Al-Arabiya Real Estate Company K.S.C.P. and its Subsidiaries

Consolidated Financial Statements

For the Year Ended 31 December 2017

Deloitte.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-ARABIYA REAL ESTATE COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Al-Arabiya Real Estate Company K.S.C.P. ("the Parent Company") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, 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 Qualified Opinion

- As set out in Note 8 to the consolidated financial statements, the Group's investment in Sharm Dreams for Real Estate Development Company (the "associate"), which is accounted for using the equity method, is carried at KD 928,582 (2016: KD 1,867,127) in the consolidated statement of financial position as at 31 December 2017. The Group's share in the results of the associate was not accounted for the year ended 31 December 2017, since no financial statements of this associate were available as at 31 December 2017. Accordingly, we were unable to obtain sufficient appropriate audit evidence to determine whether any adjustments to these amounts were necessary.
- As set out in Note 10 to the consolidated financial statements, trade and other receivables include KD 7,039,955 (2016: KD 7,039,955) which represents the net carrying value of a compensation claim due to the Group. This amount has not been collected up to the reporting date due to the ongoing negotiations to increase the compensation amount. Accordingly, we were unable to obtain sufficient appropriate audit evidence to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) 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 qualified opinion.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-ARABIYA REAL ESTATE COMPANY K.S.C.P.

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

Material uncertainty related to going concern
We draw attention to Note 2 to the consolidated financial statements, which indicates that the Group incurred a loss of KD 3,241,560 during the year ended 31 December 2017 (2016: KD 6,804,431) and, as of that date, the Group's current liabilities exceeded its current assets by KD 25,190,504 (2016: KD 4,995,657). These conditions, along with other matters as set forth in Notes 7 and 17 with respect to placing an unconsolidated hotel under receivership as a result of the Group's default in repaying a bank loan obtained from a regional bank in UAE amounting to KD 14,981,497 (2016: KD 14,447,627), and the default of payment of loan installment amounting to KD 12,000,000 to a local bank in Kuwait, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in Basis for Qualified Opinion section and in the Material Uncertainty related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Fair value of investment properties

The Group's investment properties comprise of lands and buildings in Kuwait and other GCC countries. The total value of investment properties is significant to the Group's consolidated financial statements and are carried at fair value as disclosed in Note 6 to the consolidated financial statements. Management determines the fair value of its investment properties using external appraisers to support the valuation. The accounting policies of the Group relating to the estimate of fair value including critical judgements are disclosed in note 3.5 and 3.6 to the consolidated financial statements.

Investment properties are valued using mark to market approach, which is based on the latest sale prices of properties within similar areas for certain investment properties, and income capitalization approach, which is based on estimates and assumptions such as rental values, occupancy rates, discount rates, financial stability of tenants, market knowledge and historical transactions for certain other properties. Also, the disclosures relating to the assumptions are relevant, given the estimation uncertainty and sensitivity of the valuations. Given the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we identified this as a key audit matter.

As part of our audit procedures amongst others, we have evaluated the assumptions and estimates made by the management and the external appraisers as noted above, in the valuation and assessed the appropriateness of the data supporting the fair value with the help of our own internal specialist and by reference to externally available data. Amongst others, we have considered the objectivity, independence and expertise of the external appraisers. Furthermore, we assessed the appropriateness of the disclosures as shown in Note 6 to the consolidated financial statements.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-ARABIYA REAL ESTATE COMPANY K.S.C.P.

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

Other information included in the Group's 2017 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of the compensation claim amount, as well as the carrying amount of the investment in an associate as at 31 December 2017 and the Group's share of the results of the associate for the year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

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

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

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-ARABIYA REAL ESTATE COMPANY K.S.C.P.

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-ARABIYA REAL ESTATE COMPANY K.S.C.P.

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

Auditors' 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 to 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion, proper books of accounts 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, except for the matters described in the Basis for Qualified Opinion section of our report, and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended; 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, as amended, and its executive regulations, as amended; or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position except that the Parent Company has directly invested in shares of certain companies, whose objectives are different from the Parent Company's objectives (Note 9).

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4 April 2018
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 KD	2016 KD
Assets			
Non-current assets			
Property, plant and equipment	4	**18,917,838**	19,861,850
Properties under development	5	**1,480,799**	688,011
Investment properties	6	**119,300,079**	120,317,114
Net assets of unconsolidated hotel	7	**308,194**	308,194
Investment in an associate	8	**928,582**	1,867,127
Financial assets available for sale	9	**10,846,214**	10,513,617
		151,781,706	153,555,913
Current assets			
Trade and other receivables	10	**9,050,677**	24,078,206
Cash and cash equivalents	11	**813,893**	1,310,978
		9,864,570	25,389,184
Total assets		**161,646,276**	178,945,097
Equity and liabilities			
Equity			
Share capital	12	**50,984,499**	50,984,499
Share premium		**5,614,733**	5,614,733
Treasury shares	13	**(714,784)**	(714,784)
Statutory reserve	14	**4,569,660**	4,569,660
Voluntary reserve	15	**4,569,660**	4,569,660
Other reserves	16	**1,346,439**	2,056,178
Accumulated losses		**(8,538,280)**	(5,296,720)
Total equity		**57,831,927**	61,783,226
Non-current liabilities			
Employees' end of service benefits		**430,335**	523,220
Loans and bank facilities	17	**68,328,940**	86,253,810
		68,759,275	86,777,030
Current liabilities			
Trade and other payables	18	**5,885,416**	5,613,757
Loans and bank facilities	17	**29,169,658**	24,771,084
		35,055,074	30,384,841
Total liabilities		**103,814,349**	117,161,871
Total equity and liabilities		**161,646,276**	178,945,097

Dr.Emad Jawad Bukhamseen
Chairman

Dr. Anwar Ali Al Naqi
Vice Chairman

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	*2017* *KD*	*2016* *KD*
Revenues			
Net income (loss) from investment properties	19	**2,447,397**	(1,648,216)
Net income from hotel		**1,808,722**	1,748,025
Share of results of an associate	8	**23,236**	25,620
Net income from financial assets available for sale	20	**860,284**	261,760
Foreign currency exchange differences		**(347,619)**	125,824
Other income		**772,286**	485,430
		5,564,306	998,443
Expenses			
Staff costs	21	**425,368**	394,647
Depreciation	4	**1,605,651**	1,578,862
Other expenses	22	**1,223,399**	1,385,395
Reversal of provisions and impairment		**-**	(107,228)
Finance costs		**5,551,448**	4,551,198
		8,805,866	7,802,874
LOSS FOR THE YEAR BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOR SUPPORT TAX (NLST) AND ZAKAT		**(3,241,560)**	(6,804,431)
KFAS		**-**	-
NLST		**-**	-
Zakat		**-**	-
LOSS FOR THE YEAR		**(3,241,560)**	(6,804,431)
BASIC AND DILUTED LOSS PER SHARE	23	**(6.42)**	(13.47)

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	*2017* *KD*	*2016* *KD*
Loss for the year		**(3,241,560)**	(6,804,431)
Items that are or may be reclassified to the consolidated statement of income in subsequent periods:			
Change in fair value of financial assets available for sale	16	**910,097**	(1,292,731)
Realized gain from sale of financial assets available for sale	16	**(577,500)**	(400)
Impairment loss of financial assets available for sale transferred to consolidated statement of income	16	**-**	14,889
Foreign currency translation adjustment	16	**(1,042,336)**	(259,535)
Total other comprehensive loss		**(709,739)**	(1,537,777)
Total other comprehensive loss for the year		**(3,951,299)**	(8,342,208)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Share capital KD	*Share premium KD*	*Treasury Shares KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Other reserves (Note 16) KD*	*Accumulated losses KD*	*Total KD*
Balance as at 1 January 2017	50,984,499	5,614,733	(714,784)	4,569,660	4,569,660	2,056,178	(5,296,720)	61,783,226
Loss for the year	-	-	-	-	-	-	(3,241,560)	(3,241,560)
Other comprehensive loss	-	-	-	-	-	(709,739)	-	(709,739)
Total comprehensive loss for the year	-	-	-	-	-	(709,739)	(3,241,560)	(3,951,299)
Balance as at 31 December 2017	**50,984,499**	**5,614,733**	**(714,784)**	**4,569,660**	**4,569,660**	**1,346,439**	**(8,538,280)**	**57,831,927**
Balance as at 1 January 2016	50,984,499	5,614,733	(714,784)	4,569,660	4,569,660	3,593,955	1,507,711	70,125,434
Loss for the year	-	-	-	-	-	-	(6,804,431)	(6,804,431)
Other comprehensive loss	-	-	-	-	-	(1,537,777)	-	(1,537,777)
Total comprehensive loss for the year	-	-	-	-	-	(1,537,777)	(6,804,431)	(8,342,208)
Balance as at 31 December 2016	50,984,499	5,614,733	(714,784)	4,569,660	4,569,660	2,056,178	(5,296,720)	61,783,226

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
OPERATING ACTIVITIES			
Loss for the year before contribution KFAS, NLST and Zakat		**(3,241,560)**	(6,804,431)
Adjustments to reconcile loss for the year to net cash flow:			
Depreciation	4	**1,605,651**	1,578,862
Reversal of provisions and impairment		**-**	(107,228)
Unrealized loss from valuation of investment properties	19	**708,887**	3,960,087
Share of results of an associate	8	**(23,236)**	(25,620)
Gain from sale of financial assets available for sale	16, 20	**(577,500)**	(400)
Impairment loss of financial assets available for sale	16, 20	**-**	14,889
Provision for employees' end of service benefits		**108,535**	108,901
Dividends income	20	**(282,784)**	(276,249)
Finance costs		**5,551,448**	4,551,198
		3,849,441	3,000,009
Working capital adjustments:			
Other assets		**-**	(47,209)
Trade and other receivables		**(461,218)**	(321,128)
Trade and other payables		**271,659**	(2,717,300)
Cash flows from/ (used in) operations		**3,659,882**	(85,628)
Employees' end of service benefits paid		**(201,420)**	(84,243)
Net cash flows from/ (used in) operating activities		**3,458,462**	(169,871)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	4	**(662,223)**	(378,080)
Additions to properties under development	5	**(792,788)**	(308,225)
Additions to investments properties		**(321,788)**	(348,179)
Additions of financial assets available for sale		**-**	(335,111)
Refund of advance (advance payment) for purchasing investment property	10	**15,488,747**	(15,488,747)
Proceeds from sale of financial assets available for sale		**577,500**	10,600
Dividends received from an associate	8	**-**	59,388
Dividends received		**282,784**	276,249
Net cash flows from/ (used in) investing activities		**14,572,232**	(16,512,105)
FINANCING ACTIVITIES			
Loans and bank facilities acquired		**164,496,603**	21,816,182
Loans and bank facilities paid		**(178,022,899)**	(500,089)
Finance costs paid		**(5,551,448)**	(3,639,500)
Net cash flows (used in)/from financing activities		**(19,077,744)**	17,676,593
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,047,050)**	994,617
Foreign currency translation adjustments		**549,965**	(138,357)
Cash and cash equivalents at the beginning of the year	11	**1,310,978**	454,718
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	**813,893**	1,310,978

The attached notes 1 to 29 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Al-Arabiya Real Estate Company K.S.C.P. the "Parent Company" was established in the State of Kuwait on 21 September 1976 and is listed in Boursa Kuwait.

The head office of the Parent Company is located at Sharq, Ahmed Al-Jaber St., Emad Commercial Center, State of Kuwait. The main objectives of the Parent Company are:

- Carrying out various real estate commercial activities including procurement, sale of investments in lands and properties, managing properties for others, undertaking contracting activities and trading in all materials related to construction or required for it.
- Setting up commercial markets, tourism, sport and entertainment facilities.
- Constructing, acquiring and managing hotels and its tourism activities.
- Managing real estate portfolios for the Parent Company only and investment in the shares and projects of other companies whose activities are similar to the Parent Company's activities, establish and manage real estate investment funds only, and use the available financial surplus of the Parent Company for investment in financial and real estate portfolios managed by specialized companies.

The Parent Company's Board of Directors on 29 March 2018 approved this consolidated financial statements as at 31 December 2017 for issuance.

2 GOING CONCERN BASIS OF ACCOUNTING

The Group has incurred a loss of KD 3,241,560 for the year ended 31 December 2017 (31 December 2016: loss of KD 6,804,431) and, as at that date, current liabilities exceed current assets by KD 25,190,504 (31 December 2016: KD 4,995,657).

Management acknowledges that uncertainty remains over the Group's ability to meet its funding requirements and to refinance or repay its banking facilities as they fall due. However, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and that loan repayments will be met out of operating cash flows. Further, the main shareholders of the Parent Company continue to provide and arrange financial support (as necessary) to enable the Group to meet its financial obligations as they fall due.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to restructure its debt with the banks and meet the mandatory repayment terms of the banking facilities as disclosed in Note 17 to the consolidated financial statements. If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group's ability to realize its assets and discharge its liabilities in the normal course of business at the amounts stated in the consolidated financial statements but the Group is confident of the successful outcome of negotiations with the banks.

Notwithstanding with the above facts, the consolidated financial statements have been prepared on a going concern basis as the Parent Company's Board of Directors, representing the major shareholders, are confident to meet the Group's liabilities as and when they become due. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts and classification of liabilities that may be necessary if the Group is unable to continue as a going concern.

3.1 BASIS OF PREPARATION

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

Basis of preparation
These consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation at fair value of financial assets available for sale and investment properties.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is also the Parent Company's functional and presentation currency.

3.2 BASIS OF CONSOLIDATION

The consolidated financial statement include the financial information of the Parent Company and its owned subsidiaries and Hotels (together referred to as the "Group") as follows:

	Incorporation country	*Activity*	*Legal entity*	***Ownership (%) 31 December 2017***	*Ownership (%) 31 December 2016*
Holiday Inn Hotel	Kuwait	Services	Hotel	**100**	100
Rotana Al Sharja Hotel (Note 7)	UAE	Services	Hotel	**100**	100
AREC Properties Company Limited	UAE	Real estate	L.L.C.	**100**	100

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of financial position and consolidated statement of 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 and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. The financial statements of subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-group balances, transactions, recognized gains and losses resulting from intra-group transactions and dividends are eliminated in full. Total comprehensive income/loss within a subsidiary is attributed to the Parent Company and non-controlling interest even if that results in a deficit balance.

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 interest
- Derecognises the cumulative translation differences recorded in other comprehensive income
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated statement of income
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

3.3 CHANGES IN ACCOUNTING POLICIES

New standards and amendments effective from 1 January 2017
The accounting policies applied are consistent with those used in the previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group.

3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2018 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements of the Group except the following:

IFRS 9: Financial Instruments
The IASB issued the final version of IFRS 9 "Financial Instruments" in July 2014 that replaces IAS 39 "Financial Instruments: Recognition and Measurement" and all previous versions of IFRS 9. IFRS 9 brings together all threes aspects of the accounting for financial instruments project: 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. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date from 1 January 2018. The Group will avail of the exemption allowing it not to restate comparative information for prior periods. Differences in the carrying amounts of financial asset and financial liabilities resulting from the adoption of IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018.

a. Classification and measurement

IFRS 9 has a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: Measured at Amortised Cost; Fair Value through Other Comprehensive Income ("FVOCI") (with and without recycling of gains or losses to profit or loss on derecognition of debt and equity instruments, respectively); and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The Group has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

b. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group is allowed to compute the life time expected credit loss of its trade receivables under simplified approach.

The impairment requirement apply to financial assets measured at amortised cost.

The Group has carried out a preliminary assessment of the impact of IFRS 9. Based on this assessment, adoption of IFRS 9 is not expected to have any material effect on the Group's consolidated financial statements.

IFRS 15: Revenue from Contracts with customers
IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. 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 removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group has assessed the impact of IFRS 15. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Group's consolidated financial statements.

3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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 Group is in the process of evaluating the impact of IFRS 16 on the Group's financial statements.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received, or receivable taking into account contractually defined terms of payment and excluding discounts and rebates.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and other allowances or similar deductions.

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

Rental income
Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income.

Dividends received
Dividends income are recognised when the right to receive the payment is established which is generally when partners approve the dividends.

Interest income
Interest income is recognised as the interest accrues, using the effective interest rate (EIR) method. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Taxation
Kuwait Foundation for the Advancement of Sciences (KFAS)
The Group calculates the contribution to KFAS at 1% of profit for the year, in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the Board of Directors' remuneration and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Zakat
Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007.

National Labour Support Tax (NLST)
The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Cost of an item of equipment comprises of its acquisition costs and all directly attributable costs of bringing the asset to working condition for its intended use. Depreciation is provided on a straight line basis over the estimated useful lives of the assets as follows:

	Years
Hotels' buildings	20
Furniture and fixtures	3-10
Vehicles	3

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of income.

The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the consolidated statement of income.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

Investment properties
Investment properties comprise properties under development and developed properties that are held to earn rentals or for capital appreciation or both. Properties held under a lease are classified as investment properties when they are held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment properties are measured initially at cost, including transaction costs. Transaction costs include professional fees for legal services, commissions and other costs to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

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 profit or loss in the year in which they arise.

Transfers are made to or from investment properties only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the investment property would result in either gains or losses on the retirement or disposal of the investment property. Any gains or losses are recognised in the consolidated statement of income in the period of derecognition.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under development
Incurred costs are charged to construction or production of capital assets under properties under development till construction or production of these assets is complete, at which time it is reclassified as property, plant and equipment, investment property, or trading properties. The cost includes all direct costs and other costs attributable on a reasonable basis.

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

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell 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 or CGU.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets or CGUs 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 assets 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 consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase in other comprehensive income.

Leases
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee
Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the separate income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Financial instruments
Financial assets

Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or financial assets available-for-sale, or derivatives as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction cost except, in the case of financial assets recorded at fair value through profit or loss.

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.

The Group's financial assets include financial assets available for sale, trade and other receivables and cash and cash equivalents.

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

Trade and other receivables
Trade and other receivables are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Financial assets available for sale
Financial assets available for sale are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, financial assets held-to-maturity or loans and receivables.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses being recognised as other comprehensive income in the available for sale reserve until the investment is derecognised at which time the cumulative gain or loss is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
Financial assets (continued)

Derecognition (continued)
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 asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables and loans and bank facilities.

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

Trade and other payables
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Loans and bank facilities
After initial recognition, interest bearing loans and bank facilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of income.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
Financial liabilities (continued)

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

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 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.

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 recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except for deferred tax assets and liabilities or equity instruments related to share based payment arrangements and assets that are classified as held for sale in which cases they are accounted for in accordance with the related IFRSs. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in the consolidated statement of income as gains.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired.

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

Investment in an associate
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investment in an associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment in the consolidated statement of financial position is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Group's share of the results of the associate's operations. Where there is 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 the consolidated statement of comprehensive income. In addition, when there is a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group and in case of different reporting date of associate, which are not more than three months, from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate (continued)
Details of the Group's associate are set out below:

Name of company	*Country of incorporation*	*Effective interest in equity %* *2017*	*2016*	*Principal Activities*
Sharm Dreams for Real Estate Development Company S.A.E.	Egypt	**21.88**	21.88	Real Estate

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, bank balances and cash in investment portfolio.

Employees' end of service benefits
The Group provides end of service benefits to all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Further, with respect to its national employees, the Group also makes contributions to Public Authority for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

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.

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

Foreign currencies translation
The consolidated financial statements are presented in Kuwaiti Dinars, which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

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 are taken to the consolidated statement of 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 was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

3.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Foreign currencies translation (continued)

Group companies
As at the reporting date, the assets and liabilities of foreign subsidiaries, and the carrying amount of foreign associate are translated into the Parent Company's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the reporting date, and their statement of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken to the consolidated statement of comprehensive income as foreign exchange translation reserve within equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

Finance costs
Finance 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 capitalized as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other finance costs are recognised as expenses in the period in which they are incurred.

Contingencies
Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated statement of financial position, but are disclosed when an inflow of economic benefits is probable.

Segment information
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

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

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on trade receivables
An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Useful lives of property, plant and equipments
The management determines the estimated useful lives of its property, plant and equipment and intangible assets for calculating depreciation and amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation and amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Fair value measurement and valuation techniques
Certain assets and liabilities of the Group are measured at fair value for preparing the consolidated financial statements. The Group's management determines the appropriate key methods and inputs required for the fair value's measurement. Upon determining the fair value of assets and liabilities, the management uses an observable market data. In case no market observable data is available, the Group shall assign an external qualified valuer to carry out the valuation process. Information about the evaluation methods and necessary inputs, which are used to determine the fair value of assets and liabilities, has been disclosed in Note 6 and Note 29.

3.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Valuation of unquoted equity financial assets
Valuation of unquoted equity financial assets is normally based on one of the following:
- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- An earnings multiple;
- Price to book multiples;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows, earnings multiples, price to book multiples and discount factors for unquoted equity securities requires significant estimation.

Evidence of impairment of investments
Management determines the impairment in the available for sale instruments when there is a long-term or material impairment in the value of investments classified as available for sale investments. Determination of the long-term or material impairment requires the management to exercise its judgment in this regard. The Group evaluates, among other factors, the usual fluctuation of listed stock prices, expected cash flows and discount rates of unquoted investments, impairment is considered appropriate when there is objective evidence on the deterioration of the financial position for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. The impact of such impairment on these consolidated financial statements is disclosed in Note 9.

Impairment of an associate
Estimation for impairment losses of an associate is made when there is an indication for such impairment. Determination of the impairment is made for the full book value of the Group's investment in an associate including goodwill and therefore, the impairment of goodwill is not separately determined. The impact of such impairment on these consolidated financial statements is disclosed in Note 8.

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

Properties classification
Management takes the decision on the acquisition of property whether it should be classified as held for trading, property under development or investment property. Such provisions on acquisition will determine later whether these properties will be measured subsequently at the lower of cost less impairment, at cost or realizable value, or at fair value, and whether changes in the fair value of these properties will be recorded in the consolidated statements of income or other comprehensive income. The Group classifies the properties as follows:
- Property held for trading: if it is acquired principally for sale in the ordinary business activity.
- Property under development: if it is acquired with the intention of development.
- Investment property: if it is acquired for rental income, for capital appreciation, or for undetermined future use.

Classification of investments
Classification of investments is based on management's intention at acquisition and requires considerable judgment.

4 PROPERTY, PLANT AND EQUIPMENT

	Hotel Lands KD	*Hotel buildings KD*	*Furniture and Fixtures KD*	*Vehicles KD*	*Total KD*
Cost					
As at 1 January 2017	**2,639,460**	**28,856,187**	**3,747,629**	**167,465**	**35,410,741**
Additions	-	**135,000**	**527,223**	-	**662,223**
Foreign Exchange differences	-	-	**(1,148)**	-	**(1,148)**
As at 31 December 2017	**2,639,460**	**28,991,187**	**4,273,704**	**167,465**	**36,071,816**
Accumulated Depreciation					
As at 1 January 2017	-	**12,387,400**	**3,036,405**	**125,086**	**15,548,891**
Depreciation for the year	-	**1,445,622**	**139,624**	**20,405**	**1,605,651**
Foreign exchange differences	-	-	**(564)**	-	**(564)**
As at 31 December 2017	-	**13,833,022**	**3,175,465**	**145,491**	**17,153,978**
Net Book value as at 31 December 2017	**2,639,460**	**15,158,165**	**1,098,239**	**21,974**	**18,917,838**

	Hotel Lands KD	*Hotel buildings KD*	*Furniture and Fixtures KD*	*Vehicles KD*	*Total KD*
Cost					
As at 1 January 2016	2,639,460	28,646,294	3,640,623	105,635	35,032,012
Additions	-	209,893	106,357	61,830	378,080
Foreign exchange differences	-	-	649	-	649
As at 31 December 2016	2,639,460	28,856,187	3,747,629	167,465	35,410,741
Accumulated Depreciation					
As at 1 January 2016	-	10,944,588	2,919,677	105,631	13,969,896
Depreciation for the year	-	1,442,812	116,595	19,455	1,578,862
Foreign Exchange differences	-	-	133	-	133
As at 31 December 2016	-	12,387,400	3,036,405	125,086	15,548,891
Net Book value as at 31 December 2016	2,639,460	16,468,787	711,224	42,379	19,861,850

Hotel lands and hotel building amounting to KD 17,797,625 (2016: KD 19,108,247) are pledged against loans and bank facilities (Note 17).

5 PROPERTIES UNDER DEVELOPMENT

	2017 KD	*2016 KD*
Balance as at 1 January	**688,011**	379,786
Additions	**792,788**	308,225
Balance as at 31 December	**1,480,799**	688,011

Properties under development are pledged in favor of local banks against loans and bank facilities obtained by the Group (Note 17).

6 INVESTMENT PROPERTIES

	2017 *KD*	*2016* *KD*
Properties inside Kuwait	**76,833,000**	75,379,000
Properties outside Kuwait	**42,467,079**	44,938,114
	119,300,079	120,317,114

Investment properties amounting to KD 76,833,000 (2016: KD 120,317,114) are pledged against loans and bank facilitics granted to the Group (Note 17).

As at 31 December 2017, the fair value of investment properties in Kuwait is KD 76,833,000 (2016: KD 75,379,000). The fair value of investment properties has been determined based on valuations obtained from two independent professional real estate valuers, who are industry specialised in valuing such type of investment properties. One of these valuers is a local bank and the other is a local reputable accredited valuer. For valuation purpose, the Group has selected the lower of these two valuations (2016: the lower of two valuations) as required by the Capital Markets Authority (CMA).

The valuators have used the following methods:

- Income capitalisation approach, which is used for valuating developed properties generating rental income assuming full capacity of the property.

- Market comparable approach, for which a property fair value is estimated based on comparable transactions. The market comparable approach is based upon the principle substitution under which a potential buyer will not pay more for the property than it will cost to buy comparable substitute property.

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

	2017 *Kuwait*	*2016* *Kuwait*
Average monthly rent (per sqm) (KD)	**124.09**	115.02
Capitalization rate	**8.87%**	8.11%
Occupancy rate	**100%**	100%

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of the investment properties.

	Changes in valuation assumptions	*2017* *Kuwait* *KD*	*2016* *Kuwait* *KD*
Average rent	+/- 5%	**1,091,650**	1,107,200
Capitalization rate	+/- 5%	**1,039,667**	1,054,476
Occupancy rate	- 5%	**(1,091,650)**	(1,107,200)

6 INVESTMENT PROPERTIES (continued)

As at 31 December 2017, the fair value of investment properties in Dubai is KD 42,467,079 (2016: KD 44,938,114). The fair value has been determined based on valuation performed by two independent professional real estate valuation experts who are specialised in valuing such type of properties.

Both valuators have used the market comparable approach, due to high volume of transaction involving comparable properties in the area during the year. Under the market comparable approach, a property fair value is estimated based on comparable transactions. The market comparable approach is based upon the principle substitution under which a potential buyer will not pay more for the property than it will cost to buy comparable substitute property. The unit of comparison applied by the Group is the price per square meter.

The following is fair value hierarchy disclosures for classes of investment properties is as at 31 December:

2017	***Fair value measurement using***			
	Quoted prices in active markets (Level 1)	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total 2017 KD***
Investment properties	-	**97,467,079**	**21,833,000**	**119,300,079**

2016	*Fair value measurement using*			
	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total 2016 KD*
Investment properties	-	98,173,114	22,144,000	120,317,114

There were no transfers between level 1 and level 2 fair value measurements and no transfer into and out of level 3 fair value measurements.

The movement in Level 3 fair value hierarchy during the year is given below:

	As at 1 January KD	***Loss recorded in consolidated statement of income KD***	***As at 31 December KD***
Investment properties at fair value			
2017	**22,144,000**	**(311,000)**	**21,833,000**
2016	23,875,000	(1,731,000)	22,144,000

7 NET ASSETS OF UNCONSOLIDATED HOTEL

During the year ended 31 December 2015, the Group lost control over the operations of Rotana Al Sharja Hotel (a Hotel fully owned by the Group) as a result of being under receivership (Note 17). Accordingly, the Group has ceased to consolidate the financial statements of the Hotel.

However, the net value of the land and building of Rotana Al Sharja Hotel amounting to KD 982,074 as at 31 December 2017 (31 December 2016: KD 1,140,185) have been included under property, plant and equipment in the consolidated statement of financial position due to the fact that the Group has the ownership of these land and building.

8 INVESTMENT IN AN ASSOCIATE

Company Name	*Country of Incorporation*	*Percentage of Ownership (%)*		*2017*	*2016*
		2017	*2016*	***KD***	*KD*
Sharm Dreams for Real Estate Development Company	Egypt	**21.88**	21.88	**928,582**	1,867,127

Following is the movement of the investment in associates during the year ended 31 December 2017:

	2017	*2016*
	KD	*KD*
Balance as at 1 January	**1,867,127**	2,285,577
Group's share of the result of an associate	**23,236**	25,620
Dividends received	**-**	(59,388)
Foreign currency translation differences	**(961,781)**	(384,682)
Balance as at 31 December	**928,582**	1,867,127

The Group's share of results of Sharm Dreams for Real Estate Development Company was recognized based on the audited financial statements for the year ended 31 December 2016. No financial information available for the year ended 31 December 2017.

The following table illustrates the summarised information of the associate:

Summarised statement of financial position:

	2016
	KD
Assets	5,864,911
Liabilities	1,620,935
Equity	4,243,976
Carrying amount of the investment	928,582

Summarised statement of income:

	2016
	KD
Revenues	169,572
Profit for the year	106,203
Group's share of profit for the year	23,236

9 FINANCIAL ASSETS AVAILABLE FOR SALE

	2017 *KD*	*2016* *KD*
Quoted shares	**9,446,211**	9,113,614
Unquoted shares	**1,400,003**	1,400,003
	10,846,214	10,513,617
Equity securities carried at fair value	**9,446,211**	9,113,614
Equity securities carried at cost	**1,400,003**	1,400,003
	10,846,214	10,513,617

Local unquoted equity securities of KD 1,400,003 (2016: KD 1,400,003) are carried at cost less impairment loss as their fair values could not be reliably measured. However, management has performed a review of its unquoted securities to assess whether impairment has occurred on the value of these financial assets, no impairment loss (2016: KD 14,889) has been recorded against the local unquoted equity securities (Note 20).

Financial assets available for sale represents shares in other companies amounting to KD 10,846,214 (2016: KD 10,513,617), whose objectives are not similar to the Parent Company's objectives.

Financial assets available for sale amounting to KD 6,229,988 (2016: KD 5,598,756) are pledged against loans and bank facilities (Note 17).

10 TRADE AND OTHER RECEIVABLES

	2017 *KD*	*2016* *KD*
Compensation receivables	**10,057,080**	10,057,080
Provision for impairment	**(3,017,125)**	(3,017,125)
	7,039,955	7,039,955
Trade Receivables	**976,990**	887,756
Advance payment for purchasing of investment properties	**626,545**	16,115,292
Prepaid expenses	**153,171**	132,132
Advance payments to contractors	**265,357**	323,748
Staff receivables	**25,375**	26,909
Due from related parties (Note 25)	**311,085**	66,240
Other	**489,491**	297,922
	9,887,969	24,889,954
Provision for impairment of receivables (other than compensation receivables)	**(837,292)**	(811,748)
	9,050,677	24,078,206

Compensation receivables represent the compensation due to the Group for a land in Ajman Emirate (UAE) whose ownership was expropriated for public benefit during 1996. The total amount due to the Parent Company as per the letter received from the Municipal Council of Ajman Emirate amounted to AED 220 million (approximately KD 16.76 million) (in kind or cash). According to the letter of the Group's consultant, the Group has recorded an amount of KD 10,057,080 (equivalent to AED 132 million) after deducting AED 88 million (approximately KD 6.70 million) in order to meet the costs and expenses necessary to finalize the claim and collection procedures. During previous years, the Group had recognized a provision for impairment of KD 3,017,125 based on management's estimates for the collectable amounts.

10 TRADE AND OTHER RECEIVABLES (continued)

During the prior year, the Group paid an amount of KD 15,488,747 to a related party as an advance for purchasing an investment property in Kuwait with a total value of KD 18,000,000. In accordance with contract terms and conditions, the remaining balance of the purchase consideration had to be paid upon transferring the title deed in the name of the Group and the contract would be cancelled if the title deed is not transferred in the name of the Group before 31 March 2017 and the seller will be obliged to repay the advance payment in addition to a penalty of KD 500,000.

During April 2017, the contract was cancelled as the counter party failed to transfer the title deed of the investment property in the name of the Group before 31 March 2017 as per the contract terms. The Group collected the advance amount and the penalty of KD 500,000

Balances of trade receivables, which were past due but not impaired of KD 766,244 as at 31 December 2017 (2016: KD 702,552). The following is the aging analysis of such balances:

	2017 *KD*	*2016* *KD*
Due from 3 - 6 months	**493,414**	527,605
Due from 6 - 12 months	**272,830**	174,947
	766,244	702,552

Unimpaired trade receivables are expected, on the basis of past experience, to be fully recoverable. The Group does not hold any collateral as security, for trade and other receivables.

Balances of trade and other receivables that impaired and fully provided were amounted to KD 3,854,417 as at 31 December 2017 (2016: KD 3,828,873). Following is the movement on the doubtful debts provision:

	2017 *KD*	*2016* *KD*
Balance as at 1 January	**3,828,873**	3,936,101
Reversal of provision	-	(117,861)
Provided for during the year	**25,544**	10,633
Balance as at 31 December	**3,854,417**	3,828,873

11 CASH AND CASH EQUIVALENTS

	2017 *KD*	*2016* *KD*
Cash on hand	**19,965**	24,024
Banks balances	**793,928**	1,284,782
Cash in investment portfolios	-	2,172
	813,893	1,310,978

The bank balances represent saving accounts with Islamic banks and non-interest bearing current accounts with commercial banks and financial institutions inside and outside Kuwait.

12 SHARE CAPITAL

At 31 December 2017, the authorised, issued and fully paid share capital in cash of the Parent Company comprised of 509,844,986 shares of 100 fils each (2016: 509,844,986 shares of 100 fils each).

13 TREASURY SHARES

	31 December 2017	*31 December 2016*
Number of shares (share)	**4,619,962**	4,619,962
Percentage to issued shares (%)	**0.91**	0.91
Market value	**137,675**	143,219

A part of reserves, comprising distribution of net profits, carried over profits, which equals the cost of treasury shares, shall be frozen and shall be deemed un-distributable during the period of holding such shares.

14 STATUTORY RESERVE

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and board of directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's board of directors. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. No transfers were made to statutory reserve since the Group has incurred losses for the year.

15 VOLUNTARY RESERVE

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year contribution to KFAS, NLST, Zakat and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve. No transfers were made to voluntary reserve since the Group has incurred losses for the year.

16 OTHER RESERVES

	Treasury shares reserve KD	*Cumulative change in fair values reserve KD*	*Foreign currency translation reserve KD*	***Total KD***
Balance as at 1 January 2017	1,098,372	1,227,764	(269,958)	**2,056,178**
Change in fair value of financial assets available for sale	-	910,097	-	**910,097**
Realized gain from sale of financial assets available for sale (Note 20)	-	(577,500)	-	**(577,500)**
Share of other comprehensive income of associate	-	-	(961,781)	**(961,781)**
Foreign currency translation adjustment	-	-	(80,555)	**(80,555)**
Balance as at 31 December 2017	**1,098,372**	**1,560,361**	**(1,312,294)**	**1,346,439**
Balance as at 1 January 2016	1,098,372	2,506,006	(10,423)	3,593,955
Change in fair value of financial assets available for sale	-	(1,292,731)	-	(1,292,731)
Impairment loss of financial assets available for sale transferred to consolidated statement of income (Note 9)	-	14,889	-	14,889
Realized gain from sale of financial assets available for sale (Note 20)	-	(400)	-	(400)
Share of other comprehensive income of associate			(384,682)	(384,682)
Foreign currency translation adjustment	-	-	125,147	125,147
Balance as at 31 December 2016	1,098,372	1,227,764	(269,958)	2,056,178

17 LOANS AND BANK FACILITIES

	2017 *KD*	*2016* *KD*
Current portion		
Loans and bank facilities	**29,169,658**	24,771,084
Non- current portion		
Loans and bank facilities	**68,328,940**	86,253,810
	97,498,598	111,024,894

Loans and bank facilities are obtained from certain local banks with annual interest rate from 2.25% to 3% over the Central Bank of Kuwait discount rate. Bank facility obtained from a regional bank with annual profit rate of 2.5% over EIBOR. Such loans are granted against pledge of the following assets:

	2017 *KD*	*2016* *KD*
Property, plant and equipment (Note 4)	**17,797,625**	19,108,247
Properties under development (Note 5)	**1,480,799**	688,011
Investment properties (Note 6)	**76,833,000**	120,317,114
Financial assets available for sale (Note 9)	**6,229,988**	5,598,756
	102,341,412	145,712,128

During previous years, loan installments and related finance costs of KD 14,981,497 (2016: KD 14,447,627) were past due and unpaid to a regional bank in UAE. The Group is currently taking the necessary procedures to settle or restructure such balance. The bank filed a legal case against the Group and during year ended 31 December 2015. Furthermore, a court judgment was issued, by virtue of which Rotana Al Sharja Hotel (unconsolidated subsidiary) was placed under receivership and the creditor bank was appointed as the receiver until the current dispute between the Group and the bank is settled (Note 7).

Subsequent to the reporting period, the Group defaulted in the settlement of the installment of KD 12,000,000 to a local bank and is in the process of negotiations in order to extend the date of installment settlement.

Loans and bank facilities amounting to KD 300,000 (2016: KD 29,214,664) were obtained from a local Islamic financial institutions which are related parties (Note 25).

18 TRADE AND OTHER PAYABLES

	2017 *KD*	*2016* *KD*
Trade payables	**914,362**	670,432
Due to related parties (Note 25)	**579,954**	721,363
Dividends payables	**993,969**	993,969
Accrued expenses and leaves	**364,047**	397,121
Refundable deposits	**1,296,565**	848,432
Kuwait Foundation for the Advancement of Science	**39,344**	39,344
National Labor Support Tax	**140,682**	192,163
Zakat payable	**104,038**	104,038
Provision for claims	**1,073,528**	1,323,656
Other payables	**378,927**	323,239
	5,885,416	5,613,757

19 NET INCOME (LOSS) FROM INVESTMENT PROPERTIES

	2017 *KD*	*2016* *KD*
Rental income	**3,938,938**	2,851,786
Operating expenses	**(782,654)**	(539,915)
Unrealized loss from valuation of investment properties	**(708,887)**	(3,960,087)
	2,447,397	(1,648,216)

20 NET INCOME FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	2017 *KD*	*2016* *KD*
Realised gain from sale of financial assets available for sale (Note 16)	**577,500**	400
Dividends income	**282,784**	276,249
Impairment loss of financial assets available for sale (Note 16)	**-**	(14,889)
	860,284	261,760

21 STAFF COSTS

	2017 *KD*	*2016* *KD*
Salaries, wages and bonuses	**275,492**	288,293
End of service benefits and leaves	**85,335**	60,328
Others	**64,541**	46,026
	425,368	394,647

22 OTHER EXPENSES

	2017 *KD*	*2016* *KD*
Professional fees and consulting	**496,449**	617,397
Legal expenses	**4,977**	2,360
Water and electricity	**295,246**	364,991
Rent	**40,800**	40,800
Insurance	**12,371**	21,984
Maintenance	**156,755**	98,347
Subscriptions	**42,645**	41,484
Donations	**1,215**	20,000
Others	**172,941**	178,032
	1,223,399	1,385,395

23 BASIC AND DILUTED LOSS PER SHARE

Basic 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). Diluted loss per share is calculated by dividing the loss for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The Parent Company did not have any diluted shares as at 31 December 2017.

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

	2017 *KD*	*2016* *KD*
Loss for the year	**(3,241,560)**	(6,804,431)
Weighted average number of ordinary outstanding shares (share)	**505,225,024**	505,225,024
Loss per share attributable to the Parent Company's shareholders	**(6.42)**	(13.47)

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

24 SEGMENT INFORMATION

The main activity of the Group represents the real estate commercial activities such as purchase and sale of lands and properties and investing them and acquiring and managing hotels and its tourism activities. In addition, the Group invests its financial surpluses by investing directly in the share capital of the companies and financial portfolios.

The activities segments of the Group, which are presented to the management, are represented in the following:

- Real estate segment: which represents all activities related to real estate including investment properties.
- Hotels segment: which represents all activities related to establishment, acquiring and managing hotels.
- Investment segment: which represents all activities related to investing in shares and share capital of the companies.

The following table presents the information about net revenues, costs, (loss) profits, assets and liabilities for each segment:

31 December 2017	*Real estate segment* *KD*	*Hotels Segment* *KD*	*Investment Segment* *KD*	*Unallocated items* *KD*	*Total* *KD*
Revenues	**3,230,252**	**1,823,206**	**883,520**	**(372,672)**	**5,564,306**
Costs	**(782,855)**	**(1,594,464)**	-	**(877,099)**	**(3,254,418)**
Finance costs	-	-	-	**(5,551,448)**	**(5,551,448)**
Profits/ (losses)	**2,447,397**	**228,742**	**883,520**	**(6,801,219)**	**(3,241,560)**
Assets	**121,143,121**	**20,648,407**	**12,065,264**	**7,789,484**	**161,646,276**
Liabilities	**1,265,490**	**1,164,642**	**1,449,595**	**99,934,622**	**103,814,349**

* Revenues related to real estate segment includes valuation loss of KD 708,887 (2016: KD 3,960,087)

24 SEGMENT INFORMATION (continued)

31 December 2016	*Real estate segment KD*	*Hotels Segment KD*	*Investment Segment KD*	*Unallocated items KD*	*Total KD*
Revenues	(1,108,302)	1,768,228	287,380	51,137	998,443
Costs	(539,914)	(1,574,443)	-	(1,137,319)	(3,251,676)
Finance costs	-	-	-	(4,551,198)	(4,551,198)
(Losses) profits	(1,648,216)	193,785	287,380	(5,637,380)	(6,804,431)
Assets	136,766,670	21,496,466	12,382,508	8,299,453	178,945,097
Liabilities	28,486,622	1,155,749	1,026,039	86,493,461	117,161,871

Geographical distribution of revenues and assets is:

	2017		*2016*	
	Revenues KD	***Assets KD***	*Revenues KD*	*Assets KD*
State of Kuwait	**6,101,809**	**106,420,098**	(86,973)	103,480,555
United Arab Emirates	**(560,739)**	**51,213,539**	1,059,797	70,264,700
Arab Republic of Egypt	**23,236**	**4,012,639**	25,619	5,199,842
	5,564,306	**161,646,276**	998,443	178,945,097

25 TRANSACTIONS WITH RELATED PARTIES

These represent transactions with certain parties (major shareholders, directors and executive officers of the Group, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence) entered into by the Group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management, and board of directors.

The following is the statement of such transactions and balances:

	Entities under common control	***Other related parties***	***2017 KD***
Transactions			
Dividends income	-	274,449	**274,449**
Rental expenses	40,800	-	**40,800**
Interests on loans and facilities	-	952,465	**952,465**
Marketing fees	-	45,305	**45,305**
Management fees	-	141,614	**141,614**
Reservation fees	-	22,653	**22,653**
Holidex fees	-	8,609	**8,609**
Commission expenses	-	17,747	**17,747**
Assets management fees	-	91,019	**91,019**

25 TRANSACTIONS WITH RELATED PARTIES (continued)

	Entities under common control	*Other related parties*	*2016 KD*
Transactions			
Dividends income	-	247,004	247,004
Rental expenses	40,800	-	40,800
Interests on loans and facilities	-	1,377,530	1,377,530
Marketing fees	-	42,998	42,998
Management fees	-	138,280	138,280
Reservation fees	-	21,462	21,462
Holidex fees	-	8,603	8,603
Commission expenses	-	201,580	201,580
Assets management fees	-	54,514	54,514

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

	Ultimate parent company	***Entities under common control***	***Other related parties***	***2017 KD***
Balances				
Due from related parties (Note 10)	309,353	-	1,732	**311,085**
Due to related parties (Note 18)	-	521,603	58,351	**579,954**
Financial assets available for sale	-	-	7,762,756	**7,762,756**
Loans and facilities (Note 17)	-	-	300,000	**300,000**

	Ultimate parent company	*Entities under common control*	*Other related parties*	*2016 KD*
Balances				
Due from related parties (Note 10)	51,802	7,456	6,982	66,240
Due to related parties (Note 18)	1,960	676,160	43,243	721,363
Advance payment for purchasing of investment property (Note 10)	-	15,488,747	-	15,488,747
Financial assets available for sale	-	-	7,182,254	7,182,254
Loans and facilities (Note 17)	-	-	29,214,664	29,214,664

Compensation of key management personnel
The remuneration of members of key management during the year were as follows:

	2017 KD	*2016 KD*
Salaries and remunerations	**236,000**	236,000
Employees' end of service benefits	**13,846**	13,846

26 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent liabilities

	2017 *KD*	*2016* *KD*
Letters of Guarantee	**24,191**	24,191

27 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into interest rate risk, foreign currency risk and equity price risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process. The Board of Directors are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

27.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Management of the Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

The Group seeks to limit its credit risk with respect to tenants of its investment properties by monitoring outstanding receivables. The Group limits credit risk with regard to its bank balances by only dealing with reputable banks.

With respect to credit risk arising from the other financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Maximum exposure to credit risk

The Group's exposure to credit risk from bank balances, cash with a portfolio manager, fixed deposits and accounts receivable arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The maximum exposure is the carrying amount as described in the consolidated statement of financial position:

	2017 *KD*	*2016* *KD*
Cash and cash equivalents (excluding cash in hand)	**793,928**	1,286,954
Trade and other receivable	**8,928,124**	23,946,074
	9,722,052	25,233,028

27.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents, and readily marketable securities.

27 RISK MANAGEMENT (continued)

27.2 Liquidity risk (continued)

The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The table below summarizes the maturity profile of the Group's undiscounted financial liabilities as at 31 December based on contractual undiscounted repayment obligations:

	Within One Year KD	*From One to two years KD*	*From Two to five years KD*	*More than five years KD*	*Total KD*
2017					
Loans and bank facilities	**31,152,109**	**3,315,000**	**12,705,000**	**75,686,250**	**122,858,359**
Accounts payables and accruals	**4,588,851**	-	-	-	**4,588,851**
Total	**35,740,960**	**3,315,000**	**12,705,000**	**75,686,250**	**127,447,210**
2016					
Loans and bank facilities	26,078,686	14,157,500	64,394,014	19,562,000	124,192,200
Accounts payables and accruals	4,765,325	-	-	-	4,765,325
Total	30,844,011	14,157,500	64,394,014	19,562,000	128,957,525

The Group is currently preparing detailed studies to set the plans required to provide the liquidity needed to fulfil its financial liabilities.

27.3 Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

27.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its term loan.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant:

	Increase in basis points	*Effect on results for the year before taxes KD*
2017	**+100**	**974,986**
2016	+100	1,110,249

27 RISK MANAGEMENT (continued)

27.3 Market risk (continued)

27.3.2 Foreign currency risk

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

Currency risk is managed on the basis of limits determined by the Parent 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 Group had the following significant exposures denominated in foreign currencies as of 31 December:

	2017 ***KD***	*2016* *KD*
AED	**14,981,497**	14,447,627
EGP	**928,582**	1,867,127
USD	**3,083,452**	3,331,363

The following table demonstrates the sensitivity to a reasonably possible change in the AED, EGP and USD exchange rate against Kuwaiti dinar, with all other variables held constant, on the Group's loss and other comprehensive loss.

	2017			2016		
Currency	***Change in currency rate %***	***Effect on loss KD***	***Effect on equity KD***	*Change in currency rate %*	*Effect on loss KD*	*Effect on equity KD*
AED	**5%**	**749,075**	-	5%	722,381	-
EGP	**5%**	-	**46,429**	5%	-	93,356
USD	**5%**	-	**154,173**	5%	-	166,568

27.4 Equity price risk

Equity price risk arises from changes in the fair values of equity financial assets. Equity price risk is managed by the management of the Group. The quoted equity price risk exposure arises from the Group's financial assets available for sale.

The effect on other comprehensive income (as a result of a change in the fair value of financial assets available for sale) on due to a reasonably possible change in market indices, with all other variables held constant is as follow:

	31 December 2017		*31 December 2016*	
Market indices	***Change in equity price %***	***Effect on other comprehensive loss KD***	*Change in equity price %*	*Effect on other comprehensive loss KD*
Kuwait	±5	**355,694**	±5	289,113
Others	±5	**154,173**	±5	166,568

28 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 business conditions.

28 CAPITAL MANAGEMENT (continued)

No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

Capital comprises share capital, share premium, treasury shares, statutory reserve, voluntary reserve, other reserve and accumulated losses and is measured at KD 57,831,927 as at 31 December 2017 (2016: KD 61,783,226).

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt The Group includes within net debt, loans and bank facilities, trade and other payable, less cash and cash equivalents. Total equity includes share capital, share premium, treasury shares, statutory reserve, voluntary reserve, other reserves and accumulated losses.

The gearing ratio as at 31 December was as follows:

	31 December 2017 KD	*31 December 2016 KD*
Loans and banks facilities (Note 17)	**97,498,598**	111,024,894
Trade and other payables (Note 18)	**5,885,416**	5,613,757
Less : cash and cash equivalents (Note 11)	**(813,893)**	(1,310,978)
Net debt	**102,570,121**	115,327,673
Total equity	**57,831,927**	61,783,226
Total equity and net debt	**160,402,048**	177,110,899
Gearing ratio (%)	**64%**	65%

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities as defined in Note 3.5.

The fair values of financial instruments with the exceptions of certain financial assets available for sale carried at cost less impairment (Note 9) are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than twelve months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to variable rate financial instruments.

Fair value hierarchy

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

- 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

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

31 December 2017	***Level 1 KD***	***Total KD***
Financial assets available for sale:		
Quoted securities	**9,446,211**	**9,446,211**
	9,446,211	**9,446,211**

31 December 2016	*Level 1 KD*	*Total KD*
Financial assets available for sale:		
Quoted securities	9,113,614	9,113,614
	9,113,614	9,113,614

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.