

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016



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 2016, the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Emphasis of 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 January 2016 for the period up to 31 December 2013. In response to the tax claim, the Parent Company has filed an objection letter with GAZT. Based on the advice from a tax consultant, the management of the Parent Company has estimated and recorded a potential tax liability of KD 14.5 million (2015: KD 12 million) in the consolidated statement of financial position as at 31 December 2016 including the Parent Company's share of KD 6.4 million (2015: KD 5.9 million) relating to this claim as detailed in Note 6. Notwithstanding the above facts, there is a significant material uncertainty as to the outcome of the tax claim. The provision made in the books as at 31 December 2016 represents the best estimate from the management of the Parent Company.

**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 ended 31 December 2015, the contractor of one of the properties of the Group in 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 counter claimed an amount of SAR 627 million (equivalent to KD 51 million) as on 31 December 2016 on the same contractor for the delay in completing the project. The claim is currently under arbitration in the Saudi Arbitration Committee. The management of the Parent Company, based on the advice from an independent legal counsel, believes that the outcome of the arbitration ruling would most probably be in favor of the Parent Company and hence no provision has been made for this claim in the consolidated financial statements as at 31 December 2016.

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 year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

a) Valuation of leasehold property

The leasehold property held by the Group as at 31 December 2016 is utilized as a Hotel that generates revenue from hotel operations. This property is measured to fair value and Note 2 to the consolidated financial statements describes the accounting policy for leasehold property. The fair value of the leasehold property was determined by independent valuers who have experience in the valuation of properties in the relevant location. The fair value was determined based on discounted cash flows model that is highly dependent on estimates and assumptions such as average room rate, revenue per available room, occupancy rate and discount rate. Description of valuation techniques and key inputs to valuation of the leasehold property are disclosed in Note 8 of the consolidated financial statements. Given the significance of leasehold property and the estimate and assumptions used in the valuation, we identified this as a key audit matter.

As part of our audit procedures, we evaluated the objectivity of the valuation process and the independence and expertise of independent 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 uncertainties. Our real estate specialists were part of our audit team for challenging the external valuation, including 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 land in State of Kuwait held for capital appreciation and completed properties held to earn rental income in the Kingdom of Saudi Arabia. These properties are measured at fair value on an individual basis with any gain or loss arising from change in fair value being included in the consolidated statement of income in the period in which it arises. The fair values of investment properties were determined by independent valuers who have expertise in the valuation of properties in the relevant locations. The fair value of the property located in the Kingdom of Saudi Arabia is determined based on discounted cash flows model and the fair value of the property located in the State of Kuwait is based on the reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. Description of valuation techniques and key inputs to valuation of these investment properties are disclosed in Note 8 of the consolidated financial statements. Given the significance of assumptions and estimates used in the valuation and the significance of investment properties on overall consolidated financial statements, we identified this as a key audit matter.

As part of our audit procedures, among others, we evaluated the objectivity of the valuation process and the independence and expertise of independent 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 uncertainties. Our real estate specialists were part of our audit team for challenging the external valuation, including the assumptions and estimates used as noted above.

c) Investment in associates

The investment in associates are accounted for under the equity method of accounting. The management assesses the need to recognize an impairment based on the comparison of the recoverable value of the associates to their carrying values in the books. 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 done, by independent valuers who have experience in the valuation of properties in the relevant location 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 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.

**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)

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, evaluating the objectivity of the valuation process and the independence and expertise of independent 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 uncertainties. Our real estate specialists were part of our audit team for challenging the external valuation, including the assumptions and estimates used. The details on carrying value of investment in associates and the net assets of the associates are disclosed 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 2016 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 auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



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, and its executive regulations 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 and its executive regulations nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Parent Company or on its financial position.

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

DR. SAUD HAMAD AL-HUMAI
LICENSE NO. 51 A
DR. SAUD HAMAD AL-HUMAI
& PARTNERS
MEMBER OF BAKER TILLY
INTERNATIONAL

22 March 2017
Kuwait

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Operating revenue	3	5,583,780	-
Operating cost	3	(9,581,661)	-
Gross loss		(3,997,881)	-
Income			
Management fees	18	531,568	692,938
Net income from investment properties	8	2,392,882	970,506
Net loss from change in fair value of trading property		(10,444)	-
Net income from sale of sukouk		464,990	921,620
Gain (loss) on sale of financial assets available for sale		26,000	(3,824)
Other operating costs		-	(444,791)
Gain from extinguishment of financial liabilities	9	-	3,752,978
Unrealised loss from financial asset at fair value through statement of income		(58,312)	(55,888)
Finance income		10,799	55,097
Dividend income		242,407	517,257
Other income		505,822	1,371,252
Share of results of associates	10	66,731	1,211,148
Foreign exchange gain		300,060	592,521
		4,472,503	9,580,814
Expenses			
General and administrative expenses	4	(3,131,580)	(3,654,826)
Depreciation		(36,980)	(66,984)
Finance costs	15	(1,887,468)	(728,812)
Impairment loss on leasehold property	8	(4,564,097)	(3,273,450)
Impairment loss on financial assets available for sale	11	(181,381)	(283,290)
Write back of provisions no longer required	8	-	5,974,627
Net write back of impairment loss on accounts receivable	12	-	180,557
Net loss on business combination	5	-	(2,026,841)
		(9,801,506)	(3,879,019)
(Loss) profit for the year before taxation		(9,326,884)	5,701,795
Taxation	6	(541,596)	(5,538,444)
(Loss) profit for the year		(9,868,480)	163,351
Attributable to			
Equity holders of the Parent Company		(7,983,295)	960,731
Non-controlling interests		(1,885,185)	(797,380)
(Loss) profit for the year		(9,868,480)	163,351
Basic and diluted (loss) earnings per share attributable to the equity holders of the Parent Company	7	(25) fils	3 fils

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 KD	2015 KD
(Loss) profit for the year		(9,868,480)	163,351
Other comprehensive income (loss)			
<i>Other comprehensive income (loss) for the year that are (or) to be reclassified to consolidated statement of income in subsequent periods</i>			
Net change in fair value of financial assets available for sale		356,752	187,221
Share of other comprehensive income of an associate		14,219	34,688
Exchange difference on translation of foreign operations		(627,890)	109,874
Other comprehensive (loss) income for the year that are (or) to be reclassified to consolidated statement of income in subsequent periods		(256,919)	331,783
<i>Other comprehensive income for the year not to be reclassified to consolidated statement of income in subsequent periods</i>			
Change in the fair value of prepaid operating lease	9	(388,050)	1,207,830
Share of revaluation reserve from an associate		708,226	(5,101)
Other comprehensive income for the year not to be reclassified to consolidated statement of income in subsequent periods		320,176	1,202,729
Total other comprehensive income for the year		63,257	1,534,512
Total comprehensive (loss) income for the year		(9,805,223)	1,697,863
Attributable to:			
Equity holders of the Parent Company		(7,419,657)	2,468,875
Non-controlling interests		(2,385,566)	(771,012)
		(9,805,223)	1,697,863

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 KD	2015 KD
ASSETS			
Non-current assets			
Furniture and computers		67,999	81,662
Leasehold property	8	66,029,785	76,225,925
Investment properties	8	18,887,585	19,385,725
Prepaid operating lease	9	2,042,250	2,430,300
Investment in associates	10	39,734,702	43,159,298
Financial assets available for sale	11	6,802,592	7,173,083
		<u>133,564,913</u>	<u>148,455,993</u>
Current assets			
Financial asset at fair value through statement of income		185,865	244,177
Accounts receivable and prepayments	12	9,733,229	8,129,743
Trading properties		519,926	545,902
Inventories		891,305	678,392
Wakala receivable		317,353	-
Bank balances and cash		3,855,621	10,523,839
		<u>15,503,299</u>	<u>20,122,053</u>
TOTAL ASSETS		<u>149,068,212</u>	<u>168,578,046</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	13	32,200,000	32,200,000
Share premium		12,400,000	12,400,000
Statutory reserve	13	11,216,178	11,216,178
Voluntary reserve	13	6,789,172	6,789,172
Cumulative changes in fair value		1,413,826	1,042,855
Revaluation reserve		2,756,340	2,532,504
Foreign currency translation reserve		(309,202)	(181,693)
Retained earnings		6,608,143	14,495,098
Equity attributable to equity holders of the Parent Company		<u>73,074,457</u>	<u>80,494,114</u>
Non-controlling interests	14	749,493	3,135,059
Total equity		<u>73,823,950</u>	<u>83,629,173</u>
Liabilities			
Non-current liabilities			
Employees' end of service benefits		974,210	810,171
Islamic finance payables	15	20,246,096	19,243,259
Obligations under finance leases	16	1,702,378	1,730,184
Accounts payable and accruals	17	2,365,488	647,513
		<u>25,288,172</u>	<u>22,431,127</u>
Current liabilities			
Islamic finance payables	15	6,000,000	6,884,930
Obligations under finance leases	16	76,737	81,044
Accounts payable and accruals	17	43,879,353	55,551,772
		<u>49,956,090</u>	<u>62,517,746</u>
Total liabilities		<u>75,244,262</u>	<u>84,948,873</u>
TOTAL EQUITY AND LIABILITIES		<u>149,068,212</u>	<u>168,578,046</u>

Emad Yousef Al Monayea
Chairman

Abdulaziz Ahmad Yousef Alsaqer
Chief Executive Officer

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Equity attributable to shareholders of the Parent Company

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Cumulative change in fair values 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 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)	96,340	-	-	-
Transfers	-	-	-	-	-	(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
As at 1 January 2015	32,200,000	12,400,000	11,169,484	6,742,478	820,946	1,329,775	(265,199)	15,237,755	79,635,239	5,713,713	85,348,952
Profit (loss) for the year	-	-	-	-	-	-	-	960,731	960,731	(797,380)	163,351
Other comprehensive income for the year	-	-	-	-	221,909	1,202,729	83,506	-	1,508,144	26,368	1,534,512
Total comprehensive income (loss) for the year	-	-	-	-	221,909	1,202,729	83,506	960,731	2,468,875	(771,012)	1,697,863
Arising from acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	(1,241,830)	(1,241,830)
Dividends (Note 13)	-	-	-	-	-	-	-	(1,610,000)	(1,610,000)	-	(1,610,000)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(565,812)	(565,812)
Transfer to reserves	-	-	46,694	46,694	-	-	-	(93,388)	-	-	-
As at 31 December 2015	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

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

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

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
OPERATING ACTIVITIES			
(Loss) profit for the year before taxation		(9,326,884)	5,701,795
Adjustments to reconcile loss (profit) for the year to net cash flows:			
Amortisation of leasehold property	3	3,982,625	-
Change in fair values of investment properties	8	582,705	1,064,357
Impairment loss on leasehold property	8	4,564,097	3,273,450
(Gain) loss on sale of financial assets available for sale		(26,000)	3,824
Gain from extinguishment of financial liabilities	9	-	(3,752,978)
Unrealised loss from financial asset at fair value through statement of income		58,312	55,888
Finance income		(10,799)	(55,097)
Dividend income		(242,407)	(517,257)
Share of results of associates	10	(66,731)	(1,211,148)
Depreciation		36,980	66,984
Finance costs		1,887,468	728,812
Impairment loss on financial assets available for sale	11	181,381	283,290
Write back of provisions no longer required	8	-	(5,974,627)
Write back of impairment loss on accounts receivable	12	-	(180,557)
Net loss on business combination	5	-	2,026,841
Foreign exchange gain		(300,060)	(592,521)
Provision for employees' end of service benefits		164,039	184,665
		1,484,726	1,105,721
Working capital changes:			
Accounts receivable and prepayments		(10,857,787)	26,821,361
Trading properties		25,976	(545,902)
Inventories		(212,913)	1,412,390
Accounts payable and accruals		(10,109,729)	(27,699,204)
Cash flows (used in) from operations		(19,669,727)	1,094,366
Employees' end of service benefits paid		-	(31,907)
Net cash flows (used in) from operating activities		(19,669,727)	1,062,459
INVESTING ACTIVITIES			
Purchase of furniture and computers		(23,317)	(37,170)
Additions to leasehold property		(501,575)	(3,951,394)
Proceeds from sale of financial assets available for sale		72,580	218,617
Proceeds from capital redemption of a financial assets available for sale		494,067	-
Investment in wakala receivables		(317,352)	-
Proceeds from capital redemption of an associate		10,297,608	-
Dividends received from an associate		2,310,786	-
Acquisition of a subsidiary		-	196,513
Dividend income received		611,733	147,932
Finance income received		10,799	55,097
Net cash flows from (used in) from investing activities		12,955,329	(3,370,405)
FINANCING ACTIVITIES			
Additional Islamic financing		117,907	5,064,770
Finance cost paid		(315,945)	(287,671)
Dividend paid		-	(2,175,812)
Net cash flows (used in) from financing activities		(198,038)	2,601,287
Foreign currency translation adjustment		244,218	391,028
(DECREASE) INCREASE IN BANK BALANCES AND CASH		(6,668,218)	684,369
Bank balances and cash at 1 January		10,523,839	9,839,470
BANK BALANCES AND CASH AT 31 DECEMBER		3,855,621	10,523,839

The attached notes 1 to 23 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 and is listed on the Kuwait Stock Exchange. 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 St., Kuwait City Kuwait. The Parent Company carries out its activities as per 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 with Central Bank of Kuwait and its shares are listed on the Kuwait Stock Exchange.

The consolidated financial statements of the Parent Company and its subsidiaries (collectively "the Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 16 March 2017 and are issued subject to the approval of the Ordinary General Assembly of the shareholders' of the Parent Company. The Ordinary General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

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

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 financial surpluses available for the Parent Company by investing the same in financial portfolios managed by competent companies and entities.

The new Companies Law No. 1 of 2016 issued on 24 January 2016 and published in the Official Gazette on 1 February 2016 cancelled the Companies Law No. 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 November 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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").

Measurement basis

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, financial assets available for sale 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.

Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of the following amendments to the existing standards relevant to the Group, effective as of 1 January 2016.

Amendments to IAS 16 and IAS 38 : Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of income and other comprehensive income. These amendments do not have any impact on the consolidated financial statements of the Group.

Annual Improvements 2012-2014 Cycle

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This amendment did not have any impact on the consolidated financial statements of the Group.

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New and revised IASB Standards, 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:

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

IFRS 15 – Revenue from Contracts with customers

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 does not anticipate early adopting IFRS 15 and is currently evaluating its impact on the Group and do not expect significant impact on adoption of this standard.

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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**Basis of consolidation (consolidation)**

The subsidiaries of the Group are as follows:

Name of the company	Country of Incorporation/ formation	Effective equity interest as at		Principal activities
		31 December 2016	2015	
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 Qebalah 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%	99.5%	Real estate projects management
First MAS International Tours	Egypt	100%	99%	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. Hence, Safwa JV has been consolidated in the Group.

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

2 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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	over 3 to 5 years
Computers	over 3 to 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 valuers 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 valuers 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.

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 financial assets available for sale. 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 financial assets available for sale.

Subsequent measurement

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Subsequent measurement (continued)

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.

Financial assets available for sale

Financial assets available for sale 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, financial assets available for sale 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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.

Financial assets available for sale

For financial assets available for sale, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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.

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As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

With respect to its national employees, the Group makes contributions to social security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Transactions and balances (continued)

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.

Significant accounting judgments, 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 financial assets available for sale 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions

Judgments (continued)

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 financial assets available for sale

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.

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 valuers 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 2016. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

3 OPERATING REVENUE AND COST

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Operating revenue		
Hotel revenue	5,583,780	-
Operating cost		
Hotel operating cost	(5,599,036)	-
Amortisation of leasehold property	(3,982,625)	-
	(9,581,661)	-

4 GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses include staff costs of KD 2,014,248 (2015: KD 2,376,368), and include an amount of KD Nil (2015:729,754) representing the pre-operating expenses relating to Al Qebalah Tower.

5 BUSINESS COMBINATION

During the prior year, the Parent Company acquired additional equity interest in Al Qebalah JV (previously accounted as an investment in associate) for a cash consideration of USD 22,500,000 (equivalent to KD 6,808,050) resulting in the increase of its equity interest from 37.11% to 62.11%. As a result, the entity has become subsidiary of the Group and has been consolidated from the date of exercise of control.

The business combination of Al Qebalah JV was achieved in stages and accordingly, the Group recognized a net loss on business combination of KD 2,026,841 in the consolidated statement of income as follows:

	KD
Loss on acquisition	(8,843,681)
Loss on remeasurement of previously held equity interest	(2,466,009)
Gain on settlement of pre-existing transaction between the Group and the acquiree	9,282,849
Net loss on business combination	(2,026,841)

6 CONTRIBUTION TO KFAS AND TAXATION

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Contribution to KFAS	-	59,432
Zakat	-	80,200
National Labour Support Tax (NLST)	-	163,952
Overseas taxation *	541,596	5,234,860
	541,596	5,538,444

* 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"), Kingdom of Saudi Arabia, including the assessment on the Parent Company for the years 2003 to 2013 and claimed Capital gains tax, corporate income tax, withholding tax and penalties ("tax claim"). In addition, 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, Bakkah, Mehrab and Dar Al Qebalah towers in the Kingdom of Saudi Arabia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

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 the Kingdom of Saudi Arabia, 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.

Further, the management of the Parent Company has appointed a tax consultant in the Kingdom of Saudi Arabia to review the tax claim and file an objection letter with GAZT. Accordingly, the tax consultant has 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 Bakkah and Mehrab 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 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 2016 of KD 14,548,428 (2015: KD 12,004,980), representing Zakat, withholding tax and applicable penalties. The above tax liability includes KD 11,795,357 calculated by tax consultant up to 2014 and KD 2,753,071 computed for the years 2015 and 2016 by the management of the Parent Company using the same basis of computation used by the tax consultant to estimate the tax liability for the years up to 2014. The potential tax liability includes the Parent Company's share of KD 6.4 million (2015: KD 5.9 million). The Group charged KD 541,596 in the consolidated statement of income for the year ended 31 December 2016 (2015: KD 5,234,860) including an amount of KD 86,071 (2015: KD 130,310) arising on consolidation from two of the subsidiaries. The balance KD 2,001,852 (2015: KD 5,796,845) 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 2016 represents the best estimate of the tax liability that may arise from the tax claim.

7 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earnings per share attributable to the equity holders of the Parent Company are calculated by dividing the (loss) profit 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:

	2016	2015
(Loss) profit for the year attributable to the equity holders of the Parent Company (KD)	<u>(7,983,295)</u>	<u>960,731</u>
Weighted average number of ordinary shares outstanding during the year (shares)	<u>322,000,000</u>	<u>322,000,000</u>
Basic and diluted (loss) earnings per share attributable to the equity holders of the Parent Company	<u>(25) fils</u>	<u>3 fils</u>

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

8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES**a. Leasehold property**

Leasehold property represents "Qeblah Tower", a property located in the Kingdom of Saudi Arabia and is operating as hotel through an agreement with an internationally reputed hotel operator.

The movement in leasehold property is as follows:

	2016 KD	2015 KD
As at 1 January	76,225,925	27,725,115
Arising on business combination	-	41,620,292
Impairment loss	(4,564,097)	(3,273,450)
Amortisation	(3,982,625)	-
Additions	501,575	10,194,449
Disposal (Note 18)	(2,388,163)	-
Other movement	237,170	(40,481)
As at 31 December	<u>66,029,785</u>	<u>76,225,925</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)**a. Leasehold property (continued)**

Based on the fair valuation of Qebalah Tower, the Group recorded an impairment loss of KD 4,564,097 (2015:KD 3,273,450) in the consolidated statement of income under "impairment loss on leasehold property".

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 13.25 years (2015:14.25 years).

During the year ended 31 December 2015, the Group reversed the estimated cost provision of KD 5,041,157 made in prior years, on this property, to the consolidated statement of income under 'write back of provision no longer required' as the project was substantially completed as at 31 December 2015 and no significant additional costs were expected to be incurred until the start of the commercial operations in February 2016.

b. Investment properties

The movement in investment properties is as follows:

	2016 KD	2015 KD
As at 1 January	19,385,725	20,125,103
Change in fair values	(572,261)	(1,064,357)
Other movements	74,121	324,979
As at 31 December	<u>18,887,585</u>	<u>19,385,725</u>

The changes in fair values for the current year relating to properties located in the Kingdom of Saudi Arabia are 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 change in fair value for the current year relating to property located in the State of Kuwait is based on external valuations by accredited independent valuers. The 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.

Investment properties with a carrying value of KD 10,550,000 (2015: KD 10,550,000) are mortgaged against certain Islamic finance payables (Note 15).

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

	2016 KD	2015 KD
Change in fair values of investment properties	(572,261)	(1,064,357)
Net rental income	<u>2,965,143</u>	<u>2,034,863</u>
	<u>2,392,882</u>	<u>970,506</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)**b. Investment properties (continued)**

Description of valuation techniques used and key inputs to valuation of leasehold property and investment properties:

Type of property	Valuation technique	Significant unobservable inputs	2016	Range	2015
a. Leasehold property					
Qeblah Tower Kingdom of Saudi Arabia					
• Hotel	Discounted Cash Flow method ("DCF")	Estimated Average room rate in Saudi Riyals (SAR) Long term RevPAR growth*	562 -843		620-880
		Occupancy rate	3.5%-10.5%		2.4%-16.9%
		Discount rate	66% - 71%		61% - 71%
		Inflation rate	11.5%		12%
		Gross operating profit	3.5%		3.5%
• Shopping center	Discounted Cash Flow method ("DCF")	Estimated yearly rent in SAR per square metre	38% - 70%		49% - 77%
		Occupancy rate	6,500		6,500
		Discount rate	65%-95%		65%-95%
			11.65%		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 4,300
Bakkah Tower, Kingdom of Saudi Arabia	Discounted Cash Flow method ("DCF")	The fair value is determined based on discounted cash flow method, using contractually fixed cash flows and discount rate of 13% (2015:13%).			

*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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)**b. Investment properties (continued)**

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 rent growth per annum and discount rate (and exit yield)
- An opposite change in the long term vacancy rate.

Quantitative disclosures of fair value measurement hierarchy for leasehold property and investment properties as at 31 December 2016 are as follows:

	Fair Value Measurement using	
	<i>Total</i> <i>KD</i>	<i>Significant unobservable inputs (Level 3)</i> <i>KD</i>
2016		
Leasehold property		
Kingdom of Saudi Arabia	66,029,785	66,029,785
Investment properties		
State of Kuwait	10,550,000	10,550,000
Kingdom of Saudi Arabia	8,337,585	8,337,585
2015		
Leasehold property		
Kingdom of Saudi Arabia	76,225,925	76,225,925
Investment properties		
State of Kuwait	10,550,000	10,550,000
Kingdom of Saudi Arabia	8,835,725	8,835,725

9 GAIN FROM EXTINGUISHMENT OF FINANCIAL LIABILITIES AND PREPAID OPERATING LEASE

The Parent Company had signed a settlement agreement with the developer of Zamzam Tower and upon the payment of final instalment during the year ended 31 December 2015, the Parent Company recorded a gain of KD 3,752,978 in the consolidated statement of income for the year ended 31 December 2015.

In addition to the above, during the year ended 31 December 2014, the developer had also agreed to restate the start date of the leasehold property, resulting in additional operating cash flows from the leasehold property for a period of 5 months starting 1 October 2029 to 28 February 2030. As a result, the Parent Company had recorded an amount of KD 1,222,470 representing the present value of the fair value of the additional lease period of 5 months as "Prepaid operating lease" in the consolidated statement of financial position.

During the current year, the Parent Company has done the fair valuation of prepaid operating lease and recorded a decline of KD 388,050 (2015: increase of KD 1,207,830) with corresponding effect in revaluation reserve in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

10 INVESTMENT IN ASSOCIATES

	<i>Country of domicile</i>	<i>Percentage of ownership</i>		<i>Carrying values</i>	
		<i>2016</i>	<i>2015</i>	<i>2016 KD</i>	<i>2015 KD</i>
The Zamzam 2013 JV ("Zamzam")	Kuwait	36.69%	36.69%	35,452,687	38,947,837
Athman Al Khalijya Company W.L.L. ("Athman")	Kuwait	32.60%	32.60%	4,282,015	4,211,461
				39,734,702	43,159,298

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

	<i>2016 KD</i>	<i>2015 KD</i>
As at 1 January	43,159,298	53,156,614
Transfer as subsidiary (Note 5)	-	(2,466,009)
Capital redemption	(3,723,419)	(6,574,189)
Share of results	66,731	1,211,148
Share of other comprehensive income	14,219	34,688
Share of revaluation reserve	708,226	(5,101)
Dividends	(495,567)	(2,310,786)
Exchange difference on translation of foreign operations	5,214	112,933
As at 31 December	39,734,702	43,159,298

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

10 INVESTMENT IN ASSOCIATES (continued)

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

	Zanzam		Athman		Total	
	2016	2015	2016	2015	2016	2015
	KD	KD	KD	KD	KD	KD
Non-current assets	113,794,170	120,218,840	13,041,613	12,825,127	126,835,783	133,043,967
Current assets	28,344,004	30,040,209	1,632,717	97,074	29,976,721	30,137,283
Current liabilities	(26,729,938)	(25,325,167)	(1,537,911)	(2,230)	(28,267,849)	(25,327,397)
Equity	115,408,236	124,933,882	13,136,419	12,919,971	128,544,655	137,853,853
Proportion of the Group's ownership	36.69%	36.69%	32.60%	32.60%	-	-
Group's share in the equity	42,345,590	45,840,740	4,282,015	4,211,461	46,627,605	50,052,201
Revenues	22,477,041	23,675,042	1,708,850	2,108,473	24,185,891	25,783,515
Cost of revenue	(13,540,593)	(10,717,738)	-	-	(13,540,593)	(10,717,738)
Amortisation and/or impairment	(8,743,188)	(8,346,723)	-	-	(8,743,188)	(8,346,723)
General and administrative expenses	(1,515,543)	(3,161,525)	(15,715)	(24,017)	(1,531,258)	(3,185,542)
(Loss) profit for the year	(1,322,283)	1,449,056	1,693,135	2,084,456	370,852	3,533,512
Net share of results					66,731	1,211,148

The carrying value of Zanzam is net of KD 6,892,903 (2015: KD 6,892,903) arising from a downstream transaction in prior years.

As at 31 December 2016, the associates have no contingent liabilities or capital commitments (2015: Nil).

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11 FINANCIAL ASSETS AVAILABLE FOR SALE

	2016 KD	2015 KD
Unquoted securities	4,662,464	4,743,402
Unquoted real estate funds	2,140,128	2,429,681
	<u>6,802,592</u>	<u>7,173,083</u>

Unquoted securities include investments amounting to KD 518,033 (2015: KD 564,615) that are carried at cost less impairment, 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 181,381 (2015: KD 283,290) against unquoted real estate fund 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

	2016 KD	2015 KD
Trade accounts receivable	2,741,655	2,540,352
Amounts due from related parties (Note 18)	4,378,248	3,101,684
Advances to contractors	2,302,557	2,279,667
Prepaid expenses	126,491	122,650
Other receivables	184,278	85,390
	<u>9,733,229</u>	<u>8,129,743</u>

As at 31 December 2016, trade accounts receivables of KD 4,664,761 (2015: KD 4,664,761) were impaired and fully provided. It is not the Group's policy to obtain collateral over receivables.

Movement in the allowance for impairment of trade receivables is as follows:

	2016 KD	2015 KD
Opening balance	4,664,761	13,013,989
Write back of impairment loss during the year	-	(180,557)
Reversed on acquisition of Al Qebalah JV	-	(8,168,671)
Closing balance	<u>4,664,761</u>	<u>4,664,761</u>

The analysis of unimpaired trade accounts receivables is as follows:

	Total KD	Neither past due nor impaired KD	Past due but not impaired				
			< 30 days KD	30 – 60 days KD	60 – 90 days KD	90 – 120 days KD	More than 120 days KD
31 December 2016	2,741,655	-	878,109	145,951	191,028	81,869	1,444,698
31 December 2015	2,540,352	-	762,106	127,018	203,228	228,632	1,219,368

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As at 31 December 2016

13 SHARE CAPITAL, STATUTORY AND VOLUNTARY RESERVES

	2016 KD	2015 KD
Authorised, issued and paid up capital consists of 322,000,000 (2014: 322,000,000) shares of 100 fils each, paid in cash.	<u>32,200,000</u>	<u>32,200,000</u>

The board of directors has not recommended any cash dividend (2015: nil) for the financial year ended 31 December 2016 which is subject to approval of the Annual General Meeting ("AGM") of the shareholders. The AGM held on 26 May 2016 approved nil dividends for the year ended 31 December 2015.

On 23 February 2015, the annual general assembly approved the distribution of cash dividend of 5 fils per share for the year ended 31 December 2014 to the Parent Company's shareholders on record at the date of general assembly.

Statutory Reserves

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. No transfer has been made during the year as the Parent Company incurred losses during the year.

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.

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. No transfer has been made during the year as the Parent Company incurred losses during the year

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	
		2016	2015
Al Safwa Joint Venture ("Safwa JV")	Kuwait	60%	60%
Al Qebalah JV ("Qebalah JV")	Kuwait	37.89%	37.89%
		2016 KD	2015 KD
Accumulated balance of material non-controlling interest:			
Al Safwa Joint Venture ("Safwa JV")		5,833,342	5,572,280
Al Qebalah JV		(5,083,850)	(2,437,221)
Profit (loss) allocated to material non-controlling interest:			
Al Safwa Joint Venture ("Safwa JV")		740,998	392,265
Al Qebalah JV		(2,626,183)	(1,189,645)

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

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As at 31 December 2016

14 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

Summarised statement of income:

	Qeblah JV		Safwa JV	
	2016	2015	2016	2015
	KD	KD	KD	KD
Revenue	2,799,666	-	1,966,810	1,419,149
Cost of revenue	(5,171,787)	-	(98,491)	(228,589)
Other income	233,591	541,118	1,958	2,212
Loss from change in fair values	(3,782,582)	(2,947,638)	(572,261)	(405,357)
Finance Cost	(975,910)	-	-	-
Administrative expenses	(34,050)	(733,215)	(65,062)	(134,721)
(Loss) profit for the year	(6,931,072)	(3,139,735)	1,232,954	652,694
Total comprehensive (loss) income	(6,931,072)	(3,139,735)	1,232,954	652,694
Attributable to non-controlling interests	(2,626,183)	(1,189,645)	740,998	392,265

Summarised statement of financial position:

	Qeblah JV		Safwa JV	
	2016	2015	2016	2015
	KD	KD	KD	KD
Investment properties	-	-	8,337,585	8,835,726
Leasehold property	32,899,550	41,620,292	-	-
Other non-current assets	-	-	-	-
Accounts receivable	1,092,071	568,276	-	-
Other current assets	124,724	116,196	1,798,925	1,278,517
Total assets	34,116,345	42,304,764	10,136,510	10,114,243
Accounts payable	47,533,737	48,737,124	430,353	842,469
Total liabilities	47,533,737	48,737,124	430,353	842,469
(Deficit of funds) total equity	(13,417,392)	(6,432,360)	9,706,157	9,271,774
Attributable				
Equity holders of Parent Company	(8,333,542)	(3,995,139)	3,872,815	3,699,494
Non-controlling interests	(5,083,850)	(2,437,221)	5,833,342	5,572,280
	(13,417,392)	(6,432,360)	9,706,157	9,271,774

Summarised cash flow information for the year ended 31 December:

	Qeblah JV		Safwa JV	
	2016	2015	2016	2015
	KD	KD	KD	KD
Operating activities	(1,130,306)	(17,449,110)	3,033,578	5,486,656
Investing activities	(398,540)	-	(162,494)	(844,700)
Financing activities	1,536,398	17,181,900	(3,710,000)	(1,530,000)
Net increase (decrease) in cash and cash equivalents	7,552	(267,210)	(838,916)	3,111,956

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15 ISLAMIC FINANCE PAYABLES

	2016 KD	2015 KD
Murabaha payable – current	6,045,205	6,914,798
Less: deferred profit payable	(45,205)	(29,868)
	<u>6,000,000</u>	<u>6,884,930</u>
Ijara payable – non current	20,246,096	20,148,349
Less: deferred profit payable	-	(905,090)
	<u>26,246,096</u>	<u>26,128,189</u>

The average profit rate attributable to Murabaha payables is 5.7% (2015: 5.7%) per annum. Murabaha payables amounting to KD Nil (2015: KD 884,930) are with related parties (Note 18).

Murabaha payables amounting to KD 6,045,205 (2015: KD 6,011,507) are secured by an investment property with a carrying value of KD 10,550,000 (2015: KD 10,550,000) (Note 8).

Ijara payable represents facility limit amounting to KD 25 million taken from the Ultimate Parent Company for a period of 5 years. However, it will be automatically and compulsorily renewed till the payment of the financing amount and profit.

16 OBLIGATIONS UNDER FINANCE LEASE

	2016 KD	2015 KD
Lease obligations	1,779,115	1,811,228
Less: current portion	(76,737)	(81,044)
Long term obligations under finance lease	<u>1,702,378</u>	<u>1,730,184</u>

Obligations under finance lease relate to project at Al-Madina Al-Monawara 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 within twelve months from the financial position date are shown under current liabilities. The minimum lease payments are as follows:

	2016 KD	2015 KD
2016	-	162,020
2017	163,380	162,020
2018	163,380	162,020
2019	163,380	162,020
Thereafter	2,246,475	2,227,775
Total minimum lease payments	<u>2,736,615</u>	<u>2,875,855</u>
Less: estimated lease amount representing finance charges relating to future years	(957,500)	(1,064,627)
Present value of minimum finance lease rental payments	1,779,115	1,811,228
Current portion of lease obligations	(76,737)	(81,044)
Non-current portion of lease obligations	<u>1,702,378</u>	<u>1,730,184</u>
Lease Obligation	1,779,115	1,811,228
Current portion	(76,737)	(81,044)
Long term obligation	<u>1,702,378</u>	<u>1,730,184</u>

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As at 31 December 2016

17 ACCOUNTS PAYABLE AND ACCRUALS

	2016 KD	2015 KD
Payables to contractors for investment properties and leasehold property	1,664,468	2,021,050
Amounts due to related parties (Note 18)	13,563,280	19,105,299
Accrued expenses	587,245	800,218
Advances from customers	1,707,488	2,761,913
Due to leasehold property manager and maintenance contractor	4,976,744	9,461,860
Tax Provision (Note 6)	14,548,428	12,004,980
Provision against payment to a development authority	7,281,035	6,822,096
Payable towards acquisition of a subsidiary	-	2,051,865
Other payables	1,916,153	1,170,004
	<u>46,244,841</u>	<u>56,199,285</u>

Included in accounts payable and accruals is an amount of KD 2,365,488 (2015: KD 647,513) which is due after one year from the financial position date and accordingly it is classified as non-current accounts payable.

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

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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	Intermediate Parent Company KD	Major shareholders KD	Associates KD	Others KD	2016 KD	2015 KD
Management fees	-	-	-	190,279	341,289	531,568	692,938
Finance income	7,606	-	-	-	-	7,606	8,624
Finance costs	(964,382)	(25,335)	-	-	-	(989,717)	(312,284)
Other income	-	-	-	-	-	-	851,306
Income from investment properties and leasehold property	-	-	-	-	-	-	110,133
Other transactions during the year							
Disposal of leasehold property	-	-	2,388,163	-	-	2,388,163	-
Transfer of equity interest in an associate on acquisition of Qeblah JV	-	-	-	-	-	-	74,237
Write back of receivable provision on acquisition of Qeblah JV (Note 5)	-	-	-	-	-	-	9,282,849

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

	Ultimate Parent Company KD	Intermediate Parent Company KD	Major shareholders KD	Associates KD	Others KD	2016 KD	2015 KD
Financial assets available for sale	-	-	-	-	4,144,431	4,144,431	4,178,787
Financial assets at fair value through statement of income	-	-	185,865	-	-	185,865	244,177
Bank balances and cash	2,454,252	-	-	-	-	2,454,252	3,066,285
Accounts receivable and prepayments	-	-	-	495,567	3,882,681	4,378,248	3,101,684
Accounts payable and accruals	-	-	2,384,515	11,170,802	7,963	13,563,280	19,105,299
Islamic finance payables (Note 15)	20,246,096	-	-	-	-	20,246,096	20,128,189

The related party receivable and payable balances includes KD 7,764,957 that represents the amount receivable from affiliate entities on account of the GAZT tax claim (2015: KD 5,796,845) (Note 6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

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:

	2016 KD	2015 KD
Salaries and short term benefits	717,306	746,285
Employees' end of service benefits	59,816	71,699
	<u>777,122</u>	<u>817,984</u>

The board of directors has recommended directors remuneration of KD Nil (2015: KD Nil).

19 SEGMENTAL INFORMATION**Primary segment information**

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

- Real estate : Purchase, sale, development, renting, hotel operations and managing of properties.
Investment : Managing portfolio of investments.

The management monitors the operating results of its business units separately for the purpose making decision about resource allocation and performance assessment.

Segment performance is evaluated based on income (loss) for real estate segment and return on investment for investment segment.

2016	Real estate & property management KD	Investment KD	Others KD	Total KD
Segment revenues	8,962,776	210,095	516,621	9,689,492
Segment results	(3,629,421)	28,714	(2,314,899)	(5,915,606)
Share of results of associates	-	66,731	-	66,731
Depreciation	(36,980)	-	-	(36,980)
Amortisation of leasehold property	(3,982,625)	-	-	(3,982,625)
Loss (profit) for the year	<u>(7,649,026)</u>	<u>95,445</u>	<u>(2,314,899)</u>	<u>(9,868,480)</u>
Assets and liabilities				
Segment assets	97,104,141	7,305,810	4,923,559	109,333,510
Investment in associates (Note 10)	-	39,734,702	-	39,734,702
Total assets	<u>97,104,141</u>	<u>47,040,512</u>	<u>4,923,559</u>	<u>149,068,212</u>
Total liabilities	<u>71,332,380</u>	<u>-</u>	<u>3,911,882</u>	<u>75,244,262</u>

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19 SEGMENTAL INFORMATION (continued)

2015	Real estate & property management KD	Investment KD	Others KD	Total KD
Segment revenues	(404,365)	1,723,790	1,371,252	2,690,677
Segment results	(12,972,869)	2,539,483	1,371,252	(9,062,134)
Share of results of associates	-	1,211,148	-	1,211,148
Depreciation	(66,984)	-	-	(66,984)
Write back of provisions no longer required	6,174,627	-	-	6,174,627
Write back of impairment loss on accounts receivable	180,557	-	-	180,557
Net loss on business combination	-	(2,026,841)	-	(2,026,841)
Gain from extinguishment of financial liabilities (Note 9)	3,752,978	-	-	3,752,978
Profit for the year	(2,931,691)	1,723,790	1,371,252	163,351
Assets and liabilities				
Segment assets	102,040,944	7,417,260	15,960,544	125,418,748
Investment in associates (Note 10)	-	43,159,298	-	43,159,298
Total assets	102,040,944	50,576,558	15,960,544	168,578,046
Total liabilities	82,703,967	-	2,244,906	84,948,873

Secondary segment information

The Group operates in different geographical areas. A geographical analysis based on location of revenue, results, assets and liabilities based on location is as follows:

2016	Kuwait KD	GCC KD	Total KD
Segment revenues	726,716	8,962,776	9,689,492
Non-current assets	10,550,000	76,477,619	87,027,619
2015	Kuwait KD	GCC KD	Total KD
Segment revenues	878,326	1,812,351	2,690,677
Non-current assets	10,550,000	87,573,612	98,123,612

Non-current assets for this purpose consist of furniture and computers, leasehold property, prepaid operating lease and investment properties.

20 COMMITMENTS AND CONTINGENCIES

At 31 December 2016, the Group had commitments in respect of construction cost amounting to KD Nil (2015: KD 4,865,272).

During the year ended 31 December 2015, the contractor of one of the properties of the Group in Kingdom of Saudi Arabia 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 counter claimed an amount of SAR 627 million (equivalent to KD 51 million) on the same contractor for the delay in handing over the project and operational losses. The dispute has been referred to Saudi Arbitration Committee 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 and also the counter claim filed by the Parent Company on the developer is higher than the amount claimed by the developer. Accordingly, as at 31 December 2016, the Group has not made any provision against this claim in the consolidated financial statements.

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.

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party.

Impaired and past due but not impaired financial assets of the Group are disclosed in Note 12.

The Group's credit risk bearing financial assets, before taking into account any collateral held or credit enhancements, are as follows:

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Accounts receivable	7,304,181	5,727,426
Wakala receivable	317,353	-
Bank balances	3,854,621	10,522,839
	<u>11,476,155</u>	<u>16,250,265</u>

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21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The Group's credit risk bearing financial assets, before taking into account any collateral held or credit enhancements, can be analysed by industry wise sector as follows:

	2016 KD	2015 KD
<i>Industry sector:</i>		
Banks and financial institutions	4,171,974	10,522,839
Construction and real estate	7,304,181	5,727,426
	11,476,155	16,250,265

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.

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	1,456,999	560,701	40,990,039	3,237,102	46,244,841
TOTAL LIABILITIES	7,502,204	560,701	41,153,419	26,056,433	75,272,757
Commitments	-	-	-	-	-
2015	Within 3 months KD	3 to 6 months KD	6 to 12 Months KD	Over 1 year KD	Total KD
Obligations under finance lease	-	-	162,020	2,713,835	2,875,855
Islamic finance payables	6,011,507	903,292	-	25,141,318	32,056,117
Accounts payable and accruals	16,631,444	21,537,990	17,382,338	647,513	56,199,285
TOTAL LIABILITIES	22,642,951	22,441,282	17,544,358	28,502,666	91,131,257
Commitments	-	-	4,865,272	-	4,865,272

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.

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21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)***Market risk (continued)******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 management of the Parent Company monitors the positions on a daily basis to ensure positions are maintained within established limits.

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, with all other variables held constant is shown below:

	<i>Effect on results for the year</i>	
	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
United State Dollars ("USD")	49,333	114,322
Saudi Riyals ("SAR")	120,201	79,037

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:

<i>Market indices</i>	<i>Effect on results for the year</i>	
	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Kuwait	15,891	20,877

As at 31 December 2016, the Group had no quoted financial assets available for sale (2015: Nil).

22 FAIR VALUE MEASUREMENT

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 2016:

	Fair value measurement using		
	<i>Total</i> <i>KD</i>	<i>Quoted prices in active markets (Level 1)</i> <i>KD</i>	<i>Significant unobservable inputs (Level 3)</i> <i>KD</i>
2016			
<i>Financial assets available for sale</i>			
Unquoted securities	4,144,431	-	4,144,431
Unquoted real estate funds	2,140,128	-	2,140,128
<i>Financial assets at fair value through statement of income</i>			
Designated at fair value through statement of income	185,865	185,865	-

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22 FAIR VALUE MEASUREMENT (continued)

	Total	Quoted prices in active markets (Level 1)	Significant unobservable inputs (Level 3)
2015			
<i>Financial assets available for sale</i>			
Unquoted securities	4,178,787	-	4,178,787
Unquoted real estate funds	2,429,681	-	2,429,681
<i>Financial assets at fair value through statement of income</i>			
Designated at fair value through statement of income	244,177	244,177	-

The management assessed that bank balances and cash, accounts receivable and accounts payable and accruals approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of financial instruments (financial assets and financial liabilities), with the exception of certain financial assets available for sale carried at cost amounting to KD 518,033 (31 December 2015: KD 564,615) are not materially different from their carrying values.

The investment in unquoted equity securities and unquoted managed funds are measured at fair value at the end of each reporting period. Unquoted equity investments are valued based on net book value method using latest available financial statements of the investee entities, wherein the underlying assets are fair valued. The unquoted managed funds are valued based on the net asset value or market value as disclosed in the portfolio statement submitted by the fund managers.

The impact on the consolidated statement of financial position or the consolidated statement of 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 2016, there were no transfers between Level 1 and Level 2 financial instruments, and no transfers into and out of Level 3 financial instruments.

Movement in the Level 3 financial instruments is as follows.

	As at 1 January KD	Gain recorded in other comprehensive income KD	Net purchases, (sales and settlements) KD	Impairment/ Redemption recorded during the year KD	As at 31 December KD
Financial assets available for sale – unquoted investments					
2016	6,608,468	316,833	-	(640,742)	6,284,559
2015	6,835,290	221,909	-	(448,731)	6,608,468

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 year ended 31 December 2016 and 31 December 2015.

The Group monitors capital using net debt to equity ratio which is net debt divided by total capital. The Group includes within net debt, Islamic finance payables, obligation 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 less cumulative changes in fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

23 CAPITAL MANAGEMENT (continued)

	<i>2016</i>	<i>2015</i>
	<i>KD</i>	<i>KD</i>
Islamic finance payables	26,246,096	26,128,189
Obligations under finance leases	1,779,115	1,811,228
Accounts payable and accruals	46,244,841	56,199,285
Less: Bank balance and cash	(3,855,621)	(10,523,839)
Net debt	70,414,431	73,614,863
Total capital	71,660,631	79,451,259
Net debt to equity ratio	98%	93%