methods and assumptions used by the valuers in estimating the fair value of leasehold property are set out in Note 8 of the consolidated financial statements. Given the significance of leasehold property and the complexity of valuation and the importance of disclosures relating to assumptions used in the valuation, we considered the valuation of leasehold properties as a key audit matter.

As part of our audit procedures, we assessed the objectivity of the valuation process and the competence, independence and integrity of the external valuers. We also evaluated the accuracy of the property data provided by the Group to the independent valuers which are used as input for the purpose of valuation. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We further assessed reasonableness of the main assumptions and related estimation uncertainty. Our internal valuation specialists were part of our audit team and assisted with the audit of the valuation of the leasehold properties by challenging the assumptions and estimates used.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)

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

Key Audit Matters (continued)

b) Valuation of investment properties

Investment properties comprise of a land in the State of Kuwait held for capital appreciation and completed properties in the Kingdom of Saudi Arabia held to earn rental income. These properties are measured at fair value on an individual basis with any gains or losses arising from changes in fair value included in the consolidated statement of income in the period in which they arise. The management of the Group engages professionally qualified external valuers to assess the fair value of its investment properties on an annual basis.

The fair value of the property located in the Kingdom of Saudi Arabia is determined based on the discounted cash flow (DCF) method, whereas the fair value of the property located in the State of Kuwait is valued using the market comparable approach which is based on market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The significant methods and assumptions used by the valuers in estimating the fair value of investment properties are set out in Note 8 of the consolidated financial statements. Given the significance significance of investment properties on overall consolidated financial statements and the complexity of valuation and the importance of disclosures relating to assumptions used in the valuation, we considered the valuation of investment properties as a key audit matter

As part of our audit procedures, we assessed the objectivity of the valuation process and the competence, independence and integrity of the external valuers. We also evaluated the accuracy of the property data provided by the Group to the independent valuers, which are used as input for the purpose of valuation. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We further assessed reasonableness of the main assumptions and related estimation uncertainty. Our internal valuation specialists were part of our audit team and assisted with the audit of the valuation of the investment properties by challenging the assumptions and estimates used.

c) Investment in associates

Investment in associates are accounted for using the equity method of accounting. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate based on the difference between the recoverable amount of the associate and its carrying value. The recoverable value of the material associates is determined based on the value-in-use, which is mainly derived from the underlying leasehold properties. The valuation of these underlying leasehold properties was performed by an accredited independent valuer with recognised professional qualification and with relevant experience in the locations and category of the leasehold property being valued. and is highly dependent on estimates and assumptions such as average room rate, revenue per available room, occupancy rate and discount rates. The share of results from the associates are significant to the Group and reflects the Group's share of results of operations of the associates based on financial information of the associates. Given the significant judgment involved in determining the recoverable amount of the investment in associates, the materiality of the share

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)

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

Key Audit Matters (continued)

c) Investment in associates (continued)

of results and the carrying values of the Group's investment in associates to overall consolidated financial statements of the Group, we have considered this as a key audit matter.

As part of our audit procedures, with respect to the share of results from associates, we have sent detailed group audit instructions to the auditors of the Group's associates that are material to the consolidated financial statements. The group audit instructions stated the focus areas of the audit and the risks of material misstatement relevant for the purposes of the Group's consolidated financial statements as well as the Group reporting requirements. Further, to assess impairment of the carrying value of associates which are based on the recoverable value of the underlying leasehold properties, audit procedures were performed at the Group level which included, assessing the objectivity of the valuation process and the competence, independence and integrity of the external valuers. We also evaluated the accuracy of the property data provided by the Group to the independent valuers which are used as input for the purpose of valuation. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We assessed reasonableness of the main assumptions and related estimation uncertainty. Our internal valuation specialists were part of our audit team and assisted with the audit of the valuation of the leasehold properties, including the assumptions and estimates used. Summarised financial information of the associates, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out in Note 10 to the consolidated financial statements.

Other information

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 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 auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)

Report on the Audit of the 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 are responsible for overseeing the Group's financial reporting process.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)

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

Auditors' 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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 MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.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, nor 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 Parent Company or on its financial position.

BADER A. AL ABDULJADER	DR. SAUD HAMAD AL-HUMAIDI
LICENCE NO. 207-A	LICENCE NO. 51 A
EY	DR. SAUD HAMAD AL-HUMAIDI & PARTNERS
AL AIBAN, AL OSAIMI & PARTNERS	MEMBER OF BAKER TILLY INTERNATIONAL

13 February 2018
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	***2017*** ***KD***	*2016* *KD*
Operating revenue	4	**9,709,825**	5,583,780
Operating costs	4	**(11,333,800)**	(9,581,661)
Gross loss		**(1,623,975)**	(3,997,881)
Income			
Management fees	18	**401,479**	531,568
Net income from sukouk		**1,260,693**	1,402,119
Income from partial disposal of leasehold property	8	**2,133,344**	-
Reversal of provision no longer required	8	**6,097,771**	-
Reversal of (charge for) impairment on leasehold property	8	**6,541,543**	(4,564,097)
Net income from investment properties	8	**1,194,350**	1,394,549
Reversal (write down) of trading properties		**10,444**	(10,444)
Gain on sale of available-for-sale financial assets		**-**	26,000
Unrealised gain (loss) from financial assets at fair value through statement of income		**63,725**	(58,312)
Finance income		**35,446**	10,799
Dividend income		**135,724**	242,407
Other income		**483,279**	567,026
Share of results of associates	10	**(1,115,000)**	66,731
		17,242,798	(391,654)
Expenses			
General and administrative expenses	5	**(3,207,458)**	(3,131,580)
Depreciation		**(34,500)**	(36,980)
Write-down of inventories		**(84,313)**	-
Finance costs		**(2,284,529)**	(1,887,468)
Net foreign exchange differences		**(473,117)**	300,060
Impairment loss on prepaid operating lease	9	**(108,182)**	-
Impairment loss on available-for-sale financial assets	11	**-**	(181,381)
		(6,192,099)	(4,937,349)
Profit (loss) for the year before taxation		**9,426,724**	(9,326,884)
Taxation	6	**(2,511,660)**	(541,596)
Board of directors' remuneration	18	**(65,000)**	-
Profit (loss) for the year		**6,850,064**	(9,868,480)
Attributable to			
Equity holders of the Parent Company		**4,311,932**	(7,983,295)
Non-controlling interests		**2,538,132**	(1,885,185)
Profit (loss) for the year		**6,850,064**	(9,868,480)
Basic and diluted earnings (loss) per share attributable to the equity holders of the Parent Company	7	**13 fils**	(25) fils

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	*2017* *KD*	*2016* *KD*
Profit (loss) for the year		**6,850,064**	(9,868,480)
Other comprehensive income (loss)			
Other comprehensive income (loss) to be reclassified to consolidated statement of income in subsequent periods			
Net (loss) gain on available-for-sale financial assets		**(77,067)**	356,752
Share of other comprehensive income of an associate		**1,683**	14,219
Exchange differences on translation of foreign operations		**(176,878)**	(627,890)
Net other comprehensive loss for the year that are to be reclassified to consolidated statement of income in subsequent periods		**(252,262)**	(256,919)
Other comprehensive income (loss) not to be reclassified to consolidated statement of income in subsequent periods			
Change in the fair value of prepaid operating lease	9	**(161,528)**	(388,050)
Revaluation of leasehold property		**6,112,532**	-
Share of revaluation reserve of an associate		**(1,811,711)**	708,226
Net other comprehensive income for the year not to be reclassified to consolidated statement of income in subsequent periods		**4,139,293**	320,176
Total other comprehensive income for the year		**3,887,031**	63,257
Total comprehensive income (loss) for the year		**10,737,095**	(9,805,223)
Attributable to:			
Equity holders of the Parent Company		**8,207,601**	(7,419,657)
Non-controlling interests		**2,529,494**	(2,385,566)
		10,737,095	(9,805,223)

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 KD	2016 KD
ASSETS			
Non-current assets			
Furniture and computers		**48,472**	67,999
Leasehold property	8	**92,348,445**	69,584,596
Investment properties	8	**17,880,374**	18,887,585
Prepaid operating lease	9	**1,772,540**	2,042,250
Investment in associates	10	**34,185,681**	39,734,702
Available-for-sale financial assets	11	**6,200,329**	6,802,592
		152,435,841	137,119,724
Current assets			
Financial assets at fair value through statement of income		**249,590**	185,865
Accounts receivable and prepayments	12	**17,655,908**	9,733,229
Trading properties		**530,370**	519,926
Inventories		**922,684**	891,305
Wakala receivable		**541,669**	317,353
Bank balances and cash		**4,637,943**	3,855,621
		24,538,164	15,503,299
TOTAL ASSETS		**176,974,005**	152,623,023
EQUITY AND LIABILITIES			
Equity			
Share capital	13(i)	**32,200,000**	32,200,000
Share premium		**12,400,000**	12,400,000
Statutory reserve	13(ii)	**11,939,162**	11,216,178
Voluntary reserve	13(iii)	**7,512,156**	6,789,172
Available-for-sale reserve		**1,338,442**	1,413,826
Revaluation reserve		**6,770,783**	2,756,340
Foreign currency translation reserve		**(477,442)**	(309,202)
Retained earnings		**9,598,957**	6,608,143
Equity attributable to equity holders of the Parent Company		**81,282,058**	73,074,457
Non-controlling interests	14	**2,539,636**	749,493
Total equity		**83,821,694**	73,823,950
Liabilities			
Non-current liabilities			
Employees' end of service benefits		**1,071,784**	974,210
Islamic finance payables	15	**19,928,194**	20,246,096
Obligations under finance lease	16	**15,132,481**	1,702,378
Accounts payable and accruals	17	**202,559**	2,365,488
		36,335,018	25,288,172
Current liabilities			
Islamic finance payables	15	**7,197,684**	6,000,000
Obligations under finance lease	16	**1,289,121**	76,737
Accounts payable and accruals	17	**48,330,488**	47,434,164
		56,817,293	53,510,901
Total liabilities		**93,152,311**	78,799,073
TOTAL EQUITY AND LIABILITIES		**176,974,005**	152,623,023

Emad Yousef Al Monayea
Chairman

Abdulaziz Ahmad Yousef Alsaqer
Chief Executive Officer

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Equity attributable to shareholders of the Parent Company										
	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Available-for-sale reserve KD*	*Revaluation reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Sub-total KD*	*Non-controlling interests KD*	*Total equity KD*
As at 1 January 2017	**32,200,000**	**12,400,000**	**11,216,178**	**6,789,172**	**1,413,826**	**2,756,340**	**(309,202)**	**6,608,143**	**73,074,457**	**749,493**	**73,823,950**
Profit for the year	-	-	-	-	-	-	-	**4,311,932**	**4,311,932**	**2,538,132**	**6,850,064**
Other comprehensive (loss) income for the year	-	-	-	-	**(75,384)**	**4,139,293**	**(168,240)**	-	**3,895,669**	**(8,638)**	**3,887,031**
Total comprehensive (loss) income for the year	-	-	-	-	**(75,384)**	**4,139,293**	**(168,240)**	**4,311,932**	**8,207,601**	**2,529,494**	**10,737,095**
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	**(739,351)**	**(739,351)**
Transfer of revaluation reserve	-	-	-	-	-	**(124,850)**	-	**124,850**	-	-	-
Transfers to reserves	-	-	**722,984**	**722,984**	-	-	-	**(1,445,968)**	-	-	-
As at 31 December 2017	**32,200,000**	**12,400,000**	**11,939,162**	**7,512,156**	**1,338,442**	**6,770,783**	**(477,442)**	**9,598,957**	**81,282,058**	**2,539,636**	**83,821,694**
As at 1 January 2016	32,200,000	12,400,000	11,216,178	6,789,172	1,042,855	2,532,504	(181,693)	14,495,098	80,494,114	3,135,059	83,629,173
Loss for the year	-	-	-	-	-	-	-	(7,983,295)	(7,983,295)	(1,885,185)	(9,868,480)
Other comprehensive income (loss) for the year	-	-	-	-	370,971	320,176	(127,509)	-	563,638	(500,381)	63,257
Total comprehensive income (loss) for the year	-	-	-	-	370,971	320,176	(127,509)	(7,983,295)	(7,419,657)	(2,385,566)	(9,805,223)
Transfers of revaluation reserve	-	-	-	-	-	(96,340)	-	96,340	-	-	-
As at 31 December 2016	32,200,000	12,400,000	11,216,178	6,789,172	1,413,826	2,756,340	(309,202)	6,608,143	73,074,457	749,493	73,823,950

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
OPERATING ACTIVITIES			
Profit (loss) for the year before taxation		**9,426,724**	(9,326,884)
Adjustments to reconcile profit (loss) for the year to net cash flows:			
Amortisation of leasehold property	8(a)	**3,775,056**	3,982,625
Valuation loss from investment properties	8(b)	**877,196**	572,261
(Reversal for) charge of impairment on leasehold property	8	**(6,541,543)**	4,564,097
(Gain) loss on sale of available-for-sale financial assets		-	(26,000)
Unrealised (gain) loss from financial assets at fair value through statement of income		**(63,725)**	58,312
Impairment loss on prepaid leasehold property		**108,182**	-
(Reversal) write down of trading property		**(10,444)**	10,444
Finance income		**(35,446)**	(10,799)
Dividend income		**(135,724)**	(242,407)
Share of results of associates	10	**1,115,000**	(66,731)
Depreciation		**34,500**	36,980
Finance costs		**2,284,529**	1,887,468
Impairment loss on available-for-sale financial assets		**-**	181,381
Reversal of provision no longer required	8	**(6,097,771)**	-
Income from partial disposal of a leasehold property		**(2,133,344)**	-
Write-down of inventories		**84,313**	-
Net foreign exchange differences		**473,117**	(300,060)
Provision for employees' end of service benefits		**219,282**	164,039
		3,379,902	1,484,726
Working capital adjustments:			
Accounts receivable and prepayments		**1,192,783**	(10,857,787)
Trading properties		**-**	25,976
Inventories		**(115,692)**	(212,913)
Accounts payable and accruals		**(4,633,588)**	(9,963,278)
Cash flows used in operations		**(176,595)**	(19,523,276)
Employees' end of service benefits paid		**(121,708)**	-
Net cash flows used in operating activities		**(298,303)**	(19,523,276)
INVESTING ACTIVITIES			
Purchase of furniture and computers		**(14,973)**	(23,317)
Additions to leasehold property		**(65,244)**	(501,575)
Proceeds from sale of available-for-sale financial assets		**-**	72,580
Proceeds from capital redemption of available-for-sale financial assets		**525,195**	494,067
Investment in wakala receivables		**(224,316)**	(317,352)
Dividends and other forms of distribution received from associates		**2,387,252**	12,608,394
Dividend income received		**-**	611,733
Finance income received		**35,446**	10,799
Net cash flows from investing activities		**2,643,360**	12,955,329
FINANCING ACTIVITIES			
Net movement in Islamic finance payables		**879,782**	117,907
Repayment of obligations under finance lease		**(1,334,149)**	(146,451)
Finance costs paid		**(336,297)**	(315,945)
Dividends paid to non-controlling interests		**(739,331)**	-
Net cash flows used in financing activities		**(1,529,995)**	(344,489)
Foreign currency translation adjustment		**(32,740)**	244,218
INCREASE (DECREASE) IN BANK BALANCES AND CASH		**782,322**	(6,668,218)
Bank balances and cash at 1 January		**3,855,621**	10,523,839
BANK BALANCES AND CASH AT 31 DECEMBER		**4,637,943**	3,855,621

The attached notes 1 to 25 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Munshaat Real Estate Projects Company K.S.C.P. (the "Parent Company") is a public shareholding company established in Kuwait whose shares are publicly traded on the Kuwait Stock Exchange ("KSE"). The Parent Company was established on 8 April 2003 in accordance with the Articles of Association authenticated at Real Estate Registration and Authentication Department in the Ministry of Justice under No. 1416/Vol.1. The registered office of the Parent Company is at Floor 43, Arraya Tower 2, Sharq, Shuhada Street, State of Kuwait. The Parent Company carries out its activities in accordance with Islamic Shari'ah.

The Parent Company is a subsidiary of Aref Investment Group S.A.K ("Aref") (the "Intermediate Parent Company"), a closed shareholding company incorporated in the State of Kuwait. Aref is a subsidiary of Kuwait Finance House (the "Ultimate Parent Company"), a registered Islamic Bank registered with the Central Bank of Kuwait and whose shares are listed on KSE.

The consolidated financial statements of the Parent Company and its subsidiaries (collectively "the Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 6 February 2018 and are subject to the approval of the Annual General Assembly meeting (AGM) of the shareholders of the Parent Company. The AGM of the shareholders of the Parent Company has the power to amend these consolidated financial statements.

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

1. To own, sell and acquire real estate properties and lands and develop the same to the account of the Parent Company inside the State of Kuwait and abroad; and to manage 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.
2. To own, sell and acquire stocks and bonds of real estate companies for the account of the Parent Company only inside Kuwait and abroad.
3. To prepare studies and provide consultancies in the field of real estate of all types; provided that the service provider meets the required conditions.
4. To own and manage hotels, health clubs and touristic facilities and to rent and lease the same.
5. To carry-out all maintenance works at the buildings and real estate properties owned by the Parent Company, including all civil, mechanical and electrical works, elevators and air conditioning works in a way that maintains the safety of the buildings.
6. To manage, operate, invest, lease and rent 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 different levels and grades, including all principal and auxiliary services, appended facilities and other services required therefore.
7. To organize real estate exhibitions related to the real estate projects of the Parent Company pursuant to the regulations set forth by the Ministry.
8. To hold real estate bids pursuant to the regulations set forth by the Ministry.
9. To own and manage commercial markets and housing complexes.
10. To establish and manage real estate investment funds after obtaining the approval of the Central Bank of Kuwait.
11. To utilize available financial surpluses by investing the same in portfolios managed by specialised companies and entities.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

Basis of preparation
The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of leasehold property, investment properties, prepaid operating lease, available-for-sale financial assets and financial asset carried at fair value through income statement.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies applied are consistent with those used in the previous year. 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.

2.3 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 those standards when they become effective.

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

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed 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 the financial year 2018, when the Group will adopt IFRS 9. In addition, the Group will implement changes in classification of certain financial instruments.

(a) Classification and measurement
The Group will reclassify available-for-sale financial assets amounting to KD 5,320,112 to financial assets carried at fair value through statement of income and reclassify financial assets carried at fair value through statement of income of KD 249,590 to financial assets carried at fair value through other comprehensive income. This reclassification will result in an increase in retained earnings and decrease of cumulative changes in fair value reserve by approximately KD 2,601,491 as on 1 January 2018.

(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 trade receivables and other receivables which management has assessed 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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.

The Group has performed a detailed evaluation of all its revenue arrangements and conclude that no material impact is expected on the consolidated financial statement of the Group upon adoption of IFRS15.

IFRS 16 Leases
The IASB issued the new standard for accounting for leases - IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right- of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of income.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and is in the process of evaluating the effect of IFRS 16 on the Group and do not expect any significant impact on adoption of this standard.

Amendments to IAS 12 Income Taxes
In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group does not anticipate material impact on the consolidated financial statements as all the debt instruments of the Group are measured at amortised cost.

2.4 SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (investees which are controlled by the Parent Company) as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated statement of income. Any investment retained is recognised at fair value.

The subsidiaries of the Group are as follows:

Name of the company	*Country of Incorporation/ formation*	*Effective equity interest as at 31 December*		*Principal activities*
		2017	*2016*	
Directly held:				
Munshaat for Projects and Contracting Company Limited	Kingdom of Saudi Arabia ("KSA")	**100%**	100%	Contracting and real estate activities
Al Reyada Real Estate Financial Centre Company W.L.L.	Kuwait	**100%**	100%	Real estate company
Al Waha International Real Estate Projects Company K.S.C.(Closed)	Kuwait	**100%**	100%	Real estate company
Al Safwa Joint Venture* ("Safwa JV")	Kuwait	**40%**	40%	Real estate activities
MAS International General Trading and Contracting Company W.L.L. ("MAS International")	Kuwait	**100%**	100%	General trading and contracting activities
Al Qeblah JV (Note 5)	Kuwait	**62.11%**	62.11%	Real estate activities
Held by MAS International				
MAS International Egypt W.L.L.	Egypt	**100%**	100%	Real estate projects management
MAS Al Oula W.L.L.	KSA	**100%**	100%	Real estate projects management
First MAS International Tours	Egypt	**100%**	100%	Real estate projects management

* Even though the Group holds less than 50% equity interest in Safwa JV, the Parent Company has been appointed as the JV Manager and has exposure to variable return (return on investment and management fees) and also, has the ability to use its power to affect its return by exercising the control over the activities of Safwa JV. As a result, Safwa JV has been consolidated in the Group.

The financial information of subsidiaries that have material non-controlling interests is disclosed in Note 14.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that in most of the revenue arrangements it is acting as a principal. The following specific recognition criteria must also be met before revenue is recognised.

i. Revenue represents the rental income and the invoiced value of goods and services provided by the Group from the hospitality services
ii. Management fees, incentive fees, arrangement and advisory fees, and placement fees are recognised when earned upon performance of services envisaged under the service agreements.
iii. Commission income is recognised upon completion of sales agreement.
iv. Gain (loss) on sale of investment properties is recognised when the significant risks and rewards of ownership are passed to the buyer and the amount of revenue can be measured reliably.
v. Finance income is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the net balance outstanding.
vi. Dividend income is recognised when the right to receive payment is established.

Finance costs
Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

Contribution to KFAS and Taxation
Kuwait Foundation for the Advancement of Sciences (KFAS)
The Group 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.

Taxation
(i) National Labour Support Tax (NLST)
The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. 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.

(ii) Zakat
Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

(iii) 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.

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)
All other assets are classified as non-current.

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

The Group classifies all other liabilities as non-current.

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 it measures 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, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of income. It is then considered in the determination of goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of income.

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

Furniture and computers
Furniture and computers are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any. Depreciation is calculated on a straight line basis over the estimated useful life of assets to their residual values as follows:

Furniture and fixtures	3 - 5 years
Computers	3 - 4 years

The carrying values of furniture and computers 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, being the higher of their fair value less costs to sell and their values in use.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture and computers (continued)
Expenditure incurred to replace a component of an item of furniture and computers that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off.

Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of furniture and computers. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

An item of furniture and computers and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

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 fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement

Leases where the Group is a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of income. Operating lease payments are recognised as expense on straight line basis over the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Increase in fair valuation is recorded as revaluation surplus within the consolidated statement of comprehensive income. If a revaluation increase reverses a revaluation decrease that was previously recognised as an expense, it is credited to the consolidated statement of income. Decrease in valuation should be charged to consolidated statement of income, except to the extent that they reverse an existing revaluation surplus.

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

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 considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate are accounted for using the equity method. Under the equity method, the investment in an 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 statement of income reflects the Group's share of results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, 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 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)
The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of results of associates' in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in consolidated statement of income.

Investment properties
Investment properties are initially measured at cost, including transaction costs. The carrying cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day to day servicing of investment property. After the initial recognition, the investment properties are 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 the investment property. Gains (losses) from change in the fair value are recognised in the consolidated statement of income. However, in case of investment properties whose fair value cannot be reliably measured the same are carried at cost less accumulated impairment, if any. The Group obtains fair valuation of investment properties from two independent, accredited real estate valuators and consider the lower of two valuations as the fair value of the investment properties for recording in the books.

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

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under furniture and computers up to the date of change in use.

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

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

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

Inventories
Inventories representing sukouk (lease rights) are stated at the lower of book value and net realisable value. Book value is the original cost to the Group, on a specific identification basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets
Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through statement of income, loans and receivables or available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, transaction costs, except in the case of financial assets recorded at fair value through statement of income, transaction costs are recognised in the consolidated statement of income.

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

The Group's financial assets include bank balances and cash, accounts receivable, wakala receivable, financial assets carried at fair value through statement of income and available-for-sale financial assets.

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

Accounts receivable and wakala receivable
These are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. After initial recognition, accounts receivables and wakala receivables are carried at amortised cost using the effective profit rate method less a provision for any uncollectible amount. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective profit rate. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Financial assets at fair value through statement of income
Financial assets at fair value through statement of income includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through statement of income. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in consolidated statement of income. Financial assets are designated at fair value through statement of income if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. The Group does not have any financial assets that are held for trading. Financial assets at fair value through statement of income is carried in the consolidated statement of financial position at fair value with net changes in the fair value recognised in the consolidated statement of income.

Available-for-sale financial assets
Available-for-sale financial assets include equity securities and are those non-derivative financial assets that do not qualify to be classified as loan and receivables, held to maturity or at fair value through statement of income.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with gains or losses being recognised as other comprehensive income in the cumulative change in fair values until the investment is derecognised at which time the cumulative gain or loss is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment, if any.

Available-for-sale financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)
Derecognition
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.

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

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

Impairment of financial assets
An assessment is made at each reporting date to determine whether there is any objective evidence that a specific 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 (or events) 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 debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when 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 individually 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 incurred, the amount of the loss is measured as the difference between the asset's 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 profit rate.

In relation to gross receivables, provision is made when there is an objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off when they are assessed as uncollectible.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)
***Impairment of financial assets* (continued)**
Available-for-sale financial assets
For available-for-sale financial assets, the Group assesses at each reporting date whether there is an objective evidence that an investment or a group of investments is impaired.

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

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

Financial liabilities
Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at amortised cost. 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 at amortised cost include accounts payable, obligation under finance lease and accruals and Islamic finance payables.

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

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

Murabaha payables
Murabaha payables represent the amount payables on a deferred settlement basis for assets purchased under murabaha arrangements and are subsequently measured at amortised cost using the effective profit rate method. Murabaha payables are stated at the gross amount of the payables, net of deferred profit payables. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Ijara payable
Ijara payable is an Islamic transaction involving the purchase and immediate lease of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective profit rate. The effective profit rate amortisation is included as finance costs in the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)
Derecognition of 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 statement of income.

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

Fair value measurement
The Group measures financial instruments and non-financial assets such as investment properties, leasehold properties and prepaid operating lease 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.

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

- Level 1 — 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. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fair value of non-financial assets are based on valuation techniques determined by the independent valuers (Note 8).

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.

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 such 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 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 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, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for land or building previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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

Further, with respect to its national employees, the Group also makes contributions to Public Authority 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation
The Group's consolidated financial statements are presented in Kuwait Dinars, which is also the Parent Company's functional currency.

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the respective entity's statement of income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

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

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Classification of investments
Management decides on acquisition of investments whether they should be classified as available-for-sale financial assets or financial assets carried at fair value through statement of income.

The management classifies financial assets as carried at fair value through statement of income if they are acquired primarily for the purpose of short term profit making and fair value of those investments can be reliably determined.

Classification of financial assets as fair value through statement of income also depends on how management monitor the performance of these financial assets when they are not classified as held for trading but have readily available fair values and if the changes in fair values are reported as part of consolidated statement of income in the management accounts, they are classified as fair value through statement of income.

All other financial assets are classified as available for sale.

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

The management classifies real estate as trading property if it is acquired principally for sale in the ordinary course of business.

The management classifies real estate as property under development if it is acquired with the intention of development.

The management classifies real estate as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use and as leasehold property if it is acquired for or the future use is estimated to be for operations and to generate operating cash flows.

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

Impairment of available-for-sale financial assets
The Group treats financial available for sale as impaired when there is 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 making this judgment, the Group evaluates, among other factors the duration or the extent to which the fair value of the investment is less than its cost.

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions **(continued)**

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions may have an impact on carrying amounts of loans and receivables and available for sale investments.

Valuation of investment properties and leasehold property

For investment properties and leasehold property, the fair value is determined by independent, registered, real estate valuators or by reference to recent transactions in similar properties. As per the Group's policy two independent real estate valuations are obtained to assess fair values as at 31 December 2017. For investment properties and leasehold property, for which there is a lack of comparable market data because of the nature of the properties, valuation methodologies based on a discounted cash flow model and terminal value model is used. Investment property held for capital appreciation is valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

The key assumptions used to determine the fair value of investment properties and leasehold property is further explained in Note 8.

4 OPERATING REVENUE AND COST

	2017 *KD*	*2016* *KD*
Operating revenue		
Hotel revenue	**9,709,825**	5,583,780
Operating costs		
Hotel operating costs	**(7,558,744)**	(5,599,036)
Amortisation of leasehold property (Note 8)	**(3,775,056)**	(3,982,625)
	(11,333,800)	(9,581,661)

5 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff costs of KD 2,120,237 (2016: KD 2,014,248).

6 CONTRIBUTION TO KFAS AND TAXATION

	2017 *KD*	*2016* *KD*
Contribution to KFAS	**64,484**	-
Zakat	**70,862**	-
National Labour Support Tax (NLST)	**179,425**	-
Overseas taxation[1]	**2,196,889**	541,596
	2,511,660	541,596

[1] On 5 January 2016, the Parent Company received a demand notice for SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ("GAZT"), KSA, including the assessment on the Parent Company for the years 2003 to 2013 that claimed Capital gains tax, corporate income tax, withholding tax and penalties ("tax claim"). In addition, the GAZT has also claimed penalties for failure to register, non-submission of declarations and the consequential delay penalties at the rate of 1% for every thirty days delay on the settlement of income tax and withholding tax calculated as of the due date and till the payment date. The tax claim covers the transactions of properties owned and / or managed by the Parent Company that includes Zamzam, Al Safwa and Dar Al Qeblah towers in KSA.

6 CONTRIBUTION TO KFAS AND TAXATION (continued)

The management of Parent Company believes that the tax claim do not reflect the correct application of tax laws in KSA, the correct nature of the operations of Parent Company and also the underlying numbers used in the computation of tax claim are significantly different from the actual results of operations.

The management of the Parent Company has appointed a tax consultant in KSA to review the tax claim and file an objection letter with GAZT. Accordingly, the tax consultant had filed an objection letter dated 2 March 2016 with GAZT primarily covering the Capital gains tax on the transfer of leasing rights, tax on the lease contracts of Al Safwa towers, deemed revenue from the operations of Zamzam tower and the penalties on delays, non-filing, non-registration and evasion of tax.

The management of the Parent Company, based on the advice from the tax consultant, has estimated and recorded a potential tax liability in the consolidated statement of financial position as on 31 December 2017 of KD 30,444,311 (2016: KD 14,548,428) (Note 17), against the above GAZT claim. The above tax liability is calculated by the tax consultant up to 2017. The potential tax liability includes the Parent Company's share of KD 7.6 million (2016: KD 6.4 million). The Group charged KD 2,176,966 in the consolidated statement of income for the year ended 31 December 2017 (2016: KD 541,596) including an amount of KD 943,201 (2016: KD 86,071) arising on consolidation from two of the subsidiaries. The remaining increase in tax claim of KD 13,718,917 (2016: KD 2,001,852) has been recorded as receivable from affiliate entities that were also subjected in the tax claim. However, as on the date of these consolidated financial statements there is a significant uncertainty as to the outcome of the tax claim. The provision recorded in the consolidated financial statements as at 31 December 2017 represents the best estimate of the tax liability that may arise from the tax claim.

7 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share attributable to the equity holders of the Parent Company are calculated by dividing the profit (loss) for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year as follows:

	2017	*2016*
Profit (loss) for the year attributable to the equity holders of the Parent Company (KD)	**4,311,932**	(7,983,295)
Weighted average number of ordinary shares outstanding during the year (shares)	**322,000,000**	322,000,000
Basic and diluted Profit earnings (loss) per share attributable to the equity holders of the Parent Company	**13 fils**	(25) fils

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

8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES

a. Leasehold property

Leasehold property represents "Qeblah Tower", a property located in KSA and is operating as hotel through an agreement with an internationally reputed hotel operator.

The movement in leasehold property is as follows:

	2017 KD	*2016 KD*
As at 1 January	**69,584,596**	76,225,925
Reversal of (charge for) impairment (refer note (ii) below)	**6,541,543**	(4,564,097)
Revaluation gain [refer note (ii) below]	**6,112,532**	-
Amortisation	**(3,775,056)**	(3,982,625)
Additions (refer note (i) below)	**14,397,863**	4,056,386
Disposal (Note 18)	-	(2,388,163)
Net foreign exchange difference	**(513,033)**	237,170
As at 31 December	**92,348,445**	69,584,596

8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)

a. Leasehold property (continued)

On 23 August 2017 (corresponding tol Dhul Hijjah 1438), the Parent Company signed an amendment to lease agreement with Authority in Kingdom of Saudi Arabic ("KSA Authority") for Qeblah Tower whereby the lease period has been extended to 25 Hijri years from this date.

The lease rental payable to KSA Authority has also been revised under the agreement and all dues including compensation for delay in handing over the office spaces were duly settled. The amendment resulted in the following impact on the consolidated financial statements of the Group:

i. Increase in lease payments for which the management has recorded a corresponding increase in liability for the lease payments at present value amounting to KD 14,343,576 determined by discounting the future lease payments as per the amended contract by 6% per annum. This amount has been recorded as obligations under finance lease and correspondingly included in additions to the carrying amount of leasehold property.

ii. Increase in the lease period resulted in a relative increase in the fair value of Qeblah Tower, based on external valuation by an accredited independent valuators, using the discounted cash flows model. The Group recorded an increase in fair value of KD 11,899,710. Out of this increase in fair value, an amount of KD 5,943,339 has been recorded in the consolidated statement of income representing reversal of impairment recorded in prior years and included under "Reversal of (charge for) impairment on leasehold property". The balance of KD 5,956,371 has been recognised in consolidated statement of other comprehensive income under "Revaluation of leasehold property".

iii. Waiver of all dues to KSA Authority including the provision towards the compensation for the delay in handing over the office spaces in Qeblah Tower amounting to KD 6,097,771 which was recorded in accounts payables and accruals. This waiver dues to KSA Authority has been reversed through consolidated statement of income and disclosed as "Reversal of provision no longer required"

iv. In prior years, certain units of Qeblah Tower were sold for 21 Hijri years to one of the major shareholders (the "Customer") of the Parent Company and the amount received against these units were recorded as "Advance from customers" in the books of the subsidiary. The project was completed in the year 2016 and the units were handed over to the Customer. As the project was significantly delayed, the Group did not recognise the entire advance received from the Customer as revenue during 2016, however retained an amount of KD 2,291,686 as compensation payable to the Customer while the Group was in negotiation with the KSA Authority for an extension of the lease period. During the year, the Group obtained extension of lease period for Qeblah Tower and accordingly recognised the balance amount, net of the additional cost of these units, of KD 2,133,344 in the consolidated statement of income for the year as "Income from partial disposal of leasehold property".

At the reporting date, management has determined the fair value of the leasehold property, based on external valuations by accredited independent valuers, using discounted cash flows and terminal value model as there is a lack of comparable market data because of the nature of the properties.

The leasehold property is amortised over the remaining period of the lease from the date when the asset is put to use. As at the reporting date, the remaining period of the lease was 24 years (2016:13.25 years).

Change in estimate

During the year, management reassessed its estimates in respect of the useful life of leasehold property from 13.25 years to 24.25 years. The effect of this change on amortization expense in the consolidated statement of income, in the current and future periods for the remaining life is decline of KD 297,473 and increase of KD 14,046,103, respectively.

8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)

b. Investment properties

The movement in investment properties is as follows:

	2017 *KD*	*2016* *KD*
As at 1 January	**18,887,585**	19,385,725
Addition (refer note below)	**3,634,071**	-
Disposal (refer note below)	**(3,634,071)**	-
Change in fair value	**(877,196)**	(572,261)
Net foreign exchange differences	**(130,015)**	74,121
As at 31 December	**17,880,374**	18,887,585

During the year, as a part of amendment to lease agreement with KSA Authority [Note 8 (a)], the Group acquired the right to use a land in Madinah for 25 Hijri years. The Group classified the new land as investment property and recorded the asset at a value equal to the present value of future lease payments discounted at 6% per annum. Subsequently, this right to use the land has been sold and accordingly the investment property and the related lease obligation have been derecognised.

The fair value of properties located in KSA are determined using a discounted cash flow method ("DCF"). The fair value of the property located in the State of Kuwait is determined using the market comparable approach. The valuations were performed by accredited independent valuers with recognised and relevant professional qualifications and experience in the locations and categories of the properties being valued. The valuation models applied are consistent with the principles in IFRS 13.

Investment properties with a carrying value of KD 10,550,000 (2016: KD 10,550,000) are pledged against certain secured Islamic finance payables (Note 15).

Net income from investment properties in the consolidated statement of income includes the following:

	2017 *KD*	*2016* *KD*
Change in fair values of investment properties	**(877,196)**	(572,261)
Net rental income	**2,071,546**	1,966,810
	1,194,350	1,394,549

Description of valuation techniques used and key unobservable made in determining the fair value to valuation of leasehold property and investment properties:

Type of property	Valuation technique	Significant unobservable inputs	Range *2017*	Range *2016*
a. Leasehold property				
Qeblah Tower - KSA				
• Hotel	DCF	Estimated Average room rate in Saudi Riyals (SAR)	**512 – 710**	562 -843
		Long term RevPAR growth*	**3% - 10.5%**	3.5%-10.5%
		Occupancy rate	**69% - 74%**	66% - 71%
		Discount rate	**11.25%**	11.5%
		Inflation rate	**3.5%**	3.5%
		Gross operating profit	**40% - 70%**	38% - 70%

8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)

b. Investment properties (continued)

Type of property	Valuation technique	Significant unobservable inputs	Range	
• Shopping center	DCF	Estimated yearly rent in SAR per square metre	**6,500**	6,500
		Occupancy rate	**65% - 95%**	65%-95%
		Discount rate	**11.15%**	11.65%
b. Investment properties				
Land in the State of Kuwait	Market comparison	Price per square metre	**KD 4,000 – KD 4,200**	KD 4,000 – KD 4,200
6 floors in Al Safwa Tower, KSA	DCF	The fair value is determined based on DCF method, using contractually fixed cash flows and discount rate of 11.50% (2016:13%).		

*RevPAR = Revenue Per Available Room.

Under market comparison approach, fair value is estimated based on comparable transactions. The market comparison approach is based upon the principal of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre ('sqm').

Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value, if any. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, if any, is then discounted.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by:
- A directionally similar change in the long term vacancy rate (and exit yield)
- An opposite change in the rent growth per annum and discount rate.

Quantitative disclosures of fair value measurement hierarchy for leasehold property and investment properties as at 31 December 2017 are as follows:

	Fair Value Measurement using	
2017	***Total*** ***KD***	***Significant unobservable inputs (Level 3)*** ***KD***
Leasehold property		
KSA	**92,348,445**	**92,348,445**
Investment properties		
State of Kuwait	**10,550,000**	**10,550,000**
KSA	**7,330,374**	**7,330,374**

8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)

b. Investment properties (continued)

2016		
Leasehold property		
KSA	69,584,596	69,584,596
Investment properties		
State of Kuwait	10,550,000	10,550,000
KSA	8,337,585	8,337,585

9 PREPAID OPERATING LEASE

Prepaid operating lease represents additional operating cash flows from a leasehold property "Zamzam Tower" for a period of 5 months starting on 10 October 2029 to 28 February 2030.

During the current year, the Parent Company has performed a fair value assessment of the of prepaid operating lease and recorded a decline of KD 269,710 (2016: increase of KD 388,050).

10 INVESTMENT IN ASSOCIATES

	Country of domicile	*Percentage of Ownership interest*		*Carrying amount*	
		2017	*2016*	***2017 KD***	*2016 KD*
The Zamzam 2013 JV ("Zamzam")	Kuwait	**36.69%**	36.69%	**29,518,646**	35,452,687
Athman Al Khalijya Company W.L.L. ("Athman")	Kuwait	**32.60%**	32.60%	**4,667,035**	4,282,015
				34,185,681	39,734,702

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

	2017 KD	*2016 KD*
As at 1 January	**39,734,702**	43,159,298
Dividends and other forms of distribution	**(2,387,252)**	(4,218,986)
Share of results	**(1,115,000)**	66,731
Share of other comprehensive income	**1,682**	14,219
Share of revaluation reserve	**(1,466,980)**	708,226
Exchange difference on translation of foreign operations	**(581,471)**	5,214
As at 31 December	**34,185,681**	39,734,702

10 INVESTMENT IN ASSOCIATES (continued)

The following table provides summarised financial information of the Group's investment in associates which are accounted for using the equity method:

	Zamzam		Athman		Total	
	2017 KD	*2016 KD*	*2017 KD*	*2016 KD*	*2017 KD*	*2016 KD*
Non-current assets	**96,998,223**	113,794,170	**12,996,728**	13,041,613	**109,994,951**	126,835,783
Current assets	**23,593,935**	28,344,004	**1,335,492**	1,632,717	**24,929,427**	29,976,721
Current liabilities	**(27,349,407)**	(26,723,647)	**(16,163)**	(1,539,316)	**(27,365,570)**	(28,262,963)
Equity	**93,242,751**	115,414,527	**14,316,057**	13,135,014	**107,558,808**	128,549,541
Group's ownership interest	**36.69%**	36.69%	**32.60%**	32.60%	-	-
Group's share in equity	**34,210,765**	42,345,590	**4,667,035**	4,282,015	**38,877,800**	46,627,605
Revenues	**20,226,511**	22,477,041	**1,188,392**	1,708,850	**21,414,903**	24,185,891
Cost of revenue	**(10,944,685)**	(13,540,593)	**-**	-	**(10,944,685)**	(13,540,593)
Amortisation and/or impairment	**(11,528,839)**	(8,743,188)	**-**	-	**(11,528,839)**	(8,743,188)
General and administrative expenses and taxes	**(7,834,534)**	(1,515,543)	**(12,384)**	(15,715)	**(7,846,918)**	(1,531,258)
(Loss) profit for the year	**(10,081,547)**	(1,322,283)	**1,176,008**	1,693,135	**(8,905,539)**	370,852
Group's share of results					**(1,115,000)**	66,731

The carrying amount of Zamzam is adjusted to eliminate a downstream transaction of KD 4,692,119 (2016: KD 6,892,903)

As at 31 December 2017, the associates had no contingent liabilities or capital commitments (2016: Nil).

The above associates are unquoted and consequently do not have quoted market prices available for its shares. Management believes that the carrying amounts of the investments are not significantly different from the recoverable amounts and accordingly, no impairment loss was recognised.

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 *KD*	*2016* *KD*
Unquoted securities	**4,237,498**	4,662,464
Unquoted real estate funds	**1,962,831**	2,140,128
	6,200,329	6,802,592

Unquoted securities include investments amounting to KD 409,260 (2016: KD 518,033) that are measured at cost subject to impairment testing, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments.

During the year, the Group recorded an impairment loss of KD Nil (2016: KD 181,381) against certain unquoted real estate funds based on available information.

The management of the Parent Company is not aware of any circumstances that would indicate any further impairment in the value of these investments at the reporting date.

Fair value hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 22.

12 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2017 *KD*	*2016* *KD*
Trade accounts receivable	**2,406,474**	2,741,655
Amounts due from related parties (Note 18)	**12,193,575**	4,378,248
Advances to contractors	**2,254,747**	2,302,557
Prepaid expenses	**56,250**	126,491
Other receivables	**744,862**	184,278
	17,655,908	9,733,229

As at 31 December 2017, trade accounts receivables of KD 4,664,761 (2016: KD 4,664,761) were impaired and fully provided. These mainly relate to customers, which are in unexpectedly difficult economic situations. The Group does not hold any collateral as security.

The other classes within accounts receivable do not contain impaired assets.

As at the reporting date, trade receivables of KD 2,406,474 (2016: KD 2,741,655) were past due but not impaired. These relate to a number of independent customers for whom there is no history of default. The ageing analysis of these trade receivable is as follows:

			Past due but not impaired				
	Total *KD*	*Neither past due nor impaired* *KD*	*< 30 days* *KD*	*30 – 60 days* *KD*	*60 – 90 days* *KD*	*90 – 120 days* *KD*	*More than 120 days* *KD*
31 December 2017	**2,406,474**	-	366,864	163,258	207,231	90,000	1,579,121
31 December 2016	2,741,655	-	878,109	145,951	191,028	81,869	1,444,698

13 SHARE CAPITAL, STATUTORY AND VOLUNTARY RESERVES

(i) Share capital

	2017 *KD*	*2016* *KD*
Authorised, issued and paid up capital consists of 322,000,000 (2015: 322,000,000) shares of 100 fils each, paid in cash.	**32,200,000**	32,200,000

13 SHARE CAPITAL, STATUTORY AND VOLUNTARY RESERVES (continued)

(ii) Statutory reserve

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' remuneration, has to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the share capital.

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

(iii) Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' remuneration is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution at the ordinary general assembly upon a recommendation by the board of directors. There are no restrictions on distribution from voluntary reserve.

14 MATERIAL PARTLY OWNED SUBSIDIARIES

Financial information of subsidiaries that has material non-controlling interest is provided below:

Name	**Country of domicile**	**Non-controlling interest**	
		2017	*2016*
Al Safwa Joint Venture ("Safwa JV")	Kuwait	**60%**	60%
Al Qeblah JV ("Qeblah JV")	Kuwait	**37.89%**	37.89%

	2017	*2016*
	KD	*KD*
Accumulated balance of material non-controlling interest:		
Al Safwa Joint Venture ("Safwa JV")	**5,102,474**	5,833,343
Al Qeblah JV	**(2,562,838)**	(5,083,850)
	2,539,636	749,493
Profit (loss) allocated to material non-controlling interest:		
Al Safwa Joint Venture ("Safwa JV")	**96,397**	740,998
Al Qeblah JV	**2,441,735**	(2,626,183)

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

14 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

Summarised statement of income:

	Qeblah JV		Safwa JV	
	2017	*2016*	*2017*	*2016*
Revenue	**4,910,923**	2,799,666	**2,071,546**	1,966,810
Cost of revenue	**(5,220,212)**	(5,171,787)	**(103,429)**	(98,491)
Other income	**(433,160)**	233,591	**4,863**	1,958
Valuation gain (loss)	**6,337,300**	(3,782,582)	**(877,196)**	(572,261)
Finance costs	**(1,251,519)**	(975,910)	**-**	-
Administrative expenses	**(32,405)**	(34,050)	**(935,388)**	(65,062)
Gain on sale of leasehold property	**2,133,344**	-	**-**	
Profit (loss) for the year	**6,444,271**	(6,931,072)	**160,396**	1,232,954
Total comprehensive income (loss)	**6,444,271**	(6,931,072)	**160,396**	1,232,954
Attributable to non-controlling interests	**2,441,735**	(2,626,183)	**96,397**	740,998

Summarised statement of financial position:

	Qeblah JV		Safwa JV	
	2017	*2016*	*2017*	*2016*
	KD	*KD*	***KD***	*KD*
Investment properties	**-**	-	**7,330,374**	8,337,585
Leasehold property	**44,610,720**	32,899,550	**-**	-
Accounts receivable	**3,405,048**	1,092,071	**-**	-
Other current assets	**145,772**	124,724	**2,491,824**	1,798,925
Total assets	**48,161,540**	34,116,345	**9,822,198**	10,136,510
Accounts payable	**54,925,429**	47,533,737	**1,332,106**	430,353
Total liabilities	**54,925,429**	47,533,737	**1,332,106**	430,353
(Deficit of funds) total equity	**(6,763,889)**	(13,417,392)	**8,490,092**	9,706,157
Attributable				
Equity holders of Parent Company	**(4,201,052)**	(8,333,542)	**3,387,618**	3,872,814
Non-controlling interests	**(2,562,838)**	(5,083,850)	**5,102,474**	5,833,343
	(6,763,890)	(13,417,392)	**8,490,092**	9,706,157

Summarised cash flow information for the year ended 31 December:

	Qeblah JV		Safwa JV	
	2017	*2016*	*2017*	*2016*
	KD	*KD*	***KD***	*KD*
Operating activities	**(571,834)**	(1,130,306)	4,606,094	3,033,578
Investing activities	**(142,597)**	(398,540)	(127,940)	(162,494)
Financing activities	**790,631**	1,536,398	(4,060,000)	(3,710,000)
Net increase (decrease) in cash and cash equivalents	**76,200**	7,552	**418,154**	(838,916)

15 ISLAMIC FINANCE PAYABLES

	2017 *KD*	*2016* *KD*
Murabaha payable – current	**5,707,204**	6,045,205
Ijara payable – current	**1,492,278**	-
Less: deferred finance costs	**(1,798)**	(45,205)
Islamic finance payables - current	**7,197,684**	6,000,000
Ijara payable – non current	**19,928,194**	20,246,096
	27,125,878	26,246,096

The average profit rate attributable to murabaha payables is 5.9% (2016: 5.7%) per annum.

Murabaha payables amounting to KD 5,707,204 (2016: KD 6,045,205) are secured by an investment property with a carrying value of KD 10,550,000 (2016: KD 10,550,000) (Note 8).

Ijara payable represents facility limit amounting to KD 25 million obtained from the Ultimate Parent Company on 4 January 2012 for a period of 5 years starting from the first draw down date and to be automatically and compulsorily renewed till the complete repayment of the financing amount and profits. During the year, the Ijara payable contract matured and has been automatically renewed. The repayment of the Ijara facility is to be made from the net operating cash flows of the Al Qeblah tower. The amount of Ijara repayment to be made in 2018 has been classified as current.

Net movement in Islamic finance payables included in consolidated statements of cash flows under financing activity, includes accrual of interest of KD 1,587,816 (2016: KD 975,910) and KD 77,144 (2016 : KD 11,528) arising from foreign currency translation gain.

16 OBLIGATIONS UNDER FINANCE LEASE

	2017 *KD*	*2016* *KD*
Lease obligations	**16,421,602**	1,779,115
Less: current portion	**(1,289,121)**	(76,737)
Long term obligations under finance lease	**15,132,481**	1,702,378

Obligations under finance lease relates Qeblah tower - KSA and represent the future instalments due for the net present value of minimum lease payments for property interests acquired under finance lease which is classified as leasehold property. The instalments due to be settled within twelve months after the reporting date, are classified under current. The minimum lease payments of gross finance lease obligation are as follows:

	2017 *KD*	*2016* *KD*
2017	-	163,380
2018	**1,289,120**	163,380
2019	**1,289,120**	163,380
2020	**1,289,120**	204,225
Thereafter	**27,071,520**	2,042,250
Total minimum lease payments	**30,938,880**	2,736,615
Less: future finance charges	**(14,517,278)**	(957,500)
Present value of minimum finance lease rental payments	**16,421,602**	1,779,115
Current portion of lease obligations	**(1,289,121)**	(76,737)
Non-current obligations under finance lease	**15,132,481**	1,702,378

16 OBLIGATIONS UNDER FINANCE LEASE (continued)

Changes in obligations under finance lease is as follows:

	2017 *KD*	*2016* *KD*
As at 1 January	**1,779,115**	1,811,228
Additions (Note 8)	**15,693,658**	-
Finance cost	**327,305**	114,338
Repayments	**(1,334,149)**	(161,220)
Net foreign exchange difference	**(44,327)**	14,769
As at 31 December	**16,421,602**	1,779,115

17 ACCOUNTS PAYABLE AND ACCRUALS

	2017 *KD*	*2016* *KD*
Payables to contractors for investment properties and leasehold property	**1,732,843**	1,664,468
Amounts due to related parties (Note 18)	**3,195,490**	13,563,280
Accrued expenses	**794,499**	587,245
Advances from customers	**1,300,921**	1,707,488
Due to leasehold property manager and maintenance contractor	**4,908,511**	4,976,744
Tax provision (Note 6)	**30,444,311**	14,548,428
Provision against payment to a development authority	-	7,281,035
Other payables (Note 30)	**6,156,472**	5,470,964
	48,533,047	49,799,652

Included within accounts payable and accruals is an amount of KD 202,559 (2016: KD 2,365,488) which are expected to be settled after twelve months from reporting date. Accordingly, these liabilities have been classified under non-current.

18 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties including hotel operator. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions with related parties included in the consolidated statement of income are as follows:

	Ultimate Parent Company KD	*Major shareholders KD*	*Associates KD*	*Others KD*	***2017 KD***	*2016 KD*
Management fees	-	-	37,110	364,369	**401,479**	531,568
Finance income	26,572	-	-	-	**26,572**	7,606
Finance costs	(1,251,519)	-	-	-	**(1,251,519)**	(989,717)
Management fees	-	-	-	(300,628)	**(300,628)**	(110,039)
Income from partial disposal of a leasehold property (Note 8(iv))	-	2,133,344	-	-	**2,133,344**	-
Other transactions during the year						
Disposal of leasehold property	-	-	-	-	**-**	2,388,163

Balances with related parties included in the consolidated statement of financial position are as follows:

	Ultimate Parent company KD	*Major shareholders KD*	*Associates KD*	*Others KD*	***2017 KD***	*2016 KD*
Available-for-sale financial assets	-	-	-	3,828,238	**3,828,238**	4,144,431
Financial assets at fair value through statement of income	-	249,590	-	-	**249,590**	185,865
Bank balances and cash	2,308,177	-	-	-	**2,308,177**	2,454,252
Accounts receivable and prepayments	-	-	-	12,193,575	**12,193,575**	4,378,248
Accounts payable and accruals	-	221,585	2,853,250	120,655	**3,195,490**	13,563,280
Islamic finance payables (Note 15)	21,420,471	-	-	-	**21,420,471**	20,246,096

Included within related party receivables and payables are KD 21,573,533 (2016: KD 7,764,957) related to GAZT tax claim allocated to certain Group entities. (Note 6).

18 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel
The remuneration of directors in their capacity as executives and other members of key management during the year is as follows:

	2017 *KD*	*2016* *KD*
Salaries and short term benefits	**735,154**	717,306
Employees' end of service benefits	**43,827**	59,816
	778,981	777,122

The board of directors proposed directors' remuneration of KD 65,000 for the year ended 31 December 2017 (2016: KD Nil). This proposal is subject to approval of shareholders at the annual general meeting.

19 SEGMENTAL INFORMATION

The Group, including associate entities as disclosed in Note 10, are primarily engaged in real estate activities. Geographically, Group's assets are located in GCC predominantly in Kuwait and KSA, as a result, no segment information is provided.

20 COMMITMENTS AND CONTINGENCIES

At 31 December 2017, the Group had no commitments in respect of construction cost (31 December 2016: KD Nil) During the year ended 31 December 2015, the contractor of one of the properties of the Group in KSA has claimed a penalty of SAR 501 million (equivalent to KD 41 million) from the Parent Company for the delay in the execution of the project and various other related costs and the Parent Company has filed a counter claim for an amount of SAR 627 million (equivalent to KD 51 million) on the same contractor for the delay in handing over the project and operational losses. The dispute has been referred to Saudi Arbitration Committee ("SAC") and as on the date of these consolidated financial statements, the trial is in progress and the management of the Parent Company, based on the advice from the legal counsel representing the Parent Company in the aforesaid arbitration, believes that the outcome of the arbitration ruling will be in favour of Parent Company. Accordingly, as at 31 December 2017, the Group has not made any provision against this claim in the consolidated financial statements.

During the year, the expert department has submitted its report to SAC and as at the reporting date the expert's reports are being evaluated by SAC.

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into profit rate risk, foreign currency risk and equity price risk. It is also subject to operational risks. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process.

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

The management of the Parent Company reviews and agrees policies for managing each of these risks which are summarised below.

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. Management of the Parent Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The maximum credit risk is limited to amounts appearing on the consolidated statement of financial position.

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)
The Group has policies and procedures in place to limit the amount of credit exposure to any counterparty.

The Group's maximum credit risk exposures are as follows:

	2017 *KD*	*2016* *KD*
Accounts receivable	**15,344,911**	7,304,181
Wakala receivable	**541,669**	317,353
Bank balances	**4,637,943**	3,854,621
	20,524,523	11,476,155

The Group's exposure to credit risk and impairment losses related to trade and other recievables is disclosed in Note 12.

With repsect to credit risk arsing from the Group's wakala receivable, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of the wakala receivable. Management does not expect any counterparty to fail to meet it's obligations.

Bank balances are placed with financial institutions with appropriate credit ratings.

The Group's credit risk exposure, can be analysed by industry-wise sector as follows:

	2017 *KD*	*2016* *KD*
Industry sector:		
Banks and financial institutions	**5,179,612**	4,171,974
Construction and real estate	**15,344,911**	7,304,181
	20,524,523	11,476,155

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

The table below summarises the maturity profile of the Group's undiscounted financial liabilities as at 31 December based on contractual undiscounted repayment obligations.

2017	***Within 3 months KD***	***3 to 6 months KD***	***6 to 12 months KD***	***Over 1 year KD***	***Total KD***
Obligations under finance lease	-	-	**1,289,120**	**29,649,760**	**30,938,880**
Islamic finance payables	**11,302,546**	-	-	**15,825,130**	**27,127,676**
Accounts payable and accruals*	**399,069**	**895,015**	**14,487,595**	**202,559**	**15,984,238**
TOTAL UNDISCOUNTED LIABILITIES	**11,701,615**	**895,015**	**15,776,715**	**45,677,449**	**74,050,794**

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

2016	*Within 3 months KD*	*3 to 6 months KD*	*6 to 12 Months KD*	*Over 1 year KD*	*Total KD*
Obligations under finance lease	-	-	163,380	2,573,235	2,736,615
Islamic finance payables	6,045,205	-	-	20,246,096	26,291,301
Accounts payable and accruals*	359,164	489,241	18,906,752	2,365,488	22,120,645
TOTAL UNDISCOUNTED LIABILITIES	6,404,369	489,241	19,070,132	25,184,819	51,148,561

* *excluding advance from customers, provisions and accrued expenses.*

Market risk

Market risk is the risk that the value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

Market risk is managed on the basis of pre-determined financial instrument allocations across various asset categories, diversification of financial instruments 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.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to significant profit rate risk as all its Islamic financial instruments are at fixed profit rates.

Currency risk

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

The Group is exposed to currency risk on transactions that are denominated in a currency other than the Parent Company's functional currency, primarily United States Dollars ("USD") and Saudi Riyals ("SAR").

In respect of other monetary assets and liabilities denominated in foreign currency, the Group ensures that its net exposure is kept to an acceptable level.

The Group currently does not use financial derivatives to manage its exposure to currency risk.

The Group had the following significant net exposures denominated in foreign currencies as at 31 December:

	2017 KD	*2016 KD*
SAR	**6,692,162**	**(280,951)**
USD	**3,028,794**	**3,059,398**

The effect on results (due to change in the fair value of monetary assets and liabilities) and on other comprehensive income, as a result of 5% increase in foreign currency rate against KD, is shown below. This analysis assumes that all variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

	Effect on results for the year	
	2017 KD	*2016 KD*
SAR	**334,608**	(14,048)
USD	**151,440**	152,970

A 5% weakening of foreign currencies against the KD would have had the equal but opposite effect, on the basis that all other variables are held constant.

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)
Equity price risk
Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through placing limits on individual and total equity investments.

The effect on Group's results before contribution to KFAS, taxation and directors' remuneration (as a result of a change in the fair value of financial assets carried at fair value through statement of income) due to a 5% increase in market indices, with all other variables held constant is as follows:

	Effect on results for the year	
Market indices	***2017 KD***	*2016 KD*
Kuwait	**21,340**	15,891

22 FAIR VALUE MEASUREMENT

(i) Financial assets

The following table provides the fair value measurement hierarchy of Group's financial assets.

Quantitative disclosures of fair value measurement hierarchy for financial assets as at 31 December 2017:

	Fair value measurement using		
	Total KD	***Quoted prices in active markets (Level 1) KD***	***Significant unobservable inputs (Level 3) KD***
2017			
Available-for-sale financial assets			
Unquoted securities	**3,828,238**	-	3,828,238
Unquoted real estate funds	**1,962,831**	-	1,962,831
Financial assets at fair value through statement of income			
Designated at fair value through statement of income	**249,590**	249,590	-

	Total	*Quoted prices in active markets (Level 1)*	*Significant unobservable inputs (Level 3)*
2016			
Available-for-sale financial assets			
Unquoted securities	4,144,431	-	4,144,431
Unquoted real estate funds	2,140,128	-	2,140,128
Financial assets at fair value through statement of income			
Designated at fair value through statement of income	185,865	185,865	-

The management assessed that the fair values of financial assets and financial liabilities other than those disclosed above approximate their carrying amounts largely due to the short-term maturities of those instruments except for available-for-sale financial assets measured at cost less impairment amounting to KD 409,260 (2016: KD 518,033) for which no reliable fair value measurement is available.

The investment in unquoted equity securities and unquoted managed funds are measured at fair value at the end of each reporting period. Unquoted equity securities are valued based on the net asset value of the investee, using the latest available financial information. The Group has determined that the reported net asset value represents fair value at the end of the reporting period.

22 FAIR VALUE MEASUREMENT (continued)

(i) Financial assets

Unquoted managed funds are recorded at the net asset value reported by the administrators of such funds, where the net asset value reported by the fund managers of investee funds may not represent the amount at which arm's length transaction would occur, a degree of judgement and estimation is required in establishing fair values of the investee funds. This includes consideration of the liquidity status of the counterparty, limitations on redemption and other factors.

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

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2 financial instruments, and no transfers into and out of Level 3 financial instruments.

Reconciliation of fair value measurement of unquoted investments classified as AFS financial assets:

	As at 1 January KD	*Remeasurement recognised in OCI KD*	*Net purchases, (sales and settlements) KD*	*Impairment/ redemptions KD*	*As at 31 December KD*
Available-for-sale financial assets – unquoted investments					
2017	**6,284,559**	**(80,890)**	-	**(412,600)**	**5,791,069**
2016	6,608,468	316,833	-	(640,742)	6,284,559

(i) Non-financial assets

Non-financial assets consists of leasehold property and investment properties. The fair value of the leasehold property and investment properties is categorised under level 3 of the fair value hierarchy. The movement for leasehold property and investment properties is provided in Note 8.

23 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder's value. 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, which is net debt divided by total capital plus net debt. The Group includes within net debt, Islamic finance payables, obligations under finance leases, accounts payable and accruals (excluding unearned revenue), less bank balances and cash as reported in the consolidated statement of financial position. Total capital represents equity attributable to the Parent Company.

	2017 KD	*2016 KD*
Islamic finance payables	**27,125,878**	26,246,096
Obligations under finance leases	**16,421,602**	1,779,115
Accounts payable and accruals	**48,533,047**	46,244,841
Less: Bank balance and cash	**(4,637,943)**	(3,855,621)
Net debt	**87,442,584**	70,414,431
Total capital	**81,282,058**	73,074,457
Capital and debt	168,724,642	143,488,888
Gearing ratio	**52%**	49%

24 PROPOSED DIVIDENDS

On 6 February 2018, the Board of Directors proposed not to distribute cash dividends to the shareholders for the year ended 31 December 2017, subject to approval of the shareholders in the Annual general assembly.

The shareholders in the annual general assembly meeting held on 25 May 2017 resolved not to distribute cash dividends for the year 2016.

25 COMPARATIVE INFORMATION

Certain prior year amounts have been reclassified to conform to current year's presentation. This reclassification pertains to provision for construction cost of leasehold property transferred to other payables amounting to KD 3,554,811, which was adjusted against leasehold property in previous year. The effect of this reclassification is summarized as follows:

Consolidated statement of financial position as at 31 December 2016	*As previously reported* *KD*	*Reclassification* *KD*	*After reclassification* *KD*
Leasehold property	66,029,785	3,554,811	69,584,596
Accounts payable and accruals	46,244,841	3,554,811	49,799,652

This reclassification does not have any effect on the consolidated statement of income, comprehensive income or equity as at 31 December 2016. Such reclassification has been made to improve the quality of information presented.