

Al Dar National Real Estate Company
K.S.C. (Public)
and its subsidiary
State of Kuwait

Consolidated Financial Statements
for the financial year ended December 31, 2016
with
Independent auditors' report

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Al Dar National Real Estate Company
K.S.C. (Public)
and its subsidiary
State of Kuwait
Consolidated Financial Statements
for the financial year ended December 31, 2016
with
Independent auditors' report

Notes to the financial statements

**Al Dar National Real Estate Company
K.S.C. (Public)
and its subsidiary
State of Kuwait**

**Consolidated Financial Statements
for the financial year ended December 31, 2016
with
Independent auditors' report**

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The consolidated financial statements of Al Dar National Real Estate Company, K.S.C. (Public) ("Parent Company") and its subsidiary (together referred to as "The Group") which represent the consolidated financial position as of December 31, 2016, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Back of Qualified Opinion

As mentioned in note (7) to the condensed consolidated financial statements with respect to the non-completion of the ownership transfer of investments in unquoted foreign shares by the seller in favor of the Group. During the prior year, the Group has reclassified available for sale unquoted foreign investments to "Due from a related party" (Note 19) as a result of closing this amount in the account of the related party based on mutual correspondence between both parties till signing the settlement agreement between both of the two parties later on.

The key contractor of the parent company's project has filed lawsuits against the parent company claiming for KD 25.9 million which represent the value of the work performed till the date of the project's suspension, as well as compensation and penalties. On subsequent date after the financial statements date, the parent company has recorded KD 2.1 million for the contractor against the contractor's works and claims. Subsequent to the date of the financial statements specifically on April 20, 2017, an initial ruling was issued in favor of the key contractor with an amount of KD 8,612,578 plus KD 2,263 per month for the lease of the warehouses by the subcontractor for storing the steel as of July 28, 2011 till the receipt of the stored steel. No settlement has been concluded with the key contractor till the date of the preparation of the consolidated financial statements as shown in note (15) about the condensed consolidated financial statements.

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Independent auditors' report

**The Shareholders,
Al Dar National Real Estate Company
K.S.C. (Public)
and its subsidiary
State of Kuwait**

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the financial statements of Al Dar National Real Estate Company- K.S.C. - (Public) ("Parent Company") and its subsidiary (together referred to as "The group") which comprise the consolidated statement of financial position as of December 31, 2016, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis of Qualified Opinion

- As mentioned in note (7) to the condensed consolidated financial statements with respect to the non-completion of the ownership transfer of investments in unquoted foreign shares by the seller in favor of the Group. During the prior year, the Group has reclassified available for sale unquoted foreign investments to "Due from a related party" (Note 19) as a result of closing this amount in the account of the related party based on mutual correspondence between both parties till signing the settlement agreement between both of the two parties later on.
- The key contractor of the parent company's project has filed lawsuits against the parent company claiming for KD 25.9 million which represent the value of the work performed till the date of the project's suspension, as well as compensation and penalties. On subsequent date after the financial statements date, the parent company has recorded KD 9.1 million for the contractor against the contractor's works and claims. Subsequent to the date of the financial statements specifically on April 20, 2017, an initial ruling was issued in favor of the key contractor with an amount of KD 8,612,578 plus KD 2,263 per month for the lease of the warehouses by the subcontractor for storing the steel as of July 29, 2011 till the receipt of the stored steel. No settlement has been concluded with the key contractor till the date of the preparation of the consolidated financial statements as shown in note (15) about the condensed consolidated financial statements.

- A judicial resolution has been issued stating the ruling issued against the Group in favor of a local bank is not appealable and the resolution of the Court of Cassation rejecting the effectiveness request submitted by the parent company. Therefore and during the year, the Group has recorded losses amounting to KD 5,873,138, and the parent company has not come to a settlement with the opponent till the date of issuing the condensed consolidated financial statements as shown in note (21).
- The accumulated losses of the Parent Company as of the financial position date amounted to KD 35,109,591 which is 84% of the Parent Company's share capital, its current liabilities also exceed its current assets by KD 502,775 which requires holding an Extraordinary General Assembly meeting to consider the parent company's continue as going concern. On June 21, 2017, the Extraordinary General Meeting of the Parent Company was not held due to the lack of quorum. The consolidated financial statements of the Company have been prepared on a going concern basis as shown in note 2 about the consolidated financial statements.

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note (23) regarding the subsequent events of the financial statements.

Key Audit Matters

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

We have identified the following key audit matters:

Valuation of Investment Properties

As shown in note (6) to the consolidated financial statements, the value of investment properties is KD 2,211,000. These investment properties have been evaluated and they are one of the key audit matters since they include assumptions and estimates which represent an important part of the Group's total assets. The Group's policy is to evaluate the investment properties by two independent evaluators at the end of the financial year. The accounting policies related to the investment properties are mentioned in note (4\8) to the consolidated financial statements.

Other Information

Other information consists of the information included in the Board of director Report, other than the consolidated financial statements and auditors' report thereon. Management is responsible for this other information. The annual report is expected to be available to us after the date of auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted for use by the State of Kuwait 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the preparation of the consolidated financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 risks 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

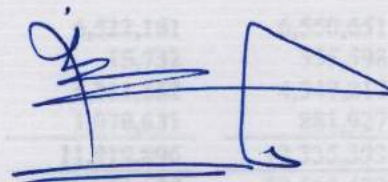
Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the "Parent Company", physical counting was carried out in accordance with recognized practices, the consolidated financial statements together with the financial contents of the report of the Board of Directors are in accordance "Parent Company". Also, we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements incorporate the information that is required by the Companies' Law no. 1 of year 2016, and related Executive Regulations and the "Parent Company's" memorandum and articles of association. According to the information available to us, there were no violations have occurred of either the Companies' Law no. 1 of year 2016, and related Executive Regulations or the "Parent Company's" memorandum and articles of association during the financial year ended December 31, 2016 that might have had a material effect on the "Parent Company's" business or its financial position. Except what mentioned in note (20) about not holding the unordinary general assembly meeting for the going concern of the Company.



Ali A. Al Hasawi
License No. 30 (A)
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Burgan - International Accountants

August 13, 2017
 State of Kuwait



Adel Al-Sanea
Auditors Registry No. 86 Category (A)
Kuwaiti Accountant Auditing
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Non-current liabilities			
Provision for end of service indemnity		7,829	28,711
Current liabilities			
Accounts payable and other credit balances	15	11,417,121	11,606,568
Debt instruments	16	-	35,567,862
		11,417,121	67,174,430
Total liabilities		11,424,950	67,203,141
Total equity and liabilities		16,671,695	78,565,432

Abdullah Al-Ghath
 Chairman

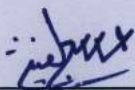
The accompanying notes are an integral part of these consolidated financial statements.

Al Dar National Real Estate Company
K.S.C. (Public)
and its subsidiary
State of Kuwait

Consolidated statement of financial position as of December 31, 2016

"All amounts are in Kuwaiti Dinar"

	Note	2016	2015
Assets			
Non-current assets			
Investment properties	6	2,211,000	63,652,000
Available for sale investments	7	99,305	136,545
Advance payments to contractors		2,441,494	2,441,494
		<u>4,751,799</u>	<u>66,230,039</u>
Current assets			
Investments at fair value – statement of profit or loss	8	6,522,181	6,550,651
Other debit balances	9	15,732	555,598
Due from a related party	19	4,311,352	4,347,217
Cash and cash equivalents	10	1,070,631	881,927
		<u>11,919,896</u>	<u>12,335,393</u>
Total assets		<u>16,671,695</u>	<u>78,565,432</u>
Equity and liabilities			
Equity			
Share capital	11	42,000,000	42,000,000
Treasury shares	12	(1,774,013)	(1,774,013)
Gains on sale of treasury shares reserve		168,398	168,398
Cumulative changes in fair value		(37,240)	-
Accumulated losses		(35,109,591)	(29,032,094)
		<u>5,247,554</u>	<u>11,362,291</u>
Non-current liabilities			
Provision for end of service indemnity		<u>7,020</u>	<u>28,711</u>
Current liabilities			
Accounts payable and other credit balances	15	11,417,121	11,606,568
Debt instruments	16	-	55,567,862
		<u>11,417,121</u>	<u>67,174,430</u>
Total liabilities		<u>11,424,141</u>	<u>67,203,141</u>
Total equity and liabilities		<u>16,671,695</u>	<u>78,565,432</u>


 Ali Youssef Al Ghaith
 Chairman

The accompanying notes are an integral part of these consolidated financial statements.

Al Dar National Real Estate Company
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Consolidated statement of profit or loss for the financial year ended December 31, 2016
"All amounts are in Kuwaiti Dinar"

	Note	2016	2015
Revenue			
Rental revenue		92,165	125,589
Change in fair value of investment properties		-	58,244
Gains from financial investments	17	71,530	65,020
Loss on disposal of investment properties		(5,873,138)	-
Other income		40,338	60,059
Foreign currency translation differences		-	5,992
Total (loss)/revenue		<u>(5,669,105)</u>	<u>314,904</u>
Expenses and other charges			
General and administrative expenses		408,392	375,311
Impairment in value		-	223,436
Total expenses and other charges		<u>408,392</u>	<u>598,747</u>
Net loss for the year		<u>(6,077,497)</u>	<u>(283,843)</u>
Loss per share/(Fils)	18	<u>(14.78)</u>	<u>(0.69)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Al Dar National Real Estate Company
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Consolidated statement of profit or loss and other comprehensive income for the financial year ended December 31, 2016
"All amounts are in Kuwaiti Dinar"

	<u>2016</u>	<u>2015</u>
Net loss for the year	(6,077,497)	(283,843)
Other comprehensive income		
Cumulative changes in fair value	(37,240)	-
Transferred to consolidated statement of profit or loss due to impairment in value of investment	-	86,893
Other comprehensive (loss)/ income	<u>(37,240)</u>	<u>86,893</u>
Total comprehensive loss for the year	<u>(6,114,737)</u>	<u>(196,950)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Al Dar National Real Estate Company
K.S.C. (Public)
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Consolidated statement of changes in equity for the financial year ended December 31, 2016
"All amounts are in Kuwaiti Dinar"

	Share capital	Treasury shares	Gains on sale of treasury shares reserve	Cumulative changes in fair value	Accumulated losses	Total
Balance at January 1, 2015	42,000,000	(1,774,013)	168,398	(86,893)	(28,748,251)	11,559,241
Total comprehensive loss for the year	-	-	-	86,893	(283,843)	(196,950)
Balance at December 31, 2015	<u>42,000,000</u>	<u>(1,774,013)</u>	<u>168,398</u>	<u>-</u>	<u>(29,032,094)</u>	<u>11,362,291</u>
Balance at January 1, 2016	42,000,000	(1,774,013)	168,398	-	(29,032,094)	11,362,291
Total comprehensive loss for the year	-	-	-	(37,240)	(6,077,497)	(6,114,737)
Balance at December 31, 2016	<u>42,000,000</u>	<u>(1,774,013)</u>	<u>168,398</u>	<u>(37,240)</u>	<u>(35,109,591)</u>	<u>5,247,554</u>

The accompanying notes are an integral part of these consolidated financial statements.

Al Dar National Real Estate Company
K.S.C. (Public)
and its subsidiary
State of Kuwait

Consolidated statement of cash flows for the financial year ended December 31, 2016

"All amounts are in Kuwaiti Dinar"

	Note	2016	2015
Cash flows from operating activities			
Net loss for the year		(6,077,497)	(283,843)
Adjustments			
Change in fair value of investment properties		-	(58,244)
Gains from financial investments		(71,530)	(65,020)
Losses on disposal of investment properties		5,873,138	-
Provision for impairment loss		-	173,784
Provision for end of service indemnity		6,054	61,898
Operating loss before changes in working capital items		(269,835)	(171,425)
Other debit balances		539,866	311,837
Related party		35,865	186,029
Financial investments at fair value – statement of profit or loss		-	17
Accounts payable and other credit balances		(189,447)	(150,042)
Cash generated from operations		116,449	176,416
End of service indemnity paid		(27,745)	(148,696)
Net cash generated from operating activities		88,704	27,720
Cash flows from investing activities			
Cash dividends received		100,000	116,081
Retained funds against debt instruments		(6,300)	(19,766)
Net cash generated from investing activities		93,700	96,315
Net increase in cash and cash equivalents		182,404	124,035
Cash and cash equivalents at beginning of the year		314,722	190,687
Cash and cash equivalents at end of the year	10	497,126	314,722

The accompanying notes are an integral part of these consolidated financial statements.

Al Dar National Real Estate Company
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Notes to the consolidated financial statements for the financial year ended December 31, 2016

"All amounts are in Kuwaiti Dinar unless stated otherwise"

1- Incorporation and activity

Al Dar National Real Estate Company (K.S.C- "Public") "the Parent Company" was established on March 7, 2000 according with articles of association number 1/714, and it was registered in the Commercial Register on March 12, 2000 under number 80148.

The parent company listed in Kuwait Stock Exchange on July 2, 2005.

The basic activity of the parent company is owning, selling and purchasing of real estate and lands and development those, except the special housing vouchers and the management of the properties of the company and non properties, and owning, selling and purchasing of shares and bonds of real estate companies, preparing studies and providing consultations in real estate fields with all its kinds, and making the maintenance process's that related to buildings and properties that owned by the company, and organizing property shows, and using the available financial surplus in the company, by investing it in financial and properties portfolios that managed by specialized aspects and companies.

The Parent company carries on all its activities in accordance with the rules of the forgiving Islamic principles.

The registered address of the Parent Company is: Kuwait – P.O Box 22242, Postal Code 13183 Kuwait.

The financial statement was approved for issuing by the Board of Directors dated on August 13, 2017.

The shareholder's general assembly has the authority to adjust these consolidated financial statements after issuance.

2- Going concern

- The consolidated financial statements of the parent company have been prepared based on going concern basis, though the accumulated losses of the parent company amounted to KD 35,109,591 as of December 31, 2016 which exceeds 75% of the Parent Company's share capital. According to Article (271) of the Companies' Law, an Extraordinary General Assembly meeting should be held to consider the parent company's going concern.
- The consolidated financial statements of the Group have been prepared on the basis of the going concern, Although what has been mentioned in notes (6) , (15) and (16) to the consolidated financial statements. The Group has ceased to pay its credit liabilities, and the construction works of the parent company in its main project has been stopped (Capital Tower) as a result of the transfer of the project ownership to the bank.

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Notes to the consolidated financial statements for the financial year ended December 31, 2016

"All amounts are in Kuwaiti Dinar unless stated otherwise"

During the current year, a ruling has been issued in favor of a local bank which provides the transfer the ownership of the investment properties under development (Note 6) to the consolidated financial statements in favor of the Company against the debt that recorded on the parent company (Note 16) to the consolidated financial statements and judicial resolution has been made by the parent company which is related to the value of the property (Note 21) to the consolidated financial statements.

The Parent Company's management deems that settlement of the outstanding debt to fulfill the issued ruling will lead to positive results in for the continuity of its activity. Therefore, the consolidated financial statements have been prepared on the basis of the going concern as described above.

3- Application of new and revised International Financial Reporting Standards (IFRSs)

3/1) Amendments to IFRSs those are mandatorily effective for the current year:

In the current year, the following effective amendments to IFRSs issued by the International Accounting Standards Board (IASB) are mandatorily for the accounting period beginning on or after January 1, 2016:

- **Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception**

(Effective for annual periods beginning on or after January 1, 2016)

The amendments clarify that the exemption from preparing consolidated financial statements accordance with "Parent Company" is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10.

- **Amendments to IFRS 11 "Accounting for Acquisitions of Interest in Joint Operations"**

(Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 "Business Combinations". A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

- **Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"**

(Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset.

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• **Amendments to IAS 16 & IAS 41 – Agriculture: Bearer Plants**

The amendments to these standards which are effective for annual periods beginning on or after 1 January 2016 require that bearer plants (a subset of biological assets used solely to grow produce over several periods) should be accounted for in the same way as property, plant and equipment in IAS 16 because their operation is similar to that of manufacturing, unlike all other biological assets related to agricultural activity which are measured at fair value less cost to sell. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41, and the produce growing on bearer plants will remain within the scope of IAS 41. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

• **Amendments to IAS 27 “Separate Financial Statements”**

(Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).

The amendments allowed an entity to account for its investment in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost; or
- In accordance with IFRS 9; or
- Using the equity method

Also, clarified that when the parent ceases or becomes an investment entity, it should account for the change from the date when the change in status occurs.

3/2) ***New and revised IFRSs in issue but not yet effective:***

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

• **Amendments to IFRS 2 “Classification and Measurement of Share-based payment Transactions”**

(Effective for annual periods beginning on or after January 1, 2018).

• **IFRS 9 “Financial Instruments”**

(Effective for annual periods beginning on or after January 1, 2018 with earlier application permitted).

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.

Al Dar National Real Estate Company

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The final version of IFRS 9 was issued in July 2014, which adds a new expected loss impairment model and limited amendments to the classification and measurement requirements by introducing the "fair value through other profits or losses" (FVTOCI) measurement category for certain simple debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test. The final version supersedes all previous versions of IFRS 9 and replaces IAS 39. The Company is in the process to quantify the effect on the financial statements.

- **IFRS 14 "Regulatory Deferral Accounts"**

(Effective for annual periods beginning on or after July 1, 2016)

This standard is applied by first-time adopters of IFRS. The standard is designed as a limited scope Standard to provide short-term solution for rate-regulated entities that have not yet adopted IFRS.

- **IFRS 15 "Revenue from Contracts with Customers"**

(Effective for annual periods beginning on or after January 1, 2018 with earlier application permitted).

In May 2014, IFRS 15 was issued which 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 related Interpretations when it becomes effective. The standard introduces a five-steps approach for revenue recognition to be applied to all contracts with customers.

- **IFRS 16 "Leases"**

(Effective for annual periods beginning on or after January 1, 2019).

IFRS 16 provides a comprehensive model for identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

- **Amendments to IAS 7 "Disclosure Initiative"**

(Effective for annual periods beginning on or after January 1, 2017)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

- **IAS 12 Income Taxes Recognition of deferred Tax Assets for Unrealized Losses Amendments**

The Amendments to IAS 12 make the following changes:

Unrealized losses on debt instrument measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expect to recover the carrying amount of the debt instrument by sale or by use.

The carrying amount of an asset does not limit the estimation of probable future taxable profits.

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The management anticipates that the new or revised standards will be adopted in the Group's accounting policies for the period beginning on or after the effective date of the pronouncement, and those new and revised standards that have been issued but are not relevant to the Group's operations are expected not to have a material impact on the Group's consolidated financial statements.

4- Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below:

4/1) Basis of preparation consolidated financial statements

- The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and Companies' Law requirements in Kuwait.
- The accounting policies used in preparation of these consolidated financial statements are consistent with those used in preparation of the consolidated financial statements for the previous year.

4/2) Accounting convention

- These consolidated financial statements are prepared under the historical cost convention on the accrual basis, adjusted through the revaluation of some assets as included in the financial statements.
- The consolidated financial statements are presented in Kuwaiti Dinar.

4/3) Basis of consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiary (together referred to as "the Group") disclosed under note 5.

Subsidiary is the enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The control is maintained by the Parent Company when:

- Exercise power over the investee;
- Exposure to variable returns or obtains rights from involvement with the investee,
- Ability to use its power to affect the investee returns.

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When the Parent Company does not has majority voting rights in the investee, the Parent Company takes into consideration facts and other factors in assessing the control, which include:

- Contractual arrangement between the Parent Company and other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Parent Company's voting rights;
- Other potential voting rights.

The financial statements of subsidiary acquired or disposed are included in the consolidated financial statements from the date the control effectively commences until the date that control effectively end.

The consolidated financial statements of the subsidiary are consolidated on a line-by-line basis by adding together alike items of assets, liabilities, revenues and expenses. All inter-company balances and transactions, including unrealized profits or losses arising from inter-company transactions, are fully eliminated. Consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events which accrue in similar conditions.

The financial statements of the subsidiary are prepared for the same date or within three months of the reporting period of the Parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist between the subsidiary' financial year date and the Parent Company's financial year date.

Non-controlling interests in the net assets of consolidated subsidiary are identified separately from the Group's equity therein. Non-controlling interests consist of the interest at the date of the original business combination and the non-controlling interest share of changes in equity since the date of the combination. Profits and losses attributed to the owners of the Parent Company and to the non-controlling interests in the ratio of their respective shareholdings even if that resulted in the non-controlling interests having a deficit balance.

When ownership of subsidiary changes without loss of control, the transaction is accounted for within equity. However, when control is lost as a result of change in ownership, then:

- Derecognize the assets and liabilities of the subsidiary reported in consolidated statement of financial position (including goodwill);
- Recognize any remaining investment of the subsidiaries at fair value at date of loss of control;
- Derecognize non-controlling interests.
- Recognize the profit or loss resulting from the loss of control in the consolidated statement of profit or loss.

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4/4) Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge, the actual results may differ from those estimates

4/5) Recognition and de-recognition of financial assets and liabilities

A financial asset or a financial liability is recognized when the company become a party to the contractual provisions of the financial instrument. A financial asset is de-recognized either when the contractual rights to cash flows from the financial asset expire, the company has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards, but no longer has control over the asset or a proportion of the asset. A financial liability is de-recognized when the obligation specified in the contract is discharged, cancelled or expired.

4/6) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and at banks and short term bank deposits with a maturity date not exceeding three months from the date of deposit.

4/7) Financial instruments

Classification

The classification of the investments depends on the purpose for which the investments were acquired. Management determines this classification at initial recognition of the financial instrument and reviews this classification when preparing the consolidated financial statements. The group has classified its financial instruments as receivables and financial assets available for sale:

Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides goods or services directly to clients with no intention of trading these debts.

Investment at fair value – through consolidated statement of profit or loss

A financial asset is classified in "financial assets at fair value – consolidated statement of profit or loss" if it acquired principally for the purpose of selling in the short term or if it classified by management on initial recognition.

Available for sale-investments

These are non-derivative investments that are not included in any of the above categories and are principally, acquired to be held, for an indefinite period of time which could be sold when liquidity is needed or upon changes in rates of profit.

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Recognition and de-recognition

Regular purchase and sale of financial asset are recognized on settlement date - the date on which the group receives or delivers the asset. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership to another party.

Measurement

Financial assets are initially recognized at fair value plus transaction cost. Except the investments at fair value through statement of profit or loss.

Subsequently, assets available for sale are carried at fair value and receivables are carried at amortized cost using the effective yield method.

Realized and unrealized gains and losses arising from changes in the fair value of assets at fair value through profit or loss are recognized in the consolidated statement of profit or loss in the year in which it arises.

Changes in the fair value of available for sale investments are recognized directly in consolidated statement of changes in equity. When available for sale investments are sold or impaired, the amounts recognized in consolidated statement of changes in equity are transferred to the consolidated statement of profit or loss.

Fair value

The fair value of financial instruments in regular financial market is determined according to the last bid prices.

For the unquoted investments, the group establishes fair value by reference to other investments that are substantially the same, or by using the expected discounted cash flow after adjustment to reflect the same circumstances of the issuing company. Available for sale investments, which its fair value could not be determined are carried at cost less impairment losses.

Impairment in value

The Group assesses at each consolidated financial position date whether there is objective evidence that a financial asset or a similar group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the value of the security is considered as an indicator that the securities are impaired. If any such evidence exists, the total cumulative losses are measured at the difference between the acquisition cost and the current fair value less any impairment loss recognized in previous years then transferred from equity and recognized in the consolidated statement of profit or loss. Impairment losses on equity instruments are not reversed through the consolidated statement of profit or loss.

A specific provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts of receivable.

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The amount of the provision is the difference between the carrying amount and the recoverable amount that is the present value of estimated future cash flows discounted at the effective interest rate. Impairment losses are recognized in the consolidated statement of profit or loss.

4/8) Investment property

Real estate investments represent those properties held for lease or for the purpose of increasing their value and are accounted for using the fair value model.

Investment properties are initially stated at cost which represents the fair value of consideration given including possession fees for the investment properties, after preliminary investigation, the investment properties are re-measured at fair value. The resultant gains or losses are recognized in the consolidated statement of profit or loss.

4/9) Impairment of non-financial assets

The carrying amounts of the company's non-financial assets are reviewed at the consolidated financial position date to determine whether there is any objective evidence of impairment. If any such evidence exists, the assets recoverable amount is estimated and an impairment loss is recognized in the consolidated statement of profit or loss whenever the carrying value of an asset exceeds its recoverable value.

Reversal of impairment losses recognized in prior years are recorded as revenue when there is an indication that the impairment losses recognized no longer exist or has decreased.

4/10) Trade payables

Trade payables are stated at their nominal value.

4/11) Provision for end of service indemnity

Provision for staff end of service indemnity has been made as per the Labour Law in the private sector and signed contracts on the assumption of ending the services of all staff at the consolidated financial position date. This obligation is not funded. The management expects that based on this method of calculation a reasonable estimate is made of the obligation of the company towards employees indemnity for past and current periods.

4/12) Treasury shares

Treasury shares consist of the Parent Company owned shares that have been issued, subsequently repurchased by the Group and not yet re-issued or cancelled until the consolidated financial position date. The treasury shares are treated using the cost method, under the cost method cost of the treasury shares is charged to an account in equity. When re-issued the profit recognized in equity separately "Gain on sale of treasury shares" which is not distributable, any realized losses are charged the extent of the credit balance on the same account. Any excess losses are charged to retained earnings then reserves. Realized gains subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and gain on sale of treasury shares account respectively.

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4/13) Revenue recognition

- Rental income is recognized on the accrual basis according to the contractual agreements.
- Dividends income from investment are recognized when the Group's right to receive payment is established.
- Gain on sale of investment in securities is measured the difference between the net sales proceeds and the book value of the investment sold.
- Other categories of income are recognized when earned, at the time the related services are rendered on the basis of the terms of the contractual agreement of each activity.

4/14) Borrowing costs

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The capitalized borrowing costs should commence when expenditures for the asset have been incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- Borrowing costs that are not directly attributable to a qualifying asset are recognized as an expense in the period in which they are incurred.

4/15) Kuwait Foundation for the Advancement of Science

The company's contribution to KFAS is recognized as an expense and is calculated 1 % of profit after transfer to statutory reserve and before Board of Directors' remuneration, National Labour Support Tax and Zakat.

4/16) National Labour Support Tax

The company's contribution to NLST is recognized as an expense and is calculated in accordance with Ministry of Finance resolution No. 24/2012 and law number 19/2000.

4/17) Zakat

The company's contribution to Zakat is recognized as an expense and is calculated in accordance with Ministry of Finance resolution No. 58/2007 and 46/2006.

4/18) Foreign currencies

The functional currency of the group is the Kuwaiti Dinar ("KD") and accordingly, the consolidated financial statements are presented in KD. Transactions denominated in foreign currencies are translated into KD at the average rates of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated into KD at rates of exchange prevailing at the consolidated financial position date. The resultant exchange differences are taken to the consolidated statement of profit or loss.

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4/19) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but disclosed when an inflow of economic benefits is probable.

5- Subsidiary

The consolidated financial statements include the financial statements for the Parent Company and its subsidiary "Al-Nahda International Real Estate Company" K.S.C. (Closed) which is completely owned.

The financial statements of the subsidiary have been consolidated according to audited financial statements as of December 31, 2016.

<u>Company's name</u>	<u>Country</u>	<u>Ownership Percentage %</u>	
		<u>2016</u>	<u>2015</u>
Al-Nahda International Real Estate Company	Kuwait	100%	100%

6- Investment properties

	<u>2016</u>	<u>2015</u>
Investment properties	2,211,000	2,211,000
Investment properties under development	-	61,441,000
	<u>2,211,000</u>	<u>63,652,000</u>

The following is the movement on investment properties during the year:

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	63,652,000	63,593,756
Disposals	(61,441,000)	-
Change in the fair value	-	58,244
Balance at end of the year	<u>2,211,000</u>	<u>63,652,000</u>

During the current year, various judicial rulings at its different levels were issued to a local bank providing transfer of the ownership of investment properties under development in favor of the bank against the debt recorded on the Parent Company Note (16) Accordingly, the ownership of the property under development was transferred to the bank which resulted in the write-off of the property from the Group's books against the debt and the recognition of losses of KD 5,873,138 (Note 21).

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7- Available for sale-investments

	<u>2016</u>	<u>2015</u>
Investments in local shares - quoted	<u>99,305</u>	<u>136,545</u>

- The quoted local investments amounting to KD 99,305 are held in investment portfolios managed by related parties (Note 19) and mortgaged in favor of a local bank against debt instruments (Note 16).
- In the prior years, a related party submitted a settlement request to the Group for the sale contract concluded on February 1st, 2009, and based on this, the Group has purchased non-quoted foreign shares of this party in prior years for an amount of KD 7,000,000. During the period, the related party (the seller) has requested to cancel the contract due to his incapability to complete the transfer of ownership of such investments to the Group. The Group has rejected the contract cancellation altogether, and insisted on keeping all contract conditions and maintaining its legal rights to complete the contract. The Group's management also confirms the maintenance of all legal rights and effects and the cancellation of the contract.
- During the previous year, the Group has eliminated the investments in the above mentioned non-quoted foreign shares by closing the same in the account of a related party (Al Dar Investment Company K.S.C) based on mutual correspondence between the parties. This party has been authorized by the Court of Appeal to take measures to financially restructure the Company in accordance with Law No. 2 of 2009 related to the promotion of the company's financial stability and based on the letter of the lawyer of Al Dar Investment Company K.S.C. Accordingly, the Group has transferred its investment in these unquoted foreign shares by KD 4,737,555 to the related party (Note 19) till concluding the settlement contract, and no confirmation has been obtained from such party for the entire amount as of the consolidated statements of financial position date.

The movement on available for sale-investments during the year is as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	136,545	5,010,643
Transferred to due from related parties	-	(4,737,555)
Cumulative changes in fair value	<u>(37,240)</u>	<u>(136,543)</u>
Balance at end of year	<u>99,305</u>	<u>136,545</u>

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8- Investments at fair value – statement of profit or loss

	<u>2016</u>	<u>2015</u>
Quoted investments	240,809	269,279
Unquoted investments	6,281,372	6,281,372
	<u>6,522,181</u>	<u>6,550,651</u>

- The quoted investments are held in portfolios managed by related parties (Note 19) and are mortgaged in favor of a local bank against debt instruments (Note 16).
- Investments in unquoted securities amounting to KD 6,281,372 are carried at cost due to the incapability to reliably measure their fair value on a regular basis because of the nature of their unexpected cash flows and non availability of other appropriate methods to obtain a reliable fair value for these investments. Management reviews these investments to assess whether there is any impairment in value.

9- Other debit balances

	<u>2016</u>	<u>2015</u>
Refundable deposits	10,472	10,472
Prepaid expenses	5,260	25,801
Checks under collection	-	500,000
Other debit balances	-	19,325
	<u>15,732</u>	<u>555,598</u>

The other debit balances do not contain impaired assets the maximum exposure to credit risks at the financial position date is the fair value of each class of receivables mentioned above. The Group is not exposed any grantees for collecting.

10- Cash and cash equivalents

	<u>2016</u>	<u>2015</u>
Cash at investment portfolios	573,505	567,205
Current accounts at banks and financial institutions	497,126	314,722
Less: retained funds against debt instruments	1,070,631	881,927
Cash and cash equivalents for cash flows statement purposes	<u>(573,505)</u>	<u>(567,205)</u>
	<u>497,126</u>	<u>314,722</u>

Cash at investment portfolios is mortgaged in favor of a local bank against debt instruments (Note 16).

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11- Share capital

	Authorized and issued		Paid	
	2016	2015	2016	2015
100 fils per share	42,000,000	42,000,000	42,000,000	42,000,000

12- Treasury shares

	2016	2015
Number of shares (share)	8,936,000	8,936,000
Share capital percentage (100%)	2.13	2.13
Market value	-	236,804

- The market value of treasury shares has not been stated due to the suspension of trading on the parent company's shares by Kuwait Stock Exchange on 14 June 2016.

13- Statutory reserve

In accordance with the requirements of Companies' Law and the "Parent Company's" Articles of Association, 10% of the annual net profit before Board of Directors' remuneration, contribution to Kuwait Foundation for the Advancement of Science, Zakat and National Labor Support Tax has been transferred to the statutory reserve. The company may resolve to discontinue such transfer when the reserve totals 50% of share capital. Statutory reserve is not available for distribution except in cases stipulated by law. There was no transfer to statutory reserve due to achieving losses during the year.

14- Voluntary reserve

As required by the "Parent Company's" Articles of Association, 10% of the annual net profit before Board of Directors' remuneration, contribution to Kuwait Foundation for the Advancement of Science, Zakat and National Labor Support Tax has been transferred to the voluntary reserve. Such annual transfers may be discontinued with a resolution from the shareholders' General Assembly upon a recommendation from the Board of Directors. There was no transfer to voluntary reserve due to achieving losses during the year.

15- Accounts payable and other credit balances

	2016	2015
Trade payables (construction works)	9,110,557	9,110,557
Other trade payables	359,956	502,468
Guarantee retention for contractors	1,052,372	1,052,372
Accrued zakat	861,857	874,765
Accrued expenses	22,210	32,602
Others	10,169	33,804
	<u>11,417,121</u>	<u>11,606,568</u>

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There are mutual lawsuits filed between the parent company, the main contractor and the subcontractor on the value of work performed to date, estimations, compensation and delay penalties. The Group received claims from contractors amounting to KD 25.9 million as of 31 December 2016, while the recorded amounts for the contractors amounted to KD 9,110,557.

Subsequent to the date of the financial statements specifically on April 20, 2017, an initial ruling was issued in favor of the main contractor with an amount of KD 8,612,578 plus KD 2,263 per month for the lease of the warehouses by the subcontractor for storing the steel as of July 29, 2011 till the receipt of the stored steel. No settlement has been concluded with the main contractor till the date of the preparation of the consolidated financial statements. According to the Company's external counsel no further legal action was taken to overturn the ruling. The management deems that the amounts recorded to the main contractor is considered the best estimation of the contractor's expected liabilities according to the current information (Note 23).

16- Debt instruments

	<u>2016</u>	<u>2015</u>
Credit wakalat	-	53,242,326
Credit bank	-	2,325,536
	<u>-</u>	<u>55,567,862</u>

- The above-mentioned credit wakalat are granted by a local bank against the mortgage of investment properties (Note 6), available for sale-investments (Note 7), investments at fair value - statement of profit or loss (Note 8) and cash at the investment portfolios (Note 10).
- The Group has defaulted the payment of the installments due from these credit wakalat and has suspended calculating the related costs. According to the credit wakalat contracts, the parent company's suspension of payment leads to the full maturity of the wakala.
- The bank filed lawsuits against the company for the custody and sale of the assets kept as mortgage for to the wakala. On the other hand, the parent company in turn filed lawsuits against the bank to liquidate the account. During the year, the Full Court issued a ruling in favor of the bank that won the auction of one of the investment properties under dispute against KD 56,000,000, the Bank has taken action to transfer the ownership of the property for its favor. Accordingly, the Group has closed the debt instruments related to the property under dispute in the books (Note 6) and recognized losses amounting to KD 5,873,138.

17- Gains from financial investments

	<u>2016</u>	<u>2015</u>
Change in fair value	(28,470)	(51,061)
Cash dividends	100,000	116,081
	<u>71,530</u>	<u>65,020</u>

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18- Loss per share (Fils)

Loss per share calculated by dividing net year loss on weighted average for number of shares outstanding during the year after deduction of treasure shares if there as follows:

	<u>2016</u>	<u>2015</u>
Net loss for the year	(6,077,497)	(283,843)
Weighted average for number of shares outstanding	<u>411,064,000</u>	<u>411,064,000</u>
Loss per share (Fils)	<u>(14.78)</u>	<u>(0.69)</u>

19- Transactions with related parties

Transactions with related parties represent transactions with shareholders, Board of Directors Members, the company's key management personnel, their families and companies that are controlled or significantly influenced by them. The terms of these transactions are approved by the company's management.

The amounts and balances due from related parties are interest free and have no fixed maturity date.

The balances and transactions with related parties which included in the consolidated financial statements are as follows:

Consolidated statement of financial position	<u>2016</u>	<u>2015</u>
Due from a related party	4,311,352	4,347,217
Available for sale investments	99,305	136,545
Investments at fair value – statement of profit or loss	240,809	269,279
Funds in investment portfolios	573,505	567,205
Consolidated statement of profit or loss	<u>2016</u>	<u>2015</u>
Advantages of key management	48,000	48,000
Board of directors remunerations	-	15,000
Due to previous executive director	-	148,696

These transactions are subjected to the approval of shareholder's general assembly.

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20- Ordinary / Extraordinary General Assembly of Shareholders

- On May 9, 2017, the annual general assembly meeting of the parent company held for the financial year ended December 31, 2015 and approved the following:
 - Approval of the financial statements for the year ended December 31, 2015.
 - Dividends non-distribution to the shareholders for the year ended December 31, 2015.
 - Remuneration non distribution to the Board members for the financial year ended December 31, 2015.
- The quorum of the Extraordinary General Assembly to decide the company's going concern has not been completed.

21- Lawsuits

- During the year, a ruling was issued in favor of a local bank to transfer the ownership of the investment property (Note 6) to its benefit against the debt recorded on the Parent Company (Note 16). The management of the parent company filed an appeal against the ruling in respect of the value of the property (Note 16). A judicial resolution has been issued stating the ruling issued against the Group in favor of a local bank is not appealable, the parent company has filed a cassation lawsuit against the ruling as well as against the non effectiveness of the ruling, the cassation lawsuit against the non effectiveness of the ruling was rejected, while the cassation lawsuit against the ruling was not considered till the date of preparation of the consolidated financial statements. Therefore, the bank has taken actions to transfer the property to its favor, while the company has closed the property in the books against the bank's debt and the Group recognized losses of KD 5,873,138 recorded in the consolidated statement of profit or loss. The amount of actual losses will be calculated more accurately after the final settlement of the debt with the bank which may affect the going concern of the Group.
- On the consolidated financial position date, the Company had outstanding lawsuits to and from various parties. These law cases are still being handled by the courts at its various levels and degrees as the Company has taken the necessary legal procedures to impugn the ruling, the ultimate results of which cannot be determined. In the legal department's view, the results of these law cases will not materially affect the company's financial statements. Accordingly, no provisions have been kept to meet any liabilities that may arise.

22- Proposals of the Board of Directors

On December 7, 2016, the Board of Directors proposed a reduction of share capital in accordance with the mechanism provided for in executive regulation of the Capital Market Authority paragraph (10) of Article 14-16 of Chapter 14 of module 11 - Dealing in Securities which states the following:

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If the company uses treasury shares for reducing share capital it will consider the following:

- a) The share capital will be reduced by the nominal value of Shares used for this purpose.
- b) If the cost of treasury shares is less than the nominal value, the credit balance will be transferred to the treasury shares reserve account, voluntary reserve or legal reserve.
- c) If the cost of treasury shares is more than the nominal value, it will be amortized through the following accounts in the following order: treasury shares reserve, retained earnings, voluntary reserve, legal reserve and share premium.

Accordingly, the parent company's current share capital amounted to KD 42,000,000 shall be reduced by the nominal value of the treasury shares amounted to KD 893,600 , the share capital after the reduction shall be KD 41,106,400 along with closing losses resulting from the amortization of treasury shares in the share capital amounted to KD 712,015 in the accumulated losses account , and reducing the Parent Company's share capital to KD 11,362,291 after amortizing the accumulated losses of KD 29,744,109, thus the accumulated losses as will be amortized as of December 31, 2015.

The Extraordinary General Assembly Meeting of the shareholders that was planned to be held so as to decide on the above mentioned did not meet due to the lack of quorum (Note 20).

23- Subsequent Events

- Subsequent to the financial position date March 2017, a local bank received the investment property under development that was the subject of the dispute between the company and the bank based on the ruling of the Court of Appeal issued on July 13, 2016. The parent company has filed a cassation lawsuit against the ruling as well as against the non effectiveness of the ruling, the cassation lawsuit against the non effectiveness of the ruling was rejected on October 17, 2016 and the cassation lawsuit against the ruling was not considered till the date of preparation of the consolidated financial statements, and an initial ruling has been issued in favor of the bank to seize and sell the assets kept as collateral for the wakalat. However, as of the financial statements date, no decision has not been taken with respect to the ruling.
- Subsequent to the financial statements date on April 20, 2017, an initial ruling was issued in favor of the key contractor with an amount of KD 8,612,578 plus KD 2,263 per month for the lease of the warehouses by the subcontractor for storing the steel as of July 29, 2011 till the receipt of the stored steel. No settlement has been concluded with the key contractor till the date of the preparation of the consolidated financial statements, and no further legal action has been taken to overturn the ruling.

Advanced payment to contractors	2,441,494	2,441,494
Other debt balances	13,732	13,732
Cash and cash equivalents	12,783,311	12,783,311
Total assets	16,271,098	16,271,098

The Group works in main geographic market which is the local market in the State of Kuwait.

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24- Segment distribution

The Group carries out most its activities through two principal segments:

- Real estate segment: represents in owning, selling and purchasing of real estates and land, development and management of Group's properties and others owned and properties investment.
- Investment segment: represents in investment and portfolios managed by others.

An information analysis according to segments for the financial year ended December 31:

	2016		
	Real estate	Investment	Total
(Loss)/revenue segment	(5,780,973)	71,530	(5,709,443)
Segment results	(5,780,973)	71,530	(5,709,443)
Segment assets	4,652,494	12,019,201	16,671,695
Segment liabilities	11,424,141	-	11,424,141
	2015		
	Real estate	Investment	Total
Segment revenue	183,833	65,020	248,853
Segment results	183,833	65,020	248,853
Segment assets	66,093,494	12,471,938	78,565,432
Segment liabilities	67,203,141	-	67,203,141
	2016		2015
Segment results			
(Loss)/revenue segment		(5,709,443)	248,853
Other revenue		40,338	66,051
Other expenses		(408,392)	(598,747)
Net loss for the year		(6,077,497)	(283,843)
	2016		2015
Segment assets			
Investment properties		2,211,000	63,652,000
Available for sale-investment		99,305	136,545
Investment at fair value-statement of profit or loss		6,522,181	6,550,651
Due from a related party		4,311,352	4,347,217
Advanced payment to contractors		2,441,494	2,441,494
Other debit balances		15,732	555,598
Cash and cash equivalents		1,070,631	881,927
Total assets		16,671,695	78,565,432

The Group works in main geographic market which is the local market in the State of Kuwait.

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25- Financial instruments and risks management

A) Financial instruments:

Significant accounting policies

Details of the significant accounting policies - including the criteria for measurement and recognition of revenue and expenses - in respect of each class of financial assets and liabilities are disclosed in note (4) to the consolidated financial statements.

Categories of financial instruments

The Group's financial assets and financial liabilities are classified in the consolidated statement of financial position as follows:

Financial assets:	2016	2015
Cash and cash equivalents	1,070,631	881,927
Investment in fair value – statement of profit or loss	6,522,181	6,550,651
Other debit balances	15,732	555,598
Due from a related party	4,311,352	4,347,217
	11,919,896	12,335,393
Financial liabilities:	2016	2015
Accounts payable and other credit balances	11,417,121	11,606,568
Debt instruments	-	55,567,862
	11,417,121	67,174,430

Fair value of financial instruments

Fair value is defined as the amount at which an asset could be exchanged or a liability settled in a current transaction between knowledgeable willing parties in an arm's length transaction. The group used recognized assumptions and methods to estimate the fair value of the financial instruments. The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid market (if any) is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar financial instruments.
- The fair values of financial instruments carried at amortized cost are not significantly different from their carrying values.

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Fair value measurement recognized in the consolidated statement of financial position:
The following table presents financial assets and financial liabilities measured at fair value in the consolidated statement of financial position in accordance with the fair value hierarchy. This hierarchy groups the financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant inputs to the fair value measurement.

The financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Assets:			
Investments at fair value – statement of profit or loss			
Quoted securities	240,809	-	240,809
Unquoted securities	-	6,281,372	6,281,372
Available for sale-investments			
Quoted securities	99,305	-	99,305
	<u>340,114</u>	<u>6,281,372</u>	<u>6,621,486</u>
Liabilities:			
Net fair value	<u>340,114</u>	<u>6,281,372</u>	<u>6,621,486</u>

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December 31, 2015

	Level 1	Level 2	Total
Assets:			
Investments at fair value – statement of profit or loss			
Quoted securities	269,279	-	269,279
Unquoted securities	-	6,281,372	6,281,372
Available for sale investment			
Quoted securities	136,545	-	136,545
	<u>405,824</u>	<u>6,281,372</u>	<u>6,687,196</u>
Liabilities:			
Net fair value	-	-	-
	<u>405,824</u>	<u>6,281,372</u>	<u>6,687,196</u>

B) Financial risks management

The group uses financial instruments that are exposed to variety of financial risks such as credit risks, liquidity risks and market risks.

The group continuously reviews its risks exposure and takes the necessary procedures to limit these risks to acceptable levels.

The Board of Directors sets written bases for risk management from work and written policies cover certain areas like foreign currency risk, interest rate risk, credit risk and financial surpluses investment risk.

The important risks that are exposed to the group are as follow:

• **Credit risks**

Credit risks are the risks that one party to a financial instrument will fail to pay an obligation causing the other party to bear a financial loss. Financial assets, which potentially expose the Company to credit risks, consist principally of cash and cash equivalents. Cash and cash equivalents are placed in financial institutions with high credit repute. And also receivables are stated by net after deduct provision for doubtful debt.

• **Liquidity risks**

Liquidity risks are the risks that the company will be unable to meet its cash obligations. The management of liquidity risks consists of keeping sufficient cash and arranging financing sources through enough facilities, retaining highly liquid assets and monitoring liquidity on a periodical basis through the method of future cash flows.

The maturity of liabilities stated below is based on the period from the financial position date to the contractual maturity date. In the case of financial instruments that do not have a contractual maturity date, the maturity is based on management's estimate of time period in which the asset will be collected or disposed and the liability settled.

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The maturity analysis of liabilities as of December 31, 2016 is as follows:

	<u>Within one year</u>	<u>More than one year</u>	<u>Total</u>
Accounts payable and other credit balances	11,417,121	-	11,417,121
Provision for end of service indemnity	-	7,020	7,020
	<u>11,417,121</u>	<u>7,020</u>	<u>11,424,141</u>

The maturity analysis of liabilities as of December 31, 2015 is as follows:

	<u>Within one year</u>	<u>More than one year</u>	<u>Total</u>
Accounts payable and other credit balances	11,606,568	-	11,606,568
Debt instruments	55,567,862	-	55,567,862
Provision for end of service indemnity	-	28,711	28,711
	<u>67,174,430</u>	<u>28,711</u>	<u>67,203,141</u>

- **Market risks**

Market risks, comprise of foreign currency risks, interest rate risks and equity price risks these risks arise due to changes in market prices of equities, interest rates and foreign currencies rates.

Foreign currencies risks

Foreign currency risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currencies risks arise from transactions in foreign currencies. The company manages these risks by setting limits on transactions in foreign currencies and counterparties and limiting its transaction business in major currencies with reputable counterparties.

Interest rate risks

Interest rate risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate due to changes in interest rates in the market.

Interest rate risks arise from long-term borrowings. Borrowings at variable interest rates expose the company to cash flow interest rate risks. Borrowings at fixed interest rates expose the company to fair value risks due to changes in interest rates.

The Group works according to Islamic principles, so that it is not exposed to interest rate risks.

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Equity price risks

Equity price risks are the risks that the fair values of equities fluctuate as the result of changes in the levels of equity indices and the value of individual stocks. This risks results due to the changes in the fair value of the investments in stocks.

The effect on consolidated statement of profit or loss as a result of a change in the fair value available for sale investments – statement of profit or loss as of December 31, 2016, due to a reasonably possible changes in stock exchange markets index ($\pm 10\%$), (2015: $\pm 10\%$) with all other variables held constant, is as follows:

	Effect on consolidated statement of profit or loss	
	<u>2016</u>	<u>2015</u>
Investment in fair value – statement of profit or loss	24,081	26,928

26- Capital risks management

A) The Parent Company's objectives in managing capital:

The Parent Company's objectives when managing the capital are:

- To safeguard the Group's ability to continue as a going concern to be able to provide returns for shareholders and benefits for other beneficiaries.
- To maintain an optimal returns to shareholders by pricing its products and services commensurately with risk level.

The Group determines share capital that is adequate for risks, manages its capital structure, and adjusts 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 or issue new shares or sell assets to reduce debt.

B) Debts to equity ratio:

Consistent with others in the same field, the Group monitors its capital based on debt to equity ratio. This ratio is calculated as net debts divided by total adjusted capital. Net debts calculated as the total loans and other bank facilities included in the consolidated financial position less cash and cash equivalents. Adjusted capital comprises all components of equity (share capital, treasury shares, gains on sale of treasury shares reserve, cumulative changes in fair value and accumulated losses) in addition to the net debts as follows:

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	<u>2016</u>	<u>2015</u>
Debts	-	55,567,862
Less: Cash and cash equivalents	<u>(1,070,631)</u>	<u>(881,927)</u>
Net debts	<u>(1,070,631)</u>	54,685,935
Total equity	<u>5,247,554</u>	11,362,291
Equity and net debts	<u>4,176,923</u>	<u>66,048,226</u>
Net debts ratio	<u>-</u>	<u>83%</u>