ANNUAL REPORT 2016

صكوك
SOKOUK
Sokouk Holding Company K.S.C.P

H.H. Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

His Highness Sheikh
Nawaf Al-Ahmed Al-Jaber Al-Sabah
Crown Prince

His Highness Sheikh
Jaber Mobarak Al-Hamad Al-Sabah
Prime Minister

Sokouk Holding Company K.S.C.P

Integrated Real Estate Synergy . . .

Establish date 23 August 1998

Paid-up Capital
KD 59,314,500.000

Divided into
593,145,000 shares

Nominal value per share 100 Fils

Commercial Licence 1998/574/م.ع
Commercial Register 74323
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صكوك العقارية
SOKOUK REAL ESTATE

بيت الإعمار الخليجي
Gulf Development House

منشآت
قيمة متنامية

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COMPANY OVERVIEW

Sokouk Holding Company was established as a Kuwaiti shareholding company (closed) in 23 August 1998 under the name (Intermediate Real Estate Development Company). After the Company had been restructured in 17 July 2005 and its objectives and goals were expanded, its name was changed to (Sokouk Real Estate Development Company), the Company has launched new investment and finance instruments in the form of Sharia Compliant time share sokouk which have become the most important instrument through which the Company has taken up real estate investment and trading. After the resounding successes it has accomplished in this field, the Company strived to expand its activities by virtue of creating specialized entities capable of developing the products and innovating new investment instruments. Therefore, the Company was changed to a holding company (Sokouk Holding Company) in August 2005, and further changed into a public transformed in 2014.

BOARD OF DIRECTORS

Mr. Ghanim Yousef Abdullah Al-Ghanim
Chairman

Mr. Ahmad Yousef Ahmad Al-Rasheed Al-Bader
Vice Chairman

Mr.Mohammed Ahmad Mohammed Al-Rasheed
Board Member

Mr. Mohammad Ahmad Abdulwahab Al-Babtain
Board Member

Mr. Eissa Bader abdulkareem Al-Mutawaa
Board Member - Independent

CHAIRMAN'S SPEECH

Mr. Ghanim Yousef Abdullah Al-Ghanim
Chairman

Board of Directors Report to Shareholders on the Company's Performance during the Financial Year Ended 31 December 2016

Our Valued Shareholders,
It is my pleasure, personally and on behalf of the directors of the Board and the executive management, to extend to you my sincere appreciation for your continuous support during the past year. I am also pleased to present you the annual report through which we exhibit the prominent achievements that the Company has managed during the year, as well as the Governance report, Sharia supervisory board report, auditors' report and the consolidated financial statements for the financial year ended on December 31, 2016.

Our Valued Shareholders,
The Company has faced some challenges during 2016 as a result of the decline in the pace of economic growth and the changes in the region resulting, direct and indirect, repercussions and unfavorable impacts on the investment environment in the Arab region, especially in the sector of real estate investment, based on Sokouk's concern to absorb the negative reflections of these incidents and changes, the Company has gone to extremes to mitigate these direct and indirect negative effects on its investment activity, however Sokouk and its subsidiaries and associates were not immune to this decline under the obscurity of those changes and the developments will be mentioned furthermore in this report.

Local and Regional Real Estate Projects

- Gulf Development House Real Estate Company (Subsidiary): Its most important project is "Millennium Hotel & Convention Center Kuwait" which is the first hotel to bear the trademark of the five-star hotel chain of Millennium & Copthorne in Kuwait.
- Sokouk Real Estate Company (Subsidiary): operating in the field of direct real estate investment by developing investment opportunities. Its current activity is concentrated in investment in local real estate investment sector through a set of selected real estate opportunities.
- Munshaat Real Estate Projects Company (Associate): Its most important projects are " Zamzam Pullman Mecca Hotel" which is considered as a five -star hotel, "Zamzam Pullman Medina" which is a five-star hotel, " Bakka Tower" which is one of the towers of Al Safwah residential complex " Al-Mehrab Tower " .

Our Valued Shareholders,
Before we review the financial performance, we point out that one of the primary reasons for the decrease in profits is the decline in the fair value of real estate investments, due to the general recession in the real estate market, through our shares in our subsidiaries and associates. In addition to the tax claim by the General Authority of Zakat and Tax in Saudi Arabia to one of its associates in respect of the capital gains tax on some exits pursuant to the joint liability with the purchaser, as well as a tax on a discretionary basis for the operations of Zamzam Tower, besides the taxes relevant to some other projects managed by the Associate company in Saudi Arabia. The Associate Company has appointed a tax consultant with relevant experience and efficiency in Saudi Arabia to study the matter and to take all actions in accordance with the provisions of related Saudi laws. The tax consultant has already filled a formal objection to this claim on March 2nd 2016. The tax consultant has also expressed the tax and zakat opinion to the external auditors of the Associate, which are required to take some provisions to face any potential liabilities in this regard.

Financial Performance
Total assets of the company for the year 2016 has decreased by 7% to KD 105,566,794 (Kuwaiti Dinar One Hundred Five Million Five Hundred Sixty Six Thousand Seven Hundred Ninety Four), compared with last year of KD 113,095,859 (Kuwaiti Dinar one hundred thirteen million ninety five thousand eight hundred fifty nine).

Equity have decreased by 9% to be KD 71,600,015 (Kuwaiti Dinar seventy one million six hundred thousand fifteen) for the current year, compared to KD 78,261,697 (Kuwaiti Dinar Seventy Eight Million Two Hundred Sixty One Thousand Six Hundred Ninety Seven) in 2015.

The Company's loss during 2016 has increased and recorded net loss of KD 6,745,558 (Kuwaiti Dinar Six Million Seven Hundred Forty Five Thousand Five Hundred Fifty Eight) compared to loss estimated with KD 764,320 (Kuwaiti Dinar Seven Hundred Sixty Four Thousand Three Hundred Twenty) in the previous year 2015. The loss per share reached 11.8 Fils for the current year compared to 1.3 Fils per share in 2015.

Related parties
It is worthy to mention that transactions' balances due from related parties during 2016 reached KD 6,567,546 (Kuwaiti Dinar Six million five hundred sixty seven thousand five hundred forty six), compared with a balance of KD 4,071,350 (Kuwaiti Dinar Four Million Seventy One Thousand Three Hundred Fifty) as of 31 December 2015 with increase amounting KD 2,496,196 (Kuwaiti Dinar Two Million Four Hundred Ninety Six One Hundred Ninety Six).

Also, transactions' balances due to related parties during 2016 reached KD 549,435 (Kuwaiti Dinar Five Hundred Forty Nine Thousand Four Hundred Thirty Five) compared to a balance of KD 499,184 (Kuwaiti Dinar Four Hundred Ninety Nine Thousand One Hundred Eighty Four) as of 31 December 2015, with increase of KD 50,251 (Kuwaiti Dinar Fifty Thousand Two Hundred Fifty One).

Islamic payable balances during the year 2016 reached KD 7,439,909 (Kuwaiti Dinar Seven Million Four Hundred Thirty Nine Thousand Nine Hundred Nine), compared to a balance of KD 8,255,739 (Kuwaiti Dinar Eight Million Two Hundred Fifty Five Thousand Seven Hundred Thirty Nine) as of 31 December 2015, with decrease of KD 815,830 (Kuwaiti Dinar Eight Hundred Fifteen Thousand Eight Hundred Thirty).

Islamic finance costs during the year 2016 reached KD 358,389 (Kuwaiti Dinar Three Hundred Fifty Eight Thousand Three Hundred Eighty Nine), compared to costs of the year 2015 of KD 399,371 (Kuwaiti Dinar Three Hundred Ninety Nine Thousand Three Hundred Seventy One), with a decrease of KD 40,982 (Kuwaiti Dinar Forty Thousand Nine Hundred Two).

Salaries and remuneration of key management personnel

Remuneration of key management personnel	**2016**	2015
Salaries and other short term benefits	**362,231 KD**	364,433 KD
End of services benefits	**25,708 KD**	25,616 KD

Recommendation of board of directors
Board of directors has recommend not to distribute dividends for the fiscal year ended 31 December 2016 and also recommended not to disburse remuneration for the directors for the fiscal year ended 31 December 2016, except disbursement of remuneration of KD 3,000 (Kuwaiti Dinar Three Thousand Only) to the independent director.

Our Valued Shareholders,
The scope of the strategic plan which included a set of quantitative and qualitative objectives, Sokouk has undertaken many requirements for this period. The objectives that were achieved during the year are represented in completing the update of the regulations and procedures which regulate the company's activity, which will be set forth later in the government report.

In conclusion,
I would like to seize this opportunity on behalf of the Board of Directors to extend my sincere appreciation to our valuable shareholders for their continuous support and their trust in the Board of Directors and the executive management. We pray to Allah the Almighty to grant us success in promoting the Company's performance and achieving best results. We are confident that the company will be able to maximize the financial performance during the upcoming years. We hope that the year 2017 will witness real growth of the Company and the development and completion of projects in progress, which will lead to stability in cash flows and diversification of income sources.

Mr. Ghanim Yousef Al-Ghanim
Chairman

MEMBERS OF THE EXECUTIVE MANAGEMENT

Mr. Feras Fahad Ahmad Al-Bahar
Chief Executive Officer

Mr. Ravindra Ninganagouda Shantagiri
Financial Controller

Mr. Mudhar Adnan Al-Razouqi
Senior Investment Manager

Fatemah Ahmad Abdulwahab Al-Hindi
Human Resources and Support Services manager

Mr. Idris Mohammad Shafi Abdullah Mohammad
Assistant Manager Compliance

Sharia Board

Almashoora and Al Raya for Islamic Financial Consulting undertakes the duties of the Sharia Controller, and appoints the Sharia Committee of the Company which is formed of the following members:

His Eminence Dr. Abdul Aziz K. Al Qassar

His Eminence Dr. Essa Zaki Essa

His Eminence Dr. Ali Ibrahim Al-Rashed

The Committee undertakes its duties by controlling the Company's businesses and providing the Sharia consultancies in relation to such businesses.

External Auditors

The external auditors of the company are Al-Bazie and partners and Al-Waha External Audit Bureau, who are in charge of conducting the external audit functions; preparing the data and financial reports.

SUBSIDIARIES OF SOKOUK HOLDING CO.

Gulf Development House Real Estate Company K.S.C.C

Establishment: October 2002
Capital: KD 9,913,876.

Company Profile

Gulf Development House is a Kuwaiti shareholding company (closed) with an authorized capital of KD 9,913,876. Sokouk Holding Company owns 87.39% of the Company's shares. The Company represents the main arm of Sokouk Holding Company for working in fields of specialized real estate development, in addition to managing real estate investment and commercial projects, and managing investment funds and portfolios with real estate character. Furthermore, Gulf Development House works in various real estate fields including owning, developing and selling real estates inside and outside State of Kuwait.

Company's Projects

Millennium Hotel & Convention Centre Kuwait

Millennium Hotel & Convention Center Kuwait is a five-star hotel, located in the Salmiya area and strategically positioned at the major intersection of the 4th Ring Road and Fahaheel Highway.

A 15 minutes' drive from Kuwait International Airport, and 10 minutes' drive from Kuwait City's financial and business district-make it the preferred destination for the business travelers.

صكوك العقارية
SOKOUK REAL ESTATE

Sokouk Real Estate Company K.S.C.C

Establishment: June 2006
Capital: KD 15 million.
Sokouk Real Estate Company (K.S.C.C) was established in June 2006 with a capital of KD 5 million. In June 2008, the capital was increased to KD 15 million.

Company Profile

Sokouk Real Estate Company is a 100% owned subsidiary of Sokouk Holding Company, which operates in direct real estate investments and acts as a real estate arm for Sokouk Holding Company. At present, it mainly focuses on local real estate investments. The company owns a number of units in Zamzam Pulman Madina hotel.

The company mainly acts as an investor, developer and trader of local & GCC real estate properties. It can also be engaged in Sharia compliant real estate funds and portfolios in line with its article of association. The company's vision is to provide leadership and specialty in high quality real estate projects that yield added value to investors.

AFFILIATES OF SOKOUK HOLDING CO.

منشآت
قيمة متنامية

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

Establishment: April 2003
Capital: KD 32,200,000.

Company's Business:

Munshaat Real Estate Projects Co. (K.S.C.P) core business is primarily focused on the local and international real estate industry through the professional and unique development and management of real estate products and projects, targeting extraordinary markets and projects, using innovative Sharia'h-compliant investment instruments and participation in investment projects on the (Build, Own, Transfer) B.O.T basis.

Company's Projects

Zamzam Tower - The Abraj Al- Bait Complex - Mecca

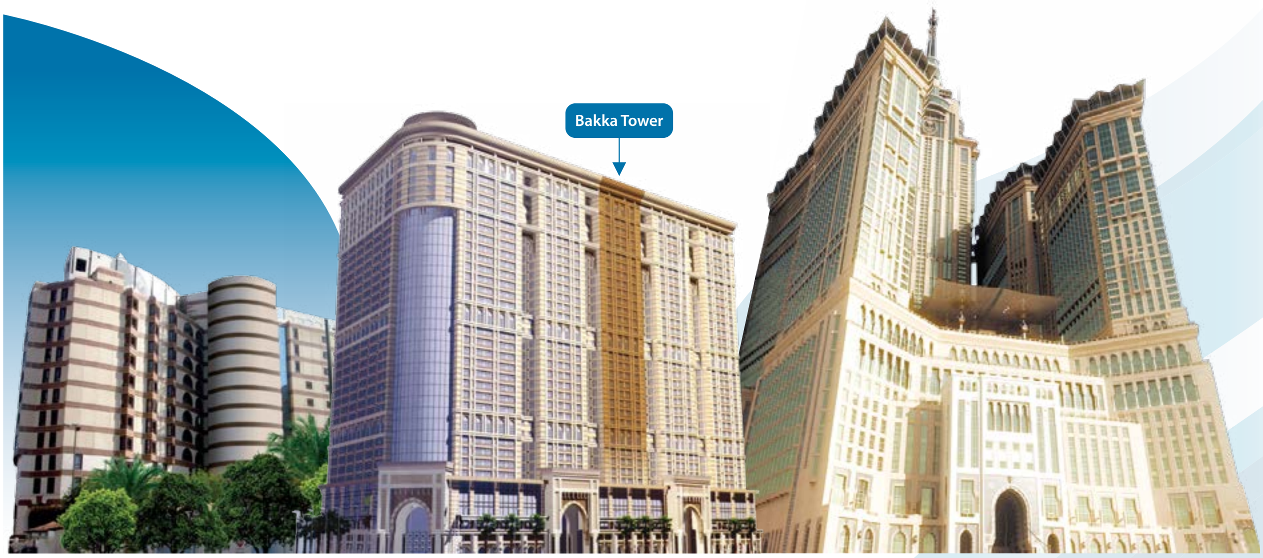
The Zamzam Pullman Mecca hotel is one of the largest hotels of Munshaat Company in Mecca, and is considered as a five-star hotel. It enjoys a privileged location, as it is a few steps away from the Holy Mosque in Mecca, facing the King Abdul Aziz gate, which is located in the Zamzam tower, one of the residential Abraj Al- Bait complex's towers.

ZamZam Pullman Medina Hotel

Dar Al Qiblah - Medina
"Zamzam Pullman Medina" is the brand hotel name for the five-star Dar Al Qiblah tower.
This exceptional hotel is distinguished by its proximity to the Prophet's mosque and for providing the best available hospitality service in Medina.

Bakka Tower

Mecca / The Kingdom of Saudi Arabia
It is one of the residential Abraj Al Safwah towers, which is characterized by its close proximity to the Sanctuary, as it is located in the Ajyad Street and is about 50 meters away from the King Abdul Aziz gate for the Holy Meccan Sancturary



ZamZam Pullman Medina Hotel Abraj Al Safwah ZamZam Pullman Mecca Hotel

CORPORATE GOVERNANCE FRAMEWORK

Chairman's Statement on the Company's Compliance with Corporate Governance Rules

As part of Sokouk Holding Company ("Sokouk" or the "Company") role in building and enhancing credibility emphasizing transparency and being conscious of its responsibility, the Board of Directors (BOD) has approved a Corporate Governance Manual to the company which primarily aims to ensure that Sokouk is adhering to the best practices and principles of corporate governance rules, where corporate governance is considered as an integral part of the core values of the Company to maintain the interests of shareholders and all other stakeholders without conflict to their interests with a focus on risk management and governance strengthen internal control systems and internal and external audit and ensuring that the Company is managed in a prudent manner and within the applicable laws and regulations and the internal policies and procedures. We believe that the highest standards of corporate governance are essential to our business integrity and performance, The year 2016 witnessed remarkable development in the effective adoption of corporate governance Sokouk, represented by its BOD and Executive Management has focused on raising the governance and compliance culture across all its entities, where the Company sought to be in line with the leading practices relating to corporate governance rules, compliance management, protecting stakeholder's rights, as well as the application of the principles of efficiency and integrity and the highest standards of transparency through disclosing transactions to stretch to all shareholders in a time via the boursa Kuwait website, and the Company›s website. Sokouk was able to achieve a number of key accomplishments on the effective implementation of corporate governance through building a balanced and non-complex organizational structure and make the necessary development of the Company's policies and regulations in accordance with the regulatory requirements which are as follows:

Board & Committees Structure

Board of Directors	Position	Date of Election/ Appointment of Secretary
Mr. Ghanim Yousef Abdullah Al-Ghanim	Chairman – Non-Executive	Appointed as a member on 2 March 2015
Mr. Ahmad Yousef Ahmad Al Rasheed Al-Bader	Vice Chairman - Non-Executive	Appointed as a member on 2 April 2015
Mr.Mohammed Ahmad Mohammed Al-Rasheed	Board Member - Non-Executive	Appointed as a member on 2 March 2015
Mr. Mohammad Ahmad Abdulwahab Al-Babtain	Board Member - Non-Executive	Appointed as a member on 2 March 2015
Mr. Eissa Bader Abdulkareem Al-Mutawaa	Board Member - Independent	Appointed as a supplementary member on 7 Augustus 2016
Mr. Idris Mohammad Shafi Abdullah Mohammad	Secretary	Appointed as a member on 2 March 2015

Audit & Risk Management Committee	Position	Date of Election/ Appointment of Secretary
Mr. Mohammed Ahmad Mohammed Al-Rasheed	Chairman – Non-Executive	Appointed as a member on 30 June 2016
Mr. Mohammad Ahmad Abdulwahab Al-Babtain	Committee Member - Non-Executive	Appointed as a member on 30 June 2016
Mr. Eissa Bader abdulkareem Al-Mutawaa	Committee Member - Independent	Appointed as a member on 7 Augustus 2016
Mr. Idris Mohammad Shafi Abdullah Mohammad	Secretary	Appointed as a Secretary on 30 June 2016

Nominations and Remunerations Committee	Position	Date of Election/ Appointment of Secretary
Mr. Ahmad Yousef Ahmad Al Rasheed Al-Bader	Chairman – Non-Executive	Appointed as a member on 30 June 2016
Mr. Mohammad Ahmad Abdulwahab Al-Babtain	Committee Member - Non-Executive	Appointed as a member on 30 June 2016
Mr. Eissa Bader abdulkareem Al-Mutawaa	Committee Member - Independent	Appointed as a member on 7 Augustus 2016
Mr. Idris Mohammad Shafi Abdullah Mohammad	Secretary	Appointed as a Secretary on 30 June 2016

Board of Directors and Board Committee Meetings

It should be noted that the number of Board and Committee meetings held during 2016 was in compliance with Corporate Governance requirements and regulations. Minutes of all meetings have been documented and are included in the Company's records and the decisions taken within minutes of meetings shall be obligatory and become an integral part of "Sokouk" records. Members shall be provided with adequate data and information before the Board meeting with a sufficient period to take the necessary decisions. The secretary shall note down the Board discussions members suggestions and results of voting which is done during the meeting.

Board of Directors	Audit & Risk Management Committee	Nomination & Remuneration Committee
The Board held (14) meetings during 2016	The Audit & Risk Management Committee held (8) meetings during 2016	The Nomination & Remuneration Committee held (2) meetings during 2016

Key Achievements of BOD and its Committees Scope of Effective Application of Corporate Governance:

Key Achievements and Roles of BOD:

- Discussing and approving the updated strategy of the Company.
- Discussing the risk appetite and its impact on the Company›s strategy.
- Approving the updated list of policies and charters relating to governance.
- Reviewing the structure of BOD and ensure building a structure which complies with the regulatory requirements and the general policy of corporate governance framework and segregating between the function of the Chairman and that of the CEO.
- Forming specialized committees arising from the board of directors according to the charter and defining the duration of the committee authorities responsibilities and how the board monitors it. The decision to form a committee also includes the members and defining their roles rights and duties, as well as evaluating the performance and actions of these committees and its primary members.
- Adopting a delegation and execution policy for the tasks entrusted to the Executive Management.
- Monitoring and supervising the performance of Executive Management members and ensuring that the Executive Management is operating according to the policies and regulations approved by the Board of Directors.
- Following up the progress of the functions of the Company through regular meetings with Executive Management and discussing the results of the Company's business through periodic reports.
- Reviewing and evaluating the effectiveness of the Board and its committees, in addition to conducting individual self-assessments of the Board and committee members.
- Reviewing the Remunerations structure and the mechanism of linking Remunerations to performance and the level of risk exposure and renewing the Remunerations policy at the Company level.
- Activating and developing the corporate governance framework at the level of the Company's subsidiary entities and ensuring that the implement the requirements in line with the Company framework.
- Ensuring on a periodical basis that the Company is adopting Corporate Governance leading practices by reviewing the tools and methods of implementing the governance and ensure effective code of conduct.
- Reviewing and developing the policies and procedures and governance framework.
- Conducting self-assessment for corporate governance at the Company level and identifying the areas that need to be developed.

Key Achievements and Roles of Nomination and Remuneration Committee:

- Supervising the process of the Board of Directors performance evaluation and the self-assessment of the Board members.
- Reviewing the Board structure and recommending the nomination mechanism for the Board members.
- Reviewing the training needs of the Board members for training courses and professional skills that help to perform Board members supervisory role.
- Reviewing the performance assessment of the Company's CEO and put forward the recommendations to the Board for approval.
- Reviewing and developing the existing Remuneration policy and submitting the recommendations to the Board for approval.
- Reviewing the remunerations and incentives for based on the key performance and risk indicators and put forward the recommendations to the Board;
- Annual review of the requirement of suitable skills for membership of the Board of Directors and prepare a description of the required capabilities and qualifications for such membership.

Report on the remuneration vested to Board members and Executive Management.

The Board of Directors did not receive any emoluments in the form of fees, salaries or bonuses for their services rendered for the year 2016 except for Mr. Eissa Bader abdulkareem Al-Mutawaa being an independent member of the Board of Directors recommended to disburse bonus of Three thousand Kuwaiti Dinar.

The total remuneration of the Senior Management is Seven thousand Kuwaiti dinar for the year ended in 31 December 2016.

The following table details the Remuneration Paid (in KWD):

Remuneration	#	Fixed Remuneration	Variable Remuneration	Total Remuneration
Board Members	1	3000	-	3000
Senior Management	2	7000	-	7000
Nomination & Remuneration Committee	-	-	-	-
Audit & Risk Management Committee	-	-	-	-

Key Achievements and Roles of Audit Committee:

- Reviewing and approving the Company's Internal Audit Plan for 2016 based on the Risk Assessment and audit focus areas.
- Reviewing and discussing the Company's internal policies and procedures and presenting them to the Board for approval.
- Reviewing and discussing the Company's organizational structure and presenting it to the Board for approval.
- Coordinating with the External Auditors and reviewing the quarterly and annual financial statements and providing recommendations to the Board of Directors.
- Discussing the results of the report of the annual Internal Controls Review.
- Discussing aspects of internal audit that relate to information technology and IT security.
- Reviewing and discussing the terms of engagement with the External Auditor and provided recommendations related to the Audit fees with respect to the services provided and ensuring the independence and impartiality of the External Auditor.
- Discussing external audit results related to the internal audit unit.
- Reviewing the IT risk report compliance report and operating risk report.
- Discussing and reviewing the content of the annual internal audit report which highlights the summary achievements before presenting it to the Board.
- Evaluating the Company Chief Internal Auditor's performance and determining his remuneration.
- Reviewing and discussing the periodic risk management reports including the key risk indicators.
- Coordinating with the Board Nomination and Remuneration Committee to evaluate the Remuneration proposed and the extent of their relationship with risk limits.
- Discussing the regulatory compliance remarks at the Company and subsidiaries level.
- Updating the Board with latest requirements issued by CMA relating to disclosure.
- Written undertakings by the Board of Directors and the Executive Management and the integrity of financial reports prepared.

Senior Management

Overview

Senior management of Sokouk Holding Company consists of a core group of experienced and qualified individuals including the CEO and its administrative assistants who are responsible and held accountable for overseeing the day-to-day management of the Company. Under the direction of the Board the Senior Management ensures that the Company's activities are consistent with the business strategy risk appetite and policies approved by the Board. The Board depends on the Senior Management's competency in implementing the Board's resolutions without any direct interference by the Board. Senior management is responsible for delegating duties to the staff and its monitoring thereof and establishing a management structure that promotes accountability and transparency. In addition it's responsible for supervision and control over the Company's business particularly with respect to ensuring compliance risk control and developing the appropriate regulations for risk management in line with the directions of the BOD.

Separation of the Chairman and the CEO Positions

The Board has clearly separated the positions of the Chairman of the Board from the Chief Executive Officer. The Board has delegated the task of running the day to day operations of the Company to the Senior Management headed by the CEO through written / approved delegated financial and operational authorities.

Key Achievements of the Chief Executive Officer:

- Executing the Company's strategic plans and the policies and internal regulations relating to it and ensuring its adequacy and effectiveness.
- Establishing an organizational structure that promotes accountability and transparency.
- Execution of all the various policies regulations and internal control systems of the Company approved by the Board of Directors.
- Executing strategies and annual plans approved by the Board of Directors.
- Preparing periodical reports (financial and nonfinancial) regarding the advancements performed in the Company's activity in light of the strategic plans and goals of the Company and presenting these reports to the Board of Directors.
- Implementing a complete accounting system that maintains ledgers, registers and accounts that views accurately and in details the financial data and income accounts which allows maintaining the Company's assets and preparing financial statements according to the international accounting standards approved by CMA.
- Effective contribution in the establishment and development of ethical standards in the Company.
- Implementing internal control and risk management systems and ensuring its effectiveness and adequacy while taking into account and complying with Company's risk appetite that is approved by the Board of Directors.

Internal Control Systems:

- The Board strives consistently to ensure the adequacy and efficiency of the internal control systems required to protect the Company's operations whilst ensuring compliance with such internal controls and establishing that those controls provide the necessary protection for the Company against risks from within or outside the Company. The Board ensures an effective Internal Control System and Risk Management function are in place with sufficient authority independence resources and access to the business lines. The Board regards the internal audit function and external audit activities as integral part of key control tools for independent review of information reported by Executive Management to the Board.
- The Board Audit Committee is responsible for the oversight of the Company's internal control framework along with the selection and rotation of External Auditors in compliance with regulatory requirements.
- The Board has been provided with the results of assessment of the existing internal control systems from Risk Management Internal Audit and independent external parties The Board believes the existing internal control systems adopted and used at the Company are satisfactory and adequate.
- An Internal Control Review (ICR) of the Company is conducted annually by an external audit firm in accordance with the requirements of regulatory entities. ICR examines accounting and other records and evaluates the internal control systems with regard but not limited, to Financial Control, Information Technology, Risk Management, Human Resources and Administration, Internal Audit, operations and Legal Affairs.

Code of Conduct and Conflict of Interest

Code of Conduct and Ethics

Establishing the culture of code of conduct and ethics within the Company enhances the Company's integrity and its financial validity. The code of conduct and ethics is considered one of the most important components of the corporate governance framework in the Company. The Company's Board of Directors and Executive Management take into account the necessity to abide by this code in the daily activities of the Company to achieve the interests of all related parties and stakeholders of the company and shareholders without a conflict of interest and with a large degree of transparency. This code is subject to periodic review to keep up to date with all the latest development and enhancements in the areas of governance and control of professional conduct. The Code of Ethics and Conduct has been circulated to all the Company's staff and Board members whose signatures are obtained as an acknowledgment to abide by contents therein.

Conflict of Interest:

The Board has formal written policies covering all conflicts of interest related matters including but not limited to:

- A member's duty to avoid to the extent possible activities that could create conflict of interest.
- Board approval on any activity a Board member is engaged in to ensure that such activity will not create a conflict of interest.
- A member's duty to disclose any matter that may result or has already resulted, in a conflict of interest.
- A member's responsibility to abstain from voting on any matter where the member may have a conflict of interest or where the member's objectivity or ability to properly fulfill duties to the Company may be otherwise compromised.
- Adequate procedures for transactions with related parties to be made on an arms-length basis and the way in which the Board will deal with any non-compliance with the policy.

The basic rights of shareholders

Shareholders

The Board has developed written policies and procedures covering all rights of shareholders related matters including, but not limited to:

- Disclosures of Board members of their shares in the listed companies and other administrative positions they occupy in other companies.
- The right to participate in decisions concerning the amendment on articles of association of the Company as well as decisions on unusual transactions that may affect the future of the Company or its trade and investment as well as in cases of merger or sale of assets or subsidiaries.
- The right to participate in the general assembly meetings and make observations and recommendations (if any) concerning any improvements that are needed.
- The right to contribute in the decision-making process on any radical changes in the company.
- The right to express opinion on the appointment of any member of the Board of Directors.
- Access to accurate, comprehensive, detailed, sufficient and up-to-date information for the purposes of evaluating investments and making good decisions.
- The right to receive the return on stocks, as well as participate in general assembly meetings and voting on resolutions.
- The right of shareholders to be treated equally.

Stakeholders' Rights

- Right to be treated on a just and equitable basis.
- Rights to open and clear disclosures of the relevant information.

Investors' Affairs Unit

The Company promotes open and transparent dialogue with both its shareholders through Investors' Affairs Unit which serves as the primary contact with shareholders investors and related parties. The Company also publishes information for investors and stakeholders on a regular basis through its website which contains most recent data as well as other media.

Disclosure and Transparency

The Board understands that the disclosure system is an effective tool for influencing the Company's behavior and protecting investors and enhancing their confidence in the Company. Given the Board's keenness to establish a transparent work environment in the Company in accordance with the best corporate governance rules in this regard, the Board of Directors has approved a detailed policy for disclosure and transparency, which specifically includes the core information to be disclosed and the way and quality of that disclosure.

Sokouk shall provide its current and prospective shareholders and investors with accurate comprehensive and detailed information to be able to evaluate the Company's performance and make informed decisions in time through publishing the information on the website of boursa Kuwait and the website of Sokouk Holding Company.

Sokouk is also committed to make sure that stakeholders have the opportunity to gain access to the available information issued by the Company about the Company's activities in publishing the information and data contained in the annual or quarterly reports on the website of the Company. It is also committed to disclose in an appropriate and accurate time, and in accordance with the instructions of CMA of all issued materials and according to the approved policies including but not limited to the following:

- Disclosure of shareholders whose ownership reaches 5% or more of the company's capital and any change in the ratio.
- To disclose the names of the Board members and the names of the members of the Executive Management.
- Disclosure of the essential information.

Development of IT Systems

At the level of the development of information technology systems, and having completed the preparation of the modern infrastructure and absorbing and running accompanied applications and software the Company has continued during the year 2016 its interest in the development and upgrading of its IT systems running the associated applications and programs updating security and protection programs as well as the development and updating of backup systems where some of the operational and networking systems were upgraded and it has made the annual test of the business continuity plan.

Social Responsibility

Sokouk has taken into account the importance of recognizing the social responsibility that is associated with a number of human supreme values and standards supporting and encouraging national labor and raising its efficiency and providing training programs to develop the capacities of groups of university students and to give priority in hiring to the Kuwaiti citizen. The Company also develop appropriate awareness and educational programs to ensure good knowledge of the Company's employees of the objectives of social responsibility undertaken by the Company and on an ongoing basis which contributes in the upgrading of the company's performance. In 2016 the Company has also continued its interest in the development and training of its personnel.

Business report regarding the achievements of the Audit Committee for the year 2016

Proceeding with our keen obligation to provide you with all the developments and our commitment to applying the rules of corporate governance in regards to the Audit Committee Report, we are pleased to offer you this annual report on the achievements of the "Audit Committee" for the financial year that ended 31 December 2016, which sheds a light on the most vital economic developments and achievements within internal control systems, according to the following breakdown: -

Review and Approval of the Financial Statements:
The "audit committee" has reviewed the financial statements for quarterly and annually auditor's reports prior to submission to the Board of Directors to negotiate their opinions and recommendations in order to ensure a fair and transparent financial reporting. The financial statements were approved and there was no objection to this regarding the financial reporting.

External Auditors
The "audit committee" have recommended to the Board of Directors to reappoint the company's external auditors, Mr. Waleed Al-Osaimi a representative of Al- Aiban, Al Osaimi & Partners office and Mr. Ali Rukheyes a representative from Alwaha Auditing Office, for the fiscal year that ended on 31 December 2016, as the Committee has to follow up the work of auditors externally and review their recommendations, taking upon their recommendations by the committee and presenting them to the Board of Directors. The financial statements were approved quarterly and annually according to those recommendations, the Committee has also recommend to the Board of Directors to re-appoint the external auditors for the fiscal year, which ends on 31 December 2017, with the review of taking into account reviewing letters of appointment and ensuring their independence.

As the committee is keen on re-appointing the company's external auditors only for doing the auditing and no other services to the company.

Accounting Policy
The "Audit Committee" was specific and keen on studying and reviewing the accounting policies and criteria used in the company as well to expressing an opinion and recommendation to the Board of Directors before the approval of the quarter and annual financial statements.

Internal Control Systems
The "Audit Committee" was keen regarding applying the most ideal way for the internal control systems through the recommendation in hiring BDO office of Qais Mohammed Nisf Al-Nisf, where their office has examined the company departments and evaluated the control systems in those departments, and preparing an assessment report and a review of the internal control systems, the committee's recommendations forwarded to the Board of Directors regarding the report, it states the following:

- The internal control systems of the company are generated and maintained in accordance with the requirements of the financial markets and the rules of corporate governance for companies.
- Recommendations that have been recognized and noted in the evaluation of internal controls do not affect an essential matter to a fair presentation of the financial statements of the Company for the year ended on 31 December 2016.

- The measures that have been taken by the company to address the observations that have been mentioned in the report are considered to be satisfied measures.

Internal Auditors Report:
The “audit committee” oversees on the work assigned to the internal audit office and verifies its effectiveness in implementing the audit work as specifies by the Board of Directors through the following:

- The recommendation to renew with (KPMG) office to carry out with internal auditing, the secretary of the “Audit Committee” was chosen to be coordinated with the internal auditor.
- The Committee has reviewed the internal auditors detailed reports within the department of Sokouk Holding Company for the financial year ended December 31, 2015, and have been working on the follow-up to end all recommendations in the reports and inform the board with procedures and solutions that will be taken, and then are reported and submitted to the Board of Directors.
- A plan has been approved for internal audits for the Office of KPMG for the financial year ended December 31, 2016 to check on all departments of the company.

Compliance:
The “Audit committee” have reviewed the irregularities received from regulators regarding the delay in the delivery of financial statements for the year ended December 31, 2015 due to the delay in the approval of an associate company, and will be avoiding such violations.

The Committee has also approved a set of policies and procedures to ensure that the company’s complied to the laws, policies and regulations and instructions related to, and within such measures, manual approved corporate governance for the executive management to follow what it says, and taken through to the company’s functioning efficiently with complete reliability.

In conclusion, we would like to emphasize that the developments and achievements that have been made but it is the grace of Almighty Allah and then your full support.

Yours sincerely accept with our respect and appreciation,,,

Mr. Mohammed Ahmad Al-Rasheed
Audit Committee chairman

THE SHARIA SUPERVISORY BOARD REPORT

MANDR
Date: 22/03/2017

The Sharia Report of SOKOUK HOLDING CO.
Fatwa and Shariah Supervisory Board
For the period from 01/01/2016 to 31/12/2016

To: The Shareholders of Sokouk Holding Company (K.S.C.C).

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

CONSOLIDATED FINANCIAL STATEMENTS

صكوك
SOKOUK

Sokouk Holding Company K.S.C.P

AND ITS SUBSIDIARIES

For the Year Ended December 31, 2016
With Independent Autditors' Report

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ALI OWAID RUKHAEYES

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sokouk Holding Company K.S.C.P. (the 'Company') and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including the summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of Matters

We draw attention to the following:

1. Note 9 to the consolidated financial statements, which states that Munshaat Real Estate Projects Company K.S.C.P. (an associate of the Company or 'Munshaat') has received a tax demand notice amounting to SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ("GAZT"), Kingdom of Saudi Arabia ("tax claim"). In response to the tax claim, Munshaat has filed an objection letter with GAZT. Based on the advice from the tax consultant, the management of Munshaat has estimated and recorded a potential liability against the tax claim representing Zakat, withholding tax and related penalties in the consolidated financial statements. Notwithstanding the above facts, there is a significant material uncertainty as to the outcome of the tax claim. The provision recognised in the books as at 31 December 2016 represents the best estimate from the management of Munshaat.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

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

2. Note 9 to the consolidated financial statements which describes that during the year 2015, the contractor of one of the properties of Munshaat in the Kingdom of Saudi Arabia has claimed an amount of SAR 501 million (equivalent to KD 41 million) from Munshaat and Munshaat has counter claimed an amount of SAR 627 million (equivalent to KD 51 million) on the same contractor for the delay in completing the project. The case is currently under arbitration with the Saudi Arbitration Committee. The management of Munshaat, based on the advice from an independent legal counsel, believes that the outcome of the arbitration ruling would most probably be in favour of Munshaat and hence no provision has been recognised for this claim in the consolidated financial statements as at 31 December 2016.
3. Note 13 to the consolidated financial statements, which describes the uncertainty related to the final outcome of an ongoing lawsuit in relation to a trading property owned by the Company.

Our opinion is not qualified in respect to these matters.

Key Audit Matters

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

We identified the following key audit matters:

1. **Investments in associates**

   The Group has investment in associates as at 31 December 2016 that are accounted for under the equity method of accounting, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of net assets of associates less any impairment provisions.

   The management assesses the need to recognize an impairment based on the comparison of the recoverable value of the associates to their carrying values in the books. The recoverable value of the material associates is determined based on the fair value of the underlying leasehold properties that are determined by independent valuers who have experience in the valuation of properties in the relevant location. The fair values were determined based on discounted cash flows model that is highly dependent on estimates and assumptions such as average room rate, revenue per available room, occupancy rate and discount rates. The share of results reflect the Group's share of results of operations of the associate based on financial information of the associates.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

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

1. Investments in associates (continued)

Given the significant judgment involved in determining the recoverable amounts of the investment in associates, which is mainly based on the leasehold properties in the books of associates and materiality of the share of results and the carrying values of the Group's investment in associates to the overall consolidated financial statements of the Group, we have considered this as a key audit matter.

As part of our audit procedures, we have sent detailed group audit instructions to the auditors of the Group's associates that are material to the consolidated financial statements. The group audit instructions communicated the focus areas of the audit and the risks of material misstatement relevant for the purposes of the Group's consolidated financial statements. This also includes instructions to the component auditors to evaluate the objectivity of the valuation process and the independence and expertise of independent valuers in valuing the leasehold properties, challenging the assumptions used in the valuation, accuracy of the property data provided by the Group to the independent valuers and evaluation of management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions.

Additionally, we have also assessed the adequacy of disclosures relating to Group's investment in associates in Note 9 to the consolidated financial statements.

2. Impairment of property and equipment

The property and equipment of the Group represent a significant part of the total assets of the Group and are carried at cost less accumulated depreciation and impairment as at 31 December 2016. The property and equipment mainly includes freehold land and building that is being used for Hotel operations. The management has assessed, in accordance with the requirements of relevant IFRS, whether there are any significant external adverse changes including market, economic, technological or legal environment factors in which the Group operates or internal observables factors including failure to meet budgeted and forecasted earnings in the current and prior years; that may trigger indicators of impairment that will either impact the carrying value or the remaining useful life of land and building. The management has also considered certain additional factors such as maintenance status, market knowledge and historical transactions. Further, the management obtained external valuation reports to support their judgment of whether there are any indicators of impairment exists as at the reporting date. The valuations provided by the external valuator are based on the market approach, which mainly uses the data of comparable properties.

Given the significance of these assets and the depreciation expense of building to the consolidated financial statements as a whole and the assumptions used by the management in assessing whether there are any indicators of impairment, we have identified property and equipment as a key audit matter. The accounting policies relating to property and equipment and the judgments and assumptions used by the management in assessing the indicators of impairment are disclosed in Note 2 to the consolidated financial statements.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

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

Key Audit Matters (continued)

2. Impairment of property and equipment (continued)

Our audit procedures included, among other things, evaluation of management's assessment of indicators of impairment as at the reporting date. As noted above, the key input measures adopted by the management in assessing whether there are any indicators of impairment of property and equipment included market related data such as the local economic factors, technological or legal environment specifically to the State of Kuwait and also certain internal information relating to the cash flows generated by the Hotel operations.

We have challenged the assumptions and estimates made by management of the Group and the external valuators in the valuation methodology about the appropriateness of the property related data supporting the assessed recoverable amount. We have also considered the objectivity, independence and expertise of the external valuators. With respect to the valuation of land, we have evaluated the reasonability of the value provided by the external valuator by benchmarking it with the publicly available real estate research reports. Further, we have also assessed the appropriateness of the disclosures relating to the property and equipment of the Group in Note 10 to the consolidated financial statements.

Other information included in the Annual Report of the Group

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2016, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 the 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.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

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

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

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

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

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOKOUK HOLDING COMPANY K.S.C.P. (continued)

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, and its executive regulations and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its executive regulations nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Parent Company or on its financial position.

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

DR. ALI OWAID RUKHEYES
LICENCE NO. 72-A
MEMBER OF NEXIA INTERNATIONAL –(ENGLAND)
ALWAHA AUDITING OFFICE

30 MARCH 2017
KUWAIT

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
INCOME			
Hospitality income		**3,957,080**	984,826
Hospitality costs		**(2,512,164)**	(1,275,342)
Gross income (loss)		**1,444,916**	(290,516)
Income from investment properties	4	**375,024**	325,781
Net investment income	5	**-**	3,807
Share of results of associates	9	**(2,644,987)**	258,687
Foreign exchange (loss) gain		**(3,186)**	49,553
Management fees income		**71,812**	105,792
Other income		**58,205**	67,712
		(698,216)	520,816
EXPENSES			
Staff costs		**(1,278,501)**	(1,311,122)
Administrative expenses		**(850,836)**	(1,026,783)
Reversal of impairment loss on property and equipment	10	**47,564**	2,366,145
Net provisions	6	**(758,431)**	(34,806)
Amortization of the leasehold property	11	**(351,251)**	-
Change in fair value of investment properties	12	**(552,000)**	(270,000)
Impairment loss on leasehold property	11	**(839,315)**	-
Finance costs		**(1,574,205)**	(1,241,197)
		(6,156,975)	(1,517,763)
LOSS FOR THE YEAR BEFORE BOARD OF DIRECTORS' REMUNERATION		**(6,855,191)**	(996,947)
Board of directors' remuneration	14	**(3,000)**	-
LOSS FOR THE YEAR		**(6,858,191)**	(996,947)
Attributable to:			
Equity holders of the Company		**(6,745,558)**	(764,320)
Non-controlling interests		**(112,633)**	(232,627)
		(6,858,191)	(996,947)
Basic and diluted loss per share attributable to equity holders of the Company	3	**(11.8) fils**	(1.3) fils

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016 KD	2015 KD
LOSS FOR THE YEAR	**(6,858,191)**	(996,947)
OTHER COMPREHENSIVE INCOME:		
Other comprehensive income reclassifiable to consolidated statement of income in subsequent periods:		
Foreign currency translation adjustments	**28,915**	140,965
Share of other comprehensive income of associate	**54,961**	173,252
Net other comprehensive income for the year reclassifiable to consolidated statement of income in subsequent periods	**83,876**	314,217
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**83,876**	314,217
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(6,774,315)**	(682,730)
:Attributable to		
Equity holders of the Company	**(6,661,682)**	(450,103)
Non-controlling interests	**(112,633)**	(232,627)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(6,774,315)**	(682,730)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016 KD	2015 KD
ASSETS			
Cash and cash equivalents		**1,837,391**	2,261,711
Accounts receivables and prepayments	7	**7,582,515**	9,787,501
Inventories		**57,080**	64,966
Sokouk utilization rights		**24,671**	26,600
Financial assets available for sale	8	**2,925,499**	3,578,220
Investment in associates	9	**47,461,830**	54,184,834
Property and equipment	10	**34,790,833**	35,480,005
Leasehold property	11	**3,726,953**	-
Investment properties	12	**5,660,000**	6,212,000
Trading property	13	**1,500,022**	1,500,022
TOTAL ASSETS		**105,566,794**	113,095,859
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**59,314,500**	59,314,500
Statutory reserve	15	**2,895,475**	2,895,475
Voluntary reserve	15	**2,895,475**	2,895,475
Treasury shares	15	**(1,769,871)**	(1,769,871)
Effect of changes in other comprehensive income of associates		**212,473**	157,512
Foreign currency translation adjustments		**204,225**	175,310
Other reserves		**(258,172)**	(258,172)
Retained earnings		**8,105,910**	14,851,468
Equity attributable to equity holders of the Company		**71,600,015**	78,261,697
Non-controlling interests		**1,071,911**	1,184,544
Total equity		**72,671,926**	79,446,241
Liabilities			
Islamic finance payables	16	**30,439,909**	31,255,741
Accounts payable and accruals	17	**2,055,513**	2,102,807
Employees' end of service benefits		**399,446**	291,070
Total liabilities		**32,894,868**	33,649,618
TOTAL EQUITY AND LIABILITIES		**105,566,794**	113,095,859

MR. GHANEM YOUSEF ABDULLAH AL-GHANEM
CHAIRMAN

MR. FERAS FAHAD AL BAHAR
CHIEF EXECUTIVE OFFICER

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Attributable to equity holders of the Company										
	Share capital	**Statutory reserve**	**Voluntary reserve**	**Treasury shares**	**Effect of changes in other comprehensive income of associates**	**Foreign currency translation adjustments**	**Other reserves**	**Retained earnings**	**Sub-total**	**Non-controlling interests**	**Total equity**
	KD	**KD**	**KD**	**KD**	**KD**	**KD**	**KD**	**KD**	**KD**	**KD**	**KD**
At 1 January 2016	59,314,500	2,895,475	2,895,475	(1,769,871)	157,512	175,310	(258,172)	14,851,468	78,261,697	1,184,544	**79,446,241**
Loss for the year	-	-	-	-	-	-	-	(6,745,558)	(6,745,558)	(112,633)	**(6,858,191)**
Other comprehensive income for the year	-	-	-	-	54,961	28,915	-	-	83,876	-	**83,876**
Total comprehensive income (loss) for the year	-	-	-	-	54,961	28,915	-	(6,745,558)	(6,661,682)	(112,633)	**(6,774,315)**
At 31 December 2016	59,314,500	2,895,475	2,895,475	(1,769,871)	212,473	204,225	(258,172)	8,105,910	71,600,015	1,071,911	**72,671,926**
At 1 January 2015	56,490,000	2,895,475	2,895,475	(1,769,871)	(15,740)	34,345	-	18,440,288	78,969,972	1,158,999	80,128,971
Loss for the year	-	-	-	-	-	-	-	(764,320)	(764,320)	(232,627)	(996,947)
Other comprehensive income for the year	-	-	-	-	173,252	140,965	-	-	314,217	-	314,217
Total comprehensive income (loss) for the year	-	-	-	-	173,252	140,965	-	(764,320)	(450,103)	(232,627)	(682,730)
Ownership changes in subsidiaries without loss of control	-	-	-	-	-	-	(258,172)	-	(258,172)	258,172	-
Bonus shares	2,824,500	-	-	-	-	-	-	(2,824,500)	-	-	-
At 31 December 2015	59,314,500	2,895,475	2,895,475	(1,769,871)	157,512	175,310	(258,172)	14,851,468	78,261,697	1,184,544	79,446,241

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
OPERATING ACTIVITIES			
Loss for the year before Board of Director's remuneration		**(6,855,191)**	(996,947)
Non-cash adjustments to reconcile loss for the year to net cash flows:			
Change in fair value of investment properties	4	**552,000**	270,000
Net investment income	5	**-**	(3,807)
Share of results from associates	9	**2,644,987**	(258,687)
Reversal of impairment loss on property and equipment	10	**(47,564)**	(2,366,145)
Net provisions	6	**758,431**	34,806
Amortization of the leasehold property		**351,251**	-
Finance costs		**1,574,205**	1,241,197
Provision for employees' end of service benefits		**117,114**	78,785
Depreciation	10	**988,309**	603,099
Impairment loss on leasehold property		**839,315**	-
		922,857	(1,397,699)
Changes in operating assets and liabilities:			
Accounts receivable and prepayments		**129,379**	2,791,776
Inventories		**7,886**	(64,966)
Sokouk utilisation rights		**3,859**	187,910
Accounts payable and accruals		**(70,328)**	(130,224)
Cash flows from operating activities		**993,653**	1,386,797
Employees end of service benefits paid		**(8,738)**	(21,040)
Net cash flows from operating activities		**984,915**	1,365,757
INVESTING ACTIVITIES			
Proceeds from sale of financial assets available for sale		**-**	45,677
Dividend received from associates		**-**	445,418
Additions to property and equipment	10	**(251,573)**	(2,156,077)
Remeption received		**1,212,341**	-
Net cash flows from (used in) investing activities		**960,768**	(1,664,982)
FINANCING ACTIVITIES			
Net movement in islamic finance payables		**(815,832)**	2,660,939
Finance costs paid		**(1,554,171)**	(1,241,197)
Net cash flows (used in) from financing activities		**(2,370,003)**	1,419,742
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(424,320)**	1,120,517
Cash and cash equivalents at 1 January		**2,261,711**	1,141,194
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**1,837,391**	2,261,711

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

1. CORPORATE INFORMATION

The consolidated financial statements of Sokouk Holding Company K.S.C.P. (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the board of directors on 20 March 2017.

The Company is registered in the State of Kuwait and was incorporated and authenticated at the Ministry of Justice - Real Estate Registration and Authentication Department on 23 August 1998 and registered in commercial register on 29 August 1998, and subsequent amendments there to. The Company's registered address is at P.O. Box 29110 Safat- Postal code 13152- State of Kuwait.

The Company is a subsidiary of Aref Investment Group S.A.K. ("Aref") ("the Parent Company"), a Kuwaiti share holding Company incorporated in the State of Kuwait. Aref is a subsidiary of Kuwait Finance House K.S.C.P. ("the Ultimate Parent Company"), a registered Islamic Bank with Central Bank of Kuwait and its shares are listed on the Kuwait Stock Exchange.

The main activities of the Company are as follows:

- Ownership of shares of Kuwaiti or foreign shareholding companies or units in Kuwaiti or foreign limited liability companies, or establishing, managing, financing and sponsoring such companies.
- Financing and sponsoring entities in which the Company has an ownership interest of not less than 20% in such entities.
- Owning industrial rights such as patents, industrial trademarks, sponsoring foreign companies or any other related industrial rights and leasing such rights for the benefit of companies inside or outside State of Kuwait.
- Ownership of movable assets or real estates required to pursue the Company›s activities within the limits acceptable by law.
- Utilizing available surplus funds by investing these funds in portfolios managed by specialized parties.
- All activities are conducted in accordance with Islamic shareea'a.

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of certain financial assets available for sale and investment properties.

The consolidated financial statements have been presented in Kuwaiti Dinar (KD), which is also the Company's functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries (investees which are controlled by the Company) as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from itsinvolvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. 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 interests;
- 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's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

The subsidiaries of the Company are as follows:	**Country of** incorporation	**Equity Interest as at 31 December** **2016**	2015
Gulf Real Estate Development House Co. K.S.C. (Closed)	Kuwait	**87.39%**	87.39%
Sokouk Investment Advisory Co.	Cayman Island	**100%**	100%
Sokouk Real Estate Co.- K.S.C. (Closed)	Kuwait	**96.52%**	96.52%
Sokouk Al Oula Trading Co.-W.L.L.*	Kuwait	**99%**	99%
Sokouk Al Kuwaitia Trading Co.-W.L.L.*	Kuwait	**99%**	99%

*The Company's effective holding in these subsidiaries is 100%

2.3 CHANGE IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015, except for the new accounting policy on leasehold property, adoption of the amendments, and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period. The adoption of these amendments and annual improvements to IFRS has no significant impact on the consolidated financial statements of the Group.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. However, the Group expects no significant impact from the adoption of the amendments on its financial position or performance.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The management is in the process of assessing the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 Construction contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The management is in the process of assessing the impact.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The management is in the process of assessing the impact.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payments are being made. Revenue is measured at the fair value of the consideration received or receivable. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that in most of the revenue arrangements it is acting as a principal. The following specific recognition criteria must also be met before revenue is recognised:

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

Hospitality income

Hospitality income represents the invoiced value of services provided during the year.

Gain or loss on sale of investment properties and investment securities

Gain or loss on sale of investment properties and investment securities is recognised when the sale transaction is consummated.

Sale of sokouk

Sales of sokouk represent the total contracts' value of sokouk sold during the year. Revenue from sale of sokouk is recognized when significant risks and rewards of ownership of sokouk are transferred to the buyer.

Dividend income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the consolidated statement of income in the period in which they are incurred.

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the Company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

National Labour Support Tax (NLST)

National Labor Support Tax is calculated at 2.5% of the profit of the Company before contribution to KFAS, Zakat, NLST and Board of Directors' remuneration in accordance with Law No. 19/2000 and Ministerial resolution No. 24/2006 and their executive regulations.

Zakat

Zakat is calculated at 1% of the profit of the Company before contribution to KFAS, Zakat, NLST and Board of Directors' remuneration in accordance with Law No. 46/2006 and Ministry of Finance resolution No. 58/2007 and their executive regulations.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, loans and receivables, financial assets availableforsale, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

Subsequent measurement

The Group's financial assets include cash and cash equivalents, accounts receivable, amounts due from related parties and financial assets available for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Subsequent measurement (continued)

Cash and cash equivalents

For purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand and bank balances, short term deposits and mudaraba deposits maturing within three months. Mudaraba deposits represents an agreement whereby the Group gives certain amount of cash to another party to be invested according to specific conditions in return for certain fee. Mudaraba deposits are stated at amortized cost using the effective yield method.

Accounts receivable

Receivables are recognized initially at the original invoice 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 income. 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 income.

Financial assets available for sale

Financial assets available for sale include equity investments. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in consolidated statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available for sale reserve to the consolidated statement of income.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets available for sale

For available for sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments is impaired.

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable, Islamic finance payables and amounts due to related parties.

Subsequent measurement

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

Islamic finance payables

Islamic finance payables represents financing agreements whereby the Company takes certain amount of cash from other parties, and invests it according to specific conditions in return for certain fee (percentage of the amount invested). Finance charges are accounted on a time proportion basis.

Accounts payable

Accounts payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Subcontractors 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

Offsetting of financial instruments

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

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on soukouk utilisation rights, are recognised in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidation statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Sokouk utilisation rights

Sokouk utilisation rights represent sokouks that are held by the Company either for trading purposes or as long term investment, and are stated at cost less impairment (if any).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor separately tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the consolidated statement of income and represents profit after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated.

Depreciation is calculated on a straight line basis over the estimated useful lives of other assets to their residual values as follows:

Building	50 years
Computer hardware	3 to 4 years
Furniture fixtures and Equipment	3 to 5 years
Motor vehicles	3 to 5 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs are those expenses incurred in bringing each item to its present location and condition. Cost represents purchase cost on a specific identification basis. Net realizable value is based on estimated selling price less any further costs expected to be incurred on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are measured initially at cost, including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuers.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the period of derecognition.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment properties 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. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

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

Leases where the Group is a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of income.

Operating lease payments are recognised as expense on straight line basis over the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Capialised leased assets are depreciated over the shorter of the estimated useful life of the assets or the lease term. Leasehold property is amortised over a period of 14 years, less any accumulated impairment.

Leases where the Group is a lessor

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

Impairment of leasehold property

The carrying amounts of the leasehold property are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment is recognised in the interim condensed consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount. The management assesses the leasehold property for impairment based on lower of two valuations carried out by external real estate appraisers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trading property

Trading property is held for short term purposes and is carried at the lower of cost and net realizable value determined on an individual basis. Cost comprises the purchase cost of real estate and other expenses incurred in order to complete the transaction. Net realizable value is based on estimated selling price less any further costs to be incurred on disposal of real estate.

Treasury shares

Treasury shares consist of the Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable. Any realised 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 and then to the statutory and voluntary reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of stock dividend increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Foreign currencies

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

Transactions and balances

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

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

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

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

Group companies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values measurement

The Group measures financial instruments and non-financial assets such as investment properties at fair value at each reporting date.

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

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

The Group provides end of service benefits to all its employees as per the company policies as approved by the board of directors under the Kuwait labour law. The entitlement to these benefits is usually based upon the employees' length of service calculated, upto 5 years, 30 days per annum; more than 5 years till 10 years, 45 days per annum and above 10 years, 60 days per annum salary. The expected costs of these benefits are accrued over the period of employment.

Contingencies

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

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

Dividends on ordinary shares

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management of the Group to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the amount of the asset or liability affected in future periods.

Judgements other than estimates

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

Classification of real estate and leasehold property

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

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

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

The management classifies real estate as investment property or leasehold property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

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.

Classification of investments

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

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

Impairment of investments

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Fair value of unquoted equity investments

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.

Provision for doubtful debts and sokouk utilisation rights

The extent of provision for doubtful debts and soukouk utilisation rights 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 carrying cost of sokouk utilisation rights is written down to their net realizable value when the sokouk utilisation rights are damaged or become wholly or partly obsolete or their selling prices have declined. 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 sokouk utilisation rights are subject to management approval.

Useful lives of property and equipment

Management of the Company assigns useful lives and residual values to property and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Valuation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statement of income. For the investment property the valuer used a valuation technique based on comparable market data, rental value, recent market transactions and the maintenance status of the property. The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share are calculated by dividing the loss for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares).

The Company did not have any diluted shares as at 31 December 2016 and 31 December 2015.

The information necessary to calculate basic and diluted loss per share based on the weighted average number of shares outstanding, less treasury shares, during the year is as follows:

	2016	2015
	KD	KD
Loss for the year attributable to equity holders of the Company	**(6,745,558)**	(764,320)
Weighted average number of ordinary shares (excluding treasury shares) outstanding during the year	**571,645,336**	571,645,336
Basic and diluted loss per share	**(11.8) fils**	(1.3) fils

4. INCOME FROM INVESTMENT PROPERTIES

	2016	2015
	KD	KD
Rental income	**395,285**	347,044
Property operating costs	**(20,261)**	(21,263)
	375,024	325,781

5. NET INVESTMENT INCOME

	2016	2015
	KD	KD
Realised gain on sale of financial assets available for sale – unquoted	**-**	3,807

6. NET PROVISIONS

	2016	2015
	KD	KD
Write-back of provision on receivables relating to sale of sokouk utilisation rights (Note 7)	**82,456**	181,203
Impairment loss on financial assets available for sale (Note 8)	**(652,721)**	(211,443)
Provision on other accounts receivables	**(186,236)**	(2,520)
Provision on sokouk utilisation rights	**(1,930)**	(2,046)
	(758,431)	(34,806)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2016	2015
	KD	KD
Accounts receivable	**1,055,862**	1,037,823
Receivable on sale of sokouk utilisation rights	**467,461**	543,233
Other receivables	**785,631**	254,840
Amounts due from related parties (Note 14)	**6,567,546**	4,071,350
Advance paid towards purchase of sokouk utilisation rights	**-**	7,284,200
Advance paid to contractors for development of property and equipment	**33,036**	187,302
Less: provisions	**(1,327,021)**	(3,591,247)
	7,582,515	9,787,501

The movement of provisions is as follows:

	2016	2015
	KD	KD
Balance at the beginning of the year	**3,591,247**	3,769,930
Charge for the year	**186,236**	2,520
Less: write back during the year (Note 6)	**(82,456)**	(181,203)
Less: bad debts written off	**(1,326)**	-
Less: transferred to leasehold property	**(2,366,680)**	-
Balance at the end of the year	**1,327,021**	3,591,247

8. FINANCIAL ASSETS AVAILABLE FOR SALE

	2016	2015
	KD	KD
Unquoted equity securities	**2,925,499**	3,578,220

Unquoted equity securities with a carrying value of KD 2,925,499 (2015: KD 3,578,220) are carried at cost because the fair value cannot be reliably determined. At the reporting date, the management has carried out a detailed review of these investments, based on the guidance of investments classified in Level 3 of the fair value hierarchy, to assess whether there is objective evidence that these investments are impaired, and as a result, recorded an impairment loss amounting to KD 652,721 (2015: KD 211,443) (Note 6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

9. INVESTMENTS IN ASSOCIATES

Details of the Group's associates are as follow:

		Equity interest		Carrying value	
Name of company	Country of Incorporation	**2016 %**	2015 %	**2016 KD**	2015 KD
Munshaat Real Estate Projects Company K.S.C.P. ("Munshaat")*	Kuwait	**27.67**	27.67	**17,944,353**	20,085,965
Joint Venture – Qitaf ("Qitaf JV")	Kuwait	**36.43**	36.43	**3,710,582**	3,691,551
The Zamzam 2013 JV ("Zamzam JV" or "Zamzam")	Kuwait	**23.48**	23.48	**25,806,895**	30,407,318
				47,461,830	54,184,834

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

	Munshaat	**Qitaf JV**	**ZamZam JV**	**2016**	2015
	KD	**KD**	**KD**	**KD**	KD
Non-current assets	**133,564,913**	**9,878,495**	**113,794,170**	**257,237,578**	280,034,307
Current assets	**15,503,299**	**464,710**	**28,142,498**	**44,110,507**	47,145,880
Non-current liabilities	**(25,288,172)**	**-**	**-**	**(25,288,172)**	(22,431,127)
Current liabilities	**(49,956,090)**	**(201,542)**	**(26,729,938)**	**(76,887,570)**	(86,141,095)
Non-controlling interests	**(749,493)**	**-**	**-**	**(749,493)**	(3,135,059)
Net assets attributable to the share holders of the associates	**73,074,457**	**10,141,663**	**115,206,730**	**198,422,850**	215,472,906
Proportion of the Group's ownership	**27.67%**	**36.43%**	**23.48%**		
Group's share in the equity	**20,219,702**	**3,694,608**	**27,050,540**	**50,964,850**	55,468,599
Associates' results for the year					
Revenue	**5,583,780**	**1,286,135**	**22,477,041**	**29,346,956**	30,032,335
Results for the year	**(7,983,295)**	**(413,925)**	**(1,214,719)**	**(9,611,939)**	1,222,134
Group's share of results for the year	**(2,208,978)**	**(150,793)**	**(285,216)**	**(2,644,987)**	258,687
Group's share of associates' other comprehensive income for the year	**51,622**	**28,917**	**3,337**	**83,876**	314,217

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9. INVESTMENTS IN ASSOCIATES (continued)

The management has carried out the assessment of Group's investment in associates to identify any indicators of impairment. The management has considered factors such as changes in the investee's financial condition, any significant adverse changes in economy, market, legal environment, industry or the political environment affecting the investees business. Further, the management has assessed the recoverable value of the investment in associates based on fair value of leasehold properties carried in the books of the associates. The fair value of the underlying leasehold properties is determined by independent valuers using the discounted cash flow models using assumptions and inputs such as average room rate, revenue per available room, occupancy rate and the discount rates. Based on such analysis, the management has not identified any indications of impairment in Group's investment in associates at the reporting date.

* The market value of investment in Munshaat Real Estate Projects Company- K.S.C.P. as at 31 December 2016 is KD 4,989,454 (2015: KD 7,840,571).

- On 5 January 2016, Munshaat received a demand notice for SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ("GAZT"), Kingdom of Saudi Arabia for the years 2003 to 2013 and claimed Capital gains tax, corporate income tax, withholding tax and penalties ("tax claim"). Refer to the consolidated financial statements of the Group for the year ended 31 December 2015 for details.

The management of Munshaat believes that the tax claim do not reflect the correct application of tax laws in the Kingdom of Saudi Arabia, the correct nature of the operations of Munshaat and also the underlying numbers used in the computation of tax claim are significantly different from the actual results of operations. Further, the management of Munshaat has appointed a tax consultant in the Kingdom of Saudi Arabia to review the tax claim and has filed an objection letter dated 2 March 2016 with GAZT.

Based on the advice from the tax consultant, Munshaat has computed the estimated impact of the aforesaid tax claim and recorded a tax liability of KD 14.5 million as at 31 December 2016 included in accounts payable and accruals (2015: KD 12 million). However, as on the date of the consolidated financial statements, there is a significant uncertainty as to the outcome of the tax claim. The provision recorded represents the best estimate of the tax liability that may arise from the tax claim.

- During the year 2015, the contractor of one of the properties of Munshaat in Kingdom of Saudi Arabia has claimed a penalty of SAR 501 million (equivalent to KD 41 million) from Munshaat for the delay in the execution of the project and various other related costs and Munshaat has counter claimed an amount of SAR 627 million (equivalent to KD 51 million) on the same contractor for the delay in handing over the project and the operational losses. The dispute has been referred to Saudi Arbitration Committee and as on the date of these consolidated financial statements, the trial is in progress and the management of Munshaat, based on the advice from the legal counsel representing Munshaat in the aforesaid arbitration, believes that the outcome of the arbitration ruling will be in favor of Munshaat and also the counter claim filed by Munshaat on the developer is higher than the amount claimed by the developer. Accordingly, as at 31 December 2016, Munshaat has not recognised any provision against this claim in the consolidated financial statements.

Based on discussion with the legal counsel, the management of Munshaat believes that, the previous arbitration ruling and other facts and circumstances relating to this case are favorable to Musnhaat which entails them to appeal for a higher court and expects to receive the ruling in Munshaat's favor. As on the date of consolidated financial statements, the Associate is pursuing the appeal to a higher court and therefore, as at 31 December 2016, the Group did not record any amounts, relating to the court ruling in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

10. PROPERTY AND EQUIPMENT

	Land	Building	Furniture, fixtures and equipment	Vehicles	Capital work in progress	Total
	KD	KD	KD	KD	KD	KD
Cost:						
At 1 January 2016	10,297,000	23,842,867	1,849,176	84,812	10,715	36,084,570
Additions	-	49,602	178,906	23,065	-	251,573
Reversal of impairment loss	-	47,564	-	-	-	47,564
At 31 December 2016	10,297,000	23,940,033	2,028,082	107,877	10,715	36,383,707
Depreciation:						
At 1 January 2016	-	285,209	308,048	11,308	-	604,565
Charge for the year	-	479,035	486,599	22,675	-	988,309
At 31 December 2016	-	764,244	794,647	33,983	-	1,592,874
Net carrying amount:						
At 31 December 2016	10,297,000	23,175,789	1,233,435	73,894	10,715	34,790,833

	Land	Building	Furniture, fixtures and equipment	Vehicles	Capital work in progress	Total
	KD	KD	KD	KD	KD	KD
Cost:						
At 1 January 2015	10,297,000	-	5,911	-	21,259,437	31,562,348
Additions	-	-	327	84,812	2,070,938	2,156,077
Transfer to / (from)	-	21,476,722	1,842,938	-	(23,319,660)	-
Reversal of impairment loss	-	2,366,145	-	-	-	2,366,145
At 31 December 2015	10,297,000	23,842,867	1,849,176	84,812	10,715	36,084,570
Depreciation:						
At 1 January 2015	-	-	1,466	-	-	1,466
Charge for the year	-	285,209	306,582	11,308	-	603,099
At 31 December 2015	-	285,209	308,048	11,308	-	604,565
Net carrying amount:						
At 31 December 2015	10,297,000	23,557,658	1,541,128	73,504	10,715	35,480,005

Cumulative borrowing costs amounting to KD 3,916,007 (2015: KD 3,916,007) has been capitalised in the carrying value of property and equipment.

The management has assessed the impairment indicators of land and building through assessing factors such as significant external adverse changes including market, economic, technological or legal environment factors in which the Group operates or internal observables factors including failure to meet budgeted and forecasted earnings in the current and prior years; that may trigger indicators of impairment that will either impact the carrying value or the remaining useful life of land and building. The management has also considered certain additional factors such as maintenance status, market knowledge and historical transactions.

The management has also obtained two valuations carried out by independent valuers, with relevant expeience in the market, and used the lower ot two valuations to corroborate the judgments based on factors noted above. The independent valuers have provided the valuation of land and building using the income capitalisation method.

Property and equipment of KD 34,768,667 (2015: KD 35,476,534) is mortgaged as collateral against Islamic finance payables (Note 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. LEASEHOLD PROPERTY

	2016	2015
	KD	KD
Transfer (Note 7)	**4,917,519**	-
Amortization	**(351,251)**	-
Impairment loss	**(839,315)**	-
As at 31 December	**3,726,953**	-

Leasehold property represents the Group›s investment in 8th floor of Al Qeblah Tower located in the Kingdom of Saudi Arabia. Leasehold property is amortized over the leasehold term of 14 years and is measured at cost less accumulated amortization and impairment. Leasehold property was capitalized in February 2016 after receiving the notification of commencement of operations from the property manager.

12. INVESTMENT PROPERTIES

	2016	2015
	KD	KD
Balance at the beginning of the year	**6,212,000**	6,482,000
Change in fair value during the year	**(552,000)**	(270,000)
As at 31 December	**5,660,000**	6,212,000

Investment properties comprise of buildings located in Kuwait.

The fair value of the investment properties has been determined based on valuations obtained from two independent valuers, who are an industry specialised in valuing these types of investment properties. One of these valuers is a local bank who has valued the investment properties using "Capitalization of income Method" and the other is a local reputable accredited valuer who has valued the investment properties using the combination of the market comparison approach for the land and cost approach for the construction work executed to date. For the valuation purpose, the Company has selected the lower of these two valuations, as required by the Capital Markets Authority (CMA).

Investment properties are mortgaged as collateral against Islamic financing payables amounting to KD 5,660,000 (2015: KD 6,212,000) (Note 16).

Fair value hierarchy

The fair value measurement of investment properties has been categorised as level 3 fair value based on inputs to the valuation technique used.

The significant assumptions used in the valuations are set out below:

2016	Kuwait
Estimated market price for the land (per sqm) (KD)	**1,693**
Construction costs (per sqm) (KD)	**128**
Average monthly rent (per sqm) (KD)	**4**
Yield rate	**8%**
Occupancy rate	**100%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

12. INVESTMENT PROPERTIES (continued)

2015	Kuwait
Estimated market price for the land (per sqm) (KD)	1,817
Construction costs (per sqm) (KD)	133
Average monthly rent (per sqm) (KD)	4
Yield rate	7.6%
Occupancy rate	100%

Based on 5% increase/decrease in average market prices (per sqm), the value of the investment properties would increase/ decrease by KD 24 (2015: KD 26) per sqm which would impact the consolidated statement of income with total amount of KD 283,000 (2015: KD 310,600).

13. TRADING PROPERTY

During 2012, the Parent Company acquired a trading property at its fair value of KD 1,500,022 in lieu of settlement of a wakala receivable from the borrower. The title of this property was transferred to the Company as on that date. However during the prior year, the management became aware that there is an ongoing lawsuit between the borrower and a third party in relation to ownership of this property. Consequently, any transfer of the title of this property is subject to final outcome of the ongoing lawsuit. The trial is currently in process in the court of law and therefore it is not practical to assess the final outcome of the court judgment. Accordingly, no provision has been recognised in the consolidated financial statements.

The trading property of the Group is carried at lower of cost of net realisable value. The net realisable value has determined based on the lower of two valuations obtained from external real estate appraisers with relevant experience in the market where the property is located. The assessment of the net realisable values of trading property has been carried out based on comparable market values for similar properties considering the rental value, maintenance status, market knowledge and historical transactions.

14. RELATED PARTY TRANSACTIONS

Related parties represent Parent Company, Ultimate Parent Company, major shareholders, associates, joint ventures, directors and key management personnel of the Group, and companies of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the consolidated financial statements are as follows:

	Parent Company/ Ultimate Parent Company KD	**Associates KD**	**Others KD**	**2016 KD**	2015 KD
Consolidated statement of income:					
Finance costs	358,389	-	-	**358,389**	399,371

	Parent Company/ Ultimate Parent Company KD	**Associates KD**	**Others KD**	**2016 KD**	2015 KD
Consolidated statement of financial position:					
Amounts due from related parties	-	6,543,630	23,916	**6,567,546**	4,071,350
Amounts due to related parties	121,845	36,314	391,276	**549,435**	499,184
Islamic finance payables	7,439,909	-	-	**7,439,909**	8,255,739

Amounts due from/ due to related parties are receivables/ payables on demand and do not carry any profit.

Amounts due from related parties are stated net of provision amounting toKD 3,969 (2015: KD 29,224).

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14. RELATED PARTY TRANSACTIONS (continued)

Key management compensation

	2016 KD	2015 KD
Salaries and other short term benefits	**362,231**	364,433
End of service benefits	**25,708**	25,616
	387,939	390,049

Board of directors' remuneration of KD 3,000 for the year ended 31 December 2016 is related to the independent director and it is subject to approval by the ordinary general assembly of the shareholders of the Company.

15. EQUITY, RESERVES AND GENERAL ASSEMBLY

a. Share capital

Authorized, issued and fully paid-up capital amounting to KD 59,314,500 (2015: KD 59,314,500) consist of 593,145,000 (2015: 593,145,000) shares of 100 fils each, paid in cash.

The annual general assembly of the shareholders of the Company held on 9 May 2016 approved the consolidated financial statements for the year ended 31 December 2015.

a. Statutory reserve

In accordance with the Companies Law and the Company's Articles of Association, 10% of the profit before directors fees, contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and Zakat should be transferred to the statutory reserve. The Company may discontinue such transfer when the reserve totals 50% of paid-up share capital. Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the payment of dividend of that amount. No transfer has been made during the current year since the Group has incurred losses.

a. Voluntary reserve

In accordance with the Company's Articles of Association, 10% of the profit for the year before directors fees, contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and Zakat should be transferred to voluntary reserve. The Company may resolve to discontinue such annual transfers in accordance with a resolution of the Company's ordinary general meeting based on proposal submitted by the Company's board of directors. The voluntary reserve is freely distributable except for the amount equivalent to the cost of treasury shares. No transfer has been made during the current year since the Group has incurred losses.

a. Treasury shares

	2016	2015
Number of treasury shares	**21,499,664**	21,499,664
Percentage of capital	**3.6%**	3.6%
Market value – KD	**773,988**	1,010,484
Weighted average market price – fils	**34**	57

An amount equal to the cost of treasury shares is not available for distribution from the voluntary reserve throughout the holding period of these treasury shares.

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16. ISLAMIC FINANCE PAYABLES

Islamic finance payables represent facilities obtained from a local Islamic financial institutions and carry average profit rate ranging from 5.0% to 5.25% (2015: 5.0% to 5.25%) per annum.

Islamic finance payables amounting to KD 25,668,358 (2015: KD 23,909,279) are secured by the property and equipment of KD 34,768,667 (2015: KD 35,476,534) (Note 10) and investment properties of KD 5,660,000 (2015: KD 6,212,000) (Note 12).

As at 31 December 2016, Islamic finance payables are stated in the consolidated statement of financial position net of deferred profit amounting to KD 84,386 (2015: KD 89,199)

Islamic finance payables amounting to KD 1,850,000 matured during the year on 31 August 2016. The management is currently in the process of negotiating the settlement of these Islamic fiancé payables with the lender.

17. ACCOUNTS PAYABLE AND ACCRUALS

	2016	2015
	KD	KD
Due to suppliers	**112,774**	91,465
Advance from customers	**16,601**	103,561
Amounts due to related parties (Note 14)	**549,435**	499,184
Retention payable	**702,944**	893,074
Staff payables	**190,593**	176,803
Other payables	**483,166**	338,720
	2,055,513	2,102,807

18. SEGMENT INFORMATION

The Group primarily engages in real estate business activities and its primary basis for segmental reporting is business segments, which is subject to risks and rewards that are different from those of other segments.

The Group operates in three business segments as follows:

2016	**Hotel Operation**	**Real estate**	**Investment**	**Others**	**Total**
	KD	**KD**	**KD**	**KD**	**KD**
Segment revenue	**3,957,080**	**400,275**	**(2,644,988)**	**149,146**	**1,861,513**
Segment expenses	**(4,851,138)**	**(2,117,332)**	**(899,697)**	**(848,537)**	**(8,716,704)**
Segment results	**(894,058)**	**(1,717,057)**	**(3,544,685)**	**(699,391)**	**(6,855,191)**
Total assets	**35,385,473**	**11,111,080**	**57,061,365**	**2,008,876**	**105,566,794**
Total liabilities	**24,385,346**	**3,183,910**	**4,771,551**	**554,061**	**32,894,868**

2015	Hotel Operation	Real estate	Investment	Others	Total
	KD	KD	KD	KD	KD
Segment revenue	984,826	55,781	258,687	2,593,009	3,892,303
Segment expenses	(3,503,324)	(413,681)	(266,478)	(705,767)	(4,889,250)
Segment results	(2,518,498)	(357,900)	(7,791)	1,887,242	(996,947)
Total assets	35,688,060	13,337,200	61,562,039	2,508,560	113,095,859
Total liabilities	23,737,277	233,416	7,850,224	1,828,701	33,649,618

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19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity profile of assets and liabilities is as follows:

31 December 2016	**Within 1 year KD**	**Over 1 year KD**	**Total KD**
ASSETS			
Cash and cash equivalents	**1,837,391**	**-**	**1,837,391**
Accounts receivable and prepayments	**908,479**	**6,674,036**	**7,582,515**
Inventories	**57,080**	**-**	**57,080**
Sokouk utilization rights	**-**	**24,671**	**24,671**
Financial assets available for sale	**-**	**2,925,499**	**2,925,499**
Investment in associates	**-**	**47,461,830**	**47,461,830**
Property and equipment	**-**	**34,790,833**	**34,790,833**
Leasehold property	**-**	**3,726,953**	**3,726,953**
Investment properties	**-**	**5,660,000**	**5,660,000**
Trading property	**1,500,022**	**-**	**1,500,022**
TOTAL ASSETS	**4,302,972**	**101,263,822**	**105,566,794**
LIABILITIES			
Islamic finance payables	**9,439,909**	**21,000,000**	**30,439,909**
Accounts payable and accruals	**1,684,960**	**370,553**	**2,055,513**
Employees' end of service benefits	**-**	**399,446**	**399,446**
TOTAL LIABILITIES	**11,124,869**	**21,769,999**	**32,894,868**

31 December 2015	Within 1 year KD	1 to 5 years KD	Total KD
ASSETS			
Cash and cash equivalents	2,261,711	-	2,261,711
Accounts receivable and prepayments	5,988,516	3,798,985	9,787,501
Inventories	64,966	-	64,966
Sokouk utilization rights	-	26,600	26,600
Financial assets available for sale	-	3,578,220	3,578,220
Investment in associates	-	54,184,834	54,184,834
Property and equipment	-	35,480,005	35,480,005
Investment properties	-	6,212,000	6,212,000
Trading property	1,500,022	-	1,500,022
TOTAL ASSETS	9,815,215	103,280,644	113,095,859
LIABILITIES			
Islamic finance payables	10,255,741	21,000,000	31,255,741
Accounts payable and accruals	1,732,254	370,553	2,102,807
Employees' end of service benefits	-	291,070	291,070
TOTAL LIABILITIES	11,987,995	21,661,623	33,649,618

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20. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

The Group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the reporting date, as summarized below:

	2016	2015
	KD	KD
Cash and cash equivalents	**1,837,391**	2,261,711
Accounts receivables	**1,193,393**	5,988,516
	3,030,784	8,250,227

The figures above show the maximum exposure to credit risk before the effect of mitigation through the use of master netting and collateral agreements, if any.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by the treasury department of the Company. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Group's liabilities based on contractual undiscounted repayment obligations.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities is as follows:

	Within 3 months KD	**3 to 12 months KD**	**1 to 5 Years KD**	**Total KD**
31 December 2016				
Islamic finance payables	**1,850,000**	**7,674,295**	**21,000,000**	**30,524,295**
Accounts payable and accruals	**1,705,359**	**-**	**370,553**	**2,038,912**
TOTAL LIABILITIES	**3,555,359**	**7,674,295**	**21,370,553**	**32,563,207**

	Within 3 months KD	3 to 12 months KD	1 to 5 Years KD	Total KD
31 December 2015				
Islamic finance payables	-	10,344,940	21,000,000	31,344,940
Accounts payable and accruals	1,046,666	582,027	370,553	1,999,246
TOTAL LIABILITIES	1,046,666	10,296967	21,370,553	33,344,186

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20. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to change in market prices. Market risks arise for open positions in profit rate, currency and equity product, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as foreign exchange rates, interest rates and equity prices.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the Company's Board of Directors and a continuous assessment of the Group's open positions and current and expected exchange rates movements. The Group does not engage in foreign exchange trading and does not use derivative financial instruments. Where necessary matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate against Kuwaiti dinar, with all other variables held constant, on the Group's profit.

	2016			2015		
Currency	Change in currency rate %	Effect on profit KD	Effect on other comprehensive income KD	Change in currency rate %	Effect on profit KD	Effect onother comprehensive income KD
US Dollar	+/-5	**8,266**	-	+/-5	32,576	-

Profit rate risk

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

Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the Company. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The Group is not exposed to significant prepayment risk.

21. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. This level also includes items whose fair values have been provided by reputable external fund managers; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

Unquoted equity securities with a carrying value of KD 2,925,499 (2015: KD 3,578,220) are carried at cost because the fair value cannot be reliably determined.

Fair value of assets and liabilities is not materially different from their carrying values at the reporting date.

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22. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and financial position of the Group.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, due to financial institutions, murabaha payables, accounts payable and accruals, amounts due to related parties less cash and bank balances. Capital includes equity attributable to the equity holders of the Company.

	2016 **KD**	2015 KD
Islamic finance payables	**30,439,909**	31,255,741
Accounts payable and accruals	**2,055,513**	2,102,807
Less: Cash and cash equivalents	**(1,837,391)**	(2,261,711)
Net debt	**30,658,031**	31,096,837
Equity attributable to the equity holders of the Company	**71,600,015**	78,261,697
Capital and net debt	**102,258,046**	109,358,534
Gearing ratio	**30%**	28%

23. COMMITMENTS AND CONTINGENCIES

The Group had capital commitments towards construction contracts relating to property and equipment amounting to KD Nil (2015: KD 76,788).