ANNUAL REPORT 2016

تمدين

TAMDEEN

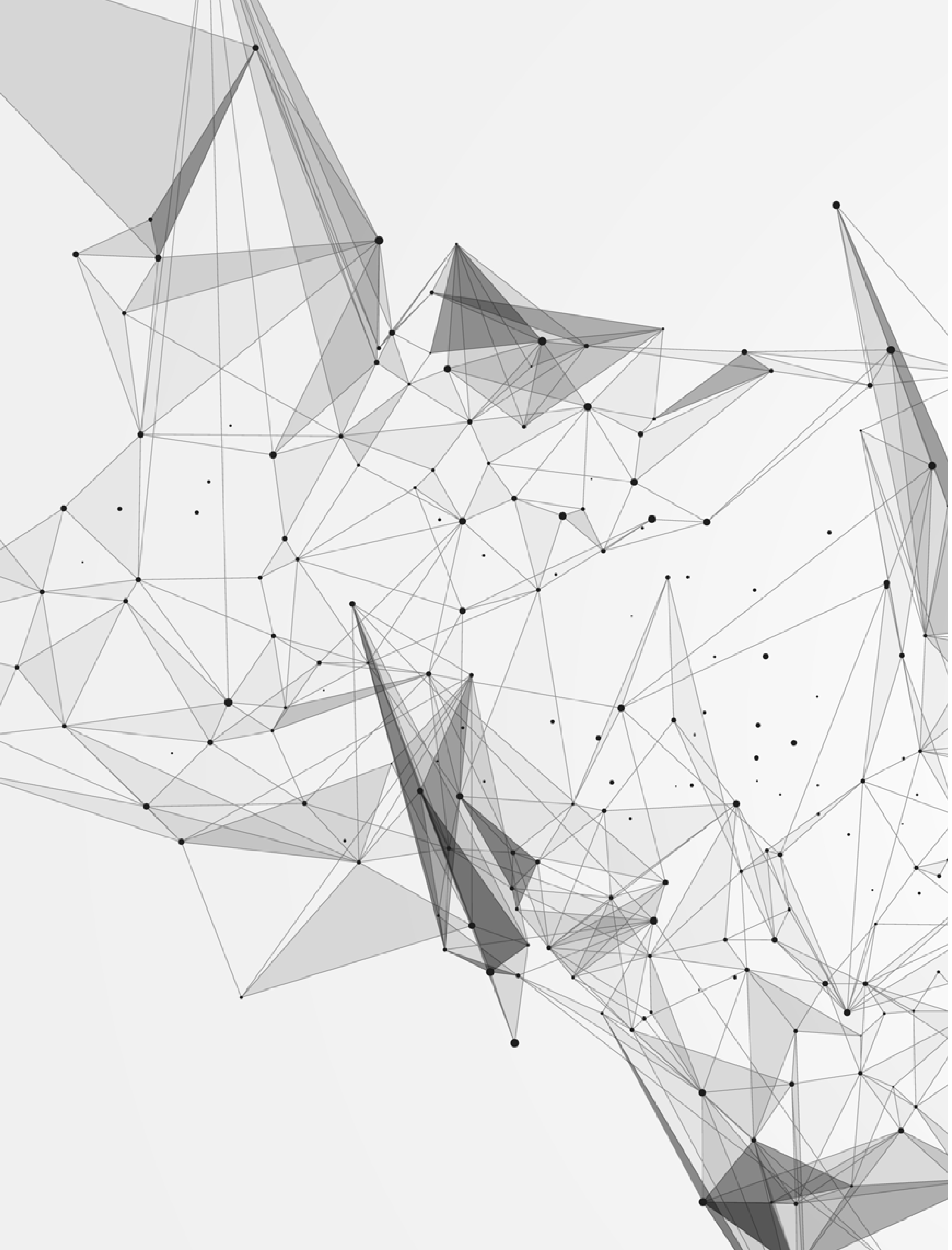
REAL ESTATE

# IN THE NAME OF ALLAH, THE MOST GRACIOUS, THE MOST MERCIFUL

**H.H. Sheikh Nawaf Al Ahmad Al Jaber Al Sabah**
Crown prince of the State of Kuwait

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

**H.H. Sheikh Jaber Al Mubarak Al Hamad Al Sabah**
Prime minister of the State of Kuwait



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# BOARD OF DIRECTORS REPORT

IN THE NAME OF GOD, MOST GRACIOUS, MOST MERCIFUL

## ESTEEMED SHAREHOLDERS,

**PEACE AND GOD'S MERCY AND BLESSINGS BE UPON YOU,**

**IT IS MY PLEASURE TO MEET WITH YOU TODAY AND, ON BEHALF OF MY COLLEAGUES, MEMBERS OF THE BOARD OF DIRECTORS, I AM PLEASED TO PRESENT TO YOU THE ANNUAL REPORT OF TAMDEEN REAL ESTATE COMPANY AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 AS WELL AS THE MAJOR ACHIEVEMENTS ACCOMPLISHED DURING THE YEAR, IN ADDITION TO THE FINANCIAL STATEMENTS REPORT AND THE REPORT OF THE INDEPENDENT AUDITORS.**

## ESTEEMED SHAREHOLDERS,

AT THE END OF 2016, OIL PRICES INCREASED TO USD 50 PER BARREL BY MORE THAN 45% COMPARED TO OIL PRICES IN LATE 2015. DURING THE YEAR 2017, SOME OPTIMISTIC ELEMENTS PREVAILED OVER THE OIL MARKETS DUE TO THE OIL PRICE INDICES THAT REFERRED TO THE INCREASE OF PRICES AS A RESULT OF THE AGREEMENT BETWEEN THE MEMBERS INSIDE OPEC AND OUTSIDE TO CUT OIL PRODUCTION. HOWEVER, THIS IMPROVEMENT IN PRICES DOES NOT MEAN THAT THERE ARE NO SIGNIFICANT RISKS RELATED TO THE CURRENT ACCOUNT SURPLUSES OF THE BUDGET OF THE STATE OF KUWAIT WHICH REQUIRE APPROPRIATE SOLUTIONS.





In an accelerated pace, Kuwait is seeking to diversify its revenues to reduce its budget for oil to 60% by 2020 instead of 93% currently based on the five-year plan that began in 2015/2016 ending in 2019/2020.

The current development plan is based on the vision of his Highness the Amir to transform the State of Kuwait into a global financial and trading center and encourage investment in it where the private sector will be a key partner in the strategic development processes, while creating employment opportunities for nationals. The vision also emphasizes on the importance of reforming and developing investment, expanding trade,providing an appropriate investment environment, enhancing competitiveness of Kuwait in international indicators, promoting investment opportunities available in the country, unifying the speech addressed to investors, providing information, clarifications and statistics available to them, improving the work environment by reducing the routine and administrative procedures required for the launch of investment projects and practice of their work as well as establishing and managing of economic zones.

## HONORABLE SHAREHOLDERS,

International organizations were highly interested in the governance rules for the benefit they bring to the companies and the society as a whole. Thus, commitment to corporate governance rules has become a point of reference of sound administrative governance in any financial or non-financial institution. In this context, the Capital Markets Authority issued Resolution No. (48) for the year 2015 concerning the rules of corporate governance of the companies subject to its supervision which aim at achieving balance between the interest of the company and its shareholders and promoting supervising procedures through compliance with the instructions of the supervisory bodies and promoting internal control procedures in the company.

In 2016, the company devoted all efforts to ensure compliance with the rules and standards of governance. Furthermore, the company separated between the duties and responsibilities of the Board of Directors and those of the executive management where the Board sets and develops the business strategies, objectives and policies, forms committees, supervises implementation and evaluates performances while the Executive Management manages and executes the transactions, implements policies and procedures and submits its reports to the Board of Directors.

The company believes that by implementing these rules it will create a sound work environment that will help achieve a better performance and a good management that would increase the activities, lower the risks and build trust with shareholders and stakeholders as well as achieve justice, transparency and honesty for shareholders, investors and other stakeholders.

## ESTEEMED SHAREHOLDERS,

Tamdeen Real Estate Company started, during 2016, to develop its investment estates owned by it within Tamdeen Square project, which is located in one of the best strategic locations in the State of Kuwait, near two of the most important highways: Fahaheel road and the Sixth Ring road. It also built a new residential complex of 256 luxury apartments with a distinctive design that meets the aspirations of all Kuwaiti citizens whether for residential or investment purposes in real estate market.

The apartments are located in a luxurious, modern and vital real estate project consisting of three towers with a stunning sea view, in addition to hotel apartments, hotel and shopping center. All these combined will contribute to a new lifestyle in Sabah Al Salem area in Mubarak Al Kabir District which is experiencing an increasing growth.

Tamdeen Square is expected to reduce the gap in the residential sector and will help introduce a new residential model as it is the first state-level project to offer luxury apartments in installments. We are confident that this project will make a real leap forward in Kuwait's real estate sector as it will provide new and appropriate options for Kuwaiti nationals, which will help stimulate positive change in the community and real estate sector without relying entirely on the support of the public sector.

# HONORABLE SHAREHOLDERS,

Tamdeen Real Estate has witnessed positive results in 2016 as a result of the thorough procedures and plans it implemented through its subsidiaries and associates specializing in investment, real estate and development sectors.

At the level of subsidiaries, Tamdeen Investment Company has managed to carry on with its previously planned investment agenda. The company's investments in Tamdeen Real Estate Development Company increased to KD 3.25 million and its revenues increased through cash dividends received from the company's investment in Ahli United Bank during the year which amounted to KD 7.2 million compared to KD 6.3 million for the year 2015, which confirms the rigidity and strength of the company's current assets.

Manshar Real Estate Company (a subsidiary) has continued to move forward with the development of Al Kout Mall project as per a predefined timetable and which will be officially opened in the last quarter of 2017.

Al Kout Mall is designed to meet the highest international standards in terms of designing modern shopping centers combining practical design with an entertaining experience. It is part of Al Kout development in Al Ahmadi, the largest multi-use waterfront in Kuwait. The project will combine the authenticity of traditional architecture with modern design and will provide six diverse experiences of entertainment, shopping and hospitality in one destination with a total area of 300,000 square meters where visitors can navigate easily and smoothly.

It is worth noting that more than 70% of retail shops (total of 260 shops) at Al Kout Mall were leased by the end of 2016. Contracts were signed with a number of world-class stores that will enrich the diversity of brands giving the mall visitors a unique and joyful shopping experience, enriching the contemporary lifestyle.

Rotana Hotel, which is owned and operated by Manshar Real Estate Company, which includes 200 luxury hotel suites, has been a great success since the first day of its opening and will be linked directly to shops and restaurants within the new Al Kout Mall. Moreover, the hotel has registered a great demand for weddings, conferences and other events.

In order to meet this growing demand for hosting these events, we carried on with the construction of a multipurpose 3,700 square meter building dedicated for this purpose, and it is expected to be completed during the fourth quarter of 2017.These unique facilities in Fahaheel will have added value to this entire premium venue.

### At the level of associate companies, Tamdeen Shopping Centers accomplished in 2016 the following achievements:

- During 2015, the company started investing in the development of Sheikh Jaber Al Abdullah Al Jaber Al Sabah International Tennis Complex, which will be an addition to 360 Mall, with an additional area of approximately 40 thousand square meters, a five-star international hotel as well as an open and covered tennis courts with a tennis academy, where the management of the company is fully devoted to accomplish it to meet the deadlines agreed upon the Kuwait Tennis Federation.

- The company has supported the development of some of the 360 Mall facilities this year, by reopening the new exquisite food court to offer the visitors more choices of restaurants. Bloomingdales, one of the world's most popular stores, will open in the first quarter of 2017.

- The company's operating revenues increased in 2016 compared to the previous year 2015 as a result of attracting new tenants within the commercial complexes owned by the company, also due to the diversification of the operating activities within these complexes. This year's revenues amounted to KD 17.6 million compared to KD 17.4 million for the year 2015, and the rate of 360 Mall visitors increased by 2%.





- The company is working in line with its previously established agenda to complete Sama Al Jahraa project to add it to its portfolio of commercial malls within the State of Kuwait and is expected to be completed by the end of 2017.

- The year 2016 witnessed an increase in the shareholders' equity of Tamdeen Shopping Centers Company where it reached KD 151.6 million, higher than 2015 with an amount of KD 146.9 million.

The performance of the subsidiaries of Tamdeen Shopping Centers Company was still remarkable with Tamdeen Entertainment and 360 Style achieving a total annual revenues of approximately KD 8 million.

# HONORABLE SHAREHOLDERS,

Tamdeen Real Estate Company has continued to set its strategic plans to develop the operational performance of Fahaheel Waterfront Project (Al Kout) which is one of the distinctive projects of Tamdeen Real Estate Company in the southern region of Kuwait. The company has started a comprehensive development plan for all elements of the northern pier for that project, which must have a positive impact on the performance of the project as a whole.The company has gone a long way in the design work for that project, and currently agreed with all tenants of this sector on evacuation to begin the development work during the fourth quarter of 2017, noting that this project has achieved in 2016 operating income of more than KD 5 million.

# ESTEEMED SHAREHOLDERS,

The company achieved an earning rate of Fils 18.1 per share (compared to Fils 23.6 for the previous year) and operating income of KD 8.5 million (KD 8.9 million for the previous year).

In light of the findings, the Board of Directors has decided to recommend the General Assembly distribution of a cash dividend of 10% of the paid up share capital to the shareholders of the Company for the financial year ended 31 December 2016; as it also recommends awarding the Board members remuneration of KD 60 thousand (KD 10 thousand per member) for the financial year ended 31 December 2016.Those decisions are subject to the approval of the shareholders'general assembly.

# IN CONCLUSION,

I would like to take this opportunity, on behalf of the Board of Directors and myself, to present our deepest thanks and gratitude to His Highness the Amir, Sheikh Sabah Al-Ahmad Al-Jaber Al Sabah, His Highness the Crown Prince, Sheikh Nawwaf Al-Ahmad Al-Jaber Al Sabah and His Highness the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al Sabah for their continuous support to the private sector.

We would also like to express our thanks and appreciation for the honorable shareholders for their trust and support and for the members of the Board of Directors and all the employees for their faithful efforts that have had a tremendous positive effect on the good results achieved by the company during 2016.

PEACE AND GOD'S MERCY AND BLESSINGS BE UPON YOU,

MESHAL JASSIM AL MARZOUQ

CHAIRMAN OF THE BOARD OF DIRECTORS

## BOARD MEMBERS

**Meshal Jassim Al Marzouq**
CHAIRMAN

**Abdulwahab Marzouq Al Marzouq**
VICE CHAIRMAN

**Sheikh Majed Jaber Al Sabah**
BOARD MEMBER

**Mohammed Fouad Al Ghanim**
BOARD MEMBER

**Zeyad Hassan Al Qaissy**
BOARD MEMBER

**Mahmoud Dawoud Al Marzouq**
BOARD MEMBER

## EXECUTIVE MANAGEMENT

**Mohamed Abdulhamid AlMarzook**
CEO

**Salah Abdulaziz Al Bahar**
GM - ADMINISTRATION

**Khalid Omar Abbas**
GM - FINANCE

**Muath Bisher Al Roumi**
GM - MARKETING

**Ahlam Daychoum**
GM - Legal

**Nabil Fares**
GM - IT

# GOVERNANCE REPORT
## CORPORATE GOVERNANCE OUTLINE

Tamdeen Real Estate Company believes in the importance of governance and to confirm its commitment to the instructions issued by the CMA, the company worked really hard last year to be in line with the best governance practices and develop all the relevant techniques in compliance with its activities; as it also set a general scope and standards to preserve shareholders' rights and activate communication channels with all shareholders, investors and stakeholders to preserve transparency in all its operations.

Tamdeen Real EstateCompany has reviewed and updated in 2016 many policies, including Professional Conduct and Moral Values, dealing with stakeholders,disclosure and transparency and it also set a new one: Policy of Reporting Violations and Excesses

The company has established an internal audit office reporting to the Audit Committee which duties and responsibilities have been defined and an officer has been appointed to be in charge thereof as per the recommendation of the audit committee. And in order to ensure effective management of risks that may occur to the company's operational activities, the company established a risk management office to analyze all financial and operational risks that the company may incur as well as to make sure that effective procedures are laid down to limit the impact of these risks and avoid them.

We also created Investors Affairs Unit as it is crucial to provide current and potential investors with all required information and data and to reply to their inquiries. This unit is independent and it reports to the Board of Directors. In this regard, a special section was created on the company's website for corporate governance.



GOVERNANCE REPORT
31 DECEMBER 2016

## UNDERTAKING OF THE BOARD OF DIRECTORS

We, the chairman and members of the Board of Directors of Tamdeen Real Estate Company (Kuwaiti Public Shareholding Company) "the parent company and its subsidiary companies" hereby declare and warrant the accuracy and integrity of the consolidated financial statements that have been provided to the external auditor and that the financial reports of the company have been presented fairly, properly and according to the International Financial Reporting Standards applicable in the State of Kuwait and approved by Kuwaiti CMA and that represent the financial position of the company as at 31 December 2016 according to such information and reports as have been received by us from the Executive Management and the external auditors and that due care has been made to verify the integrity and accuracy of those reports.

| Member Name | Position | Signature |
|---|---|---|
| Mr. Meshal Jassim Al Marzouq | Chairman of the Board of Directors<br>Non-Executive member | |
| Mr. Abdulwahab Marzouq Al Marzouq | Vice Chairman of the Board of Directors<br>Non-Executive member | |
| Sheikh Majed Jaber Al Sabah | Member of the Board of Directors<br>Non-Executive member | |
| Mr. Mohammad Fouad Al Ghanim | Member of the Board of Directors<br>Independent | |
| Mr. Zeyad Hassan Al Qaissy | Member of the Board of Directors<br>Independent | |
| Mr. Mahmoud Dawoud Al Marzouq | Member of the Board of Directors<br>Independent | |

## COMPOSITION OF THE BOARD OF DIRECTORS

| Member Name | Classification of the Member / Secretary | Date of Election / Appointment |
|---|---|---|
| Mr. Meshal Jassim Al Marzouq | Chairman of the Board of Directors - Non-Executive | |
| Mr. Abdulwahab Marzouq Al Marzouq | Vice Chairman of the Board of Directors - Non-Executive | |
| Sheikh Majed Jaber Al Sabah | Member of the Board of Directors - Non-Executive | |
| Mr. Mohammad Fouad Al Ghanim | Member of the Board of Directors - Independent | 11 May 2016 |
| Mr. Zeyad Hassan Al Qaissy | Member of the Board of Directors - Independent | |
| Mr. Mahmoud Dawoud Al Marzouq | Member of the Board of Directors - Independent | |
| Mr. Salah Abdulaziz Al Bahar | Secretary of the Board of Directors | |

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS

**The Company's Board of Directors performs its basic functions and responsibilities which include the following:**

- Approving the Company's key objectives, strategies and policies.
- Approving the capital structure that best suits the company and its financial objectives.
- Establishing a governance system for the company that complies with the corporate governance rule provisions issued by the Capital Markets Authority in Kuwait, supervising the same and controlling its effectiveness and amending it as needed.
- Ensuring that the organization structure of the company is implemented with utmost transparency and clarity to enable decision making and implementation of sound governance rules and separation between the powers and authorities of the Board of Directors and the Executive Management.
- Approving the organization and functional structures in the company and reviewing them on a regular basis.
- Establishing a mechanism to regulate the relations with all relevant parties.
- Establishing a policy to regulate the relations with stakeholders to preserve their rights.
- Determining the dividend policy.
- Issuing remuneration systems granted to employees.
- Appointing or eliminating any member of the Executive Management, CEO or any member reporting to him.
- Ensuring the accuracy and integrity of the data and information that should be disclosed, and ensuring that they conform to the policies and laws of disclosure and transparency in force.
- Issuing the estimated annual budgets and approving the interim and annual financial statements.
- Supervising the main capital expenditure, ownership and disposal of assets.
- Ensuring that all financial and accounting systems are sound including all systems related to financial reports.
- Ensuring the implementation of regulatory systems to measure and manage risks.
- Supervising and monitoring the performance of the members of the Executive Management and ensuring that they are executing all the duties entrusted to them.
- Ensuring that the Company complies with the policies and procedures designed to observe the applicable rules & internal regulations.





## UNDERTAKING OF THE INTEGRITY AND ACCURACY OF FINANCIAL STATEMENTS

The Executive Management acknowledges in writing accuracy and integrity of the financial statements that have been presented fairly and properly and that cover all financial aspects of the company from operating statements and results according to the International Financial Reporting Standards and approved by Kuwaiti CMA. The Board of Directors also acknowledge to the company's shareholders accuracy and integrity of the financial statements and reports related to the company's activities.

## RESPONSIBILITIES OF THE EXECUTIVE MANAGEMENT

**The Company's Executive Management, represented by the Chief Executive Officer and chief executives, executes a set of functions that may be summarized as follows:**

- Executing the general strategy and detailed plans approved by the Board of Directors.
- Executing all policies, regulations and internal regulations of the company as approved by the Board of Directors.
- Initiating an integrated accounting system that ensures the keeping of books, registers and accounts that reflect in a detailed and accurate manner the financial data and income statements in such way as to safeguard the Company's assets.
- Laying down an internal control system and risk management system, and ensuring the effectiveness and adequacy of those systems.
- Undertaking the daily management of the business and administration of the activity, managing the Company's resources in an optimum manner and seeking to maximize profits and minimize expenses in accordance with the Company's objectives and strategy.
- Preparing periodical (financial and non-financial) reports on the progress of the Company's activities in light of the strategic plans and objectives of the company, and submitting those reports to the Board of Directors.
- Preparing the financial statements according to the International Accounting Standards approved by the Kuwaiti Capital Markets Authority.
- Effectively participating to the building and development of moral values within the Company.

## Meetings of the Board of Directors during 2016

| Meeting Date | Meeting Number | Number of Attendees |
|---|---|---|
| 23/03/2016 | (01/2016) | 4 |
| 11/05/2016 | (02/2016) | 5 |
| 20/06/2016 | (03/2016) | 6 |
| 26/06/2016 | (04/2016) | 6 |
| 14/08/2016 | (05/2016) | 6 |
| 15/11/2016 | (06/2016) | 5 |

# ACHIEVEMENTS OF THE BOARD OF DIRECTORS

- Updating and approving the Company's objectives and strategies.
- Studying and approving the policies and procedures related to all the departments of the company.
- Applying the requirements of the Capital Markets Authority in Kuwait concerning corporate governance, which requires the following:
    - Formation of Board of Directors committees and determining their functions and powers.
    - Establishing an internal audit unit reporting to the Internal Audit Committee and approving the mechanism of its operation.
    - Establishing a risk management unit reporting to the Board of Directors and approving the work mechanism thereof.
    - Establishing an investors' affairs unit and determining their functions and powers.
    - Approving all the policies and regulations related to the requirements of corporate governance and following up the execution thereof.

# BOARD OF DIRECTORS COMMITTEES

The Board of Directors of Tamdeen Real Estate Company aims at approving an administrative structure that helps it discharging its activities. This structure is based on three main committees derived from the Board: Audit Committee, Nominations and Remuneration Committee and Risk Management Committee. These committees have an important role in providing support to the Board of Directors in discharging its duties.

## First: Remunerations and Nominations Committee

The committee was established to assist the Board of Directors of the company in discharging its supervisory responsibilities related to the effectiveness and integrity of compliance with the policies and procedures of remuneration and nomination in the Company, review and approval of the selection criteria and appointing procedures of the members of the Board of Directors and Executive Management and to ensure that the remuneration and nomination policy and methodology comply with the strategic objectives of the company. For this purpose, the remuneration policy was established to attract and safekeep competent, qualified and experienced employees. Accordingly, the Board of Directors has approved this policy as per the recommendation of the committee.

Also, job descriptions and key performance indicators (KPI) of the members of the Board of Directors and Executive Management were approved and the annual assessment was prepared according to the assessment results.

### Formation of the Remunerations and Nominations Committee

The Remuneration and Nominations Committee was formed on 20 June 2016 and its period is in line with the period of the Board and consists of the following members:

| | |
|---|---|
| 1. Mr. Meshal Jassim Al Marzouq | Head of Committee - Non-Executive |
| 2. Mr. Mahmoud Dawoud Al Marzouq | Member of the Committee - Independent |
| 3. Mr. Zeyad Hassan Al Qaissy | Member of the Committee - Independent |
| 4. Mr. Salah Abdulaziz Al Bahar | Secretary of the Committee |

### Meetings of the Remunerations and Nominations Committee during 2016

| Meeting Date | Meeting Number | Number of Attendees |
|---|---|---|
| 03/11/2016 | 01/2016 | 3 |

### Statement of the Remunerations granted to the members of the Board of Directors and Executive Management at Tamdeen Real Estate Company (parent company) in 2016:

| | |
|---|---|
| Remunerations of the Executive Management | 63,400 KD |
| Remunerations of the Board of Directors | 60,000 KD |

There is a recommendation to pay remuneration to the members of the Board of Directors in the amount of KD 60,000 (KD 10,000 for each member) for the year ended 31 December 2016. This recommendation is subject to approval by the general assembly of the shareholders.

## Second: The Audit Committee

The Committee aims at assisting the Board of Directors in ensuring the adequacy of the internal audit and supervision regulations enforced at the Company, assessing the performance of the internal and external audit, verifying the adequacy of the company's procedures, monitoring compliance with the laws, regulations, and accounting transactions as well as financial reports in order to ensure transparency and justice thereof in addition to assessing the performance of the internal audit department.

In this regard, the committee has recommended the Board of Directors last year to appoint an officer in charge of the internal audit unit, as it also recommended approval of an independent office for internal audits. It also reviewed the internal audit plan and internal audit reports and followed up on the implementation of proper remedial actions with regard to the observations mentioned in the report.

The Committee has also reviewed the interim quarterly financial reports after being appointed as well as the financial statements for the year 2016 and a recommendation was presented to the Board of Directors to approve the same.

The Committee has recommended the Board of Directors to re-appoint the external auditors after having verified their independence and reviewed their letters of appointment.

### Formation of the Audit Committee

The Audit Committee was formed on 20 June 2016 and its term is in line with the term of the Board and consists of the following members:

| | |
|---|---|
| 1. Mr. Mahmoud Dawoud Al Marzouq | Head of Committee - Independent |
| 2. Mr. Mohammad Fouad Al Ghanim | Member of the Committee - Independent |
| 3. Mr. Zeyad Hassan Al Qaissy | Member of the Committee - Independent |
| 4. Mr. Samer Abdulsalam Mohammad | Secretary of the Committee |

### Meetings of the Audit Committee during 2016

| Meeting Date | Meeting Number | Number of Attendees |
|---|---|---|
| 22/06/2016 | 01/2016 | 3 |
| 07/08/2016 | 02/2016 | 3 |
| 13/11/2016 | 03/2016 | 3 |

## Third: Risk Management Committee

The Risk Management Committee helps the Company's Board of Directors in supervising all matters related to current and future risks associated with the activities of the company. The committee has established the risk management unit list and recommended its approval. The committee has also reviewed and approved the work plan suggested by the risk management unit.

### Formation of the risk management committee

The Risk Management Committee was constituted on 20 June 2016 and its term is in line with the term of the Board and consists of the following members:

| | |
|---|---|
| 1. Sheikh Majed Jaber Al Sabah | Head of Committee – Non Executive |
| 2. Mr. Mohammad Fouad Al Ghanim | Member of the Committee - Independent |
| 3. Mr. Mahmoud Dawoud Al Marzouq | Member of the Committee – Independent |
| 4. Mr. Emadeldin Abdulwahed | Secretary of the Committee |

### Meetings of the Risk Management Committee during 2016

| Meeting Date | Meeting Number | Number of Attendees |
|---|---|---|
| 21/06/2016 | 01/2016 | 3 |
| 09/10/2016 | 02/2016 | 3 |





## INTERNAL CONTROL AND SUPERVISION SYSTEMS

The company has internal control and supervision systems that cover all the activities of the company in order to maintain the financial integrity of the company's financial position, accuracy of data as well as the efficiency of its operations in various aspects.The organizational structure of the company reflects dual control, including proper identification of authorities and responsibilities, checking, dual control, and supervision, separation of duties and non-conflict of interests. The Board of Directors also follows up on the internal control systems through periodic reports prepared by the various committees and departments of the company.

An independent audit office was also assigned to review and evaluate the Company's internal control systems and to prepare a report on this matter provided that the same has to be submitted to the Capital Markets Authority on an annual basis.

The Board regularly reviews the efficiency of the company's internal control systems and it also monitors the implementation of all necessary corrective measures in the event of any observations in these reports.

## PROFESSIONAL CONDUCT AND MORAL VALUES

Tamdeen Real Estate Company ensured implementation of a work charter that promotes the culture of professional conduct and moral values within the company and strengthens the confidence of investors in the integrity of the company and its soundness financially. To this end, the company ensured that the entire staff at the company, whether members of the Board of Directors, Executive Management or other employees, comply to the internal policies and regulations of the company and its legal and supervisory requirements in order to achieve the interests of all parties related to the Company, particularly the shareholders, without any conflict of interest and with a high level of transparency.

## STAKEHOLDERS

Tamdeen Real Estate Company implemented some clear procedures to ensure transparency and communication with stakeholders in order to provide them with all appropriate information on a regular basis and in a timely manner through regular financial statements and continuous disclosures with confidentiality and a high level of transparency.

The company has also set some indicators to protect the rights of stakeholders as per the operational contracts and policies enforced in the company.

## TRAINING PROGRAMS AND SESSIONS FOR THE MEMBERS OF THE BOARD OF DIRECTORS

Tamdeen Real Estate Company provides the needfull training requirements to the members of the Board of Directors and Executive Management in order to promote relevant skills and knowledge as well as to achieve a better performance and competence.

## POLICY OF REPORTING VIOLATIONS AND EXCESSES

Tamdeen Real Estate Company implies a general policy for reporting violations and excesses. The policy enables company employees to express internally their suspicions concerning any unsound practices that raise supposition in the financial reports, internal control systems or any other matters, and so, by implementing appropriate mechanisms that allow the conduct of independent and fair investigations of these matters while guaranteeing the confidentiality for protection from any negative reaction or damage that may be the result of having reported such practices.

## RESPECT FOR SHAREHOLDERS' RIGHTS

Tamdeen Real Estate seeks to offer optimal respect of the rights of its shareholders right by committing to transparency and constant communication through its dealings between the company's management and shareholders using all available means, taking into consideration the following:

- Adopting open door policy to receive any proposals and complaints that are constantly announced in the Chairman's message during the meetings of the general assemblies.
- The company designed the official website that provides all information, data and advertising on a regular basis.
- Sending invitations to shareholders for ordinary and extraordinary general assemblies, ensuring that shareholders received the approved dividends through the approved means and encouraging them to practice their rights through the different means of communication.
- Encouraging shareholders to participate and/or get involved in the company's activities and events held by the company at different timings.
- Encouraging shareholders to attend the annual general assembly meetings by inviting them to participate and giving them the opportunity to vote and practice their rights.

The company has a register maintained by the clearing agency which allows investors to inspect this register. All dealings with the data recorded in the register are treated with the highest standards of protection and confidentiality, without conflicting with the applicable laws and controls.

## DISCLOSURE AND TRANSPARENCY

In order to observe the governance criteria related to promoting the disclosure mechanism with utmost accuracy for all major issues related to the performance of the company, its financial position and its financial structure,the relevant departments approved by the Board of Directors are responsible for verifying that the company is disclosing the core information related to Kuwait Stock Exchange and the Capital Markets Authority. Moreover, the company's website is considered one of the disclosure means in addition to the annual reports, financial interim statements, its clarifications and all information relevant to the company's activities.

The company has a register that includes all disclosures of the members of the Board of Directors and Executive Management for the year 2016 and shareholders have the right to peruse this register.



GOVERNANCE REPORT
31 DECEMBER 2016

## SOCIAL RESPONSIBILITY

Tamdeen Real Estate Company is committed to a positive and active role within Kuwaiti society, in recognition of the importance of the private sector's role and its responsibility towards the public good and the sustainable development goals of the nation. The company is a keen contributor and initiator of various social responsibility activities, especially programs and campaigns that directly address children and youth.

The company aims to foster and support the abilities and talents of Kuwait's future generations, encourage the youth to adopt a culture of volunteerism and provide them with training opportunities in relevant specialized fields. Tamdeen Real Estate Company's CSR efforts stimulate innovation, as well as supporting educational, sports, artistic and cultural activities.

### INITIATIVES

**Interactive reading program "My Book My Friend"**

Tamdeen Real Estate Company is a key contributor in the interactive reading program "My Book My Friend". During the first season, several prominent Kuwaiti writers and educators such as Dr. Nayef Al Mutawa, Yousif Khalifa, Nejoud Al Yaqout, Amal Al Randi, Hayat Al Yaqout and Hiba Mandani participated in the program. This program continues to attract children and their families to interactive reading sessions that are organized periodically throughout the year.

Focusing on children between the ages of 5 and 12 years, "My Book My Friend" contributes to the education of young generations, the development of heritage awareness, the habits of reading and inquisitiveness, and is designed to have a positive effect on their future and the future of society as a whole, while contributing to the advancement of the Arabic language skills.

### PARTNERSHIPS

**LOYAC**

One of the most important initiatives taken by Tamdeen Real Estate Company in the support of public organizations is the partnership with LOYAC, a non-profit organization that works towards the overall development of Kuwaiti youth. LOYAC's programs help young people develop their talents, abilities and achieve their potential by providing them with training opportunities in vital areas within the labor market.

LOYAC targets young people aged between 16 and 30 through educational, training and volunteer programs, also propels the youth to take initiatives, innovate and find solutions to social challenges.

### SPONSORSHIP

**"Nuqat" Conference**

Nuqat is a non-profit organization that aims to develop the creativity of talented people through various means such as training programs, lectures and cultural entertainment activities. Nuqat organizes activities in both Arabic and English, which focus on various subjects related to the visual arts, therapeutic and performing arts; as well as more commercial fields such as graphic and product design and entrepreneurship.

**Dar Al Athar Al Islamiyyah - DAI**

Dar al Athar al Islamiyyah (DAI) is a cultural organization based around the private art collection owned by Sheikh Nasser Sabah al Ahmed al Sabah, founder of 'The al Sabah Collection' and his wife, DAI director general and co-founder Sheikha Hussah Sabah al Salem al Sabah. DAI has already become an internationally recognized cultural organization through the uniqueness of its curated collection as well as the highly regarded cultural, academic and musical events it hosts.

**Protégés Program**

The Protégés initially started in 2010 and was designed to positively influence youth aged between 16-24 years, and drive them to the realization of their potential through self-improvement. It is an all-inclusive program that combines workshops and lectures inside and outside Kuwait guided by a group of the most talented experts and influencers across multiple fields.

**AOK Youth Forum**

AOK is a youth forum that aims to provide Kuwaiti youth with the skills necessary to create their own businesses, by creating a platform where networking capabilities for creative professionals, design firms, and homeowners is reinvented.

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS

OF TAMDEEN REAL ESTATE COMPANY – KPSC - KUWAIT

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

### OPINION

We have audited the consolidated financial statements of Tamdeen Real Estate Company – Kuwaiti Public Shareholding Company (the "Parent Company") and Subsidiaries, (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### BASIS FOR OPINION

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

### KEY AUDIT MATTERS

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

#### VALUATION OF INVESTMENT PROPERTIES

The Group's investment properties including investment properties under development represent 23% of the total assets. The valuation of investment properties is a judgement area requiring number of assumptions including capitalization yields, estimated rental & hotel revenue, occupancy rates, historical transactions, BOT contract periods & conditions, rights of use contract periods and renewability. The Group's policy is that property valuations are performed at year end by independent valuators, who are non-related to the Group, and they are licensed valuators and have the required qualifications and experiences. Given the fact that the fair values of the investment properties represent a significant judgment area and the valuations are highly dependent on estimates we determined this to be a key audit matter. Refer to Notes 5.10, 5.11, 15, 16 and 30.4 for more information on investment properties and investment properties under development.

Our audit procedures included, among others, assessing the appropriateness of the ways and means of evaluation and inputs used in the evaluation and we also assessed managements judgements and assumptions made in concluding that the fair value of properties under development were not reliably measurable. We reviewed the valuation reports from the external valuers and agreed them to the carrying value of the properties. We assessed the appropriateness of the valuation methodologies used in assessing the fair value of the investment properties. We furthermore assessed that the property related data used as input for the external valuations is consistent with information obtained during our audit.

#### CARRYING VALUE OF TRADING PROPERTIES UNDER DEVELOPMENT

The Group's trading properties under development represent 7% of the total assets. The Group's assessment of the carrying value of trading properties under development, being the lower of cost and net realizable value, is a judgmental process. This requires the estimation of selling prices, sales rates and cost to complete, determined for each unit within the site. Accordingly, we considered this as a key audit matter. Refer to Notes 5.12 and 14 for more information on trading property under development.

Our audit procedures included, among others, assessing the appropriateness of management's process for reviewing and assessing the selling prices, cost forecasts to complete the project and recording of costs. We assessed the estimates, assumptions and valuation methodology used by management to arrive at the net realizable value; this included assessing the future costs, sales, development profits and obtaining explanations and supporting third party evidence where practicable.

#### IMPAIRMENT OF INVESTMENTS IN ASSOCIATES

The Group's investments in associates represent 31% of the total assets and are accounted for under the equity method of accounting and considered for impairment in case of indication of impairment. The assessment of impairment by management involves judgements and number of assumptions. Accordingly, we considered this a key audit matter. Refer note 5.4 and 17 for more information on investments in associates.

Our audit procedures included, among others, evaluating management's consideration of the impairment indicators of investment in associates. In evaluating such consideration, we assessed whether any significant or prolonged decline in value exists, whether there are any significant adverse changes in the technological, market, economic or legal environment in which the associate operates, or structural changes in the field of industry in which the investee company operates, or changes in the political or legal environment effecting the investees business, and also whether there are any changes in the investees financial condition.

#### DISPOSAL OF A SUBSIDIARY COMPANY

During the year, the Group disposed 10% of its share in its subsidiary, British Printing and Packaging Industries Company – K.S.C (Closed), for a total consideration of KD800 thousand and, consequently, the remaining stake of 47.81% in the investee has been classified as an investment in an associate from the date on which control was lost. The management has exercised certain significant judgments, particularly with regard to exercising significant influence instead of control. Accordingly, this has been determined as a key audit matter. Refer note (5.1 and 17.b) for further information.

Our audit procedures included, among others, obtaining all significant disposal agreements and reading such to ensure we understand the most important elements of the transaction, including the consideration received and the assets and liabilities sold.

We also assessed;

• The appropriateness of the accounting policies adopted for the sale transaction, including determination of the date on which the Group lost control over the former subsidiary.

• The appropriateness of the fair values related to the assets and liabilities of the remaining share.

• The appropriateness of the disclosures included in the notes stated within the consolidated financial statements.

### OTHER INFORMATION INCLUDED IN THE GROUP'S 2016 ANNUAL REPORT

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 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 Group's 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 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 have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE 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.

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

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

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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





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

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

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

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, 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, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business or financial position of the Parent Company.

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton –
Al-Qatami, Al-Aiban & Partners

Hend Abdullah Al Surayea
(Licence No. 141-A)
Hend Abdullah Al Surayea & Co.
Member of MAZARS

Kuwait
14 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

## 31 DECEMBER 2016

| | NOTE | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2016 KD'000 |
|---|---|---|---|
| **Revenue** | | | |
| Operating revenue | | **8,488** | 8,830 |
| Cost of revenue | 8 | **(3,078)** | (2,981) |
| Net income | | **5,410** | 5,849 |
| Other operating income | 9 | **1,066** | 1,350 |
| Fees from management of investment portfolios | | **85** | 124 |
| Change in fair value of investment properties | 16 | **-** | 30 |
| Net income from investments | 10 | **7,085** | 12,648 |
| Share of results of associates | 17 | **7,756** | 7,315 |
| Provisions no longer required | | **-** | 231 |
| Foreign currency exchange gain | | **185** | 96 |
| Other income | | **751** | 207 |
| | | **22,338** | 27,850 |
| **Expenses and other charges** | | | |
| Staff costs | | **2,585** | 2,693 |
| General, administrative & other expenses | | **3,399** | 3,573 |
| Impairment in value of investment properties under development | 15 | **-** | 413 |
| Finance costs | | **5,928** | 5,344 |
| | | **11,912** | 12,023 |
| **Profit for the year before contribution to KFAS, provision for Zakat, provision for NLST and board of directors' remuneration** | | **10,426** | 15,827 |
| Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) | | **-** | - |
| Provision for Zakat | | **(6)** | - |
| Provision for National Labour Support Tax (NLST) | | **(99)** | (87) |
| Board of directors' remuneration | | **(60)** | (60) |
| **Profit for the year** | | **10,261** | 15,680 |
| **Attributable to :** | | | |
| Owners of the Parent Company | | **7,365** | 9,863 |
| Non-controlling interests | | **2,896** | 5,817 |
| | | **10,261** | 15,680 |
| **Basic and diluted earnings per share attributable to the owners of the Parent Company** | 11 | **18.1 Fils** | 23.6 Fils |

The notes set out on pages 36 to 80 form an integral part of these consolidated financial statements.



TAMDEEN REAL ESTATE COMPANY - KPSC AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## 31 DECEMBER 2016

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2016 KD'000 |
|---|---|---|
| Profit for the year | **10,261** | 15,680 |
| ***Other comprehensive income:*** | | |
| ***Items that may be reclassified to consolidated statement of profit or loss in subsequent periods:*** | | |
| Exchange differences arising on translation of foreign operations | **22** | 133 |
| Available for sale investments: | | |
| - Net change in fair value during the year | **(1,520)** | (10,511) |
| - Transferred to consolidated statement of profit or loss on sale | **(771)** | (6,519) |
| - Transferred to consolidated statement of profit or loss on impairment in value | **575** | 827 |
| Share of other comprehensive loss of associates | **(762)** | (3,924) |
| Total other comprehensive loss | **(2,456)** | (19,994) |
| **Total comprehensive income/(loss) for the year** | **7,805** | (4,314) |
| **Attributable to:** | | |
| Owners of the Parent Company | **5,749** | (2,707) |
| Non-controlling interests | **2,056** | (1,607) |
| | **7,805** | (4,314) |

The notes set out on pages 36 to 80 form an integral part of these consolidated financial statements.

TAMDEEN REAL ESTATE COMPANY - KPSC AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 31 DECEMBER 2016

| | NOTE | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank balances | 25 | **13,234** | 11,927 |
| Short term deposits | 25 | **8,176** | 928 |
| Investments at fair value through profit or loss | | **688** | 703 |
| Accounts receivable and other debit balances | 12 | **15,069** | 18,622 |
| Available for sale investments | 13 | **130,984** | 133,051 |
| Trading properties under development | 14 | **29,370** | 20,030 |
| Investment properties under development | 15 | **78,033** | 53,272 |
| Investment properties | 16 | **21,280** | 21,280 |
| Investments in associates | 17 | **136,491** | 130,332 |
| Property, plant and equipment | | **1,220** | 21,395 |
| **Total assets** | | **434,545** | 411,540 |
| | | | |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Due to banks | 18 | **6,846** | 8,279 |
| Term loans | 19 | **194,490** | 179,287 |
| Accounts payable and other credit balances | 20 | **22,174** | 12,250 |
| Refundable rental deposits | | **6,032** | 2,623 |
| Provision for end of service indemnity | | **911** | 1,322 |
| **Total liabilities** | | **230,453** | 203,761 |
| | | | |
| **Equity** | | | |
| Share capital | 21 | **43,193** | 41,136 |
| Share premium | | **11,132** | 11,132 |
| Treasury shares | 22 | **(10,745)** | (9,625) |
| Reserve of profit on sale of treasury shares | | **756** | 756 |
| Legal reserve | 23 | **11,429** | 10,676 |
| Voluntary reserve | 23 | **12,827** | 12,074 |
| Foreign currency translation reserve | | **428** | 406 |
| Cumulative changes in fair value | | **35,581** | 37,219 |
| Retained earnings | | **24,026** | 24,094 |
| **Equity attributable to the owners of the Parent Company** | | **128,627** | 127,868 |
| **Non-controlling interests** | | **75,465** | 79,911 |
| **Total equity** | | **204,092** | 207,779 |
| **Total liabilities and equity** | | **434,545** | 411,540 |

Meshal Jassim Al Marzouq
Chairman

Abdulwahab Marzouq Al Marzouq
Vice Chairman

The notes set out on pages 36 to 80 form an integral part of these consolidated financial statements.



TAMDEEN REAL ESTATE COMPANY - KPSC AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## 31 DECEMBER 2016

**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY**

| | Share capital KD'000 | Share premium KD'000 | Treasury shares KD'000 | Reserve of profit on sale of treasury shares KD'000 | Legal reserve KD'000 | Voluntary reserve KD'000 | Foreign currency translation reserve KD'000 | Cumulative changes in fair value KD'000 | Retained earnings KD'000 | Sub-total KD'000 | Non-controlling interests KD'000 | Total KD'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | 41,136 | 11,132 | (9,625) | 756 | 10,676 | 12,074 | 406 | 37,219 | 24,094 | 127,868 | 79,911 | 207,779 |
| Net change in treasury shares | - | - | (1,120) | - | - | - | - | - | - | (1,120) | - | (1,120) |
| Dividends paid to non-controlling interests by subsidiaries | - | - | - | - | - | - | - | - | - | - | (1,447) | (1,447) |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | (2) | (2) |
| Resulting from disposal/ loss of control of a subsidiary company | - | - | - | - | - | - | - | - | - | - | (5,053) | (5,053) |
| Cash dividends (Note 24) | - | - | - | - | - | - | - | - | (3,870) | (3,870) | - | (3,870) |
| Bonus shares (Note 21-b) | 2,057 | - | - | - | - | - | - | - | (2,057) | - | - | - |
| Transactions with the owners | 2,057 | - | (1,120) | - | - | - | - | - | (5,927) | (4,990) | (6,502) | (11,492) |
| Profit for the year | - | - | - | - | - | - | - | - | 7,365 | 7,365 | 2,896 | 10,261 |
| Other comprehensive income/(loss) for the year | - | - | - | - | - | - | 22 | (1,638) | - | (1,616) | (840) | (2,456) |
| Total comprehensive income/(loss) for the year | - | - | - | - | - | - | 22 | (1,638) | 7,365 | 5,749 | 2,056 | 7,805 |
| Transferred to reserves (Note 23) | - | - | - | - | 753 | 753 | - | - | (1,506) | - | - | - |
| **Balance as at 31 December 2016** | 43,193 | 11,132 | (10,745) | 756 | 11,429 | 12,827 | 428 | 35,581 | 24,026 | 128,627 | 75,465 | 204,092 |

The notes set out on pages 36 to 80 form an integral part of these consolidated financial statements.



TAMDEEN REAL ESTATE COMPANY - KPSC AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

31 DECEMBER 2016

**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY**

| | Share capital KD'000 | Share premium KD'000 | Treasury shares KD'000 | Reserve of profit on sale of treasury shares KD'000 | Legal reserve KD'000 | Voluntary reserve KD'000 | Foreign currency translation reserve KD'000 | Cumulative changes in fair value KD'000 | Retained earnings KD'000 | Sub-total KD'000 | Non-controlling interests KD'000 | Total KD'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2015** | 39,178 | 11,132 | (3,462) | 739 | 9,675 | 11,073 | 273 | 49,922 | 17,108 | 135,638 | 72,901 | 208,539 |
| Net change in treasury shares | - | - | (6,163) | 17 | - | - | - | - | - | (6,146) | - | (6,146) |
| Dividends paid to non-controlling interests by subsidiary | - | - | - | - | - | - | - | - | - | - | (1,511) | (1,511) |
| Other changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | 582 | 582 |
| Cash dividends (Note 24) | - | - | - | - | - | - | - | - | (3,878) | (3,878) | - | (3,878) |
| Bonus shares | 1,958 | - | - | - | - | - | - | - | (1,958) | - | - | - |
| Transactions with the owners | 1,958 | - | (6,163) | 17 | - | - | - | - | (5,836) | (10,024) | (929) | (10,953) |
| Merger reserve (Note 17 c) | - | - | - | - | - | - | - | - | 783 | 783 | 616 | 1,399 |
| Transferred from cumulative changes in fair value related to associates | - | - | - | - | - | - | - | - | 3,837 | 3,837 | 1,433 | 5,270 |
| Non-controlling interests arising from the Merger (Note 17 c) | - | - | - | - | - | - | - | - | - | - | 5,060 | 5,060 |
| Net decline in non-controlling interests due to the Merger | - | - | - | - | - | - | - | - | - | - | (7,572) | (7,572) |
| Net dilution gain due to Merger and increase in Non- controlling interest due to issue of shares by the subsidiary (Note 17 c) | - | - | - | - | - | - | - | - | 341 | 341 | 10,009 | 10,350 |
| | - | - | - | - | - | - | - | - | 4,961 | 4,961 | 9,546 | 14,507 |
| Profit for the year | - | - | - | - | - | - | - | - | 9,863 | 9,863 | 5,817 | 15,680 |
| Other comprehensive income/(loss) for the year | - | - | - | - | - | - | 133 | (12,703) | - | (12,570) | (7,424) | (19,994) |
| Total comprehensive income/(loss) for the year | - | - | - | - | - | - | 133 | (12,703) | 9,863 | (2,707) | (1,607) | (4,314) |
| Transferred to reserves (Note 23) | - | - | - | - | 1,001 | 1,001 | - | - | (2,002) | - | - | - |
| **Balance as at 1 January 2015** | 41,136 | 11,132 | (9,625) | 756 | 10,676 | 12,074 | 406 | 37,219 | 24,094 | 127,868 | 79,911 | 207,779 |

The notes set out on pages 36 to 80 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
## 31 DECEMBER 2016

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Profit for the year** | **10,261** | 15,680 |
| Adjustments: | | |
| Depreciation | **867** | 233 |
| Provision for end of service indemnity | **175** | 203 |
| Provisions no longer required | **-** | (231) |
| Unrealised loss from investments at fair value through profit or loss | **15** | 53 |
| Change in fair value of investment properties | **-** | (30) |
| Net gain on sale of available for sale investments | **(1,709)** | (6,247) |
| Impairment in value of available for sale investments | **575** | 827 |
| Loss from loss of control a previously consolidated subsidiary company | **-** | 47 |
| Impairment in value (note 10) | **2,298** | - |
| Net gain on sale of investments at fair value through profit or loss | **-** | (4) |
| Dividends income | **(8,226)** | (7,293) |
| Interest income | **(38)** | (30) |
| Share of results of associates | **(7,756)** | (7,315) |
| Finance costs | **5,928** | 5,344 |
| | **2,390** | 1,237 |
| **Changes in operating assets and liabilities:** | | |
| Accounts receivable and other debit balances | **2,423** | (1,765) |
| Accounts payable and other credit balances | **7,130** | (12,815) |
| Refundable rental deposits | **3,409** | 1,468 |
| End of service indemnity paid | **(41)** | (258) |
| **Net cash from/(used in) operating activities** | **15,311** | (12,133) |

The notes set out on pages 36 to 80 form an integral part of these consolidated financial statements.





# CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
## 31 DECEMBER 2016

| | NOTE | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Net purchase of available for sale investments | | **(798)** | (1,098) |
| Proceeds from sale of available for sale investments | | **2,419** | 9,954 |
| Proceeds from sale of Investments at fair value through profit or loss | | **-** | 327 |
| Effect of loss of control of a subsidiary company (Note 17b) | | **683** | (292) |
| Return of capital by an associate | | **-** | 3,055 |
| Net cash inflow resulting from acquisition of a subsidiary (Note 17a) | | **2,210** | 236 |
| Additions to investment properties under development | | **(20,264)** | (13,848) |
| Additions to trading properties under development | | **(9,340)** | (8,421) |
| Net purchase of property, plant and equipment | | **(108)** | (136) |
| Dividends income received | | **8,226** | 7,293 |
| Dividends income received from associates | | **4,136** | 4,048 |
| Interest income received | | **38** | 30 |
| **Net cash (used in)/from investing activities** | | **(12,798)** | 1,148 |
| **FINANCING ACTIVITIES** | | | |
| Cash dividends to shareholders | | **(4,009)** | (3,915) |
| Cash dividends paid to non-controlling interests by subsidiary | | **(1,447)** | (1,511) |
| Changes in non-controlling interests | | **-** | 2,704 |
| Net change in treasury shares | | **(1,120)** | (1,839) |
| Change in due to banks | | **(1,433)** | 3,609 |
| Net proceeds from term loans | | **21,069** | 19,845 |
| Finance costs paid | | **(7,018)** | (6,292) |
| **Net cash from financing activities** | | **6,042** | 12,601 |
| **Net increase in cash and cash equivalents** | | **8,555** | 1,616 |
| Cash and cash equivalents at the beginning of the year | | **12,855** | 11,239 |
| **Cash and cash equivalents at the end of the year** | 25 | **21,410** | 12,855 |

The notes set out on pages 36 to 80 form an integral part of these consolidated financial statements.

# 1- INCORPORATION AND ACTIVITIES OF THE PARENT COMPANY

TAMDEEN REAL ESTATE COMPANY – KPSC (THE "PARENT COMPANY") WAS INCORPORATED IN KUWAIT ON 16 DECEMBER 1982 IN ACCORDANCE WITH THE COMPANIES LAW. THE PARENT COMPANY ALONG WITH ITS SUBSIDIARIES ARE JOINTLY REFERRED TO AS "THE GROUP". THE PARENT COMPANY'S SHARES ARE TRADED ON THE KUWAIT STOCK EXCHANGE.

THE PRINCIPAL ACTIVITIES OF THE PARENT COMPANY ARE REPRESENTED IN THE REAL ESTATE INVESTMENTS INSIDE AND OUTSIDE THE STATE OF KUWAIT, FOR THE PURPOSES OF OWNERSHIP, RESALE, LEASING AND RENTING. THE PARENT COMPANY IS ALSO ENGAGED IN THE DEVELOPMENT OF REAL ESTATE PROJECTS AND CONSTRUCTION CONTRACTS OF BUILDINGS, MANAGING THE PROPERTIES OF OTHERS, ESTABLISHING AND MANAGING REAL ESTATE INVESTMENT FUNDS, REAL ESTATE STUDIES AND CONSULTANCY, AND INVESTING IN COMPANIES WITH ACTIVITIES SIMILAR TO ITS OWN AND EXPLOITING THE FINANCIAL SURPLUSES AVAILABLE AT THE COMPANY THROUGH ITS INVESTMENT IN FINANCIAL PORTFOLIOS MANAGED BY PROFESSIONAL COMPANIES AND AUTHORITIES.

THE NEW COMPANIES LAW NO. 1 OF 2016 WAS ISSUED ON 24 JANUARY 2016 AND PUBLISHED IN THE OFFICIAL GAZETTE ON 1 FEBRUARY 2016 IN WHICH THEY HAVE CANCELLED LAW NO. 25 OF 2012 AND ITS AMENDMENTS THERETO, AS STIPULATED IN ARTICLE (5) THERETO. THE NEW LAW WILL BE EFFECTIVE RETROSPECTIVELY FROM 26 NOVEMBER 2012. THE EXECUTIVE REGULATIONS OF LAW NO. 1 OF 2016 WERE ISSUED ON 12 JULY 2016.

THE ADDRESS OF THE PARENT COMPANY: PO BOX 21816, SAFAT 13079, STATE OF KUWAIT.

THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 WERE AUTHORISED FOR ISSUE BY THE PARENT COMPANY'S BOARD OF DIRECTORS ON 14 MARCH 2017 AND ARE SUBJECT TO THE APPROVAL OF THE GENERAL ASSEMBLY OF THE SHAREHOLDERS.

# 2- BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared under historical cost convention except for investments at fair value through profit or loss, available for sale investments and investment properties that have been measured at fair value.

The Parent Company has decided to change the presentation of the consolidated statement of financial position to a presentation based on liquidity (previously the consolidated statement of financial position distinguished between current and non-current) as it provides information more relevant and appropriate of the Group's activities.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is the functional and presentation currency of the Parent Company.

# 3- STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

# 4- CHANGES IN ACCOUNTING POLICIES

## 4-1 NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2016 which have been adopted by the Group but did not have any significant impact on the financial position or the results for the year. Information on these new standards is presented below:

| STANDARD OR INTERPRETATION | EFFECTIVE FOR ANNUAL PERIODS BEGINNING |
|---|---|
| IFRS 11 Accounting for Acquisitions of Interests in Joint Operations -Amendments | 1 January 2016 |
| IAS 1 'Disclosure Initiative - Amendments | 1 January 2016 |
| IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments | 1 January 2016 |
| IAS 27 Equity Method in Separate Financial Statements - Amendments | 1 January 2016 |
| IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments | 1 January 2016 |
| Annual Improvements to IFRSs 2012–2014 Cycle | 1 January 2016 |

### IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments

Amendments to IFRS 11 "Joint Arrangements" require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. It also requires disclosure of the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). The amendments apply prospectively to acquisitions of interests in joint operations.

### *IAS 1 Disclosure Initiative – Amendments*

The Amendments to IAS 1 make the following changes:

● *Materiality:* The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.

● *Statement of financial position and statement of profit or loss and other comprehensive income:* The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

● *Notes:* The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

### *IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments*

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets address the following matters:

● A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment

- An amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is generally inappropriate except for limited circumstances

- Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

### *IAS 27 Equity Method in Separate Financial Statements - Amendments*

The Amendments to IAS 27 "Separate Financial Statements" permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

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

The Amendments are aimed at clarifying the following aspects:

- *Exemption from preparing consolidated financial statements:* The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.

- *A subsidiary providing services that relate to the parent's investment activities:* A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.

- *Application of the equity method by a non-investment entity investor to an investment entity investee:* When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

- *Disclosures required:* An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

### *Annual Improvements to IFRSs 2012–2014 Cycle*

- *Amendments to IFRS 5* - Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued

- *Amendments to IFRS 7* - Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements

- *Amendments to IAS 19* - Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid

- *Amendments to IAS 34* - Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

## 4-2 IASB STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to be relevant to the Group's consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

| STANDARD OR INTERPRETATION | EFFECTIVE FOR ANNUAL PERIODS BEGINNING |
|---|---|
| IAS 7 Statement of Cash Flows-Amendments | 1 January 2017 |
| IAS 12 Income Taxes - Amendments | 1 January 2017 |
| IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments | No stated date |
| IFRS 2 Share-based Payment-Amendments | 1 January 2018 |
| IFRS 4 and IFRS 9 - Amendments | 1 January 2018 |
| IFRS 9 Financial Instruments: Classification and Measurement | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |
| IAS 40 Investment Property - Amendments | 1 January 2018 |
| Annual Improvements to IFRSs 2014-2016 Cycle | 1 January 2017 and 2018 |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 |

### *IAS 7 Statement of Cash Flows-Amendments*

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes)

The Amendments:

- Require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement

- Suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:

* Changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses

* A reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

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

### *IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses - Amendments*

The Amendments to IAS 12 make the following changes:

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

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

- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type

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

### *IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments*

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 "Investments in Associates and Joint Ventures (2011)" clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

● Require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations).

● Require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed. These amendments are not expected to have any material impact on the Group's consolidated financial statements.

### *IFRS 2 Share-Based Payment-Amendments*

The amendments relate to clarification on the following:

● IFRS does not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The Amendments address this lack of guidance by clarifying that accounting for these conditions should be accounted for consistently with equity-settled share-based payments in IFRS 2.

● The amendment adds guidance to IFRS 2 to the effect that a scheme with compulsory net-settlement feature would be classified as equity-settled in its entirety (assuming it would be so classified without the net settlement feature).

● The amendment addresses the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

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

### *IFRS 4 and IFRS 9 - Amendments*

The Amendments provide entities that issue insurance contracts with temporary accounting solutions for the practical challenges of implementing IFRS 9 before the forthcoming new Insurance Contracts Standard. These amendments are not expected to have any material impact on the Group's consolidated financial statements.

### *IFRS 9 Financial Instruments - Classification and Measurement*

The IASB published IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

● The classification and measurement of the financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.

● An expected credit loss-based impairment will need to be recognized on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.

● It will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income. This will affect the Group's investment amounting to KD6,572 thousand (see note 30.1) if still held on 1 January 2018.

● If the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.





Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 replaced IAS 18 "Revenues", IAS 11 "Construction Contract" and several revenue – related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer

- Identify the performance obligations in the contract

- Determine the transaction price

- Allocate the transaction price to the performance obligations in the contracts

- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as

● Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts

● Timing – whether revenue is required to be recognized over time or at a single point in time

● Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue

● Time value – when to adjust a contract price for a financing component

● Specific issues, including –

* non-cash consideration and asset exchanges

* Contract costs

* Rights of return and other customer options

* Supplier repurchase options

* Warranties

* Principal versus agent

* Licensing

* Breakage

* Non-refundable upfront fees, and

* Consignment and bill-and-hold arrangements.

The Group's management has yet to assess the impact of this standard on these consolidated financial statements.

### *IFRS 16 Leases*

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

● Performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition

● Deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices

● Assessing their current disclosures for finance and operating leases as these are likely to form the basis of the amounts to be capitalized and become right-of-use assets

● Determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions

● Assessing the additional disclosures that will be required.

### *IAS 40 Investment Properties - Amendments*

The Amendments to IAS 40 clarifies that transfers to, or from, investment properties are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

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

***Annual Improvements to IFRSs 2014-2016 Cycle***

(i) Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B17) apply to an entity's interests irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5. Amendment is effective for annual periods beginning on or after 1 January 2017.

(ii) Amendments to IAS 28 - Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Amendment is effective for annual periods beginning on or after 1 January 2018.

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

### *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognizes a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognizing revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

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

# 5- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

## 5-1 BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases. All subsidiaries have a reporting date of 31 December. The details of the significant subsidiaries are set out in Note 7 to the consolidated financial statements.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the date the Group gains control, or until the date the Group ceases to control the subsidiary, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the Parent and the non-controlling interests based on their respective ownership interests. Losses within a subsidiary are attributed to the non-controlling interests 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:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group has directly disposed of the related assets or liabilities.

## 5-2 BUSINESS COMBINATIONS

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensives income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within other comprehensive income.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

## 5-3 GOODWILL

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

## 5-4 INVESTMENT IN ASSOCIATES

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The share of results of an associate is shown on the face of the consolidated statement of profit or loss. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The difference in reporting dates of the associates and the Group is not more than three months. 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. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of profit or loss.

Investments in associates are non-current assets, unless otherwise specified.

## 5-5 SEGMENT REPORTING

The Group has two operating segments: the real estate and investment segments. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the Group uses the same measurement policies as those used in its consolidated financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

## 5-6 REVENUE

Revenue arises from rendering of services, investing activities and real estate activities. It is measured by reference to the fair value of consideration received or receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is made. The following specific recognition criteria should also be met before revenue is recognised.

### 5-6-1 Rendering of services

The Group generates revenues from after-sales service and maintenance, consulting and construction contracts. Consideration received for these services is initially deferred, included in other liabilities and is recognised as revenue in the period when the service is performed.

In recognising after-sales service and maintenance revenues, the Group considers the nature of the services and the customer's use of the related products, based on historical experience. Revenue from consulting services is recognised when the services are provided by reference to the contract's stage of completion at the reporting date in the same way as construction contracts.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

The Group also renders hotel services and revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed. Room revenue is recognised on the rooms occupied on a daily basis and food and beverage and other related sales are accounted for at the time of sale.

The Group earns fees and commission income from diverse range of asset management, investment banking, custody and brokerage services provided to its customers. Fee income can be divided into the following two categories:





***Income earned from services that are provided over a certain period of time***

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management fees.

***Fee income from providing transaction services***

Fees arising for rendering specific advisory services, brokerage services, equity and debt placement transactions for a third party or arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

### 5-6-2 Revenue from sale of properties

Revenue on sale of trading properties is recognised when risk and reward related to property has been transferred to customer. Risk and reward are transferred when legal notice is served to customer to take the possession of the property or on actual hand over to the customer.

### 5-6-3 Interest and similar income

Interest income and expenses are reported on an accrual basis using the effective interest method.

### 5-6-4 Dividend income

Dividend income, other than those from investments in associates, are recognised at the time the right to receive payment is established.

## 5-7 OPERATING EXPENSES

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

## 5-8 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

## 5-9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

Property, plant and equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of property, plant and equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property, plant and equipment. The following annual rates are applied:

| | |
|---|---|
| • Buildings and right of use of lands | 2% |
| • Machines and equipment | 20% to 33.33% |
| • Vehicles | 20% to 25% |
| • Furniture, fixtures and office equipment | 5% to 33.33% |

In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

The right of use of lands are carried at cost less accumulated amortisation and impairment losses and has been included under property, plant & equipment. The right of use of land represents land leased from the government of Kuwait based on renewable lease contracts. The buildings are constructed on the right of use of land.

The costs incurred by the Group for the right of use of lands are capitalized and amortized on a straight line basis according to its expected useful economic life (50 years).

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

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 profit or loss.

## 5-10 INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property or are determined by the management of the Group based on their knowledge of the property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within "change in fair value of investment property".

Transfers are made to or from investment property 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 non-current assets, unless otherwise specified.

## 5-11 INVESTMENT PROPERTIES UNDER DEVELOPMENT

Investment properties under development represents property held for future use as investment property and is initially measured at cost. Subsequently, property under development are carried at fair value that is determined based on valuation performed by independent valuers at the end of each year using valuation methods consistent with the market conditions at the reporting date. Gains or losses from change in the fair value are recognised in the consolidated statement of profit or loss.

If the Group determines that the fair value of an investment property under development is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, the Group measures that investment property under development at cost until either its fair value become reliably determinable or development is completed (whichever is earlier).

Investment properties under developments are classified as non-current assets, unless otherwise specified.

## 5-12 TRADING PROPERTIES UNDER DEVELOPMENT

Trading properties under development represent lands and real estate under development/construction for trade, which are stated lower of cost or net realisable value. Cost includes the cost of land, construction, design and architecture, and other related expenditures such as professional fees, project management fees and engineering costs attributable to the project, which are accrued as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are accrued to trading properties under development. Completion is defined as the earlier of the issuance of the certificate of practical completion, or when management considers the project to be completed. Net realisable value is estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make sale. Upon completion, unsold properties, if any are transferred to trading properties.

Investment properties under developments are non-current assets, unless otherwise specified.

## 5-13 TRADING PROPERTIES

Trading properties are stated at the lower of cost or net realisable value. Costs are those expenses incurred in bringing each property to its present condition including identifiable finance costs. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

## 5-14 IMPAIRMENT TESTING OF GOODWILL AND NON FINANCIAL ASSETS

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from the asset or each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements.

Discount factors are determined individually for each asset or cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

## 5-15 FINANCIAL INSTRUMENTS

### 5-15-1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

- Rights to receive cash flows from the assets 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 risks and rewards of the asset, but has transferred control of the asset.

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

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, and the difference in the respective carrying amounts is recognised in consolidated statement of profit or loss.

### 5-15-2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Receivables
- Financial assets at fair value through profit or loss (FVTPL)
- Available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a Group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

### • Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

They represent current assets, except for maturities greater than 12 months after the end of the reporting period which represent non-current assets.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified Group.

The Group categorises receivables into following categories:

*• Receivables and other financial assets*

Trade receivable are stated at original invoice amount less allowance 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 as incurred.

Receivables which are not categorised under any of the above are classified as "Other debit balances/Other financial assets"

*• Cash and bank balances and Short term deposits*

Cash on hand and demand deposits are classified under cash and bank balances and short term deposits represent deposits placed with financial institutions with a maturity of less than one year.

### • Financial assets at FVTPL

Classification of investments as financial assets at FVTPL depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are as designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Assets in this category are current assets if expected to be settled within 12 months; otherwise, they are as non-current assets.

### • AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

The Group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a Group of financial assets available for sale is impaired.





In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

AFS financial assets are non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

## 5-15-3 Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include terms loans, due to banks, accounts payable and other credit balances.

The subsequent measurement of financial liabilities depends on their classification. The Group classifies all its financial liabilities as "financial liabilities other than at fair value through profit or loss (FVTPL)".

### • Financial liabilities other than at fair value through profit or loss

These are stated at amortised cost using effective interest rate method. The Group categorises financial liabilities other than at FVTPL into the following categories:

*• Borrowings (terms loans and due to banks)*

Borrowings are carried on the date of the consolidated statement of financial position at their principal amounts. Interest is charged as an expense as it accrues, with unpaid interest included in the creditors' balances. All borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

*• Wakala payables*

Wakala payables represent short-term borrowings under Islamic principles, whereby the Group receives funds for the purpose of financing its investment activities and are stated at amortised cost.

*• Murabaha finance payables*

Murabaha finance payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha finance payables are stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

*• Accounts payables and other financial liabilities*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not, and classified as trade payables. Financial liabilities other than at FVTPL which are not categorised under any of the above are classified as "Other financial liabilities".

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss, are included within finance costs or finance income.

## 5-15-4 Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

## 5-15-5 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.

## 5-15-6 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 30.

## 5-16 EQUITY, RESERVES AND DIVIDEND PAYMENTS

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the commercial companies' law and the Parent Company's articles of association.

Other components of equity include the following:

• Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into KD

• Fair value reserve – comprises gains and losses relating to available for sale financial assets

Retained earnings include all current and prior period retained profits. All transactions with owners of the Parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general assembly meeting.

## 5-17 TREASURY SHARES

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity.

When the treasury shares are reissued, gains are credited to a separate account in equity, (the "Reserve of profit on sale of treasury shares"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

## 5-18 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

In certain instances, the Group is required to perform maintenance and restore properties to agreed specifications. Provision for such costs are recognised based on terms of the contracts.

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

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.





## 5-19 FOREIGN CURRENCY TRANSLATION

### 5-19-1 Functional and presentation currency

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the Parent Company. 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.

### 5-19-2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

### 5-19-3 Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

## 5-20 END OF SERVICE INDEMNITY

The Group provides end of service benefits to 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 in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

With respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution 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.

## 5-21 TAXATION

### 5-21-1 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Group after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

### 5-21-2 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

### 5-21-3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

## 5-22 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances, short-term deposits and short term highly liquid investments maturing within three months from the date of inception.

## 5-23 FIDUCIARY ASSETS

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

# 6- SIGNIFICANT MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

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

## 6-1 SIGNIFICANT MANAGEMENT JUDGMENTS

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

### 6-1-1 Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition. Such judgement determines whether it is subsequently measured at cost, amortised cost or at fair value and if the changes in fair value of instruments are reported in the consolidated statement of profit or loss or other comprehensive income.

The Group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Designation of financial assets as at fair value through profit or loss depends on how management monitors the performance of these financial assets.

When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are designated as at fair value through profit or loss.

Classification of assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

### 6-1-2 Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading, property under development or investment property. Such judgement at acquisition determines whether these properties are subsequently measured at cost or net realisable value whichever is lower or fair value and if the changes in fair value of these properties are reported in the statement of profit or loss.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business. And if such properties are under development with an intention of being sold in future they are classified under trading properties under development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use. And if such properties are under development they are classified under investment properties under development.

### 6-1-3 Control assessment

When determining control, management considers whether the Group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

## 6-2 ESTIMATION UNCERTAINTY

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

### 6-2-1 Impairment of available for sale investments

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including the future cash flows and the discount factors for unquoted equities.

During the year ended 31 December 2016, impairment loss recognised for available for sale investments amounted to KD575 thousand (2015: KD827 thousand).

### 6-2-2 Impairment of associates

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

### 6-2-3 Impairment of receivables

The Group's management reviews periodically items classified as receivables to assess whether a provision for impairment should be recorded in profit or loss. In particular, considerable judgement by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

### 6-2-4 Revaluation of investment properties and investment properties under development

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of profit or loss. Fair values are estimated by independent valuers who have used valuation techniques.These estimated fair values of investment properties may vary from the actual prices that would be achieved in a arm's length transaction at the reporting date.

Where the Group determines that the fair value of an investment property under development is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete (refer note 15), the Group measures that investment property under development at cost until either its fair value become reliably determinable or development is completed (whichever is earlier). When the fair value becomes reliably measurable, the fair value of such properties may vary from the actual cost.

### 6-2-5 Impairment of investment in trading properties and trading properties under development

Investments in trading properties and trading properties under development (Inventories) are held at the lower of cost or net realisable value. An estimate is made of their net realisable value on an individual basis.

Management estimates the net realisable values of these properties, taking into account the most reliable evidence available at each reporting date. The future realisation of these properties may be affected by market-driven changes that may reduce future selling prices.

### 6-2-6 Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical and other obsolescence that may change the utility of certain software and property, plant and equipment.

### 6-2-7 Provisions

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date.

### 6-2-8 Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

# 7- SUBSIDIARY COMPANIES

## 7-1 THE CONSOLIDATED SUBSIDIARY COMPANIES OF THE GROUP ARE AS FOLLOWS:

| SUBSIDIARY COMPANIES | Percentage of ownership in subsidiary companies 31 Dec. 2016 % | 31 Dec 2015 % | Country of incorporation | Principal activity | Date of incorporation | Date of control |
|---|---|---|---|---|---|---|
| Tamdeen Investment Company-KPSC (*) | **55.94** | 55.94 | Kuwait | Investment | 3 March 1997 | 11 January 2003 |
| Manshar Real Estate Company -KSC (Closed) | **77.97** | 77.97 | Kuwait | Real Estate | 17 March 2007 | 17 March 2007 |
| Al Adiyat International Real Estate Company – KSC (Closed) | **98.98** | 98.98 | Kuwait | Real Estate | 25 June 2006 | 1 April 2012 |

* This investment is through investment portfolio with a specialized investment company.

## 7-2 SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

The Group includes only one subsidiary with material non-controlling interests (NCI):

| | Proportion of ownership interests and voting rights held by the NCI | | Profit/(loss) allocated to NCI | | Accumulated NCI | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2016 | 31 Dec. 2015 | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
| Tamdeen Investment Company-KPSC* | **44.06%** | 44.06% | **2,896** | 5,821 | **75,454** | 79,901 |
| Immaterial subsidiaries with non-controlling interests | | | **-** | (4) | **11** | 10 |
| | | | **2,896** | 5,817 | **75,465** | 79,911 |

* The NCI of Manshar Real Estate Company – KSC (Closed) is included within Tamdeen Investment Company's NCI.





# 7- SUBSIDIARY COMPANIES (CONTINUED)

## 7-3 SUMMARISED FINANCIAL INFORMATION FOR TAMDEEN INVESTMENT COMPANY - KPSC, BEFORE INTRAGROUP ELIMINATIONS, IS SET OUT BELOW

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Non-current assets | **151,695** | 164,893 |
| Current assets | **105,203** | 100,857 |
| **Total assets** | **256,898** | 265,750 |
| Non-current liabilities | **(151)** | (646) |
| Current liabilities | **(88,489)** | (93,185) |
| **Total liabilities** | **(88,640)** | (93,831) |
| Equity attributable to the shareholders of the Parent Company | **92,804** | 92,018 |
| Non-controlling interests (including non controlling interests in the subsidiary's statement of financial position) | **75,454** | 79,901 |

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Revenue | **12,134** | 17,311 |
| Profit for the year attributable to the shareholders of the Parent Company | **3,690** | 6,556 |
| Profit for the year attributable to NCI | **2,896** | 5,821 |
| **Profit for the year** | **6,586** | 12,377 |
| Other comprehensive loss for the year attributable to the owners of the Parent Company | **(2,329)** | (8,522) |
| Other comprehensive loss for the year attributable to NCI | **(1,834)** | (6,713) |
| **Total other comprehensive loss for the year** | **(4,163)** | (15,235) |
| Total comprehensive income/(loss) for the year attributable to the shareholders of the Parent Company | **1,407** | (1,585) |
| Total comprehensive income/(loss) for the year attributable to NCI | **1,108** | (1,269) |
| **Total comprehensive income/(loss) for the year** | **2,515** | (2,854) |
| Dividends paid to non controlling interests | **1,447** | 1,511 |

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Net cash flow used in operating activities | **(808)** | (22,956) |
| Net cash flow from investing activities | **13,484** | 19,128 |
| Net cash flow (used in)/from financing activities | **(4,870)** | 4,587 |
| **Net change in cash flow** | **7,806** | 759 |

# 8- COST OF REVENUE

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Direct staff costs | **872** | 766 |
| Other real estate expenses | **2,206** | 2,215 |
| | **3,078** | 2,981 |

# 9- OTHER OPERATING INCOME

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Yacht club membership revenue | **21** | 26 |
| Projects management fees and consultancies | **816** | 963 |
| Services revenue – Al Kout Complex | **102** | 223 |
| Other miscellaneous revenue | **127** | 138 |
| | **1,066** | 1,350 |

# 10- NET INCOME FROM INVESTMENTS

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Net gain on sale of available for sale investments | **1,709** | 6,247 |
| Impairment in value of available for sale investments | **(575)** | (827) |
| Unrealised loss from investments at fair value through profit or loss | **(15)** | (53) |
| Dividends income | **8,226** | 7,293 |
| Interest and other income/(loss) | **38** | (12) |
| | **9,383** | 12,648 |
| Impairment in value* | **(2,298)** | - |
| | **7,085** | 12,648 |

*The impairment in value of a previously subsidiary has been determined based on the sale value per share.



# 11- BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the owners of the Parent Company by the weighted average number of the outstanding shares during the year as follows:

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Profit for the year attributable to the owners of the Parent Company (KD'000) | **7,365** | 9,863 |
| Weighted average number of the outstanding shares (excluding treasury shares) (in thousands) | **406,315** | 417,479 |
| **Basic and diluted earnings per share attributable to owners of the Parent Company** | **18.1 Fils** | 23.6 Fils |

The weighted average number of shares outstanding during the previous year have been restated to add the bonus shares issued during the year (Note 24).

The earnings per share reported during the previous year ended 31 December 2015, before the bonus shares noted above, was 24.8 Fils.

# 12- ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Receivable from tenants | **576** | 555 |
| Cheques under collection | **879** | - |
| Staff receivable | **194** | 101 |
| Prepaid expenses | **152** | 200 |
| Due from related parties(a) | **1,712** | 2,412 |
| Due from sale of trading properties (a) | **5,095** | 5,621 |
| Advance payments to contractors (b) | **5,894** | 8,394 |
| Other debit balances | **928** | 1,609 |
| | **15,430** | 18,892 |
| Provision for doubtful debts | **(361)** | (270) |
| | **15,069** | 18,622 |

(a) The balances due above (from related parties and from sale of trading properties) are mainly represented by the amounts due from the sale transaction previously performed by the Group for some of its real estate plots which have been invested in for trading purposes to related parties for an amount of KD9,103 thousand and other third parties for an amount of KD10,030 thousand. The Group's management confirms that these due amounts are totally collectible from the concerned parties.

(b) The advance payments to contractors represent the balance out of amounts paid during the current year and the previous years to local contractors as advance payments from the total signed contract values for Al-Kout Mall project and Tamdeen Square Project, which is classified under investment properties under development and trading properties under development respectively.

# 13- AVAILABLE FOR SALE INVESTMENTS

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Local managed portfolios | **110** | - |
| Participations in local companies shares | **8,522** | 7,975 |
| Participations in capital of companies located outside Kuwait | **122,352** | 125,076 |
| | **130,984** | 133,051 |

Participations in capital of companies located outside Kuwait include the investments of the subsidiary company [Tamdeen Investment Company – KPSC], in shares listed outside Kuwait. These participations include investments with a total fair value of KD73,177 thousand (2015: KD68,168 thousand) mortgaged against term loans (Note 19).

At the end of the year, the Group recognized impairment losses of KD575 thousand (2015: KD827 thousand) against local and foreign shares based on the management's estimates according to the information available to them.

Refer note 30 for further details relating to the carrying value and fair value of the above investments.

# 14- TRADING PROPERTIES UNDER DEVELOPMENT

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| **Cost** | | |
| At beginning of the year | **20,030** | - |
| Transferred from trading properties (a) | **-** | 11,609 |
| Purchase of land (note 27) | **-** | 7,000 |
| Additions during the year (b) | **9,340** | 1,421 |
| **At end of the year** | **29,370** | 20,030 |

(a) During the previous year, the management decided to utilise the lands included under trading properties (located in Sabah Al-Salem) for construction of investment residential towers which will be offered for sale ("Tamdeen Square Project"). Accordingly, the trading properties with a carrying value of KD11,609 thousand were transferred to trading properties under development.

(b) The additions to trading properties under development during the current year represent the construction and development cost incurred for the above project.





# 15- INVESTMENTS PROPERTIES UNDER DEVELOPMENT

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| **Cost** | | |
| At beginning of the year | **56,046** | 41,302 |
| Additions during the year | **24,761** | 14,744 |
| **At end of the year** | **80,807** | 56,046 |
| **Impairment in value** | | |
| At beginning of the year | **2,774** | 2,361 |
| Additions during the year | **-** | 413 |
| **At end of the year** | **2,774** | 2,774 |
| **Net book value at end of the year** | **78,033** | 53,272 |

The additions to the investment properties under development mainly represent the amounts expensed during the year for the redevelopment of Al-Kout Mall project (Located in Fahaheel) through one of the subsidiaries (Manshar Real Estate Company – KSC).

Investment properties under development with a carrying value of KD77,658 thousand (2015: KD53,250 thousand) [Al-Kout Mall project which is owned by the subsidiary "Manshar Real Estate Company – KSC (Closed)"] are totally mortgaged against term loans (Note 19).

Due to difficulty of obtaining a reliable fair value of the investment properties under development, the management decided to maintain the cost method for all investment properties under development until the implementation stages are completed, unless there are signs of decline in the value of these properties.

Finance costs of KD1,544 thousand (KD896 thousand as at 31 December 2015) have been capitalized during the year.

# 16- INVESTMENT PROPERTIES

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Value at beginning of the year | **21,280** | 21,250 |
| Change in fair value during the year (refer note 30.4 for fair valuation details) | **-** | 30 |
| **Value at end of the year** | **21,280** | 21,280 |

The Group's investment properties amounting to KD21,280 thousand (2015: KD21,280 thousand) represents the estimated fair value of Al-Manshar Rotana Hotel property which is totally managed and operated by Rotana Hotel Management Corporation LTD and which has been separated during the year 2012 from Al-Manshar Commercial and Residential Complex property which has been demolished and is currently being redeveloped (Note 15). These investment properties are totally mortgaged against term loans (Note 19).

Investment properties include a property which was fully impaired during the year 2008 by an amount of KD18,741 thousand. The property represents a B.O.T project with the Government of Kuwait and the contract term ends in 2024. At the end of the current year based on the information available, the Parent Company's management has re-assessed the project based on the net cashflows over the remaining period of the project and has estimated that the present value of the cash outflows exceed the present value of the cash inflows and accordingly, the management has decided to continue to retain the project at Nill value, as done previously.

# 17- INVESTMENTS IN ASSOCIATES

This item comprises the investments of the Group in the following associates:

| | | 31 Dec. 2016 | | | 31 Dec. 2015 | | |
|---|---|---|---|---|---|---|---|
| | | Ownership % | | | Ownership % | | |
| | Place of incorporation | Direct | Indirect * | Value KD'000 | Direct | Indirect * | Value KD'000 |
| Company's name | | | | | | | |
| Tamdeen Shopping Centers Company – KSC (Closed) | Kuwait | 30 | - | 42,911 | 30 | - | 41,517 |
| Kuwait National Cinema Company – KPSC | Kuwait | - | 47 | 56,144 | - | 47 | 54,776 |
| Tamdeen Pearl Real Estate Company – KSC (Closed) | Kuwait | - | 31 | 27,554 | - | 31 | 27,540 |
| Tamdeen for Real Estate Development Company – KSC (Closed) (a) | Kuwait | - | - | - | 15 | 37 | 2,516 |
| Others (b) | Kuwait & Bahrain | - | - | 9,882 | - | - | 3,983 |
| | | | | 136,491 | | | 130,332 |

* Indirect holding through the subsidiary [Tamdeen Investment Company – KPSC].

(a) During the year, the Group has increased its investment in Tamdeen for Real Estate Development Company – KSC (Closed) by an amount of KD2,185 thousand, and this has resulted in an increase in the share of the Group in this company to 99.9%. Consequently, the Group's previous holding in this investment has been reclassified from associate to subsidiary company. The Group has started consolidating the financial statements of this company from the date of the exercise of control over it by the Group in April 2016.

The business combination of Tamdeen for Real Estate Development Company – KSC (Closed) has no effect on the consolidated statement of profit or loss for the year.

The acquisition has been accounted for based on the determined value of the acquired assets and liabilities at the date of acquisition. Following is the fair value of net assets acquired, which approximates its book value based on management's estimation as at the date of acquisition:





# 17- INVESTMENTS IN ASSOCIATES (CONTINUED)

| | |
|---|---|
| **Assets:** | |
| Cash and cash equivalents | 4,395 |
| Accounts receivable and other debit balances | 332 |
| **Liabilities:** | |
| Accounts payable and other credit balances | (18) |
| Provision for end of service indemnity | (2) |
| **Net assets acquired** | 4,707 |
| Share of non-controlling interests | - |
| **Group's share in the net assets acquired** | 4,707 |
| Deduct: Fair value of Tamdeen Investment Company – KPSC's previously held equity interest | (1,246) |
| Deduct: Fair value of the Parent Company's previously held equity interest | (728) |
| Deduct: Fair value of Manshar Real Estate Company – KSC (Closed)'s previously held equity interest | (548) |
| **Acquisition cost** | 2,185 |
| Deduct: Cash and cash equivalents at acquisition date | (4,395) |
| **Net cash inflow resulting from acquisition of a subsidiary at the end of the year** | (2,210) |

(b) During the current year, Tamdeen Investment Company – KPSC (a subsidiary) disposed 10% of its share in British Industries for Printing and Packaging Company – KSC (Closed), to a related party, at the book value on the date of disposal, and consequently Group lost control over this company and it was reclassified to investments at associates from the date of loss of control.

The details of the assets and liabilities of British Industries for Printing and Packaging Company – KSC (Closed) at the date of loss of control are as below:

| | Value KD'000 |
|---|---|
| **Assets:** | |
| Cash and cash equivalents | 117 |
| Accounts receivable and other debit balances | 1,427 |
| Property, plant of equipment | 16,340 |
| **Liabilities:** | |
| Provision for end of service indemnity | (547) |
| Term loans | (5,866) |
| Accounts payable and other credit balances | (601) |
| **Net assets** | 10,870 |
| Effect on consolidated statement of cash flows: | |
| Cash received | 800 |
| Less: Cash and cash equivalents | (117) |
| **Net cash inflow** | 683 |

# 17- INVESTMENTS IN ASSOCIATES (CONTINUED)

(c) On 4 October 2015, the Extraordinary General Assembly of Tamdeen Investment Company – KPSC (a subsidiary) approved the Merger between Tamdeen Investment Company – KPSC (a subsidiary) and Tamdeen Holding Company – KSCC (formerly an associate) in accordance with the following terms:

- Business combination by way of Merger between Tamdeen Investment Company – KPSC and Tamdeen Holding Company – KSCC by dissolving Tamdeen Holding Company – KSCC and transferring its assets and liabilities to Tamdeen Investment Company – KPSC in return for issuing 47,260,274 shares (at 438 Fils per share) by Tamdeen Investment Company – KPSC to the shareholders of Tamdeen Holding Company – KSCC. The above issued shares includes 23,630,137 shares issued to the Parent Company in exchange for giving up its direct holding in the former associate.

- Utilize the treasury shares of Tamdeen Investment Company – KPSC totalling 30,478,171 shares as a part of the shares that must be issued to the shareholders of Tamdeen Holding Company – KSCC as noted above.

- Increase the share capital of the subsidiary, Tamdeen Investment Company – KPSC by issuing 16,782,103 shares with a nominal value of 100 fils each (at a premium of 338 Fils per share) to the shareholders of Tamdeen Holding Company – KSCC.

The Merger was authorized and registered in the commercial registry on 13 December 2015 and the merger became effective on that date.

As a result of the above Merger , the Group's previous share ownership in British Industries for Printing and Packaging Company – KSC (Closed), which was classified as available for sale investments, increased to 57.81% and accordingly it was consolidated as a subsidiary of the Group, in the previous year.

The accounting for the acquisition was done during the year 2015 based on the fair value of the assets and liabilities for the acquired companies at the date of acquisition as follows:

| | **Value KD'000** |
|---|---|
| **Assets:** | |
| Cash and cash equivalents | **236** |
| Accounts receivable and other debit balances | **880** |
| Inventories | **681** |
| Available for sale investments | **23,482** |
| Investments in associates | **17,093** |
| Property, plant of equipment | **20,070** |
| **Liabilities:** | |
| Provision for end of service indemnity | **(525)** |
| Term loans | **(7,692)** |
| Accounts payable and other credit balances | **(1,090)** |
| **Net assets purchased** | **53,135** |
| Non-controlling interests eliminated | **(1,977)** |
| **Net adjusted assets purchased** | **51,158** |
| Share of non-controlling interests | **(5,060)** |
| Deduct: Fair value of investment which was held by Tamdeen Holding and acquired by the Group consequent to the Merger | **(5,696)** |
| Deduct: Fair value of the Group's previously held investments | **(28,653)** |
| **Acquisition cost** | **(10,350)** |
| | **1,399** |





# 17- INVESTMENTS IN ASSOCIATES (CONTINUED)

The gain resulting from acquisition amounting to KD1,399 thousand was recognised in equity, under retained earnings of the Group, as this transaction is considered as a business combination transaction under common control.

Further due to the above Merger and consequent issue of shares amounting to KD10,350 thousand to Non-controlling interest, by the subsidiary Tamdeen Investment Company - KPSC, the Parent Company's shareholding in the subsidiary diluted by 0.99% (Net) which resulted in a net dilution gain of KD341 thousand being recognised in equity, under retained earnings.

(d) Summarised financial information in respect of each of the Group's material associates, are set out in the following notes (i,ii,iii). The summarised financial information in these notes represents the amounts presented in the financial statements of the associates (and not the Group's share in these amounts) adjusted for differences in accounting policies between the Group and the associate

## (i) Tamdeen Shopping Centers Company – KSC (Closed) (unquoted investment)

| | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| Non-current assets | **220,957** | 205,759 |
| Current assets | **72,592** | 74,377 |
| Non-current liabilities | **(94,915)** | (91,288) |
| Current liabilities | **(38,454)** | (33,352) |
| Non controlling interest | **(8,553)** | (8,516) |
| Equity attributable to the shareholders of the associate | **151,627** | 146,980 |

| | **Year ended 31 Dec. 2016 KD'000** | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Revenue | **30,121** | 30,624 |
| Profit for the year | **11,201** | 12,546 |
| Other comprehensive (loss)/ income for the year | **(517)** | 1,144 |
| Total comprehensive income for the year | **10,685** | 13,709 |
| Dividends received from the associate during the year | **1,800** | 1,800 |

A reconciliation of the above summarised financial information to the carrying value of the investment in Tamdeen Shopping Centers Company – KSC (Closed) is set out below:

| | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| Net assets of the associate attributable to the shareholders of the associate | **151,627** | 146,980 |
| Proportion of the Group's ownership interest in the associate | **% 30** | % 30 |
| Other adjustments | **(2,577)** | (2,577) |
| Carrying value of the investment | **42,911** | 41,517 |

# 17- INVESTMENTS IN ASSOCIATES (CONTINUED)

## (ii) Kuwait National Cinema Company – KPSC (quoted investment)

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Non-current assets | 92,727 | 92,349 |
| Current assets | 24,015 | 20,454 |
| Non-current liabilities | (1,489) | (1,209) |
| Current liabilities | (29,079) | (28,081) |
| Equity attributable to the shareholders of the associate | 86,174 | 83,513 |

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Revenue | 18,647 | 19,929 |
| Profit for the year | 9,337 | 9,981 |
| Other comprehensive (loss)/income for the year | (2,826) | 2,131 |
| Total comprehensive income for the year | 6,511 | 12,112 |
| Dividends received from the associate during the year | 2,336 | 2,248 |

A reconciliation of the above summarised financial information to the carrying value of the investment in Kuwait National Cinema Company – KPSC is set out below:

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Net assets of the associate attributable to the shareholders of the associate | 86,174 | 83,513 |
| Proportion of the Group's ownership interest in the associate | % 46.85 | % 46.74 |
| Goodwill | 14,463 | 14,463 |
| Other adjustments | 1,308 | 1,279 |
| Carrying value of the investment | 56,144 | 54,776 |

The investment in this associate company with a carrying value of KD42,715 thousand (2015: KD41,667 thousand) is partially secured against term loans (note 19).



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# 17- INVESTMENTS IN ASSOCIATES (CONTINUED)

## (iii) Tamdeen Pearl Real Estate Company – KSC (Closed) (unquoted investment)

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Total assets | 90,868 | 90,121 |
| Total liabilities | (1,032) | (330) |
| Equity attributable to the shareholders of the associate | 89,836 | 89,791 |

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Profit for the year | 46 | 22 |
| Total comprehensive income for the year | 46 | 22 |

A reconciliation of the above summarised financial information to the carrying value of the investment in Tamdeen Pearl Real Estate Company – KSC (Closed) is set out below:

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Net assets of the associate attributable to the shareholders of the associate | 89,836 | 89,791 |
| Proportion of the Group's ownership interest in the associate | % 30.74 | % 30.74 |
| Other adjustments | (62) | (62) |
| Carrying value of the investment | 27,554 | 27,540 |

All the associates of the Group are not listed in active markets except for Kuwait National Cinema Company – KPSC and the fair value of the Group's investments in this associate amounted to KD49,369 thousand as at 31 December 2016 (31 December 2015: KD40,100 thousand).

(e) Aggregate information of the associates that are not individually material to the Group:

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| The Group's share in profit / (loss) for the year | 79 | (143) |
| Aggregate carrying amount of the Group's interest in these associates as of the reporting date | 9,882 | 6,499 |

(f) The Group's share of results of associates has been recorded based on the latest available (audited/unaudited) financial information prepared by the managements of these associates for the year ended 31 December 2016.

# 18- DUE TO BANKS

Due to banks represent the balances of overdraft facilities which are granted to the Group by local banks to finance the working capital and the real estate activities. They are repayable on demand with annual floating interest rate which is equal to current interest rate in market.

# 19- TERM LOANS

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Term loans (a) | 194,490 | 179,287 |
| Average interest rate – range | 3% - 4% | 3% - 4% |

(a) Term loans of KD73,500 thousand (2015: KD68,000 thousand) are contractually due after one year, and the remaining term loans of KD120,990 thousand (2015: KD111,287 thousand) are maturing within one year and renewed periodically.

(b) The loans granted to the subsidiary companies are against the mortgage of investments in shares with a fair value of KD73,177 thousand (2015: KD68,168 thousand) (Note 13), mortgage of investments in associates by an amount of KD42,715 thousand (2015: KD41,667 thousand) (note 17) and mortgage of investment properties (Note 16) and investment properties under development (Note 15).

# 20- ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Retentions for executed works | 4,797 | 1,844 |
| Income received in advance | 1,466 | 468 |
| Accrued leave and expenses | 3,134 | 2,626 |
| Due to related parties | 102 | 563 |
| Dividends payable to shareholders | 347 | 316 |
| Advance payments received from customers | 6,400 | 293 |
| Provisions and other credit balances | 5,928 | 6,140 |
| | 22,174 | 12,250 |

# 21- SHARE CAPITAL

(a) As of 31 December 2016, the authorized, issued and fully paid share capital in cash of the Parent Company comprised of 431,933 thousand shares of 100 Kuwaiti Fils each (2015: 411,365 thousand shares of 100 Kuwaiti Fils each).

b) At the Annual General Meeting held on 11 of May 2016, the shareholders approved 5% bonus shares on outstanding shares as at the date of the AGM, which represented 20,568 thousand shares of 100 Kuwaiti Fils each amounting to KD2,057 thousand, and this was approved and documented in the commercial register on 23 May 2016.



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# 22- TREASURY SHARES

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| Number of shares - share | 26,818,695 | 23,429,600 |
| Percentage of issued shares | %6.2 | %5.7 |
| Market value (KD'000) | 12,605 | 14,761 |
| Cost (KD'000) | 10,745 | 9,625 |

# 23- RESERVES

In accordance with the Companies Law of Kuwait, 10% of the profit attributable to the owners of the Parent Company before contribution to KFAS, provision for Zakat, provision for NLST and board of directors' remuneration is transferred each year to the legal reserve until such time that the balance of the legal reserve account equals 50% of the balance of the paid up share capital.

Distribution of the legal reserve is limited to the amount required to enable the payment of dividends of 5% of paid-up share capital to be made in years when retained earnings are insufficient for the payment of dividends of that amount.

10% of this profit before contribution to KFAS, provision for Zakat, provision for NLST and board of directors' remuneration is also transferred to the voluntary reserve, and this transfer could be ceased based on the decision of the Parent Company's board of directors. Transfers to the voluntary reserve are made in accordance with the recommendation of the Parent Company's board of directors to the general assembly.

The amounts transferred during the year to the legal and voluntary reserves attributable to the Parent Company have been calculated as follows:

| | Year ended 31 Dec. 2016 KD'000 | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| Profit for the year | 10,261 | 15,680 |
| **Deduct:** | | |
| Profit attributable to non-controlling interests | (2,896) | (5,817) |
| Profit attributable to owners of the Parent Company | 7,365 | 9,863 |
| **Add:** | | |
| Board of directors' remuneration of the Parent Company | 60 | 60 |
| Provision for National Labour Support Tax (NLST) of the Parent Company | 99 | 87 |
| Provision for Zakat of the Parent Company | 6 | - |
| Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) of the Parent Company | - | - |
| Profit attributable to owners of the Parent Company before contribution to KFAS, provision for Zakat, provision for NLST and board of directors' remuneration | 7,530 | 10,010 |
| **Transferred to legal reserve (10%)** | 753 | 1,001 |
| **Transferred to voluntary reserve (10%)** | 753 | 1,001 |

# 24- PROPOSED DIVIDENDS AND REMUNERATIONS

The board of directors of the Parent Company propose to distribute cash dividends of 10% or 10 Kuwaiti Fils per share from the paid-up share capital, and pay a remuneration to the board of directors of amount of KD60 thousand and this proposal is subject to the approval of the general assembly of shareholders and control authorities.

The General Assembly of shareholders held on 11 May 2016 approved the consolidated financial statements for the year ended 31 December 2015 and directors' proposal to distribute cash dividends of 10% or equivalent to 10 Kuwaiti Fils per share from the paid-up share capital and bonus shares dividends of 5% from the paid-up share capital to the shareholders, and to pay a remuneration to the board of directors of amount KD60 thousand for the year ended 31 December 2015 (the General Assembly of shareholders held on 29 April 2015 approved to distribute cash dividends of 10% or equivalent to 10 Kuwaiti Fils per share from the paid-up share capital to the shareholders and bonus shares dividends of 5% from the paid-up share capital to the shareholders, and to pay a remuneration to the board of directors of amount KD60 thousand for the year ended 31 December 2014).

# 25- CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise of the following balances of the consolidated statement of financial position:

| | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| Cash and bank balances | **13,234** | 11,927 |
| Short term deposits | **8,176** | 928 |
| | **21,410** | 12,855 |

Short term deposits earn interest at annual rate of 1% (annual rate of 1% in 2015).

# 26- SEGMENTAL ANALYSIS

The Group activities are concentrated in two main segments: Real Estate and Investment. The segments' results are reported to the top management in the Group. The activities of the Group are principally carried out within the State of Kuwait; With the exception of participations in capital of companies located outside Kuwait (Note 13), all of the assets and liabilities are located inside Kuwait.

The following is the segments information, which conforms with the internal reporting presented to management:

| | **Real Estate KD'000** | **Investment KD'000** | **Total KD'000** |
|---|---|---|---|
| **Year ended at 31 December 2016** | | | |
| Gross income | 6,477 | **15,861** | 22,338 |
| (Loss)/profit for the year | (37) | **10,298** | 10,261 |
| Total assets | 145,948 | **288,597** | 434,545 |
| Total liabilities | (141,814) | **(88,639)** | (230,453) |
| **Total equity** | 4,134 | **199,958** | 204,092 |
| **Year ended at 31 December 2015** | | | |
| Gross income | 7,418 | 20,432 | 27,850 |
| Profit for the year | 312 | 15,368 | 15,680 |
| Total assets | 113,840 | 297,700 | 411,540 |
| Total liabilities | (111,329) | (92,432) | (203,761) |
| **Total equity** | 2,511 | 205,268 | 207,779 |





# 27- RELATED PARTY TRANSACTIONS

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

Details of significant related party transactions and balances are as follows:

| **Consolidated statement of financial position** | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| Accounts receivable and other debit balances (Note 12) | **1,712** | 2,412 |
| Accounts payable and other credit balances (Note 20) | **102** | 563 |
| Net acquisition and disposal of subsidiary companies (Note 17a & 17b) | **1,385** | - |
| Purchase of trading properties under development (Note 14) | **-** | 7,000 |
| Additions to investment properties under development and trading properties under development | **635** | 730 |

| **Consolidated statement of profit or loss** | **Year ended 31 Dec. 2016 KD'000** | Year ended 31 Dec. 2015 KD'000 |
|---|---|---|
| **Management fees and consultancy income (included in other operating income)** | **866** | 1,070 |
| **Cost of revenue** | **708** | 667 |
| **General, administrative and other expenses** | **431** | 511 |
| **Benefits of key management personnel of the Group** | | |
| **Short term employee benefits and board of directors' remuneration** | **712** | 965 |

| **Contra accounts – off consolidated statement of financial position items** | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| **Net book value of customers' portfolios (major shareholders) managed by Tamdeen Investment Company – KPSC (subsidiary company)** | **152,802** | 309,189 |

# 28- CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At the date of the consolidated statement of financial position, the Group had contingent liabilities against letters of guarantee issued in favour of third parties of amount KD1,071 thousand (KD1,071 thousand at 31 December 2015).

The Group had capital commitments amounting to KD49,097 thousand (KD73,560 thousand at 31 December 2015) for its two projects classified under properties under development.

# 29- CONTRA ACCOUNTS – OFF CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

One of the subsidiary companies [Tamdeen Investment Company – KPSC] manages investment portfolios for third parties which had a net book value of KD198,063 thousand at 31 December 2016 (2015: KD380,490 thousand) including KD152,802 thousand (2015: KD309,189 thousand) related to portfolios for related parties (Note 27). These balances are not included in the consolidated statement of financial position.

# 30- SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY AND FAIR VALUE MEASUREMENT

## 30-1 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of the Group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorized as follows:

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| **Financial assets** | | |
| **Financial assets at amortised cost:** | | |
| - Accounts receivable and other debit balances (excluding prepaid expenses) | **14,917** | 18,422 |
| - Cash and cash equivalents | **21,410** | 12,855 |
| | **36,327** | 31,277 |
| **Investments at fair value through profit or loss :** | | |
| - At fair value | **688** | 703 |
| **Available for sale investments :** | | |
| -At fair value | **124,412** | 126,865 |
| -Carried at cost less impairment in value, if any* | **6,572** | 6,186 |
| | **130,984** | 133,051 |
| **Total financial assets** | **167,999** | 165,031 |
| **Financial liabilities** | | |
| **Financial liabilities at amortised cost:** | | |
| - Due to banks | **6,846** | 8,279 |
| - Term loans | **194,490** | 179,287 |
| - Accounts payable and other credit balances | **22,174** | 12,250 |
| - Refundable rental deposits | **6,032** | 2,623 |
| **Total financial liabilities** | **229,542** | 202,439 |

* It was not possible to reliably measure the fair value of available for sale investments amounting to KD6,572 thousand (2015: KD6,186 thousand) due to non availability of reliable method that could be used to determine the fair value of such investments, accordingly, these were stated at cost less impairment, if any. Management is not aware of any circumstances that would indicate any impairment/further impairment, in the value of these investments as of the reporting date.

## 30-2 FAIR VALUE MEASUREMENT

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments at fair value through profit or loss and available for sale investments (excluding certain available for sale investments which are carried at cost/cost less impairment for reasons specified in note 30.1 to the consolidated financial statements) are carried at fair value and measurement details are disclosed in note 30.3 to the consolidated financial statements. In the opinion of the Group's management, the carrying amounts of all other financial assets and liabilities which are at amortised costs is considered a reasonable approximation of their fair values. The Group also measures non-financial assets such as investment properties at fair value at each annual reporting date (note 16 and 30.4).





# 30- SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY AND FAIR VALUE MEASUREMENT (CONTINUED)

## 30-3 FAIR VALUE HIERARCHY

All financial assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

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

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

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

| | Note | Level 1 KD'000 | Level 2 KD'000 | Level 3 KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| **Financial assets at fair value at 31 December 2016** | | | | | |
| **Investments at fair value through profit or loss** | | | | | |
| • Quoted shares | **a** | **688** | **-** | **-** | **688** |
| **Available for sale investments** | | | | | |
| - Local managed portfolios | | | | | |
| • Quoted shares | **a** | **110** | **-** | **-** | **110** |
| - Participations in local companies shares | | | | | |
| • Quoted shares | **a** | **4,095** | **-** | **-** | **4,095** |
| - Participations in capital of companies located outside Kuwait | | | | | |
| • Quoted shares | **a** | **116,659** | **-** | **-** | **116,659** |
| • Unquoted shares | **b** | **-** | **-** | **3,548** | **3,548** |
| | | **121,552** | **-** | **3,548** | **125,100** |

| | Note | Level 1 KD'000 | Level 2 KD'000 | Level 3 KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| **Financial assets at fair value at 31 December 2015** | | | | | |
| **Investments at fair value through profit or loss** | | | | | |
| • Quoted shares | a | 703 | - | - | 703 |
| **Available for sale investments** | | | | | |
| - Participations in local companies shares | | | | | |
| • Quoted shares | a | 4,222 | - | - | 4,222 |
| - Participations in capital of companies located outside Kuwait | | | | | |
| • Quoted shares | a | 118,661 | - | - | 118,661 |
| • Unquoted shares | b | - | - | 3,982 | 3,982 |
| | | 123,586 | - | 3,982 | 127,568 |

There have been no significant transfers between levels 1 and 2 during the reporting period.

# 30- SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY AND FAIR VALUE MEASUREMENT (CONTINUED)

## 30-3 FAIR VALUE HIERARCHY (CONTINUED)

### MEASUREMENT AT FAIR VALUE

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

***a) Quoted shares (level 1)***

The quoted shares present all listed shares that are traded in the financial markets. The fair values are determined by reference to the latest bid prices at the reporting date.

***b) Unquoted shares (level 3)***

The fair value of unquoted shares is determined by using valuation techniques. Fair value for the unquoted shares investments are approximately the summation of the estimated value of underlying investments as if realised on the date of the consolidated statement of financial position. The investment managers in determining the fair value of these investments use a variety of methods and makes assumptions that are based on market conditions existing at each consolidated financial position date. Investment managers also used techniques such as discounted cash flow analysis, recent transactions prices and market multiples to determine fair value.

With regard to certain other unquoted shares, information is limited to periodic financial reports submitted by the managers of the investment. These investments are stated at the net assets value announced by the managers of the investment. As to the nature of these investments, the net assets value announced by the managers of the investment represents the best estimation of available fair values for these investments.

### LEVEL 3 FAIR VALUE MEASUREMENTS

Reconciliation of level 3 fair value measurements is as follows:

| | 31 Dec. 2016 KD'000 | 31 Dec. 2015 KD'000 |
|---|---|---|
| Balance as at 1 January | 3,982 | 4,126 |
| Transfer inside level 3 | 141 | 1,388 |
| Impairment in value – recognised in consolidated statement of profit or loss | (575) | (294) |
| Transfer outside level 3 | - | (1,238) |
| Balance as at 31 December | 3,548 | 3,982 |





# 30- SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY AND FAIR VALUE MEASUREMENT (CONTINUED)

## 30-3 FAIR VALUE HIERARCHY (CONTINUED)

### LEVEL 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The level 3 investments have been fair valued as follows:

| Financial assets | Valuation techniques and key input | Significant unobservable input | Relationship of unobservable input to fair value |
|---|---|---|---|
| Unquoted shares | Adjusted book value | Book value adjusted with market risk | The higher the market risk the lower the fair value |

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the consolidated statement of profit or loss, total assets, total liabilities or total equity.

## 30-4 FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2016 and 31 December 2015:

| | Level 1 KD'000 | Level 2 KD'000 | Level 3 KD'000 | Total KD'000 |
|---|---|---|---|---|
| **31 December 2016** | | | | |
| **Investment properties** | | | | |
| - Al Manshar Rotana Hotel property | - | - | 21,280 | 21,280 |
| | - | - | 21,280 | 21,280 |
| **31 December 2015** | | | | |
| **Investment properties** | | | | |
| - Al Manshar Rotana Hotel property | - | - | 21,280 | 21,280 |
| | - | - | 21,280 | 21,280 |

The fair value of the investment property has been determined , as requested by authorities , based on the lower of two valuations obtained from independent valuers (one of the valuers is a bank located in Kuwait), who are specialized in valuing this type of investment properties. The valuers have valued the investment property primarily using two methods, one of which is the yield method and the other being a combination of the market comparison approach for the land and cost minus depreciation approach for buildings. When the market comparison approach is used, adjustments have been incorporated for factors specific to the property in question, including property size, location, economic condition, similar property prices in surrounding area and permitted activities on the property.

# 30- SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY AND FAIR VALUE MEASUREMENT (CONTINUED)

## 30-4 FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS (CONTINUED)

### LEVEL 3 FAIR VALUE MEASUREMENTS

The measurement of the investment property classified in level 3 uses valuation techniques inputs that are not based on observable market data. The investment property within this level can be reconciled from beginning to ending balances as follows:

| | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| Opening balance | **21,280** | 21,250 |
| Changes in fair value recognised in profit or loss | **-** | 30 |
| Ending balance | **21,280** | 21,280 |

The significant assumptions made relating to valuation of investment property, that has been valued using the yield method are: average income, yield rate and occupancy rate.

# 31- RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk.

The Parent Company's board of directors are ultimately responsible for the overall risk management and for approving risk strategies and principles. The Group's risk management is carried out by investment management and audit committee and focuses on actively securing the Group's short to medium term cash flows by minimizing the potential adverse effects on the Group's financial performance through internal risk reports. Long term financial investments are managed to generate lasting returns.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The most significant financial risks to which the Group is exposed to are as follows:

## 31-1 MARKET RISK

***a). FOREIGN CURRENCY RISK***

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

The Group mainly operates in the Kuwait, GCC and other Middle Eastern countries, and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the Group's exposure to foreign currency risk, management works on maintaining a balanced exposure of assets and liabilities by currency to minimize fluctuations and enter into forward foreign exchange contracts, if needed, in





# 31- RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

## 31-1 MARKET RISK (CONTINUED)

***a). FOREIGN CURRENCY RISK (CONTINUED)***

accordance with the Group's risks management policies. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward foreign exchange contracts may be entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

The Group had the following significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

| | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| US Dollar | **126,161** | 119,861 |

If the Kuwaiti Dinar had strengthened/weakened against the foreign currencies by 5%, then this would have impact on the equity by KD6,308 thousand (2015: KD5,993 thousand).

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to the foreign currency risk.

***b). INTEREST RATE RISK***

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk with respect to its short term deposits, and its borrowings (term loans and due to banks) . The borrowings mainly represent short and long term borrowings and bear fixed or variable rates of interest. The management has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Positions are monitored on a regular basis and hedging strategies maybe used to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in interest rates of +0.5% and – 0.5% (2015: +0.5 % and – 0.5%) retrospectively from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the Group's financial instruments exposed to interest rate risk held at the date of the consolidated statement of financial position. All other variables are held constant. There has been no change during this year in the methods and assumptions used in preparing the sensitivity analysis.

| | **Year ended 31 Dec. 2016** | | Year ended 31 Dec. 2015 | |
|---|---|---|---|---|
| | **+ 0.5 % KD'000** | **- 0.5 % KD'000** | + 0.5 % KD'000 | - 0.5 % KD'000 |
| Effect on profit for the year | **(932)** | **932** | (898) | 898 |

# 31- RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

## 31-1 MARKET RISK (CONTINUED)

***c). PRICE RISK***

The Group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through profit or loss (including trading securities) and available for sale investment. The Group's investments are listed on the Kuwait Stock Exchange and other Gulf markets.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio where possible. Diversification of the portfolio is done in accordance with the limits set by the Group.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the date of the consolidated financial statements. There has been no change in the methods and assumptions used in the preparation of the sensitivity analysis.

If the prices of securities had been 5% higher/lower, the effect on the profit for the year and equity for the year ended 31 December would have been as follows:

| | Profit for the year | | Equity | |
|---|---|---|---|---|
| | **Year ended 31 Dec. 2016 KD'000** | Year ended 31 Dec. 2015 KD'000 | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
| Market Stock Exchange index + 5% | **34** | 35 | **6,043** | 6,144 |
| Market Stock Exchange index – 5% | **(34)** | (35) | **(6,043)** | (6,144) |

## 31-2 CREDIT RISK

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

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

| | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| Cash and cash equivalents | **21,410** | 12,855 |
| Investments at fair value through profit or loss | **688** | 703 |
| Accounts receivable and other debit balances (excluding prepaid expenses) | **14,917** | 18,422 |
| Available for sale investments | **130,984** | 133,051 |
| | **167,999** | 165,031 |





# 31- RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

## 31-3 CONCENTRATION OF ASSETS

The distribution of assets by geographic region was as follows:

| | **Kuwait KD'000** | **Other middle eastern countries KD'000** | **Total KD'000** |
|---|---|---|---|
| **At 31 December 2016** | | | |
| **Geographic region:** | | | |
| Cash and bank balances | **13,234** | **-** | **13,234** |
| Short term deposits | **8,176** | **-** | **8,176** |
| Investments at fair value through profit or loss | **-** | **688** | **688** |
| Accounts receivable and other debit balances | **15,058** | **11** | **15,069** |
| Available for sale investments | **8,632** | **122,352** | **130,984** |
| Trading properties under development | **29,370** | **-** | **29,370** |
| Investment properties under development | **78,033** | **-** | **78,033** |
| Investment properties | **21,280** | **-** | **21,280** |
| Investments in associates | **135,785** | **706** | **136,491** |
| Property, plant and equipment | **1,220** | **-** | **1,220** |
| | **310,788** | **123,757** | **434,545** |

| | Kuwait KD'000 | Other middle eastern countries KD'000 | Total KD'000 |
|---|---|---|---|
| At 31 December 2015 | | | |
| Geographic region: | | | |
| Cash and bank balances | 11,927 | - | 11,927 |
| Short term deposits | 928 | - | 928 |
| Investments at fair value through profit or loss | - | 703 | 703 |
| Accounts receivable and other debit balances | 18,618 | 4 | 18,622 |
| Available for sale investments | 7,975 | 125,076 | 133,051 |
| Trading properties under development | 20,030 | - | 20,030 |
| Investment properties under development | 53,272 | - | 53,272 |
| Investment properties | 21,280 | - | 21,280 |
| Investments in associates | 129,667 | 665 | 130,332 |
| Property, plant and equipment | 21,395 | - | 21,395 |
| | 285,092 | 126,448 | 411,540 |

# 31- RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

## 31-4 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, the Group's management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The contractual maturities of financial liabilities based on undiscounted cash flows are as follows:

| | Up to 1 month KD'000 | 1-3 months KD'000 | 3-12 months KD'000 | 1 - 5 Years KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| **31 December 2016** | | | | | |
| **Financial liabilities (undiscounted)** | | | | | |
| Due to banks | **-** | **-** | **6,846** | **-** | **6,846** |
| Term loans | **-** | **445** | **120,990** | **84,175** | **205,610** |
| Accounts payable and other credit balances | **-** | **-** | **22,174** | **-** | **22,174** |
| Refundable rental deposits | **-** | **-** | **-** | **6,032** | **6,032** |
| | **-** | **445** | **150,010** | **90,207** | **240,662** |
| **31 December 2015** | | | | | |
| **Financial liabilities (undiscounted)** | | | | | |
| Due to banks | - | - | 8,279 | - | 8,279 |
| Term loans | - | 590 | 110,697 | 76,000 | 187,287 |
| Accounts payable and other credit balances | - | - | 12,250 | - | 12,250 |
| Refundable rental deposits | - | - | - | 2,623 | 2,623 |
| | - | 590 | 131,226 | 78,623 | 210,439 |

# 32- CAPITAL MANAGEMENT OBJECTIVES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of the following:

| | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| Due to banks | **6,846** | 8,279 |
| Term loans | **194,490** | 179,287 |
| Less: Cash and cash equivalents | **(21,410)** | (12,855) |
| Net debt | **179,926** | 174,711 |
| Equity attributable to owners of the Parent Company | **128,627** | 127,868 |
| Non-controlling interests | **75,465** | 79,911 |
| Total capital | **384,018** | 382,490 |

The Group monitors capital on the basis of the gearing ratio. This gearing ratio is calculated as net debt divided by total capital as follows:

| | **31 Dec. 2016 KD'000** | 31 Dec. 2015 KD'000 |
|---|---|---|
| Net debt | **179,926** | 174,711 |
| Total capital | **384,018** | 382,490 |
| Gearing ratio | **47%** | 46 % |

# 33- COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation of the consolidated financial statements. This reclassification has no effect on the consolidated financial statements of the previous year including equity, net profit and cash and cash equivalents.