

المساكن

شركة المساكن الدولية
للتنمية العمرانية

Al Masaken International
Real Estate Development Co

ANNUAL REPORT

2016







MANDR
Date: 8/03/2017

**The Sharia Report of
AL Masaken International Real estate Development Co
Fatwa and Shariah Supervisory Board
For the period from 01/01/2016 to 31/12/2016**

The Shareholders of AL Masaken International Real-estate Development Company.

Peace, mercy and blessings of Allah be upon you.

According to the contract signed with us we at Fatwa and Shariah Supervisory Board in Al Mashora and Al Raya have audited and supervised the principles adopted and the contracts related to the transactions concluded by the Company during the period from 01/01/2016 to 31/12/2016. We have carried out the necessary supervision to give our opinion on whether or not the Company has complied with the Islamic Shariah rules and principles as well as the Fatwas, decisions and guidelines made by us.

However, our liability is limited to the expression of independent opinion on the extent of the company compliance with same based on our audit.

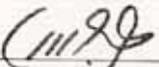
Our supervision included examining the contracts and procedures used by the Company on the basis of examining each type of operations.

In our opinion, the contracts, operations and transactions concluded or used by the Company during the period from 01/01/2016 to 31/12/2016, and which have been reviewed by us, were in compliance with the provisions and principles of the Islamic Shariah.

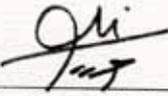
Moreover, The Company has to draw the attention of its shareholders to the fact that they should pay their Zakat by themselves.

We wish the Company all success and prosperity in serving our religion and our country.

Peace, mercy and blessings of Allah be upon you.


Prof /Abdul Aziz K. Al-Qassar
Chairman of the Sharia Committee


Dr. Essa Zaki Essa
Sharia Committee Member


Dr. Ali Ibrahim Al-Rashed
Sharia Committee Member

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**AL-MASAKEN INTERNATIONAL FOR REAL ESTATE DEVELOPMENT
COMPANY - K.S.C. (PUBLIC)
AND ITS SUBSIDIARIES
STATE OF KUWAIT**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

WITH

INDEPENDENT AUDITORS' REPORT

**CONSOLIDATED
FINANCIAL
STATEMENTS**

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To The Shareholders

Al-Masaken International for Real Estate Development Company - K.S.C. (Public)

State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al-Masaken International for Real Estate Development Company - K.S.C. (Public) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and 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 December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, 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. We identified the following key audit matter:

Valuation of investment properties

The valuation of the investment property is important to our audit as it represents a significant judgment area and an important part of the total assets of the Group. The valuation of the investment property is highly dependent on estimates. We therefore identified the valuation of investment property as a significant risk. The Group policy is that property valuations are performed by licensed valuers at least once a year. These valuations are amongst others based on assumptions, such as estimated rental revenues, discount rates, occupancy rates, market knowledge, developers risk and historical transactions. In estimating the fair value of investment properties, valuers had used the valuation techniques i.e. discounted cash flow method and sales comparison, and had considered the nature and usage of the investment properties. We reviewed the valuation reports from the licensed valuers. We further focused on the adequacy of the disclosures on the valuation of investment properties. Disclosures of this item are included in Note 8 to the consolidated financial statements.

Other Information

Our opinion on the consolidated financial statements does not cover the other information attached to it, and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Consolidated Financial Statements

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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

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 year ended December 31, 2016, that might have had a material effect on the business or financial position of the Group.



Ahmed M. Al-Rasheed
Licence No. 39-A
Al-Dar International
Member of DFK International



Dr. Shuaib A. Shuaib
Licence No. 33-A
RSM Albazie & Co.

State of Kuwait

_____, 2017

| | Note | 2016 | 2015 |
|---|------|------------|------------|
| ASSETS | | | |
| Cash on hand and at banks | | 711,771 | 326,871 |
| Accounts receivable and other debit balances | 3 | 420,522 | 364,173 |
| Due from related parties | 4 | 209,055 | 9,164,480 |
| Properties held for trading | 5 | 11,173,458 | 15,563,095 |
| Financial assets available for sale | 6 | 983,952 | 1,026,652 |
| Investment properties | 8 | 11,310,000 | 12,746,850 |
| Property and equipment | | 8,983 | 7,285 |
| Total assets | | 24,817,741 | 39,199,406 |
| LIABILITIES AND EQUITY | | | |
| Liabilities: | | | |
| Accounts payable and other credit balances | 9 | 2,102,243 | 1,348,370 |
| Gross amount due to customers for contract work | 10 | 57,827 | 58,790 |
| Murabaha payable | 11 | 5,507,217 | 7,724,569 |
| Finance lease obligation | 12 | 4,252,254 | 5,034,417 |
| Due to related parties | 4 | 1,886,120 | 1,320,454 |
| Provision for end of service indemnity | | 73,184 | 116,420 |
| Total liabilities | | 13,878,845 | 15,603,020 |
| Equity: | | | |
| Share Capital | 13 | 10,000,000 | 20,000,000 |
| Statutory reserve | 14 | 954,090 | 954,090 |
| Voluntary reserve | 15 | 950,536 | 950,536 |
| Treasury shares | 16 | (94,687) | (189,374) |
| Treasury shares reserve | | 71,610 | - |
| Cumulative changes in fair value | | 291,285 | 345,098 |
| Foreign currency translation reserve | | (916,072) | (84,936) |
| (Accumulated losses) retained earnings | | (462,170) | 1,476,668 |
| Total equity attributable to shareholders of the Parent Company | | 10,794,592 | 23,452,082 |
| Non-controlling interests | | 144,304 | 144,304 |
| Total equity | | 10,938,896 | 23,596,386 |
| Total liabilities and equity | | 24,817,741 | 39,199,406 |

The accompanying notes (1) to (29) form an integral part of the consolidated financial statements.



Adel A. Al-Mukhaizeem
Chairman

AL-MASAKEN INTERNATIONAL FOR REAL ESTATE DEVELOPMENT - K.S.C. (PUBLIC) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts are in Kuwaiti Dinars)

| | Note | 2016 | 2015 |
|---|------|-------------|-------------|
| Operating income | 17 | 2,341,079 | 4,367,796 |
| Operating costs | 17 | (2,547,011) | (4,033,587) |
| Net real estate (loss) profit | 18 | (1,179,252) | 882,175 |
| Gain on sale of investment properties | 4 | - | 245,000 |
| Gross (loss) profit from operations | | (1,385,184) | 1,461,384 |
| General and administrative expenses | 19 | (227,776) | (552,206) |
| Marketing expenses | | (692) | (19,182) |
| Impairment loss for properties held for trading | 5 | - | (1,080,608) |
| Loss from operations | | (1,613,652) | (190,612) |
| Group's share of results from an associate | 7 | - | (813,536) |
| Gain on sale of associate | 7 | - | 924,759 |
| Net investment income (loss) | 20 | 82,473 | (24,918) |
| Finance charges | | (407,898) | (261,079) |
| Other income | | 239 | 42,908 |
| Net loss for the year | | (1,938,838) | (322,478) |
| Attributable to: | | | |
| Shareholders of the Parent Company | | (1,938,838) | (327,994) |
| Non-controlling interests | | - | 5,516 |
| Net loss for the year | | (1,938,838) | (322,478) |
| | | Fils | Fils |
| Loss per share attributable to shareholders of the Parent Company | 22 | (11.99) | (1.64) |

The accompanying notes (1) to (29) form an integral part of the consolidated financial statements.

AL-MASAKEN INTERNATIONAL FOR REAL ESTATE DEVELOPMENT - K.S.C. (PUBLIC) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts are in Kuwaiti Dinars)

| | Note | 2016 | 2015 |
|--|------|--------------------|-----------|
| Net loss for the year | | (1,938,838) | (322,478) |
| Other comprehensive loss: | | | |
| <u>Items to be reclassified subsequently to profit or loss:</u> | | | |
| Change in fair value of financial assets available for sale | 6 | (53,813) | 25,815 |
| Reversal of change in other comprehensive income of an associate due to sale | | - | (450,024) |
| Exchange differences on translating foreign operations | | (831,136) | (78,110) |
| Other comprehensive loss for the year | | (884,949) | (502,319) |
| Total comprehensive loss for the year | | (2,823,787) | (824,797) |
| Attributable to: | | | |
| Shareholders of the Parent Company | | (2,823,787) | (830,313) |
| Non-controlling interests | | - | 5,516 |
| Total comprehensive loss for the year | | (2,823,787) | (824,797) |

The accompanying notes (1) to (29) form an integral part of the consolidated financial statements.

AL-MASAKEN INTERNATIONAL FOR REAL ESTATE DEVELOPMENT - K.S.C. (PUBLIC) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31,2016

(All amounts are in Kuwaiti Dinars)

| Equity attributable to shareholders of the Parent Company | | | | | | | | | | | | |
|---|---------------|-------------------|-------------------|-----------------|-------------------------|--|----------------------------------|--|--|--------------|---------------------------|--------------|
| | Share capital | Statutory reserve | Voluntary reserve | Treasury shares | Treasury shares reserve | Effect of changes in other comprehensive income of associate | Cumulative changes in fair value | Foreign currencies translation reserve | Retained earnings (accumulated losses) | Sub total | Non-controlling interests | Total equity |
| Balance as at January 1, 2015 | 20,000,000 | 954,090 | 950,536 | (369) | - | 450,024 | 319,283 | (6,826) | 3,004,602 | 25,671,340 | 138,788 | 25,810,128 |
| Total comprehensive (loss) income for the year | - | - | - | - | - | (450,024) | 25,815 | (78,110) | (327,994) | (830,313) | 5,516 | (824,797) |
| Treasury shares (Note 16) | - | - | - | (189,005) | - | - | - | - | - | (189,005) | - | (189,005) |
| Cash dividends 6% (Note 23) | - | - | - | - | - | - | - | - | (1,199,940) | (1,199,940) | - | (1,199,940) |
| Balance as at December 31, 2015 | 20,000,000 | 954,090 | 950,536 | (189,374) | - | - | 345,098 | (84,936) | 1,476,668 | 23,452,082 | 144,304 | 23,596,386 |
| Total comprehensive loss for the year | - | - | - | - | - | - | (53,813) | (831,136) | (1,938,898) | (2,823,787) | - | (2,823,787) |
| Share capital reduction (Note 13) | (10,000,000) | - | - | - | - | - | - | - | - | (10,000,000) | - | (10,000,000) |
| Redemption during the year (Note 16) | - | - | - | 94,687 | 71,610 | - | - | - | - | 166,297 | - | 166,297 |
| Balance as at December 31, 2016 | 10,000,000 | 954,090 | 950,536 | (94,687) | 71,610 | - | 291,285 | (916,072) | (462,170) | 10,794,592 | 144,304 | 10,938,896 |

The accompanying notes (1) to (29) form an integral part of the consolidated financial statements.

AL-MASAKEN INTERNATIONAL FOR REAL ESTATE DEVELOPMENT - K.S.C. (PUBLIC) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31,2016

(All amounts are in Kuwaiti Dinars)

| | 2016 | 2015 |
|--|--------------------|-------------|
| Cash flows from operating activities: | | |
| Net loss for the year | (1,938,838) | (322,478) |
| Adjustments: | | |
| Depreciation | 2,694 | 3,980 |
| Provision for end of service indemnity | 7,339 | 19,757 |
| Gain on sale of investment properties | - | (245,000) |
| Impairment loss for properties held for trading | - | 1,080,608 |
| Change in fair value of investment properties | 1,515,212 | (554,300) |
| Group's share of results from associate | - | 813,536 |
| Gain on sale of associate | - | (924,759) |
| Finance charges | 407,898 | 261,079 |
| Net investment (income) loss | (82,473) | 24,918 |
| | (88,168) | 157,341 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and other debit balances | (63,192) | 15,152 |
| Due from related parties | 5,455,425 | 1,071,830 |
| Properties held for trading | 2,394,457 | (4,527,658) |
| Accounts payable and other credit balances | (112,658) | (2,551,563) |
| Gross amount due to customers for contract work | (963) | 26,160 |
| Due to related parties | 565,666 | (1,101,119) |
| Cash generated from (used in) operations | 8,150,567 | (6,909,857) |
| Payment for end of service indemnity | (50,575) | (612) |
| Net cash flows generated from (used in) operating activities | 8,099,992 | (6,910,469) |
| Cash flows from investing activities: | | |
| Paid for purchase of investment properties | (78,362) | (528,650) |
| Proceeds from sale of financial assets available for sale | - | 2,022,000 |
| Paid for purchase investment in associate | - | 20,417 |
| Net movement in investment properties | - | (10,000) |
| Paid for purchase of property and equipment | (4,392) | (3,507) |
| Dividend received | 78,203 | 60,874 |
| Net cash flows (used in) generated from investing activities | (4,551) | 1,561,134 |
| Cash flows financing activities: | | |
| Net paid for the share capital reduction | (5,454,927) | - |
| Cash dividends paid | (23,477) | (1,033,826) |
| Net movement in murabaha payable | (1,058,560) | 5,847,479 |
| Net movements on finance lease obligation | (782,163) | 905,888 |
| Finance charges paid | (396,666) | (261,079) |
| Net cash flows (used in) generated from financing activities | (7,715,793) | 5,458,462 |
| Net increase in cash on hand and at banks | 379,648 | 109,127 |
| Foreign currency translation reserve | 5,252 | 26,344 |
| Cash on hand and at banks at beginning of the year | 326,871 | 191,400 |
| Cash on hand and at banks at end of the year | 711,771 | 326,871 |

The accompanying notes (1) to (28) form an integral part of the consolidated financial statements.

1. Incorporation and activities

Al-Masaken International for Real Estate Development Company K.S.C. (Public) (the "Parent Company") is a Kuwaiti public shareholding company registered in Kuwait. and was incorporated based on Article of Incorporation Ref. No. 7137 - Vol. 1 dated October 7, 2006 and its subsequent amendments, the latest of which was notarized in the commercial register under Ref. No. 343791 dated August 23, 2016.

The Parent Company's shares are listed in Kuwait Stock Exchange.

1. The main activities of the Parent Company are as follows:
2. Acquiring, selling and buying real estates and lands and developing them in favor of the Company inside and outside the state of Kuwait, also managing properties for others without violating the articles stipulated in the existing laws that prohibit the trading in private residential plots as stipulated in those laws.
3. Acquiring, buying and selling shares and bonds of real estate companies for the benefit of the Company only inside and outside Kuwait.
4. Preparing studies and offer consultations in all kinds of real estates aspects if only the required conditions are met concerning the parties that perform such services.
5. Acquiring, managing, renting and leasing hotels, health clubs and touristic utilities.
6. Performing maintenance works related to buildings and real estates owned by the Company and others including maintenance work, execution of civil, mechanical, electrical, elevators, and air conditioning work to ensure the protection and safety of the buildings.
7. Managing, operating, investing, renting and leasing hotels, clubs, motels, accommodation houses, rest houses, parks, gardens, exhibits, restaurants, cafeterias, residential, touristic and health complexes, entertainment and sports projects and outlets. These activities shall be conducted at different categories and levels including all needs to carry out those activities.
8. Organizing real estate exhibitions related to the Company's real estate projects according to the ministry's rules.
9. Organizing real estates auctions according to Ministry rules.
10. Acquiring commercial markets and residential complexes and managing it.
11. Investing surplus funds in investment portfolios managed by specialized companies and parties.

Direct contribution in the infrastructure of districts and residential, commercial and industrial projects through Building, Operating and Transferring System (BOT)

The Parent Company conducts its activities in accordance with Islamic Sharia.

The Parent Company is registered in the commercial registry under Ref. No. 44733 dated December 23, 2006.

As at December 31, 2016 the Group has 17 employees (December 31, 2015 - 27 employees).

The address of the Parent Company is Sharq – Ahmed Al - Jaber Street, Raed Center, 1st Floor, P.O. Box 24079, Safat, 13101 – State of Kuwait.

The consolidated financial statements were authorized for issue by the Parent Company's Board of Directors on January 31, 2017. The Shareholders' annual General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). Significant accounting policies are summarized as follows:

(a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency

of the Parent Company and are prepared under the historical cost convention, except financial assets available for sale and investment property that are stated at their fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(v).

Standards and Interpretations issued and effective

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of January 1, 2016:

Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization

The amendments, effective prospectively for annual periods beginning on or after January 1, 2016, clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are not expected to have any material impact on the consolidated financial statements.

Amendments to IAS 27 – Equity method in separate financial statements

The amendment, effective for annual periods beginning on or after January 1, 2016, allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

This amendment is not expected to have any material impact on the consolidated financial statements.

Amendments to IAS 1 – Disclosure Initiative

The amendments to this standard which are effective for annual periods beginning on or after 1 January 2016 clarify some judgments used in the presentation of financial reports. The amendments make changes about:

- Materiality, where it clarifies that, (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
- Statement of financial position and statement of profit or loss and other comprehensive income, where they (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant. They introduce additional guidance on subtotals in these statements as well, and (2) clarify that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

This amendment is not expected to have any material impact on the consolidated financial statements.

Annual Improvements to IFRS – 2012 – 2014 Cycle:

Amendments to IFRS 7 – Financial Instruments: Disclosures

The amendments to this standard are effective for annual periods beginning on or after 1 January 2016. They clarify that for servicing agreements, if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. IFRS 7 provides guidance on what is meant by continuing involvement in this context, and adds specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. A

consequential amendment to IFRS 1 is included to give the same relief to first-time adopters. Another amendment to IFRS 7 clarifies that the additional disclosure required by the amendments to IFRS 7 is not specifically required for all interim periods, unless required by IAS 34.

These amendments are not expected to have any material impact on the consolidated financial statements.

Standards and Interpretations issued but not effective

The following new and amended IASB Standards and Interpretations have been issued but are not yet effective, and have not yet been adopted by the Group:

Amendment to IAS 7 – Disclosure Initiative

The amendment to this standard which is effective prospectively for annual periods beginning on or after 1 January 2017 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liability arising from financing activities, including both changes arising from cash flows and non-cash changes, early application of this amendment is permitted. The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of the standard.

IFRS 9 - Financial Instruments

The standard, effective for annual periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 specifies how an entity should classify and measure its financial instruments and includes a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of the standard.

IFRS 15 - Revenue from contracts with customers

The standard, effective for annual periods beginning on or after January 1, 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the following existing standards and interpretations upon its effective date:

- IAS 18 – Revenue.
- IAS 11 – Construction Contracts.
- IFRIC 13 – Customer Loyalty Programs.
- IFRIC 15 – Agreements for the Construction of Real Estate.
- IFRIC 18 – Transfers of Assets from Customers.
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services.

This standard applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. These amendments and standards are not expected to have any material impact on the consolidated financial statements.

IFRS 16 - Leases

This standard will be effective for annual periods beginning on or after January 1, 2019. This standard will be replacing IAS 17 “Leases” and will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and the following subsidiaries (together the “Group”):

| Name of Subsidiary | Country of incorporation | Principal activities | Percentage of holding (%) | |
|--|--------------------------|---------------------------------|---------------------------|------|
| | | | 2016 | 2015 |
| Masaken Al-Khiran For General Trading and Contracting W.L.L. | State of Kuwait | General Trading and Contracting | 50 | 50 |
| Global Masaken Company W.L.L. (a) | State of Kuwait | Real Estate | 99 | 99 |
| Housing Real Estate Management Company – W.L.L. (a) | State of Kuwait | Real Estate | 99 | 99 |

a) The remaining 1% is owned by a related party. The Parent Company is only the beneficial owner of these subsidiaries.

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company

- has power over the investee.
- is exposed, or has rights to variable returns from its involvement with the investee;
- has the ability to use its power to affect its returns.

The Parent Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the parent company, other vote holders or other parties;
- rights arising from other contractual arrangements;
- any additional facts and circumstances that indicate that the parent Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the Non-controlling shareholder's share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Parent Company. Losses are

attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings as appropriate.

c) Financial instruments:

The Group classifies its financial instruments as "financial assets" and "financial liabilities. Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provision of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash on hand and at banks, receivables, due from related parties, financial assets available for sale, murabaha payable, finance leases obligation due to related parties and payables.

• Financial assets:**1) Accounts receivable:**

Receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business and are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of profit or loss.

2) Financial investments:**Initial recognition and measurement**

The Group classifies financial investments that fall within the scope of IAS 39 as a financial assets available for sale. The classification depends on the purpose for which those assets were acquired and is determined at initial recognition by the management.

a) Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the end of the reporting period.

Purchases and sales of financial asset are recognized on trade date – the date on which an asset is delivered to or by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent measurement

After initial recognition financial assets available for sale are subsequently carried at fair value. The fair values of quoted financial asset are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Unrealized gains and losses arising from changes in the fair value of financial assets available for sale are recognized in cumulative changes in fair value in other comprehensive income.

Where financial assets available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When a financial assets available for sale is disposed off or impaired, any prior fair value earlier reported in other comprehensive income is transferred to the consolidated statement of profit or loss.

Derecognition

A financial asset (in whole or in part) is derecognized either when:

- (a) the contractual rights to receive the cash flows from the financial asset have expired; or
- (b) the Group has transferred its rights to receive cash flows from the financial asset and either;
 - 1- has transferred substantially all the risks and rewards of ownership of the financial asset.
 - 2- has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset. Where the Group has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. Significant decline is evaluated against the original cost of the financial asset and prolonged against the period in which fair value has been below its original cost. If any such evidence exists for financial assets available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other comprehensive income and recognized in the consolidated statement of profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on available for sale equity instruments are not reversed through the consolidated statement of profit

or loss. Impairment losses recognized for available for sale debt instruments are reversed through the consolidated statement of profit or loss if the increase in fair value can be objectively related to an event occurring after the impairment loss was previously recognized.

• **Financial liabilities:**

1) Accounts payable:

Accounts payable include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non - current liabilities.

2) Borrowings:

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

3) Murabaha payable:

Murabaha payable represents the amounts due to pay for purchased assets for others on deferred basis as per Murabaha facility agreements. Murabaha balances are reported with full credit balances after deducting finance charges pertaining to future periods. Those finance charges are amortized on a time apportionment basis using effective interest method.

d) Properties held for trading:

Properties acquired or being developed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, are held as properties held for trading and are measured at lower of cost or net realizable value.

Cost includes freehold and leasehold rights for land, amount paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realizable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated cost of sale. Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

The cost of properties held for trading recognized in consolidated statement of profit or loss on disposal is determined with reference to the specific cost incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold. Write down of properties held for trading is charged to other operating expenses.

e) Investment properties:

Investment properties comprise completed property, property under construction or re-development held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost including purchase price and transactions costs. Subsequent to the initial recognition, investment properties are stated at their fair value at the end of the reporting period. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated statement of profit or loss for the period in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses arising on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

In case of changing the property from the owner use to investment property, the Group treated the property in the same accounting policy used for property, plant and equipments till the date of changing the use.

f) Property and equipment:

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in consolidated statement of profit or loss for the period.

Depreciation is computed on a straight-line basis over the estimated useful lives of other property and equipment which is 5 years.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

g) Impairment of assets:

At the end of each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in

use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

h) Leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease – The Group as a lessor:

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Finance Lease – The Group as a lessee:

Assets held under finance leases are 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. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated statement of profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

i) Gross amount due to customers for contract work:

Gross amount due to customers for contract work represents the net amount of costs incurred plus recognized profits, less the sum of recognized losses and progress billings for all contracts in progress. Cost comprises direct materials, direct labor and an appropriate allocation of overheads. For contracts where progress billings exceed costs incurred plus recognized profit (less recognized losses), the excess is included under liabilities.

j) End of service indemnity:

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts and the applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the reporting period and approximates the present value of the final obligation.

k) Dividend distribution to shareholders:

The Group recognizes a liability to make cash and non-cash distributions to shareholders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders of the Parent company at the Annual General Meeting. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of profit or loss.

Distributions for the year that are approved after the reporting date are disclosed as an event after the date of consolidated statement of financial position.

l) Share capital:

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

m) Treasury shares:

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves, and then share premium.

Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of share premium, reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Where any Group's company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Parent Company's shareholders.

n) Revenue recognition:

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Construction contracts

Revenue from construction contracts is recognized in accordance with the percentage of completion

method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. Profit is only recognized when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments are included in the determination of contract profit when approved by contract owners. Anticipated losses on contracts are recognized in full as soon as they become apparent.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

Sale of properties under development:

When the agreement is within the scope of IAS 11 – construction contracts and its outcome can be estimated reliably, the Group recognizes the revenue by reference to the stage of completion of the contract activity in accordance with IAS 11 – construction contracts.

When the agreement is within the scope of IAS 18 – Revenue, Group recognizes revenue at time of completion, when the significant risks and rewards of ownership of real estate are being transferred from Group at single time.

If the significant risks and rewards of ownership are transferred as when construction progresses, the Group recognize revenue by reference to the percentage of completion method.

If there is a doubt about the future economic benefits flowing to the Group, the Group recognizes revenue based on the installment percentage.

Revenue on sale of property

Revenue on sale of property is recognized on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property;
- The Group's receivable is not subject to future subordination;
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.
- Work to be completed is either easily measurable and accrued or is not significant in relation to the overall value of the contract.

If all except for the last criterion listed above are fulfilled, the percentage of completion method is adopted to recognize revenue.

Revenue on sale of apartments and villas

Revenue on sale of apartments and villas is recognized on the basis of percentage of completion based on internal surveys of work performed as and when all the following conditions are met:

- The buyer's investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- Construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundation are finished;
- The buyer is committed. The buyer is unable to require a refund except for non-delivery of the unit and, in certain cases, in the event of the non-enactment of pending legislation regarding freehold title and immigration visas. Management believes that the likelihood of the Group being unable to fulfill its

contractual obligations for these reasons is remote.

- The aggregate sales proceeds and costs can be reasonably estimated.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Rent

Rental income is recognized, when earned, on a time apportionment basis.

Gain on sale of investments

Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

Other income

Other income are recognized on accrual basis.

o) Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each financial year and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

p) Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) is calculated at 1% of the consolidated profit of the Company before contribution to KFAS, National Labor Support Tax, Zakat and Board of Directors' remuneration, and after deducting the Company's share of income from shareholding associates and transfer to statutory reserve. No KFAS has been provided for the year ended December 31, 2016 since there was no eligible profit on which KFAS could be calculated.

q) National Labor Support Tax (NLST)

National Labor Support Tax is calculated at 2.5% on the consolidated profit of the Group before contribution to Kuwait Foundation for the Advancement of Sciences, NLST, Zakat and Board of Directors' remuneration, and after deducting the cash dividends received from companies listed in Kuwait Stock Exchange in accordance with law No. 19 for year 2000 and Ministerial resolution No. 24 for year 2006 and their executive regulations. No NLST has been provided for the year ended December 31, 2016 since there was no taxable profit on which NLST could be calculated.

r) Contribution to Zakat

Zakat is calculated at 1% on the consolidated profit of the Company before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, Zakat and Board of Directors' remuneration, and after deducting the Company's share of profit from Kuwaiti shareholding associates, and cash dividends received from Kuwaiti shareholding companies in accordance with law No. 46 for year 2006 and Ministerial resolution No. 58 for year 2007 and their executive regulations. No Zakat has been provided for the year ended December 31, 2016 since there was no financial profit on which Zakat could be calculated.

s) Foreign currencies:

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the end of reporting date are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated statement of profit or loss for the period. Translation differences on non-monetary items such as equity investments classified as investments available for sale are included in "cumulative changes in fair value" in other comprehensive income.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the end of reporting period. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in other comprehensive income. Such translation differences are recognized in consolidated statement of profit or loss in the period in which the foreign operation is disposed off.

t) Contingencies:

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable as a result of past events that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Else, they are disclosed unless the possibility of an outflow of resources embodying economic losses is remote.

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits as a result of past events is probable.

u) Segment reporting:

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

v) Critical accounting estimates, judgments, and assumptions:

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, 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 revenue and expenses during the year. Actual results could differ from the estimates.

a-Judgments

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue recognition:

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

(ii) Determination of contract cost:

Determination of costs which are directly related to the specific contract or attributable to the contract activity in general requires significant judgment. The determination of contract cost has a significant impact upon revenue recognition in respect of long term contracts. The Group follows guidance of IAS 11 for determination of contract cost and revenue recognition.

(iii) Classification of lands:

Upon acquisition of land, the Group classifies the land into one of the following categories, based on the intention of the management for the use of the land:

a - Properties under development

When the intention of the Group is to develop land in order to sell it in the future, both the land and the construction costs are classified as properties under development.

b - Work in progress

When the intention of the Group is to develop a land in order to rent or to occupy it in the future, both the land and the construction costs are classified as work in progress.

c - Properties held for trading

When the intention of the Group is to sell land in the ordinary course of business, the land are classified as properties held for trading.

d - Investment properties

When the intention of the Group is to earn rentals from land or hold land for capital appreciation or if the intention is not determined for land, the land is classified as investment property.

(iv) Provision for doubtful debts:

The determination of the recoverability of the amount due from customers and the factors determining the impairment of the receivable involve significant judgment.

(v) Classification of financial assets:

On acquisition of a financial asset, the Group decides whether it should be classified as "at fair value through profit or loss", "available for sale" or "held to maturity". The Group follows the guidance of IAS 39 on classifying its financial assets.

The Group classifies financial assets as "at fair value through profit or loss" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through profit or loss at inception, provided their fair values can be reliably estimated. The Group classifies financial assets as "held to maturity" if the Group has the positive intention and ability to hold to maturity. All other financial assets are classified as financial assets "available for sale".

(vi) Impairment of financial assets:

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity instruments is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, a significant or prolonged decline in the fair value below its cost; and the financial health of and short term business outlook for the investee, including factors such as

industry and sector performance, changes in technology and operational and financing cash flow. The determination of what is "significant" or "prolonged" requires significant judgment.

(vii) Application of IFRIC 15 – Agreements for the construction of real estate:

The determination whether the agreements within the scope of IAS 11 – Construction Contracts or IAS 18 – Revenue require significant judgment.

(viii) Control assessment:

When determining control over an investee, management considers whether the Group has a 'de facto' power to control an investee if it holds less than 50% of the investee's voting rights. The assessment of the investee's relevant activities and the ability to use the Group's power to affect the investee's variable returns requires significant judgment.

(ix) Material non-controlling interests

The Group's management considers any non-controlling interests which accounts for 5% or more of the related subsidiary's equity as material.

b- Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimating 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 are discussed below.

(i) Fair value of unquoted financial assets:

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

(ii) Long term contracts:

Revenue from long term contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. The revenue recognition as per the above criteria should correspond to the actual work completed. The determination of estimated costs and the application of percentage of completion method involve estimation. Further, the budgeted cost and revenue should consider the claims and variations pertaining to the contract.

(iii) Provision for doubtful debts:

The extent of provision for doubtful debts involves estimation process. Provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventory are subject to management approval.

(iv) Valuation of investment properties:

The Group carries its investment properties at fair value, with change in fair values being recognised in the consolidated statement of profit or loss. Methods used to determine the fair value of the investment properties are disclosed in Note 8.

(v) Valuation of properties held for trading

Properties are stated at the lower of cost and net realizable value. NRV for completed properties

are assessed by reference to market conditions and prices existing at the reporting date and are determined by the Group, based on comparable transactions identified by the Group for properties in the same geographical market serving the same real estate segment. NRV in respect of properties under construction are assessed with reference to market prices at the reporting date for similar completed properties, less estimated costs to complete construction, estimated costs to sell the properties, and an estimate of the time value of money to the date of completion.

(vi) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

3. Accounts receivable and other debit balances

| | 2016 | 2015 |
|------------------------------|----------|----------|
| Contract receivables (a) | 69,983 | 36,052 |
| Provision for doubtful debts | (22,410) | (22,410) |
| | 47,573 | 13,642 |
| Tawaroq receivable | 175,905 | 146,991 |
| Advance rental payments | 60,016 | 67,099 |
| Staff receivables | 21,325 | 20,014 |
| Prepaid expenses | 40,439 | 21,919 |
| Deposits held with others | 9,219 | 9,377 |
| Others | 66,045 | 85,131 |
| | 420,522 | 364,173 |

a) Contract receivables

Contract receivables are non-interest bearing. The aging analysis of these contract receivables is as follows:

| | Past due but not impaired | | Impaired | Total |
|------|---------------------------|--------------------|----------|--------|
| | 180 - 365 days | More than 365 days | | |
| 2016 | 38,878 | 8,695 | 22,410 | 69,983 |
| 2015 | - | 13,642 | 22,410 | 36,052 |

As at December 31, 2016, contract receivables amounting to KD 47,573 (2015: KD 13,642) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

Contract receivables resulted from sale of apartments and villas developed by the Group. The title deed of the apartments or villas sold is not transferred in the name of the buyer until the full sale price is paid and therefore management believes that there is no need to provide a provision for those customers' balances.

- b)** The other classes within accounts receivable and other debit balances do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. the Group does not hold any collateral as security, for accounts receivable and other debit balances.

4 . Related party disclosures

The Group has entered into various transactions with related parties, i.e. shareholders, Board of Directors, key management personnel, associate and entities under common control and other related parties in the normal course of its business. Prices and terms of payment are approved by the Group's management. Significant related party transactions and balances are as follows:

| <u>Balances included in the consolidated statement of financial position:</u> | Major shareholders | Entities under common control | Other related parties | 2016 | 2015 |
|---|--------------------|-------------------------------|-----------------------|-----------|-----------|
| Due from related parties | - | 157,281 | 51,774 | 209,055 | 9,164,480 |
| Due to related parties | 998,789 | 806,856 | 80,475 | 1,886,120 | 1,320,454 |
| Accounts payable and other credit balances (Note 9) | - | 714,636 | - | 714,636 | 714,636 |
| <u>Transactions included in the consolidated statement of profit or loss</u> | | | | | |
| Net operating income | - | - | - | - | 139,835 |
| Gain from sale of investment properties | - | - | - | - | 245,000 |
| Rental income | 173,486 | - | - | 173,486 | 168,150 |
| Construction contract costs | - | - | - | - | 1,234,638 |
| Gain from sale of associate | - | - | - | - | 924,759 |

Due from/to related parties are non-interest bearing and payable on demand.

Compensation to key management personnel

| | 2016 | 2015 |
|--------------------------|--------|--------|
| Short term benefits | 18,591 | 30,907 |
| End of service indemnity | 822 | 2,792 |

5. Properties held for trading

| | 2016 | 2015 |
|--|-------------|-------------|
| Balance at the beginning of the year | 15,563,095 | 10,247,529 |
| Additions | 65,613 | 7,656,480 |
| Transferred from advance payments to purchase properties | - | 1,920,282 |
| Disposals | (2,460,069) | (3,128,822) |
| Impairment loss | - | (1,080,608) |
| Foreign currency translation adjustments | (1,995,181) | (51,766) |
| Balance at the end of the year | 11,173,458 | 15,563,095 |

- Properties held for trading, lands under development and projects under construction with carrying value amounting to KD 2,104,665 are registered in the names of related parties, however, the Group has the right to sell and dispose the properties according to waiver from the owners.
- Properties held for trading with carrying value of KD 9,068,793 are pledged as a guarantee against murabaha payable (Note 11).

6. Financial assets available for sale

| | 2016 | 2015 |
|----------------------------|---------|-----------|
| Quoted equity securities | 608,170 | 656,533 |
| Unquoted equity securities | 151,549 | 151,549 |
| Portfolios | 224,233 | 218,570 |
| | 983,952 | 1,026,652 |

The movement during the year is as follows:

| | 2016 | 2015 |
|--------------------------------------|-----------|-----------|
| Balance at the beginning of the year | 1,026,652 | 1,613,778 |
| Additions during the year | 11,113 | 172,893 |
| Disposals during the year | - | (785,834) |
| Changes in fair value | (53,813) | 25,815 |
| Balance at the end of the year | 983,952 | 1,026,652 |

It was not possible to reliably measure the fair value of unquoted securities amounting to KD 151,549 (2015: KD 151,549) due to non-availability of a reliable method that could be used to determine the fair value of such financial assets. Accordingly, they were stated at their cost .

7. Investment in associate

During the year ended December 31, 2015, the Group sold its investment in an associate, Al Masaken United Real Estate Company K.S.C. (Closed), to a related party and this resulted in a gain from sale amounting to KD 924,759.

Also the Group recognized the share of results from investment in associate till the date of disposal of KD 813,536.

8. Investment properties

| | 2016 | 2015 |
|--------------------------------------|-------------|-------------|
| Balance at the beginning of the year | 12,746,850 | 13,440,900 |
| Additions during the year | 78,362 | 528,650 |
| Disposals during year | - | (1,777,000) |
| Change in fair value (Note 18) | (1,515,212) | 554,300 |
| Balance at the end of the year | 11,310,000 | 12,746,850 |

Certain investment properties with fair value amounting to KD 385,000 are registered in the name of related parties and it was recorded based on waivers in the favor of the Parent Company.

The fair value of investment properties is based on valuation performed by licensed and certified valuers having professional experience, by using recognized valuation techniques and principles.

In estimating the fair value of investment properties, the Group had used the valuation techniques listed in the following schedule, and had considered the nature and usage of the investment properties.

| Class of investment property | Valuation technique | Level 2 | Level 3 | Total |
|------------------------------|---|-----------|-----------|------------|
| Residential buildings | Income capitalization and market sales method | 385,000 | 1,816,000 | 2,201,000 |
| Open land | Market sales method | 9,109,000 | - | 9,109,000 |
| | | 9,494,000 | 1,816,000 | 11,310,000 |

9. Accounts payable and other credit balances

| | 2016 | 2015 |
|---|-----------|-----------|
| Trade payable | 85,835 | 204,482 |
| Payable to shareholders' on share capital reduction | 878,776 | - |
| Payable for purchase of properties and lands (Note 4) | 714,636 | 714,636 |
| Accrued staff leave | 50,504 | 45,004 |
| KFAS payable | 13,778 | 13,778 |
| NLST payable | 91,387 | 91,387 |
| Zakat payable | 30,514 | 30,514 |
| Dividends payable | 180,015 | 203,492 |
| Others | 56,798 | 45,077 |
| | 2,102,243 | 1,348,370 |

10. Gross amount due to customers for contract work

| | 2016 | 2015 |
|---|-------------|-------------|
| Contract cost incurred to date plus recognized profit | 988,695 | 988,695 |
| Progress billings | (1,046,522) | (1,047,485) |
| | (57,827) | (58,790) |

11. Murabaha payable

A subsidiary company obtained the finance from a local bank secured by properties held for trading (Note 5) with interest rate ranging from 2.5% to 3% per annum plus discount rate of Libor and it is payable on December 10, 2018.

12. Finance lease obligation

| | 2016 | 2015 |
|---|-----------|-----------|
| Finance lease contracts with promise for purchase | 4,304,859 | 5,093,071 |
| Deferred rental expense | (52,605) | (58,654) |
| | 4,252,254 | 5,034,417 |

A subsidiary company obtained the finance from a local bank secured by investment properties (Note 8) with interest rate ranging from 2.5% to 3% per annum over Central Bank discount rate which matures on September 1, 2017.

13. Share capital

Authorized, issued and fully paid up capital amounted to KD 10,000,000 (December 31, 2015 – KD 20,000,000) distributed into 100,000,000 shares (December 31, 2015 – 200,000,000 shares) of 100 fils each and all shares are in cash.

The Shareholders of the Parent Company held an Extraordinary General Assembly meeting on May 18, 2016, which approved to decrease share capital from KD 20,000,000 to KD 10,000,000 by cancelling 100,000,000 shares of the Parent Company with a nominal value of 100 fils per share and pay the value of the cancelled shares in cash to shareholders registered in the Parent Company's books, and it has been amended in the Parent Company's Memorandum of Incorporation and Articles of Association.

Pursuant to a memorandum issued from the department of shareholding companies No. 343791 dated August 23, 2016 based on the decision of the Extraordinary General Assembly meeting held on May 18, 2016, the following were approved:

- The authorized, issued and paid up share capital consists of KD 10,000,000 (December 31, 2015 – KD 20,000,000) distributed into 100,000,000 shares (December 31, 2015 - 200,000,000) of KD 100 fils each and all shares are paid in cash.
- Amendment article No. (5) of Memorandum of Incorporation and article No. (6) of Article of Association of the Parent Company to be as follows : "Company's capital has been determined of KD 10,000,000 distributed into 100,000,000 shares of 100 fils each and all shares are in cash".

14. Statutory reserve

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences,(KFAS) National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association. Since there is a net loss for the year as of the end of the year, there was no transfer to statutory reserve during the year.

15. Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. Since there is a net loss for the year as of the end of the year there was no transfer to voluntary reserve during the year.

16. Treasury shares

| | 2016 | 2015 |
|-----------------------------|-----------|-----------|
| Number of shares | 1,662,964 | 3,325,929 |
| Percentage of issued shares | 1.66% | 1.66% |
| Market value (KD) | 111,419 | 179,600 |
| Cost (KD) | 94,687 | 189,374 |

The Parent Company's management has redeemed 50% of their treasury shares (Note 13). Upon redemption, a gain of KD 71,610 has been transferred to treasury shares reserve which represents the difference between the cost and redemption value of these shares. The Parent Company's management has allotted an amount equal to treasury shares balance from the reserves as at December 31, 2016. Such amount will not be available for distribution during treasury shares holding period.

17. Operating income / costs

| | 2016 | | | 2015 | | |
|-------------------------------------|--|------------------------|-------------|--|------------------------|-------------|
| | Sales of Real Estates held for trading | Construction contracts | Total | Sales of Real estates held for trading | Construction contracts | Total |
| Operating income | 2,341,079 | - | 2,341,079 | 3,413,234 | 954,562 | 4,367,796 |
| Operating costs | (2,547,011) | - | (2,547,011) | (3,128,822) | (904,765) | (4,033,587) |
| Gross (loss) profit from operations | (205,932) | - | (205,932) | 284,412 | 49,797 | 334,209 |

18. Net real estate (loss) profit

| | 2016 | 2015 |
|--|-------------|---------|
| Change in fair value of investment properties (Note 8) | (1,515,212) | 554,300 |
| Rental income | 335,960 | 327,875 |
| | (1,179,252) | 882,175 |

19. General and administrative expenses

General and administrative expenses include staff cost amounting to KD 104,364 (2015: KD 250,750).

20. Net investment income (loss)

| | 2016 | 2015 |
|--|---------------|-----------------|
| Dividend income | 82,473 | 60,874 |
| Realized loss from sale of financial assets available for sale | - | (76,007) |
| Tawaruq loss | - | (9,785) |
| | 82,473 | (24,918) |

21. Board of directors' remuneration

The Board of Directors' meeting held on January 31, 2017, proposed not to distribute Board of Directors' remuneration for the financial year ended December 31, 2016. This is subject to the approval of shareholders' ordinary General Assembly for the Parent Company.

22. Loss per share

There are no potential dilutive ordinary shares. The information necessary to calculate basic loss per share based on the weighted average number of shares outstanding during the year is as follows:

| | 2016 | 2015 |
|--|--------------------|-------------|
| <u>Net loss for the year attributable to parent company's shareholders</u> | (1,938,838) | (327,994) |
| <u>Number of shares outstanding</u> | Share | Share |
| Number of shares issued at the beginning of the year | 164,383,562 | 200,000,000 |
| Less: Weighted average number of shares | (2,733,640) | (337,096) |
| Weighted average number of shares outstanding | 161,649,922 | 199,662,904 |
| | Fils | Fils |
| Loss per share attributable to Parent Company's shareholders | (11.99) | (1.64) |

23. General assembly and dividend distribution

The Board of Directors' meeting held on January 31, 2017 recommended not to distribute cash dividends for the year ended December 31, 2016. This recommendation is subject to the approval of the Ordinary Shareholders' Annual General Assembly.

The Parent Company's Shareholders Annual General Assembly meeting held on May 18, 2016, has approved the consolidated financial statements of the Group for the year ended December 31, 2015 and agreed not to distribute dividends for financial year ended December 31, 2015.

The Parent Company's Shareholders Annual General Assembly meeting held on May 7, 2015 approved the consolidated financial statements for the year ended 31 December 2014, and approved to distribute cash dividends of 6 Fils per share.

24. Segment reporting

The Group's activities are divided into the following business segments:

- Real estate operations: consisting of development, trading and leasing of real estate properties.
- Investments: consisting of real estate investment, financial investment and Tawaruq operations.

There are no inter-segmental transactions. The following are the detail of the above segments:

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(All amounts are in Kuwaiti Dinars)

| | December 31, 2016 | | | December 31, 2015 | | |
|--|------------------------|-------------|-------------|------------------------|-------------|-------------|
| | Real estate operations | Investments | Total | Real estate operations | Investments | Total |
| Segment operating income | 2,341,079 | - | 2,341,079 | 4,367,796 | - | 4,367,796 |
| Segment operating expenses | (2,547,011) | - | (2,547,011) | (4,033,587) | - | (4,033,587) |
| Real estate income | (1,179,252) | - | (1,179,252) | 882,175 | - | 882,175 |
| Gain on sale of investment properties | - | - | - | 245,000 | - | 245,000 |
| Impairment loss of properties held for trading | - | - | - | (1,080,608) | - | (1,080,608) |
| (Loss) profit from operations | (1,385,184) | - | (1,385,184) | 380,776 | - | 380,776 |
| Net investment income (loss) | - | 82,473 | 82,473 | - | (15,133) | (15,133) |
| Finance charges | (407,898) | - | (407,898) | (261,079) | - | (261,079) |
| Other income | 239 | - | 239 | 42,908 | - | 42,908 |
| Segment results | (1,792,843) | 82,473 | (1,710,370) | 162,605 | (15,133) | 147,472 |
| Loss for the year | (2,021,311) | 82,473 | (1,938,838) | (307,345) | (15,133) | (322,478) |
| Total assets | 23,833,789 | 983,952 | 24,817,741 | 38,172,754 | 1,026,652 | 39,199,406 |
| Total liabilities | 13,878,845 | - | 13,878,845 | 15,603,020 | - | 15,603,020 |

25. Financial Risk Management

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalent, receivables, due from related parties, financial assets available for sale, payables, murabaha payable and finance leases obligation and due to related parties and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

a) Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the level of interest for its financial assets liabilities carrying floating interest rates. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature are indicated in the respective notes.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit through the impact on floating rate borrowings.

| Year | Increase / (decrease) in interest rate | Balance as at December 31 | Effect on consolidated statement of profit or loss |
|---------------------------------|--|---------------------------|--|
| 2016 | | | |
| Murabaha payable | ± 0.5% basis points | 5,507,217 | ± 27,536 |
| Finance lease obligation | ± 0.5% basis points | 4,252,254 | ± 21,261 |
| 2015 | | | |
| Murabaha payable | ± 0.5% basis points | 7,724,569 | ± 38,623 |
| Finance lease obligation | ± 0.5% basis points | 5,034,417 | ± 25,172 |

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash at banks, accounts receivable and due from related parties. The Group's cash at banks are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash and cash equivalent and accounts receivable and due from related parties.

c) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between the following foreign currencies and Kuwaiti Dinar.

| 2016 | Increase (decrease) against KD | Foreign currency denominated balances | Effect of change in currency rate KD |
|---|---------------------------------------|--|---|
| GBP | | | |
| Consolidated statement of financial position: | | | |
| Total assets | ± 5% | 24,503,131 | ± 460,659 |
| Total liabilities | ± 5% | 27,841,713 | ± 523,424 |
| Consolidated statement of profit or loss and other comprehensive income: | | | |
| Net loss for the year | ± 5% | 800,638 | ± 16,614 |

| 2015 | Increase (decrease) against KD | Foreign currency denominated balances | Effect of change in currency rate KD |
|---|---------------------------------------|--|---|
| GBP | | | |
| Consolidated statement of financial position: | | | |
| Total assets | ± 5% | 27,376,323 | ± 621,525 |
| Total liabilities | ± 5% | 29,826,177 | ± 677,144 |
| Consolidated statement of profit or loss and other comprehensive income: | | | |
| Net loss for the year | ± 5% | 2,252,860 | ± 51,318 |

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable. long with planning and managing the Group’s forecasted cash flows by maintaining adequate cash reserves, maintaining valid and available credit lines with banks, and matching the maturity profiles of financial assets and liabilities. Maturity analysis is provided in Note 28.

e) Equity price risk

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual shares. The equity price risk exposure arises from the Group’s investment in equity securities classified as financial assets available for sale. To manage such risks, the Group diversifies its investments in different sectors within its investment portfolio.

The following table demonstrates the sensitivity to a reasonably possible change in equity indices as a result of change in the fair value of these investments, to which the Group had significant exposure as of the date of consolidated financial statements :

| Market Indices | 2016 | | 2015 | |
|----------------|--------------------------------|---|--------------------------------|---|
| | Increase (decrease) against KD | Effect on other comprehensive income KD | Increase (decrease) against KD | Effect on other comprehensive income KD |
| KSE | ±5% | ± 43,755 | ±5% | ± 41,620 |

26. Fair value of financial instruments

The Group measures financial assets such as financial assets available for sale investments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability.
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

| 2016 | Level 1 | Level 2 | Total |
|-------------------------------------|---------|---------|---------|
| Financial assets available for sale | 608,170 | 224,233 | 832,403 |
| 2015 | Level 1 | Level 2 | Total |
| Financial assets available for sale | 656,533 | 218,570 | 875,103 |

At December 31, the fair values of financial instruments approximate their carrying amounts, with the exception of certain financial assets available for sale carried at cost as indicated in Note 6. The management of the Group has assessed that fair value of its financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

During the year there were no transfers between Level 1 and Level 2.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value details of investment properties are mentioned in Note 8.

27. Capital Risk Management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash on hand and at banks. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

For the purpose of capital risk management, the total capital resources consist of the following components:

| | 2016 | 2015 |
|---------------------------------|-------------------|------------|
| Murabaha payable | 5,507,217 | 7,724,569 |
| Finance lease obligation | 4,252,254 | 5,034,417 |
| Less: cash on hand and at banks | (711,771) | (326,871) |
| Net debt | 9,047,700 | 12,432,115 |
| Total equity | 10,938,896 | 23,596,386 |
| Total capital resources | 19,986,596 | 36,028,501 |
| Gearing Ratio | 45.27% | 34.51% |

28. Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets available for sale, investment properties and properties held for trading is based on management's estimate of liquidation of those assets.

The maturity profile of assets and liabilities is as follows:

As at December 31, 2016

| | Within 3 months KD | 3 to 12 months KD | Over 1 year KD | Total KD |
|---|--------------------|-------------------|-------------------|-------------------|
| Asset | | | | |
| Cash on hand and at banks | 711,771 | - | - | 711,771 |
| Accounts receivable and other debit balances | - | 420,522 | - | 420,522 |
| Due from related parties | - | 209,055 | - | 209,055 |
| Properties held for trading | - | - | 11,173,458 | 11,173,458 |
| Financial assets available for sale | - | - | 983,952 | 983,952 |
| Investment properties | - | - | 11,310,000 | 11,310,000 |
| Property and equipment | - | - | 8,983 | 8,983 |
| Total assets | 711,771 | 629,577 | 23,476,393 | 24,817,741 |
| Liabilities | | | | |
| Accounts payable and other credit balances | 180,015 | 1,922,228 | - | 2,102,243 |
| Gross amount due to customers for contract work | - | 57,827 | - | 57,827 |
| Murabaha payable | - | - | 5,507,217 | 5,507,217 |
| Finance lease obligation | - | 4,252,254 | - | 4,252,254 |
| Due to related parties | 1,886,120 | - | - | 1,886,120 |
| Provision for end of service indemnity | - | - | 73,184 | 73,184 |
| Total liabilities | 2,066,135 | 6,232,309 | 5,580,401 | 13,878,845 |

As at December 31, 2015

| | Within 3 months KD | 3 to 12 months KD | Over 1 year KD | Total KD |
|---|--------------------|-------------------|-------------------|-------------------|
| Asset | | | | |
| Cash on hand and at banks | 326,871 | - | - | 326,871 |
| Accounts receivable and other debit balances | - | 364,173 | - | 364,173 |
| Due from related parties | - | 9,164,480 | - | 9,164,480 |
| Properties held for trading | - | - | 15,563,095 | 15,563,095 |
| Financial assets available for sale | - | - | 1,026,652 | 1,026,652 |
| Investment properties | - | - | 12,746,850 | 12,746,850 |
| Property and equipment | - | - | 7,285 | 7,285 |
| Total assets | 326,871 | 9,528,653 | 29,343,882 | 39,199,406 |
| Liabilities | | | | |
| Accounts payable and other credit balances | 203,492 | 1,144,878 | - | 1,348,370 |
| Gross amount due to customers for contract work | - | 58,790 | - | 58,790 |
| Murabaha payable | - | - | 7,724,569 | 7,724,569 |
| Finance lease obligation | - | 5,034,417 | - | 5,034,417 |
| Due to related parties | 1,320,454 | - | - | 1,320,454 |
| Provision for end of service Indemnity | - | - | 116,420 | 116,420 |
| Total liabilities | 1,523,946 | 6,238,085 | 7,840,989 | 15,603,020 |

29. Comparative figures

Certain comparative amounts for previous year were reclassified to conform with the current year presentation which has no impact on total equity and the Group's net results.

المساكن

شركة المساكن الدولية
للتنمية العقارية

Al Masaken International
Real Estate Development Co.

التقرير السنوي

2016

