



**Commercial Real Estate Company K.P.S.C.
And Subsidiaries
State of Kuwait**

**Consolidated Financial Statements And Independent Auditors' Report
For the year ended 31 December 2016**



**Commercial Real Estate Company K.P.S.C.
And Subsidiaries
State of Kuwait**

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For the year ended 31 December 2016**

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**Deloitte & Touche
Al-Wazzan & Co.**

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174 Safat 13062
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

Al Shaheed Tower, 6th Floor
Khaled Ben Al Waleed Street, Sharq
P.O. Box 25578, Safat 13116
Kuwait
Tel: +965 2242 6999
Fax: +965 2240 1666
www.bdointernational.com

Independent Auditors' Report

**To the Shareholders of Commercial Real Estate Company K.P.S.C.
State of Kuwait**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Commercial Real Estate Company – K.P.S.C (the “Parent Company”) and its subsidiaries (together referred to as “the Group”), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, 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 the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The following are the key audit matters identified and how we addressed them in our audit.

Valuation of Investment properties and impairment of land and real estate held from trading

As at 31 December 2016, investment properties and land and real estate held from trading properties amounting to KD 367,463,542 and KD 11,778,895 represents 71.4 % and 2.3% of the total assets respectively. The disclosures relating to the investment and trading properties are given in notes (2.3.4), (2.3.7), (6) and (9) and to the consolidated financial statements.

The valuation of real estate properties requires significant estimates and judgements. The significance of the estimates and judgements involved, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus in this area.

The valuations were carried out by independent third party valuers (the ‘Valuers’). The Valuers were engaged by the Group’s management. The Valuers are certified in their relevant jurisdictions and have considerable experience of the markets in which the Group operates.

As a part of our audit procedures, we selected samples of real estate properties and considered the appropriateness of the methodologies, as well as models and inputs used for valuations, we also evaluated the Group’s assessment of whether an objective evidence of impairment exists when measuring the trading properties.

Independent Auditors' Report

To the Shareholders of Commercial Real Estate Company K.P.S.C.
State of Kuwait

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

Key Audit Matters (continued)

Impairment of investments in associates

As at 31 December 2016, investments in associates amounting to KD 42,229,673 represent 8.2% of total assets. Refer to significant accounting policies 2.3.1, critical accounting estimates 4 and note 7 to the consolidated financial statements.

The entire carrying amount of individual investment in associate (including goodwill) is tested for impairment, which is judgmental and based on a series of assumptions. Accordingly, we considered this as a key audit matter.

As part of our audit procedures, we evaluated management's considerations of the impairment indicators of investment in associates. In such consideration, we assessed whether any significant adverse changes in the technological, market, economic, or legal environment in which the investee operates, structural changes in the industry in which the investee operates, changes in the political or legal environment affecting the investee's business and changes in the investee's financial condition. A significant or prolonged decline in the fair value of investment below its cost is also objective evidence of impairment.

Valuation of Investments securities and Impairment of Investments available for sale

Investment securities primarily comprised of investments in private equities managed by others, real estate funds, and quoted securities. These instruments are classified as available for sale investments and investments at fair value through profit or loss, and are measured at fair values with the corresponding fair value change recognised in other comprehensive income or in the statement of income depending on the classification of the securities (Refer to the significant accounting policy 2.3.6, critical accounting estimates 4 and notes 8, and 10 to the consolidated financial statements).

The valuation is performed by the Group using a fair value hierarchy:

- Level 1 are valuations based on quoted prices (unadjusted) in active markets.
- Level 2 are valuations based on other than quoted prices included within level 1, which are observable either directly or indirectly.
- Level 3 are valuations based on unobservable inputs for the asset.

The valuation of investment securities is inherently subjective, most predominantly for the instruments classified under level 2 and level 3 since these are valued using inputs other than quoted prices in an active market.

In addition, the Group determines whether objective evidence of impairment exists for individual investments classified as available for sale. In these cases, the fair value cumulative change is transferred from other comprehensive income to the consolidated statement of income. Given the inherent subjectivity in the valuation of the instruments classified under level 2 and level 3 and in the assessment of impairment, we determined this to be a key audit matter. The investment securities classified under level 2 and level 3 are amounted to KD 53,051,954 and KD 37,135 respectively as at 31 December 2016.

As part of our audit procedures, we have tested the level 1 fair valuations by comparing the fair values applied by the Group with publicly available market data. For all level 2 and level 3 valuations, we tested the appropriateness of the models used by the Group and the reliability of the data that was used as input to these models. We also assessed the adequacy of the fair value disclosures in the consolidated financial statements.

In addition, we evaluated management's assessment of indications of impairment and challenged management's rationale for identifying significant or prolonged decline in the fair value of the security below its cost, and discussed this with the key management.

Business combination – acquisition of investment in an associate

During the current financial year, the Group has acquired 44.87% equity interest in Al Jahra Tourism Company K.S.C.C. for a total consideration of KD 5,267,147 and accordingly classified it as investment in an associate from the date of exercising significant influence. This transaction resulted in a bargain gain of KD 4,437,372. Refer to significant accounting policies 2.3.1 and note 7 to the consolidated financial statements.

Significant judgments have been exercised by the management in establishing the initial estimates of the fair values of the identifiable assets acquired and liabilities assumed on acquisition in preparing their purchase price allocation.

Independent Auditors' Report

**To the Shareholders of Commercial Real Estate Company K.P.S.C.
State of Kuwait**

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

Key Audit Matters (continued)

As part of our audit procedures, we obtained all material acquisition agreements and read them to ensure that we understood the substance of the transaction, including the consideration and the assets and liabilities acquired.

Our procedures included the following:

- reviewing the appropriateness of the acquisition accounting applied, including the timing at which significant influence was deemed to have passed;
- reviewing and considering the appropriateness of the fair values ascribed to assets and liabilities of the acquired business;

We also considered the adequacy of the related disclosures in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises all information included in the annual report other than the consolidated financial statements and our auditors' report thereon. The annual report for the year 2016 is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. Nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

Independent Auditors' Report

**To the Shareholders of Commercial Real Estate Company K.P.S.C.
State of Kuwait**

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

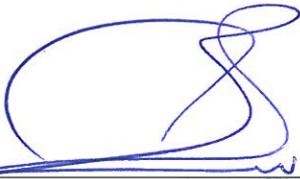
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law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

Independent Auditors' Report

To the Shareholders of Commercial Real Estate Company K.P.S.C.
State of Kuwait

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, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2016 that might have had a material effect on the business of the Group or on its consolidated financial position.



Bader A. Al-Wazzan
License No. 62A
Deloitte & Touche, Al-Wazzan & Co.



Qais M. Al-Nisf
License No. 38A
BDO Al Nisf & Partners

Kuwait, 14 February 2017

Consolidated Statement of Financial Position as at 31 December 2016

(All amounts are in Kuwaiti Dinars)

	Notes	2016	2015
Assets			
Non-current assets			
Property, plant and equipment	5	27,677,136	29,148,315
Investment properties	6	367,463,542	358,617,417
Investments in associates	7	42,229,673	23,806,575
Available for sale investments	8	24,674,581	21,352,246
		<u>462,044,932</u>	<u>432,924,553</u>
Current assets			
Land and real estate held for trading	9	11,778,895	8,866,615
Investments at fair value through profit or loss	10	29,347,879	27,289,220
Receivables and other debit balances	11	8,089,088	9,871,068
Cash and cash equivalents	12	3,483,272	7,006,106
		<u>52,699,134</u>	<u>53,033,009</u>
Total assets		<u>514,744,066</u>	<u>485,957,562</u>
Equity and liabilities			
Equity			
Share capital	13	178,708,714	178,708,714
Share premium		1,308,384	1,308,384
Treasury shares	14	(2,117,879)	(2,058,200)
Statutory reserve	15	33,922,277	32,321,599
Voluntary reserve	16	26,319,731	25,519,392
Other reserves	17	7,530,000	9,062,876
Retained earnings		39,048,176	33,934,717
Total equity attributable to shareholders of the Parent Company		<u>284,719,403</u>	<u>278,797,482</u>
Non-controlling interests		<u>22,709,860</u>	<u>39,571,131</u>
Total equity		<u>307,429,263</u>	<u>318,368,613</u>
Non-current liabilities			
Employees' end of service indemnity		947,659	1,200,862
Financing from third party – non current portion	18	153,840,383	116,225,325
		<u>154,788,042</u>	<u>117,426,187</u>
Current liabilities			
Payables and other credit balances	19	23,702,611	22,687,836
Financing from third party – non current portion	18	28,824,150	27,474,926
		<u>52,526,761</u>	<u>50,162,762</u>
Total liabilities		<u>207,314,803</u>	<u>167,588,949</u>
Total equity and liabilities		<u>514,744,066</u>	<u>485,957,562</u>

The accompanying notes form an integral part of these consolidated financial statements



Abdul Fatah M.R. Marafie
Chairman



Adwan M. Al-Adwani
Vice Chairman

Consolidated Statement of Income for the Year Ended 31 December 2016

(All amounts are in Kuwaiti Dinars)

	Notes	2016	2015
Revenues			
Rental income of investment properties and hotel's revenue		24,812,276	20,148,357
Operating expense		(10,745,586)	(8,325,267)
Net rental income of investment properties and hotel's revenue	20	14,066,690	11,823,090
Gains on sale of investment properties		-	1,317,200
Change in fair value for investment properties		5,715,998	3,704,454
Gains on sale of land and real estates held for trading		55,898	127,899
Gains on reclassification of investment into subsidiary		-	10,013,600
Bargain gain on acquisition of an associate	7	4,055,024	-
Net income from investment in associates		2,507,600	1,063,530
Net income from financial investments	21	1,312,517	2,382,416
Other income		156,419	1,367,806
Total revenues		27,870,146	31,799,995
Expenses and Other Charges			
Staff costs		2,604,101	2,606,455
Expenses and other charges		1,057,699	705,063
Finance costs		5,926,140	4,935,663
Provisions and impairment	22	542,391	1,295,467
Total expenses		10,130,331	9,542,648
Net profit before deductions		17,739,815	22,257,347
Contribution to KFAS		(82,694)	(159,999)
National Labour Support Tax		(405,156)	(518,383)
Zakat		(103,873)	(183,465)
Board of directors' remuneration		(128,000)	(128,000)
Net profit for the year		17,020,092	21,267,500
Attributable to:			
Shareholders of the Parent Company		15,287,068	20,591,397
Non-controlling interests		1,733,024	676,103
		17,020,092	21,267,500
Earnings per share for Parent Company's shareholders (fils)	23	8.67	11.66

The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2016

(All amounts are in Kuwaiti Dinars)

	2016	2015
Net profit for the year	17,020,092	21,267,500
Other Comprehensive Income		
<i>Items that may be reclassified subsequently to statement of income:</i>		
Change in fair value of available for sale investments	(1,569,316)	(1,388,680)
Group's share in associates' reserves	(98,414)	1,882,955
Foreign currency translation differences	70,069	171,862
Total other comprehensive (loss) / income	(1,597,661)	666,137
Total comprehensive income for the year	15,422,431	21,933,637
Attributable to:		
Shareholders of the Parent Company	13,754,192	21,255,667
Non-controlling interests	1,668,239	677,970
	15,422,431	21,933,637

The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016

(All amounts are in Kuwaiti Dinars)

	Equity Attributable to Shareholders of the Parent Company							Non- controlling interests	Total equity	
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (Note 17)	Retained earnings			Total
Balance as at 1 January 2015	170,198,775	1,308,384	(1,808,875)	30,163,475	24,440,329	8,398,606	35,187,204	267,887,898	12,379,733	280,267,631
Net profit for the year	-	-	-	-	-	-	20,591,397	20,591,397	676,103	21,267,500
Other comprehensive income	-	-	-	-	-	664,270	-	664,270	1,867	666,137
Buy-back of treasury shares	-	-	(249,325)	-	-	-	-	(249,325)	-	(249,325)
Bonus shares distribution	8,509,939	-	-	-	-	-	(8,509,939)	-	-	-
Cash dividends	-	-	-	-	-	-	(10,116,334)	(10,116,334)	-	(10,116,334)
Transferred to reserves	-	-	-	2,158,124	1,079,063	-	(3,237,187)	(10,116,334)	-	(10,116,334)
Effect of acquisition of additional share in subsidiary	-	-	-	-	-	-	-	19,576	(172,080)	(152,504)
Reclassification of investment into subsidiary	-	-	-	-	-	-	-	-	27,265,755	27,265,755
Subsidiary's cash dividends	-	-	-	-	-	-	-	-	(580,247)	(580,247)
Balance as at 31 December 2015	178,708,714	1,308,384	(2,058,200)	32,321,599	25,519,392	9,062,876	33,934,717	278,797,482	39,571,131	318,368,613
Balance as at 1 January 2016	178,708,714	1,308,384	(2,058,200)	32,321,599	25,519,392	9,062,876	33,934,717	278,797,482	39,571,131	318,368,613
Net profit for the year	-	-	-	-	-	-	15,287,068	15,287,068	1,733,024	17,020,092
Other comprehensive income	-	-	-	-	-	(1,532,876)	-	(1,532,876)	(64,785)	(1,597,661)
Buy-back of treasury shares	-	-	(59,679)	-	-	-	-	(59,679)	-	(59,679)
Cash dividends (note 25)	-	-	-	-	-	-	(8,839,948)	(8,839,948)	-	(8,839,948)
Transferred to reserves	-	-	-	1,600,678	800,339	-	(2,401,017)	-	-	-
Effect of acquisition of additional share in subsidiary (note 24)	-	-	-	-	-	-	-	1,067,356	(17,955,270)	(16,887,914)
Subsidiary's cash dividends	-	-	-	-	-	-	-	-	(574,240)	(574,240)
Balance as at 31 December 2016	178,708,714	1,308,384	(2,117,879)	33,922,277	26,319,731	7,530,000	39,048,176	284,719,403	22,709,860	307,429,263

The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows for the Year Ended 31 December 2016

(All amounts are in Kuwaiti Dinars)

	Notes	2016	2015
Cash flows from operating activities			
Net profit for the year		17,020,092	21,267,500
<i>Adjustments for:</i>			
Change in fair value of investment properties		(5,715,998)	(3,704,454)
Gains on disposal of investment properties		-	(1,317,200)
Gains on reclassification of investment into subsidiary		-	(10,013,600)
Net income from investment in associates		(6,562,624)	(1,063,530)
Net income from financial investments		(1,312,517)	(2,382,416)
Foreign exchange differences		8,612	(30,546)
Depreciation		1,738,264	1,623,325
Finance cost		5,926,140	4,935,663
Provisions and impairment		542,391	1,295,467
Employees' end of service indemnity – provided during the year		112,259	260,503
Operating profits before changes in the working capital		11,756,619	10,870,712
Land and real estate held for trading		(2,912,280)	(331,352)
Investments at fair value through profit or loss		(3,373,762)	(9,622,501)
Receivables and other debit balances		(2,149,148)	(2,395,902)
Payables and other credit balances		(1,368,425)	(581,275)
Cash generated from / (used in) operations activities		1,953,004	(2,060,318)
Employees' end of service indemnity – paid during the year		(365,462)	(164,601)
Net cash generated from / (used in) operating activities		1,587,542	(2,224,919)
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment		(509,948)	(1,369,792)
Payment to acquire investment properties		(2,887,263)	(720,889)
Proceeds from disposal of investment properties		-	6,000,000
Payment to acquire an additional share in subsidiaries	24	(16,887,914)	(129,385)
Net cash inflow on acquisition of subsidiary		-	4,981,791
Payment to acquire shares in associates		(8,410,639)	(3,091,740)
Dividends received from associates		1,995,762	785,294
Payment to acquire available for sale investments		(5,096,124)	(4,621,809)
Proceeds on sale of available for sale investments		260,674	5,497,552
Cash dividends received		2,430,953	1,540,660
Net cash (used in) / generated from investing activities		(29,104,499)	8,871,682
Cash flows from financing activities:			
Financing from third party		38,964,282	9,710,675
Payment for buy-back of treasury shares		(59,679)	(249,325)
Cash dividends paid		(8,543,674)	(9,638,406)
Finance cost paid		(5,792,566)	(5,412,778)
Non-controlling interests		(574,240)	(580,247)
Net cash generated from / (used in) financing activities		23,994,123	(6,170,081)
Net change in cash and cash equivalents		(3,522,834)	476,682
Cash and cash equivalents at beginning of the year		7,006,106	6,529,424
Cash and cash equivalents at end of the year	12	3,483,272	7,006,106

The accompanying notes form an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statement for the Year Ended 31 December 2016
(All amounts are in Kuwaiti Dinars unless otherwise stated)

1. Incorporation and activities

The Commercial Real Estate Company (K.P.S.C) (“the Parent Company”) was incorporated as a Kuwaiti Shareholding Closed Company under Articles of Association No. 104/ M/ Vol.1 on 4 February 1968 under Commercial register No. 11329 and re-enrolled on 21 December 1981 under No. 239 in accordance with provision of the Commercial Companies Law. The main objectives of the Company are performing various real estate, agricultural, industrial and commercial activities, carrying out contracting, road and building constructions including sale, purchase and lease of land and real estate properties and construction of buildings, utilize the company’s surpluses through investment portfolios managed by specialized companies and financial institutions; and establishing and managing real estate funds for its own account and for third parties. The Company may have interests or participate in any suitable way with entities that engage in similar business activities or that may help the Company achieve its objectives inside Kuwait and abroad. The Company may also purchase such entities or affiliate them, or as stated in Company’s Articles of Association, article No. 5 and Memorandum of Association, article No. 4. The Company’s management shall carry out all its objectives for which it has been established in accordance with the Noble Islamic Sharia principles.

The head office of the Parent Company is located at Jaber Al-Mubarak Street, Commercial Real Estate Company’s Building, Sharq, P.O. Box. 4119 Safat, 13042 Kuwait.

The Parent Company has been registered in the Kuwait Stock Exchange on 21 December 2004.

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries set out in note (24), (“together referred to as the Group”).

The new Companies Law No. 1 of 2016 was published in the Official Gazette on 1 February 2016, which 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. Companies should make necessary arrangement to be in compliance with provisions of the new law within six months from the executive regulation effective date.

The consolidated financial statements were authorized for issue by the Board of Directors on 14 February 2017.

2. Basis of Preparation and Significant Accounting Policies

2.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments that are re-measured at fair value, as explained in the accounting policies below. These accounting policies of the Group have been consistently applied to all years presented, except as stated in note 2.2 in relation to adoption of new and revised International Financial Reporting Standards.

2.2 Application of new and revised International Financial Reporting Standards (IFRS)

2.2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these consolidated financial statements. The application of these revised IFRSs has had no any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 1 Presentation of Financial Statements relating to Disclosure initiative
- Amendments to IFRS 11 Joint arrangements relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27 Separate Financial Statements relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

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- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

2.2.2 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs

Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. Effective for annual periods beginning on or after 1 January 2018.

IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014)

The IFRS 9 in its final form is effective for annual periods beginning on or after 1 January 2018. IFRS 9 contains accounting requirements for financial instruments and replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 16 Leases

IFRS 16 was issued on January 2016 with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

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Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture. The effective date of these amendments are deferred indefinitely.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the financial statements of the Group in the period of initial application.

The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of revenue from contracts with customers and the Company's financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Parent Company performs a detailed review.

2.3 Significant Accounting Policies

2.3.1 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company (a) has power over the investee (b) is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three components of controls listed above.

Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control over the subsidiary. Specifically, income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated statement of income or other comprehensive income from the date in which the Parent Company gains control until the date when Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group's losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, or the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses combination are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except deferred tax assets or liabilities, liabilities or equity instruments related to share based payment arrangements and assets that are classified as held for sale in which cases they are accounted for in accordance with the related IFRS.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of profit or loss. Amounts arising from interests that have previously been recognised in the consolidated statement of other comprehensive income are reclassified to consolidated statement of income where such treatment would be appropriate if that interest were fully disposed off.

Goodwill

Goodwill, arising on an acquisition of a subsidiary, is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associates and joint ventures

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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations taken in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted in order to recognise the changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the investment's carrying amount and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

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The aggregate of the Group's share of results of an associate and a joint venture is shown on top of the consolidated statement of income off the operating profit and also represents the profit or loss after deducting tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture 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 the associate or joint venture. At each reporting date, the Group determines whether there is an objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Impairment of an associate or a joint venture' in the consolidated statement of income.

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

2.3.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any subsequent accumulated impairment losses. Cost includes the purchase price and any directly associated costs of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. In situations, where it is clearly demonstrated that the expenditure has resulted in an increase in the future economic benefit expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance.

Property, plant and equipment depreciation is calculated using the straight line method on the basis of estimated useful lives except for land. Property, plant and equipment amount is written down to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

The residual value, useful life and depreciation method are reviewed at the end of each reporting period. Change in estimations are accounted for as of the beginning of the financial year in which the change arises.

Gains or losses on disposals of property, plant, and equipment are determined by the difference between the sales proceeds and the net carrying amount of the asset and is recognized in the consolidated income statement.

2.3.3 Projects in Progress

Incurred costs are charged to construction or production of capital assets under projects in progress till construction or production of these assets is complete, at which time it is reclassified as property, plant and equipment, investment properties, or trading properties. Projects in progress costs include all direct costs and other costs attributable on a reasonable basis.

Land and properties under development to be used as investment property are considered as investment properties recognized at cost and then re-measured at fair value through accredited independent valuers where the lower valuation is adopted. In case there is no reliable method for measuring the fair value of such land under development, the properties are recognized at cost till the date of completion of developing the property or the date of reliably determining their fair value, whichever occurs first.

2.3.4 Investment properties

Investment properties are properties held to earn rentals and / or capital appreciation (including properties under construction for such purposes). Investment properties are measured initially at cost, including transaction costs

Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in consolidated statement of income in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefit is expected from the disposal. Any gain or loss arising on disposal of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income for the period in which they arise.

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2.3.5 Impairment of Tangible and Intangible Assets Other than Goodwill

At the end of each reporting period, the Group reviews the tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal or value in use. Impairment losses are recognised in the consolidated statement of income for the year in which they arise. When an impairment is reversed, the impairment is recognised to the extent of the net carrying amount had no impairment been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

2.3.6 Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of income.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. The Group has determined the classification of its financial assets as follows:

Financial assets as fair value through profit or loss

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gains or losses arising from remeasurement recognised in the consolidated statement of income. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. The net gain or loss recognised in the consolidated statement of income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in (note 3.3).

Available for sale financial assets (AFS)

AFS are non-derivatives financial assets not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss.

The available for sale financial assets is re-measured at fair value. The fair value is determined in the manner described in (note 3.3).

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of changes in fair value reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Foreign exchange gains and losses are recognised in other comprehensive income items.

Loans and debtors

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and cash at banks) are measured at amortised cost using the effective interest method, less any impairment.

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Impairment in value

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced by making an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in the consolidated statement of income.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the consolidated statement of income for the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through consolidated statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in the consolidated statement of income are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

The difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the consolidated statement of income.

Financial liabilities

Financial liabilities (including borrowings and trade and other payables) are recognised initially at fair value, net of transaction costs incurred and remeasured at amortised cost using the effective interest method.

Derecognition

The Group derecognises financial liabilities only when the Group's obligations are discharged or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of income.

Offsetting

Financial assets, financial liabilities and the net amount reported in the consolidated statement of financial position are only offset when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis or realise the asset and settle the liability simultaneously.

2.3.7 Land and properties held for trading

Land and real estate held for trading are stated at cost when acquired. Cost is determined on an individual basis for such land or real estate, where the cost represents the fair value of the consideration given, plus ownership transfer fee and brokerage expenses. Land and real estate held for trading are classified under current assets and are valued at the lower of cost or net realisable value on an individual basis. Net realisable value is determined on the basis of estimated sale value, less the estimated expenses necessary to complete the sale. Gains or losses from the sale of land and property held for trading are reported in the consolidated statement of income by the difference between sale value and its book value.

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2.3.8 Employees' end of service indemnity

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at termination of employment. Regarding the Non-Kuwaitis labour in other countries; the indemnity is calculated based on law applicable in these countries. Such payment is made on a lump sum basis at the end of an employee service. Defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of employees on the consolidated financial statement's date. The management expects that this method would result in a reliable approximation of the present value of the Group's liability.

2.3.9 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 will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the consideration expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.3.10 Equity, reserves and dividend payments

Issued ordinary shares are recorded within equity. Direct costs relating to issuing of shares are stated as discounted from the amounts received for issuing these shares within equity under share premium. Share capital represent the nominal value of the shares issued.

Dividends are recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the shareholders.

2.3.11 Treasury shares

Treasury shares represent the Parent Company's own shares that have been issued, subsequently purchased by the Group and not yet reissued or cancelled. Treasury shares are accounted for using the cost method. Under the cost method, the total cost of the shares acquired is reported as a contra account within equity when the treasury shares are disposed; gains are credited to a separate un-distributable account in equity "gain on sale of treasury shares". Any realised losses are charged to the same account in the limit of its credit balance, any additional losses are charged to retained earnings to reserves and then to premium. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and the gain on sale of treasury shares.

2.3.12 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kuwaiti Dinars' (KD).

Transactions and balances

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses are resulted from the settlement of such transactions and from the translation at year-end in the income statement.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows (other than companies, which are operating in high inflation countries):

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that consolidated financial statements.
- Income and expenses for each income statement are translated at average exchange rates.
- All resulting exchange differences are recognized as a separate component of equity.

2.3.13 Revenue recognition

Gains and losses resulted from the sale of financial investments, investment property and land and real estate held for trading are recognised in consolidated statement of income when sale is completed. Sale is completed when the risks and rewards related to the assets sold are transferred to the buyer.

Rental income from investment property are recorded as mentioned in note (2.3.15).

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Hotel income is recognized when the services are performed and completed for clients.

Dividends income resulted from investment is recognized in the consolidated statement of income when the right to receive them is established.

2.3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.3.15 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

2.3.16 Zakat and Deductions

Responsibility of paying zakat lies on the shareholders and not the Parent Company.

The Group calculates zakat and NLST in accordance with the Ministry of Finance resolution No. 46 of 2006 and No. 19 of 2000. They are recognized as expense in the relevant period on accrual basis.

The Group's contribution to KFAS is recognized as an expense in the relevant period on accrual basis.

3. Financial risk management

3.1 Financial risks

The Group's activities expose it to a variety of financial risks, which are market risks (which include foreign currency risks and risks of Fair value resulting from interest rates, and risks of fluctuations in cash flows resulting from changes in interest rates, and market prices risks) in addition to credit risk and liquidity risks.

The Group's Risk Management focuses on the unpredictable issues in the financial markets in order to reduce the potential negative impact on the financial performance of the group to the minimum. The Group currently does not use hedging instruments to manage its exposure to these risks.

A) Market risk

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates.

The Group is exposed to this risk as a result of holding financial assets and liabilities in foreign currencies, primarily in US Dollar, Sterling Pound and Bahraini Dinar. The Group's management constantly monitors the change in exchange rates of foreign currencies that might negatively affect the Group's results.

The following is the net positions of foreign currencies denominated in KD as at the consolidated financial statements date:

	2016	2015
US Dollar	24,074,592	26,062,840
Sterling Pound	8,276,608	9,800,070
Bahrain Dinar	26,126,115	21,029,252
Other	20,371,755	15,824,786

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The following is the effect of change of foreign exchange rates by 5% against Kuwaiti Dinar, with all other variables are held constant on the Group's equity/consolidated statement of income:

	2016		2015	
	Equity	Statement of income	Equity	Statement of income
US Dollar	569,859	633,871	519,295	783,847
Sterling Pound	208,090	205,740	243,489	246,514
Bahrain Dinar	30,615	1,275,691	28,103	1,023,360
Other	93,842	924,746	104,493	686,747

Interest rate risks

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Group is not exposed to interest rate risk as the Group works under Noble Principles of Islamic Sharia.

Fair value risks

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. Financial instruments, which potentially subject the market risk, consist of investment at fair value through statement of income, investments available for sale. The Group manages this risk by diversifying its investments on the basis of the pre-determined asset allocations across various categories, continuous appraisal of market conditions and trends and management estimate of long and short term changes in fair value. The Group maintains its quoted investments with specialized investment companies. Monthly reports on investments performance are sent to the Group management for follow up and decisions making. Effect of the fair value changes in the market prices is considered to be limited relatively to the Group's activity.

B) Credit risk

Credit risk is the risk that the Group will incur a loss due to the inability of one party to the financial instrument to meet its obligation to the Group. The credit policy is monitored on an ongoing basis. The Group seeks to avoid credit concentration with individuals or group of customers in particular location or activity. The assets exposed to credit risk represented in cash at banks, murabaha at banks and financial institutions, trade receivables and related parties. The Group receives the appropriate guarantees from customers classified under trade receivables. The cash balances are deposited in financial institutions with good credit reputation, and most of the debit balances exposed to credit risk is concentrated in related parties which have a good credit reputation and there are contractual agreements with those parties defining the terms of repayments. The amounts of the assets exposed to credit risk are not materially different from the corresponding carrying values in the consolidated financial statements.

C) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, and long-term funding and liquidity management requirements. The Group manages liquidity risk through maintaining adequate basket of assets, which are easily convertible into cash and also by securing of banking facilities and financing reserves in addition to ongoing monitoring of the expected and actual cash flows and maturity profile of financial assets and liabilities.

The table below analyses the non-derivative financial liabilities based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2016			
	Within 3 months	From 3 months to one year	1-5 years	More than 5 years
Borrowings	13,204,199	23,000,607	164,282,835	14,557,739
Accounts payable	3,455,282	18,595,794	-	-
	2015			
	Within 3 months	From 3 months to one year	1-5 years	More than 5 years
Borrowings	8,405,372	24,752,693	126,158,819	-
Accounts payable	1,725,710	19,767,694	-	-

Notes to the Consolidated Financial Statement for the Year Ended 31 December 2016

(All amounts are in Kuwaiti Dinars unless otherwise stated)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, enabling it to provide returns for shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's capital structure consists of finance obtained from third party less cash and cash equivalents in addition to equity.

The Group manages the capital risk by continuously monitoring the gearing ratio.

The Group's capital structure consists of funding from third parties minus cash and cash equivalents in addition to equity.

The gearing ratio at year end was as follows:

	2016	2015
Financing from third party	182,664,533	143,700,251
Less: cash and cash equivalents	(3,483,272)	(7,006,106)
Net debt	179,181,261	136,694,145
Total equity	307,429,263	318,368,613
Gearing ratio (%)	58.28	42.94

3.3 Fair value estimation

The fair values of financial assets and liabilities are estimated as follows:

- Level 1 Quoted prices in active markets for quoted financial instruments.
- Level 2 Quoted prices in an active market for similar instruments. Prices for similar instruments in inactive market. Other valuation methods where all the important inputs are based on comparative market data either directly or indirectly.
- Level 3 Valuation methods in which the inputs that are not based on any comparative market data.

Fair value of financial assets and liabilities of the Group measured at fair value on a recurring basis:

Financial assets	Fair value as at		Fair value level	Valuation methods and key inputs	Significant unobservable inputs	Relation of unobservable inputs to fair value
	2016	2015				

Available for sale investments:

- Quoted shares	933,371	914,285	1	Last bid price	N/A	N/A
- Private equity / funds	23,704,075	20,400,826	2	Net unit value announced	N/A	N/A
- Unquoted shares	37,135	37,135	3	Technical valuation methods	Carrying amount adjusted for market risk	The higher market risk the lower the fair value

Investments at fair value through statement of income:

- Private equity	29,347,879	27,289,220	2	Net unit value	N/A	N/A
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Fair value of financial assets and liabilities of the Group not measured at fair value on a recurring basis:

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
- Due from related parties	137,010	137,010	112,105	112,105
- Trade and other receivables	7,952,078	7,952,078	9,758,963	9,758,963
- Cash and cash equivalents	3,483,272	3,483,272	7,006,106	7,006,106
	<u>11,572,360</u>	<u>11,572,360</u>	<u>16,877,174</u>	<u>16,877,174</u>
Financial liabilities:				
- Financing from third party	182,664,533	181,375,289	143,700,251	142,733,342
- Accounts payables and other credit balances	23,702,611	23,702,611	22,684,836	22,684,836
	<u>206,367,144</u>	<u>205,077,900</u>	<u>166,385,087</u>	<u>165,418,178</u>

Notes to the Consolidated Financial Statement for the Year Ended 31 December 2016

(All amounts are in Kuwaiti Dinars unless otherwise stated)

The fair values of the financial assets and financial liabilities included in the level 3 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. There are no transfers between fair value levels during the year.

4. Significant Accounting judgements, estimates and assumptions

In the application of the Group's accounting policies, the management are required to make judgments and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period of the revision and future periods if the revision affects future periods.

Judgements:

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

Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at acquisition, when their fair values can be reliably estimated. All other investments are classified as "available for sale".

Classification of real estate investments

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

The Group classifies property as held for trading if this is acquired principally for sale in the ordinary course of the business.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation.

Practicing significant influence

The Group's investments in Industrial and Financial Investment Company and Afkar Holding Company have been classified as associates although the Group only owns 17.24% and 19.35% respectively of their shares.

The Group has significant influence over these entities through its representation in their Board of Directors' by two members out of seven.

Classification of joint ventures

The Group's management decided to measure the Group's investments in Joint ventures, owned through Joint capital entities or Joint finance, at fair values through profit or loss.

Sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurements and valuation techniques

Certain assets and liabilities of the Group are measured at fair value for the purposes of preparing the financial statements. The Group's management determines the main appropriate techniques and inputs required for measuring the fair value. In determining the fair value of assets and liabilities, management uses observable market data as appropriate, in case no observable market data is available the Group uses an external valuer qualified to do the valuation. Information regarding the required valuation techniques and inputs used to determine the fair value of financial assets and liabilities is disclosed in note (3.3, 6 and 9).

Impairment of tangible and intangible assets

The Group reviews the tangible and intangible assets on a continuous basis to determine whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Notes to the Consolidated Financial Statement for the Year Ended 31 December 2016
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Evidence of impairment of investments

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the value of available for sale investments. The determination of what is "significant" or "prolonged" requires significant judgment in this regard. The Group evaluates, among other factors, the usual fluctuation of listed stock prices, expected cash flows and discount rates of unquoted investments. Impairment is considered appropriate when there is objective evidence on the deterioration of the financial position for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Note 22 sets out the impact of that on the consolidated financial statements.

Impairment of associates

Impairment testing of the associate is carried out when there is an indication of such impairment. Impairment is assessed for the entire carrying value of the Group's investment in the associate including goodwill, therefore no impairment study for goodwill is required independently. Note 22 sets out the impact of that on the consolidated financial statements.

Impairment of receivables

Impairment of receivables is assessed on basis of the Group's past experience of probability of collection, an increase in the number of days late of making payment beyond the average credit period, as well as observable changes in domestic and international economic conditions that default on repayment. Impairment of due receivable balances is recognized when there are satisfactory reasons that other parties cannot pay as per the original contractual conditions. Note (11) sets out the impact of that on the consolidated financial statements.

Contingent liabilities

Contingent liabilities arise as a result of a past events confirmed only by the occurrence or non-occurrence of one or more of uncertain future events not fully within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment (note 28).

5. **Property, plant and equipment**

	Land & buildings	Furniture & fittings	Furniture & utensils	Office equipment & tools	Working under progress	Total
Cost						
Balance at 1 January 2015	25,647,790	10,268,282	3,585,916	726,511	-	40,228,499
Additions	950,096	174,138	110	245,448	-	1,369,792
Effect of acquisition of subsidiary	-	550	-	29,522	212,791	242,863
Balance at 31 December 2015	26,597,886	10,442,970	3,586,026	1,001,481	212,791	41,841,154
Additions	326,380	31,167	331	152,071	-	509,949
Transfer to investment properties	-	(550)	-	(29,523)	(212,791)	(242,864)
Balance at 31 December 2016	26,924,266	10,473,587	3,586,357	1,124,029	-	42,108,239
Accumulated depreciation						
Balance at 1 January 2015	2,379,360	4,552,435	3,484,085	653,634	-	11,069,514
Depreciation for the year	511,381	1,016,113	42,932	52,899	-	1,623,325
Balance at 31 December 2015	2,890,741	5,568,548	3,527,017	706,533	-	12,692,839
Depreciation for the year	559,987	1,040,305	43,043	94,929	-	1,738,264
Balance at 31 December 2016	3,450,728	6,608,853	3,570,060	801,462	-	14,431,103
Net carrying value						
As at 31 December 2016	23,473,538	3,864,734	16,297	322,567	-	27,677,136
As at 31 December 2015	23,707,145	4,874,422	59,009	294,948	212,791	29,148,315
Useful lives (year)	40	5-10	5	3-6	-	

Land and buildings are pledged for local financial institutions against the finance obtained by the Group (note 18).

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6. Investment properties

These represent commercial, residential properties and lands most of which are located in the State of Kuwait. The movement in investment properties during the year was as follows:

	2016	2015
Balance at 1 January	358,617,417	286,144,100
Additions during the year	2,887,263	720,889
Sales during the year	-	(4,682,800)
Transferred from projects in progress	-	1,730,774
Transferred from property, plant and equipment	242,864	-
Change in fair value	5,715,998	3,704,454
Acquisition of a subsidiary	-	71,000,000
Balance at 31 December	<u>367,463,542</u>	<u>358,617,417</u>

The fair value of the Group's investment properties as at 31 December 2016 are estimated based on valuations carried out by independent valuers not related to the Group. The independent valuers are licensed from the relevant regulatory bodies and they have appropriate qualifications and recent experiences in valuation of properties at the relevant locations.

The fair value of investment properties was determined based on capitalisation of net income method, where the market rental of all units of the properties. (Level 3). The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties, the valuation model used involves significant unobservable inputs include average capitalisation rate. Average capitalisation rate used in valuation is 7.5%, (taking into account the capitalisation of rental income, nature of the property and prevailing market conditions).

The increase in the capitalisation rate used would result in a significant decrease in the fair value, and vice versa.

In estimating the fair value of the investment properties, their current use was assumed to be highest and best use of these properties.

Investment properties include properties of KD 282,005,260 as at 31 December 2016 (2015 - KD 238,290,960) pledged for local financial institutions as collateral for finance obtained by the Group (note 18).

7. Investments in associates

7.1 Financial Information

Company	Country of incorporation	Principal activity	Ownership %		2016	2015
			2016	2015		
Hajar Tower Real Estate Co.	Kuwait	Real Estate	27.42	20	11,009,371	8,637,616
Kuwait Resorts Co.	Kuwait	Services	33.10	33.10	7,682,571	7,165,331
Bayan Real Estate Co.	Saudi Arabia	Real Estate	21.68	21.68	3,082,062	3,270,759
Afkar Holding Co.	Kuwait	Holding Company	19.35	19.35	2,794,532	2,760,000
Kuwait Commercial Markets Complex Co.	Kuwait	Real Estate	22.84	22.67	2,057,964	874,943
Gulf Opportunities Co.	Kuwait	Real Estate	43	36	904,459	714,742
Al Jahra Tourism Co.	Kuwait	Tourism	44.87	-	10,215,567	-
Fiction Club Venture	Emirates	Real Estate	30	-	3,943,174	-
Other					539,973	383,184
					<u>42,229,673</u>	<u>23,806,575</u>

All investments above are accounted for using equity method in these consolidated financial statements.

All associates companies are not quoted in active markets except for Kuwait Resorts Company whose fair value is KD 4,797,157 as at 31 December 2016 (KD 6,011,626 - 2015).

Summarised financial information in respect of each of the Group's material associates are stated below. The summarised financial information below represents the amounts shown in the associate latest available financial statements prepared in accordance with International Financial Reporting Standards:

Notes to the Consolidated Financial Statement for the Year Ended 31 December 2016
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Kuwait Resorts Co.

	<u>2016</u>	<u>2015</u>
Current assets	17,437,674	16,185,117
Non-current assets	20,085,474	21,179,651
Current liabilities	6,113,679	5,830,874
Non-current liabilities	8,016,650	9,752,507

	<u>2016</u>	<u>2015</u>
Revenue	8,430,060	8,777,460
Profit for the year/total comprehensive income	1,736,906	1,733,824
Dividends received from associate during the year	294,432	336,494

Hajar Tower Real Estate Company

	<u>2016</u>	<u>2015</u>
Current assets	24,846,039	37,969,171
Non-current assets	40,652,116	34,992,142
Current liabilities	11,330,683	12,020,097
Non-current liabilities	13,458,267	17,753,139

	<u>2016</u>	<u>2015</u>
Revenue	18,170,862	13,507,648
Profit for the year/total comprehensive income	3,806,870	2,339,345
Dividends received from associate during the year	1,240,800	448,800

Al Jahra Tourism Co.

	<u>2016</u>
Current assets	2,129,353
Non-current assets	23,384,505
Current liabilities	1,777,763
Non-current liabilities	1,076,601

	<u>2016</u>
Revenue	4,741,436
Profit for the year/total comprehensive income	1,931,199
Dividends received from associate during the year	355,530

Aggregate information of associates that are not individually material

	<u>2016</u>	<u>2015</u>
The Group's share of income / (loss) from continuing operations	60,495	(699,097)
The Group's share of other comprehensive (loss) / income for the year	(90,038)	2,157,384
The Group's share of total comprehensive (loss) / income for the year	(29,543)	1,461,287
Aggregate carrying amount of the Group's interest in these associate	13,322,164	8,003,626

7.2 Changes in Holding Percentages

During the year, the Group purchased 44.87% share from equity of Al Jahra Tourism Company from a related party and others (note 26), accordingly this investment was classified as investment in an associate as at 31 December 2016. This transaction resulted in bargain gain of KD 4,437,372. This gain has been recognised in the consolidated statement of income for the current year after an amount of KD 382,348 was eliminated.

The fair value of the acquired assets and liabilities as at the acquisition date is as follows:

	KD
Fair value of the net assets acquired	<u>21,262,854</u>
Group's share in the fair value of net assets acquired	9,704,519
Cash amount paid for acquisition	(5,267,147)
Gain on bargain purchase	<u>4,437,372</u>

During the year, procedures of incorporating Vacation Club venture were completed in United Arab Emirates. The Group participated by a percentage of 30% in incorporation, at an amount of KD 3,970,372. This investment was classified as investment in an associate. This transaction effect was eliminated when preparing the consolidated statement of cash flows as it is a non-cash transaction.

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7.3 Impairment & reversal of impairment

The Group determines whether there is impairment in the associate value when there are indicators for impairment. This requires estimating the recoverable amount of the cash generating unit which is distributed to these indicators. This also requires the determination of the recoverable amount using the value in use method or fair value less cost to sell which is higher.

Based on the studies prepared by the Group's management, impairment loss of KD 65,941 has been recorded in the current year (KD 3,734,170 – 2015). Additionally, impairment loss of KD 1,191,857 has been reversed during the current year for some other investments (2015 – 2,697,520).

8. Available for sale investments

	2016	2015
Investment in quoted shares	933,371	914,285
Investment in private equities managed by others	20,608,605	16,971,784
Investment funds	3,132,605	3,466,177
	<u>24,674,581</u>	<u>21,352,246</u>

The fair value estimated based on the valuation techniques set out in note (3.3).

9. Land and real estate held for trading

	2016	2015
Balance as at 1 January	8,866,615	8,535,263
Additions	3,116,845	504,603
Disposal	(187,680)	(214,416)
(Recording) /reversal of impairment in value	(16,885)	41,165
Balance as at 31 December	<u>11,778,895</u>	<u>8,866,615</u>

The additions are lands acquired in the Kingdom of Bahrain from a related party (Note 26).

The fair values of the Land and real estate held for trading as at 31 December 2016 have been arrived at on the basis of valuation carried out on the respective date by independent valuers not related to the Group.

The fair values were determined based on the market comparable approach for the areas in which the properties are located (Level 2) and taking into account the properties nature, location and stage of development.

10. Investments at fair value through profit or loss

This represent investment in private equities managed by others. The fair values of such investment were estimated based on the investment's managers reports as set out in note (3.3).

11. Receivables and other debit balances

	2016	2015
Trade receivables	5,014,085	4,912,305
Due from related parties (note 26)	137,010	112,105
Provision for doubtful debts	(4,187,166)	(4,242,823)
	963,929	781,587
Advance payments for acquisition of investments	1,902,233	5,389,123
Advance payment for purchase of land	2,887,034	1,417,979
Advances to contractors and suppliers	947,510	1,031,887
Prepaid expenses	156,648	579,510
Refundable deposits	414,230	199,900
Other debit balances	817,504	471,082
	<u>8,089,088</u>	<u>9,871,068</u>

Trade receivables include an amount of KD 4,861,011 that is past due but not collected as at 31 December 2016 for which the Group has recognized a provision of KD 4,187,166 (KD 4,746,164 with a provision of KD 4,242,823 – 2015).

Aging of past due but not collected trade and other receivables as at 31 December 2016 is as follows:

	2016	2015
30 – 60 days	398,036	260,573
60 – 90 days	225,196	142,883
90 – 120 days	58,912	90,476
Above 120 days	4,178,867	4,252,232
	<u>4,861,011</u>	<u>4,746,164</u>

Notes to the Consolidated Financial Statement for the Year Ended 31 December 2016
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Movement of provision for doubtful debts for the year:

	2016	2015
Balance as at 1 January	4,242,823	3,994,482
Provided during the year	39,866	341,001
Reversal of provision for doubtful debts	(87,723)	(144,824)
Effect of acquisition of subsidiary	-	52,164
Bad debts	(7,800)	-
Balance as at 31 December	<u>4,187,166</u>	<u>4,242,823</u>

12. Cash and cash equivalents

	2016	2015
Murabaha at banks and financial institutions (due within 3 months)	800,000	4,000,000
Cash at banks and financial institutions	2,635,842	2,913,188
Cash in hand	26,250	27,773
Cash at investment portfolios	21,180	65,145
	<u>3,483,272</u>	<u>7,006,106</u>
Murabaha rate of return (%)	<u>1.575</u>	<u>1.3</u>

13. Share Capital

The authorized, issued, and fully paid up in cash share capital of the Parent Company is KD 178,708,714 distributed over 1,787,087,137 shares with a nominal value of 100 fils each, and all shares are in cash.

14. Treasury shares

	2016	2015
Number of shares - share	23,462,666	22,688,693
Proportion to issued shares (%)	1.31	1.27
Market value	1,853,551	1,769,718

The Parent Company is required to retain reserves and retained earnings equivalent to cost of treasury shares throughout the period, on which they are held by the Parent Company, pursuant to the relevant instructions of the regulatory authorities.

Treasury shares of 13,470,813 shares are held by a subsidiary as of 31 December 2016 (12,696,840 shares -2015).

15. Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the net profit for the year, before contribution to Kuwait Foundation for Advancement of Sciences, National Labour Support Tax, directors' remuneration, and Zakat is transferred to the statutory reserve. The Parent Company may resolve to discontinue such transfers when this reserve equals 50% of the paid up share capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

16. Voluntary reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, a percentage of the net profit for the year, as proposed by the board and agreed by the shareholders general assembly, before contribution to Kuwait Foundation for Advancement of Sciences, National Labour Support Tax, directors' remuneration and Zakat is transferred to the voluntary reserve. Such transfers can be discontinued by a resolution adopted by the general assembly as recommended by the Board of Directors. The Parent Company's Board of Directors has proposed to transfer 5% of the net profit for the year to the voluntary reserve.

17. Other reserves

	Change of fair value reserve	Group's share in associates' reserves	Property, plant and equipment revaluation surplus	Translation of foreign currencies	Total
Balance as at 1 January 2015	4,488,441	(1,687,929)	5,547,886	50,208	8,398,606
Total comprehensive (losses) / income for the year	(1,390,547)	1,882,955	-	171,862	664,270
Balance as at 31 December 2015	<u>3,097,894</u>	<u>195,026</u>	<u>5,547,886</u>	<u>222,070</u>	<u>9,062,876</u>
Balance as at 1 January 2016	3,097,894	195,026	5,547,886	222,070	9,062,876
Total comprehensive (losses) / income for the year	(1,504,530)	(98,415)	-	70,069	(1,532,876)
Balance as at 31 December 2016	<u>1,593,364</u>	<u>96,611</u>	<u>5,547,886</u>	<u>292,139</u>	<u>7,530,000</u>

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18. Financing from third parties

Financing from third parties represent murabaha and tawaruq contracts from banking institutions inside and outside of Kuwait

Financing from third parties are analysed as follows:

	<u>2016</u>	<u>2015</u>
Current portion	28,824,150	27,474,926
Non-current portion	153,840,383	116,225,325
	<u>182,664,533</u>	<u>143,700,251</u>

Average cost rate of finance from third parties is 3.24% as at 31 December 2016 (3.81% - 2015).

The maturities analysis is set out in note (3.1)

The Group obtained finance against the pledge of 245,697,583 share of Al Salmia Group (subsidiary) in addition to the following assets:

	<u>2016</u>	<u>2015</u>
Property, plant and equipment (Note 5)	27,370,868	28,607,640
Investment properties (Note 6)	282,005,260	238,290,960

19. Payables and other credit balances

	<u>2016</u>	<u>2015</u>
Trade payables	1,751,390	1,163,728
Due to related party (Note 26)	189,717	-
Retentions	2,788,689	3,104,594
Accrued expenses	3,500,062	3,319,869
Revenues received in advance	6,668,695	9,632,725
Deposits from others	3,931,992	3,129,845
Kuwait Foundation for the Advancement of Science (KFAS)	82,694	159,999
National Labor Support Tax	405,156	518,383
Zakat	103,873	206,991
Dividends payable to shareholders	978,262	681,988
Finance claim (Note 28)	1,575,699	-
Other credit balances	1,726,382	769,714
	<u>23,702,611</u>	<u>22,687,836</u>

20. Income of investment properties and hotel's revenue

	<u>2016</u>	<u>2015</u>
Real estate rental income	19,260,149	14,992,817
Hotel's revenues	5,552,127	5,155,540
Total revenues	24,812,276	20,148,357
Property expenses	(4,674,050)	(2,748,459)
Hotel expenses	(6,071,536)	(5,576,808)
	<u>14,066,690</u>	<u>11,823,090</u>

Hotel expenses include an amount of KD 1,669,980 that represents the current year depreciation of the hotel building and related equipments (KD 1,575,045 - 2015).

21. Net income on financial investments

	<u>2016</u>	<u>2015</u>
Available for sale investments		
Gain on sales	196,667	1,823,935
Cash dividends	702,043	384,113
	<u>898,710</u>	<u>2,208,048</u>
Investments at fair value through profit or loss		
Losses from change in fair value	(1,315,103)	(877,310)
Cash dividends	1,728,910	1,051,678
	<u>413,807</u>	<u>174,368</u>
	<u>1,312,517</u>	<u>2,382,416</u>

Notes to the Consolidated Financial Statement for the Year Ended 31 December 2016
(All amounts are in Kuwaiti Dinars unless otherwise stated)

22. Provision and impairment

	2016	2015
Finance claim (note 28)	1,575,699	-
Impairment of available for sale investments	140,466	43,974
(Reversal) / recording impairment related to investment in associates	(1,125,916)	1,036,650
(Reversal) / recording provision for doubtful debts	(47,858)	214,843
	<u>542,391</u>	<u>1,295,467</u>

23. Earnings per share attributable to the Parent Company's shareholders

Earnings per share are calculated by dividing the net profit attributable to shareholders of the Parent Company for the year by the weighted average number of shares outstanding during the year, taking into account the treasury shares weighted average as follows:

	2016	2015
Net profit (KD)	15,287,068	20,591,397
Weighted average number of outstanding shares (share)	1,763,851,996	1,766,445,232
Basic earnings per share (fils)	<u>8.67</u>	<u>11.66</u>

24. Investments in subsidiaries

24.1 The consolidated financial statements include the financial statements of the Parent Company and its affiliated entities as follows:

Company name	Activity	Country of incorporation	Shareholding percent (%)	
			2016	2015
Al Mutajara Real Estate Company K.S.C.C.	Real Estate	State of Kuwait	72.22	71.71
Al-Tijaria Real Estate Development Co.	Real Estate	Kingdom of Bahrain	100	100
Symphony Style Kuwait Hotel - Branch	Hotel services	State of Kuwait	100	100
Al-Salmiya Group for Project Development Company	Real Estate	State of Kuwait	81.90	45.92

The financial statements of Al Mutajara Real Estate Company and Salmiya Group Project Development Company were consolidated based on the audited financial statements as at 31 December 2016. The financial statements of Symphony Style Hotel Kuwait and Al-Tijaria Real Estate Development Company were consolidated based on the financial information prepared by the management of these subsidiaries as at 31 December 2016.

Summary of the financial statements of the Group's subsidiaries including significant non-controlling interests is as follows:

Salmiya Group for Project Development Company

	2016	2015
Current assets	740,828	5,985,385
Non-current assets	75,000,000	71,242,865
Current liabilities	8,758,001	9,131,711
Non-current liabilities	16,584,866	17,679,067
Equity attributable to shareholders of the Parent Company	41,275,528	23,151,717
Non-controlling interests	9,122,433	27,265,755
		<u>2016</u>
Revenue		2,422,606
Expenses		(2,442,115)
Loss for the year		(19,509)
Profit for the year attributable to shareholders of the Parent Company		406,706
Loss for the year attributable to non-controlling interests		(426,215)
Total comprehensive income attributable to shareholders of the Parent Company		406,706
Total comprehensive loss attributable to non-controlling interests		(426,215)
Total comprehensive loss for the year		<u>(19,509)</u>

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	2016
Net cash flow used in operating activities	(114,237)
Net cash flow used in investing activities	(2,716,235)
Net cash flow used in financing activities	(1,975,580)
Net change in cash and cash equivalents of the subsidiary	(4,806,052)

Al Mutajara Real Estate Company

	2016	2015
Current assets	10,129,188	2,159,745
Non-current assets	59,728,099	42,142,203
Current liabilities	1,900,861	660,987
Non-current liability	19,003,175	-
Equity attributable to shareholders of the Parent Company	35,365,824	31,297,000
Non-controlling interests	13,587,427	12,343,961

	2016	2015
Revenue	8,253,377	2,466,094
Expenses	(623,921)	(88,353)
Profit for the year	7,629,456	2,377,741
Profit for the year attributable to shareholders of the Parent Company	5,470,216	1,701,638
Profit for the year attributable to non-controlling interests	2,159,240	676,103

Total comprehensive income attributable to shareholders of the Parent Company	5,325,292	1,950,869
Total comprehensive income attributable to non-controlling interests	2,048,416	677,970
Total comprehensive income for the year	7,373,708	2,628,839

Dividends paid to non-controlling interests	574,240	580,247
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Net cash flow (used in)/ generated from operating activities	(1,293,139)	1,344,943
Net cash flow used in investing activities	(16,941,049)	(1,513,613)
Net cash flows generated from/ (used in) financing activities	17,950,711	(1,981,759)
Net change in cash and cash equivalents of the subsidiary	(283,477)	(2,150,429)

24.2 Change in Group's ownership interest

During the year, the Group increased its interest in the subsidiary "Al-Salmiya Group for development Projects Company K.S.C.C" at 35.98% by acquiring interests from non-controlling interests for an amount of KD 16,737,301. The net carrying value of acquired assets and liabilities exceeds the paid consideration by KD 979,801 and this difference has been included within equity as follows:

Fair value of net acquired assets	49,241,528
Parent Company's share in net acquired assets	17,717,102
Fair value of paid amount against acquisition	16,737,301
Gain on bargain purchase	979,801

The investment in Al-Salmiya Group for development Projects Company is pledged against credit facilities granted to this company as at the date of the consolidated financial statements (Note 18).

During the period, the Group increased its interest in the subsidiary "Al-Mutajara Real Estate Company K.S.C.C" at 0.51% by acquiring interests from non-controlling interests against an amount of KD 150,613. The net carrying value of acquired assets and liabilities exceeds the paid consideration by KD 87,555 and this difference has been included within equity.

25. Dividends

On 27 March 2016, the General Assembly of the Parent Company's shareholders has approved the consolidated financial statements for the year ended 31 December 2015 and approved to distribute cash dividends of 5% to the listed shareholders on the date of the Ordinary General Assembly meeting (6% dividends and bonus shares of 5% for the year ended 31 December 2014).

Notes to the Consolidated Financial Statement for the Year Ended 31 December 2016
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On 14 February 2017, the Parent Company's Board of Directors proposed cash dividends of 5% for the year ended 31 December 2016. This proposal is subject to the shareholders' approval at the general assembly meeting and the regulatory authorities.

26. Related parties transactions

Related parties comprise of the Group's shareholders who are members in the board of directors, key management personnel, associates and the companies, in which the company has representatives in their board. Significant related party transactions and resulting balances were as follows:

Transactions	2016	2015
Key management remuneration	1,100,030	978,492
Gain of bargain purchase (Note 7)	2,158,925	-
Purchase of investments in associate	2,852,074	-
Purchase of investments available for sale	3,580,380	-
purchase of an additional shares in subsidiary	16,737,301	-
Purchase of lands held for Trading (Note 9)	3,116,845	-
Balances		
Receivables and other debit balances (Note 11)	137,010	112,105
Payables and other credit balances (Note 19)	189,717	-
Key management remuneration	832,873	718,182

Balances due from/to related parties are interest-free and payable on demand. All related party transactions are subject to approval of the shareholders' general assembly.

27. Capital commitments

	2016	2015
Uncalled capital – investments	1,248,890	2,675,541
Contracts for projects under development	302,553	2,869,210
Other	37,766	25,132
	<u>1,589,209</u>	<u>5,569,883</u>

28. Contingent liabilities

During the year, the Parent Company was notified that the General Authority for Zakat and Tax in the Kingdom of Saudi Arabia assessed tax for capital gains on a deemed profit basis on the Parent Company and other investors for one of the investments which the Company exit since 2009.

The Parent Company's share in such tax assessment is KD 2,867,000. The Group believes that the value of the tax assessment mentioned in the notice is overestimated. The Group appointed a tax consultant for it in KSA and filed a formal objection to the tax claim. Further, the Group recalculated its share in the tax assessment value. Based on this, the Parent Company recognised a liability provision of KD 1,575,699 in the consolidated statement of income for the year ended 31 December 2016. This amount represents the best estimate of the outstanding liabilities until the value of the final liability is decided.

On the date of the consolidated financial statements, there have been letter of guarantees issued to others amounting to KD 2,857,238 (KD 4,122,436 – 2015).

Notes to the Consolidated Financial Statement for the Year Ended 31 December 2016
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29. Segment information

The Group is organized into two major business segments; real estate and investment. Both segments results are reported to senior executive management. Further, the Group's operating results, assets and liabilities are reported according to geographical areas, in which it operates. Revenue, profits, assets and liabilities are measured according to the same accounting bases adopted in preparation of the consolidated financial statements.

Business segment analysis in line with internal reports submitted to the management is as follows:

	2016		
	Real estate sector	Investment sector	Total
Revenue	30,593,015	7,875,141	38,468,156
Direct cost	(12,110,823)	(832,604)	(12,943,427)
Gross profit	18,482,192	7,042,537	25,524,729
Unallocated costs			(8,496,025)
Currency valuation differences			(8,612)
Net profit			17,020,092

	2015		
	Real estate sector	Investment sector	Total
Revenue	26,435,665	13,459,546	39,895,211
Direct cost	(9,850,878)	(1,252,992)	(11,103,870)
Gross profit	16,584,787	12,206,554	28,791,341
Unallocated costs			(7,554,387)
Currency valuation differences			30,546
Net profit			21,267,500

Geographic distribution

	2016			
	State of Kuwait	Gulf Countries	Other	Total
Total income	25,987,151	1,291,736	591,259	27,870,146
Total expenses	(6,593,923)	(4,216,265)	(39,866)	(10,850,054)
Net profit/(loss)	19,393,228	(2,924,529)	551,393	17,020,092

	2015			
	State of Kuwait	Gulf Countries	Other	Total
Total income	31,239,674	92,428	467,893	31,799,995
Total expenses	(7,910,832)	(2,621,663)	-	(10,532,495)
Net profit/(loss)	23,328,842	(2,529,235)	467,893	21,267,500

Geographic distribution of assets and liabilities

	Assets		Liabilities	
	2016	2015	2016	2015
State of Kuwait	433,534,903	412,683,490	158,561,482	124,189,039
Gulf countries	43,342,513	37,341,691	48,753,321	43,399,910
Other	37,866,650	35,932,381	-	-
	514,744,066	485,957,562	207,314,803	167,588,949