

**ABYAAR REAL ESTATE DEVELOPMENT
COMPANY K.S.C.P. AND ITS SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of properties under development

The properties under development represent a significant proportion of the total assets of the Group. The disclosures relating to the assumptions and policy for recognition and measurement are given in the accounting policies section of the notes to the consolidated financial statements. The management of the Group engages professionally qualified external valuers to assess the recoverable value of its properties under development on an annual basis.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR
REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)**

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

Key Audit Matters (continued)

Impairment of properties under development (continued)

The recoverable amounts of the properties under development is assessed by the management of the Group by using market comparable approach which is based on market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the properties, and also taking into consideration the development plan, timing of sales, and the prevailing property market conditions. Management performs cost studies taking into account the costs incurred to date, the development status and costs to complete.

As part of our audit procedures, we assessed the objectivity of the valuation process and the competence, independence and integrity of the external valuers. We also evaluated the accuracy of the property data provided by the Group to the external valuers, which are used as input for the purpose of valuation. Furthermore, we reviewed the adequacy of the disclosures relating to the properties under development which is provided in Note 5 to the consolidated financial statements.

Valuation of the investment properties

Investment properties comprise of vacant lands in the United Arab Emirates held for capital appreciation. These properties are measured at fair value on an individual basis with any gains or losses arising from changes in fair value included in the consolidated statement of income in the period in which they arise. The management of the Group engages professionally qualified external valuers to assess the fair value of its investment properties on an annual basis.

The fair value of the investment properties is valued using market comparable approach which is based on market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the properties. The disclosures relating to the assumptions, estimates and the policy for recognition and measurement of investment properties are given in the accounting policies section of the notes to the consolidated financial statements. Given the significance of investment properties on overall consolidated financial statements, we have considered this as a key audit matter.

As part of our audit procedures, we assessed the objectivity of the valuation process and the competence, independence and integrity of the external valuers. We also evaluated the accuracy of the property data provided by the Group to the independent valuers, which are used as input for the purpose of valuation. We also assessed the appropriateness of the disclosures relating to the investment properties of the Group in Note 6 of the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)

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

Other information included in the Group's 2017 Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR
REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)**

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR
REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)**

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

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

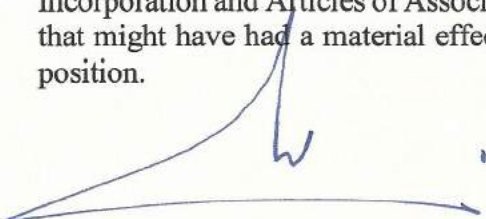
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER
LICENSE NO. 207 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

22 March 2018
Kuwait

Abyaar Real Estate Development Company K.S.C.P. and its Subsidiary

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Write back of liabilities no longer required	4	965,446	-
Other income		430	1,438,126
Gain on sale of property and equipment		-	251,767
Foreign exchange (loss) gain		(436,307)	452,595
Staff costs		(604,130)	(598,560)
General and administration expenses		(562,768)	(494,106)
Islamic finance costs		(1,531,015)	(1,958,092)
Unrealised loss on revaluation of investment property	6	(1,625,000)	(3,550,000)
Impairment loss on investment in associate	7	(200,000)	(543,581)
LOSS FOR THE YEAR		(3,993,344)	(5,001,851)
BASIC AND DILUTED LOSS PER SHARE	3	(3.63) fils	(4.55) fils

The attached notes 1 to 22 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C.P. and its Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 KD	2016 KD
Loss for the year	<u>(3,993,344)</u>	<u>(5,001,851)</u>
Other comprehensive (loss) income		
<i>Items of other comprehensive (loss) income that are or may be reclassified to the consolidated statement of income in the subsequent period:</i>		
Foreign currency translation adjustment	<u>(1,273,254)</u>	<u>585,320</u>
Other comprehensive (loss) income for the year	<u>(1,273,254)</u>	<u>585,320</u>
Total comprehensive loss for the year	<u><u>(5,266,598)</u></u>	<u><u>(4,416,531)</u></u>


The attached notes 1 to 22 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C.P. and its Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 KD	2016 KD
ASSETS			
Non-current assets			
Property and equipment		24,171	44,198
Properties under development	5	105,459,497	105,534,103
Investment properties	6	28,726,697	30,814,695
Investment in associates	7	4,967,669	5,313,100
Financial assets available for sale	8	2,590,908	2,622,318
Ijarah receivables	9	27,793,134	28,172,173
		<u>169,562,076</u>	<u>172,500,587</u>
Current assets			
Ijarah receivables	9	1,145,922	1,161,998
Accounts receivable and prepayments	10	9,072,811	10,160,600
Bank balances and cash	11	654,734	801,651
		<u>10,873,467</u>	<u>12,124,249</u>
TOTAL ASSETS		<u>180,435,543</u>	<u>184,624,836</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	12	110,727,500	110,727,500
Statutory reserve	13	1,473,038	1,473,038
Voluntary reserve	13	2,288	2,288
Treasury shares	14	(1,473,038)	(1,473,038)
Foreign currency translation reserve		5,985,333	7,258,587
Accumulated losses		(30,397,161)	(26,403,817)
Total equity		<u>86,317,960</u>	<u>91,584,558</u>
Non-current liabilities			
Islamic financing payables	15	22,744,624	28,752,499
Accounts payable and accruals	16	44,030,906	43,769,806
Employees' end of service benefits		430,096	371,707
		<u>67,205,626</u>	<u>72,894,012</u>
Current liabilities			
Islamic financing payables	15	19,717,408	12,933,787
Accounts payable and accruals	16	7,194,549	7,212,479
		<u>26,911,957</u>	<u>20,146,266</u>
Total liabilities		<u>94,117,583</u>	<u>93,040,278</u>
TOTAL EQUITY AND LIABILITIES		<u>180,435,543</u>	<u>184,624,836</u>


Marzooq R. Al-Rashdan
Chairman


Real Estate Development
أبيار للتطوير العقاري
www.abyaar.com

Abyaar Real Estate Development Company K.S.C.P. and its Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Foreign currency translation reserve KD	Accumulated losses KD	Total KD
As at 1 January 2017	110,727,500	1,473,038	2,288	(1,473,038)	7,258,587	(26,403,817)	91,584,558
Loss for the year	-	-	-	-	-	(3,993,344)	(3,993,344)
Other comprehensive loss for the year	-	-	-	-	(1,273,254)	-	(1,273,254)
Total comprehensive loss for the year	-	-	-	-	(1,273,254)	(3,993,344)	(5,266,598)
As at 31 December 2017	110,727,500	1,473,038	2,288	(1,473,038)	5,985,333	(30,397,161)	86,317,960
As at 1 January 2016	110,727,500	1,473,038	2,288	(1,473,038)	6,673,267	(21,401,966)	96,001,089
Loss for the year	-	-	-	-	-	(5,001,851)	(5,001,851)
Other comprehensive income for the year	-	-	-	-	585,320	-	585,320
Total comprehensive income (loss) for the year	-	-	-	-	585,320	(5,001,851)	(4,416,531)
As at 31 December 2016	110,727,500	1,473,038	2,288	(1,473,038)	7,258,587	(26,403,817)	91,584,558

The attached notes 1 to 22 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C.P. and its Subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
OPERATING ACTIVITIES			
Loss for the year		(3,993,344)	(5,001,851)
Adjustments for:			
Write back of liabilities no longer required	4	(965,446)	-
Gain on sale of property and equipment		-	(251,767)
Foreign exchange loss (gain)		436,307	(452,595)
Provision for (reversal of) employees' end of services benefits		107,013	(8,245)
Depreciation		20,027	42,909
Islamic finance costs		1,531,015	1,958,092
Unrealised loss on revaluation of investment property	6	1,625,000	3,550,000
Impairment loss on investment in associate	7	200,000	543,581
		(1,039,428)	380,124
Changes in working capital:			
Accounts receivable and prepayments		1,079,447	4,400,131
Accounts payable and accruals		537,367	496,196
Cash flows from operations		577,386	5,276,451
Employees' end of service benefits paid		(40,282)	-
Net cash flows from operating activities		537,104	5,276,451
INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		-	722,953
Proceeds from partial redemption and disposal of associates		145,431	-
Additions to properties under development	5	(1,385,777)	(3,893,815)
Payable to contractors and consultants		(238,925)	(3,090,215)
Deposits in restricted bank balances		(1,068,613)	(4,449,616)
Withdrawals from restricted bank balances		1,203,470	6,181,835
Net movement in financial assets available for sale		31,410	(38,824)
Movement in murabaha investment		-	431,000
Net cash flows used in investing activities		(1,313,004)	(4,136,682)
FINANCING ACTIVITY			
Net movement in Islamic financing payables		775,746	(1,146,204)
Cash flows from (used in) financing activity		775,746	(1,146,204)
DECREASE IN BANK BALANCES AND CASH		(154)	(6,435)
Bank balances and cash as at 1 January		185	6,620
BANK BALANCES AND CASH AS AT 31 DECEMBER	11	31	185

The attached notes 1 to 22 form part of these consolidated financial statements.

1 CORPORATE INFORMATION AND ACTIVITIES

The consolidated financial statements of Abyaar Real Estate Development Company K.S.C.P. (the "Parent Company") and its subsidiary (the "Group") for the year ended 31 December 2017 were authorised for issuance by the Parent Company's board of directors on 22 March 2018. The General Assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

The registered office of the Parent Company is located at Al Sour Tower, Al Sour Street, Al Qebala Area, P.O. Box 4238, Safat 13043, Kuwait.

The main activities of the Parent Company are as follows:

1. Owing, selling and buying real estate and lands as well as developing them for the Company's account inside Kuwait and abroad, also managing properties for others without breaching the provisions stipulated in the existing laws that prohibit trading in private residential plots as stipulated in these laws.
2. Owing, selling and buying shares and bonds of real estate companies only for the account of the Company inside Kuwait and abroad.
3. Preparing studies and offering consultations of all kinds of real estate fields if only the required conditions are met by the parties that perform such services.
4. Owing and managing hotels, health clubs, and touristic facilities as well as renting and leasing the same.
5. Performing maintenance works related to buildings and real estate owned by the Company and others including maintenance work, execution of civil, mechanical, electrical, elevators and air conditioning work to ensure the protection and safety of buildings.
6. Managing, operating, investing in, renting and leasing hotels, clubs, motels, guest houses, parks, gardens, showrooms, restaurants, cafeterias, housing complexes, touristic and health resorts, recreational and athletic projects and stores of all degrees and levels, inclusive of all main and auxiliary services and the accompanying facilities and other necessary services.
7. Organizing real estate exhibitions related to the Company's real estate projects in accordance with Ministry's applicable regulations.
8. Holding real estate auctions as per the Ministry's applicable regulations.
9. Owing and managing commercial malls and residential complexes.
10. Utilizing financial surpluses available to the Company by investing them in financial portfolios managed by specialized companies and entities.
11. Direct contribution to develop the infrastructure for areas as well as residential, commercial and industrial projects using the BOT system (build, operate and transfer) and managing real estate facilities.

2.1 FUNDAMENTAL ACCOUNTING CONCEPT

The Group has prepared the consolidated financial statements under the going concern concept of accounting. As stated in the Note 15, as at 31 December 2017, the Group was unable to meet on due dates its Islamic financing payables of approximately KD 7.7 million (2016: KD 3.7 million), and its current liabilities exceeded the current assets by approximately KD 17.2 million (2016: KD 8.1 million) at 31 December 2017. The management and the shareholders of the parent company have taken a number of actions to settle the Group's liabilities and obtain longer term funding; some of which are described below:

- During the year, the Parent Company has settled portion of its murabaha obligations amounting to KD 665 thousands.
- The Group is in discussion with remaining lenders to arrange for settlement, rescheduling and providing collateral coverage for its remaining murabaha payables.
- The Parent Company has active plans to sell some of the properties at current market values in the near future.

Based on the above, and the fact that the Group's total assets exceed its liabilities by approximately KD 86.3 million as at 31 December 2017, the management considers that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly the going concern basis continues to be adopted in preparing these consolidated financial statements.

2.2 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investment properties.

The consolidated financial statements have been presented in Kuwaiti Dinars (KD). However, the functional currency of the Parent Company is United Arab Emirate Dirham (UAE Dirham).

Statement of compliance

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

2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at 31 December 2017.

Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiary is prepared for the same reporting period as the Parent Company, using consistent accounting policies. The financial statements of subsidiary is consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-Group balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends are eliminated in full.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Detail of the subsidiary company is set out below:

<i>Company name</i>	<i>Country of incorporation</i>	<i>Equity interest as at</i>		<i>Principal activities</i>
		<i>31 December 2017</i>	<i>2016</i>	
Al Ain Al Ahlia for General Trading Company W.L.L.	Kuwait	99%	99%	Real estate activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.3 BASIS OF CONSOLIDATION (continued)

The Parent Company's effective interest in the subsidiary is 100%. Accordingly, the consolidated financial statement have been prepared on this basis. The remaining shares are held indirectly in the name of nominees on behalf of the Parent Company. The nominees have confirmed in writing that the Parent Company is the beneficial owner of the shares in the subsidiary.

2.4 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of the following new and amended standards effective as of 1 January 2017, the nature and impact of the amendments are described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The changes in financing activities including commercial and Islamic financing in the consolidated statement of cash flows are as follows:

	<i>1 January 2017</i> <i>KD</i>	<i>Net cash flows</i> <i>KD</i>	<i>31 December 2017</i> <i>KD</i>
Islamic financing payables	<u>41,686,286</u>	<u>775,746</u>	<u>42,462,032</u>
	<i>1 January 2016</i> <i>KD</i>	<i>Net cash flows</i> <i>KD</i>	<i>31 December 2016</i> <i>KD</i>
Islamic financing payables	<u>42,832,490</u>	<u>(1,146,204)</u>	<u>41,686,286</u>

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt those standards when they become effective.

IFRS 9: Financial Instruments:

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' that replaces IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in the financial year 2018, when the Group will adopt IFRS 9. In addition, the Group will implement changes in classification of certain financial instruments.

(a) Classification and measurement

The Group will reclassify financial assets available for sale amounting to KD 2,590,908 to financial assets carried at fair value through other comprehensive income. This reclassification will not result in a change in accumulated loss, as, the Group does not have any balance in fair value reserve as of 31 December 2017, since their investments were carried as cost less impairment.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all its investments, loans and receivables, either on a 12 month or lifetime basis. The Group will apply a simplified approach and record lifetime expected losses on all trade receivables and other receivables which management has assessed will not have a material impact on the consolidated financial statements of the Group.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(c) Hedge Accounting

The management does not expect any impact on the consolidated financial statements of the Group resulting from hedge accounting under IFRS 9 as currently, the Group has not entered into any such instruments.

(d) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group's assessment included an analysis to identify data gaps against current process and the Group is in process of implementing the system and controls changes that it believes will be necessary to capture the required data.

IFRS 15 – Revenue from Contracts with customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group has performed a detailed evaluation of all its revenue arrangements and conclude that no material impact is expected on the consolidated financial statement of the Group upon adoption of IFRS15.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right- of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of income.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and is in the process of evaluating the effect of IFRS 16 on the Group and do not expect any significant impact on adoption of this standard.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group does not anticipate material impact on the consolidated financial statements as all the debt instruments of the Group are measured at amortised cost.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 the consolidated income statement.

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 an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of investment properties

Sale of investment properties is recognised when the risk and rewards of ownership have passed to the buyer usually evidenced by transfer of title of the properties.

Dividend income

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

Ijarah income

Ijarah income is recognized on a time proportion basis so as to yield a constant periodic rate of return based on the balance outstanding.

Islamic finance costs

Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognized as an expense in the period in which they are incurred.

Leases

Leases where the Group is lessee

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

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognised as expense on straight line basis over the lease term.

Certain property interests held for investment purposes by the Group under operating lease are classified as investment properties and accounted for as if they were in the nature of finance leases.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Leases where the Group is lessor

Leases where the Group transfers substantially all the risks and benefits of ownership of the asset are financial leases and structured in the form of Ijarah receivables.

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of profit before deductions for the year. As per law, income from associates, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Zakat

The Group calculates Zakat in accordance with the requirements of Law No. 46 of 2006 at 1% of profit before deductions for the year.

Property and equipment

Property and equipment is stated at cost, less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives as follows:

• Buildings	30 years
• Furniture and fixtures	3 years
• Computers	1-4 years
• Vehicles	3- 5 years

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

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

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

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Properties under development

Properties under development are developed for future sale in the ordinary course of business, rather than to be held for rental or capital appreciation and are stated at cost less impairment. Upon completion these are transferred to trading properties. Cost includes freehold rights for land, amounts paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value using market comparison approach, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise. Under market comparison approach, fair value is estimated based on comparable transactions. The market comparison approach is based upon the principal of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre ('sqm') Fair values are evaluated by an accredited external, independent valuer.

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

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 and equipment up to the date of change in use.

Investment in associates

Investment in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

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

The financial statements of the associates are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset or Group of assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's realizable value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash - generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets and liabilities

The Group recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. All regular way purchase of financial assets is recognized using the trade date accounting. Financial assets and liabilities are measured initially at fair value (transaction price in an arm's length terms) plus directly attributable transaction costs.

Accounts receivable and prepayments

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Bank balances and cash

For the purpose of the consolidated cash flows statement, bank balances and cash consist of cash on hand, bank balances and restricted bank balances.

Financial assets available for sale

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

After initial recognition financial assets available for sale are measured at fair value with gains and losses being recognised through other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in other comprehensive income is recycled in the consolidated statement of income. Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Ijarah receivables

Ijarah receivables arise from financing structure when the purchase and immediate lease of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Ijarah receivables are carried at the aggregate of the minimum lease payments due, less deferred income and impairment losses.

Murabaha payables

Murabaha payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated at the total amount of the payable less profit deferred. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Accounts payable and other liabilities

Accounts payable and other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

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

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

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

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

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

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

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

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

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

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

De-recognition of financial assets and liabilities

Financial assets

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

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

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

De-recognition of financial assets and liabilities (continued)

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same creditor 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 recognized in the consolidated statement of income.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine, in case of financial asset, whether there is objective evidence that a specific financial asset may be impaired and, in case of other assets, whether there is an indication that a specific asset may be impaired. A financial asset or a Group of financial assets are impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. If such evidence or indication exists, any impairment loss is recognised in the consolidated statement of income.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Impairment is determined as follows:

- (a) for assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective rate of return;
- (b) for assets carried at fair value, impairment is the difference between cost and fair value; and
- (c) for assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For non equity financial assets the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. For financial assets available for sale, the asset is written down and subsequent increases are reflected in consolidated statement of comprehensive income.

In addition, a provision is made to cover impairment for specific group of assets where there is a measurable decrease in estimated future cash flows.

Reversal of impairment losses is recorded when there is an indication that the impairment losses recognised for the asset no longer exists or has decreased. The reversal of impairment losses are recognised in the consolidated statement of income except for financial assets available for sale which are recognised in the consolidated statement of comprehensive income. Financial assets are written off when there is no realistic prospect of recovery.

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 financial assets and settle the financial liabilities simultaneously.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

Treasury shares consist of the Parents Company's own shares that have been issued, subsequently reacquired by the Group and not yet sold or cancelled. The treasury shares are accounted for using the cost method. When treasury shares are sold, gains are credited to a separate equity account (treasury shares reserve), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Employees' end of service benefits

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

Provisions

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

Foreign currencies

Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at rate of exchange ruling on the reporting date. All exchange differences are taken to the consolidated statement of income.

Non-monetary items denominated in foreign currencies measured in terms of historical cost are translated using the exchange rates as at the date of the initial transaction. Non-monetary items denominated in foreign currencies and measured at fair value are translated using the exchange rate at the date when the fair value was determined.

On consolidation, assets and liabilities of foreign entities are translated into Kuwaiti Dinars at the year-end rates of exchange and the results of these entities are translated into Kuwaiti Dinars using average rates of exchange for the year. The exchange differences arising on the translation are recognised in other comprehensive income.

The functional currency is UAE Dirham. All exchange differences arising from the translation of functional currency to presentation currency are recognised, in the statement of comprehensive income.

Contingencies

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

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

2.7 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

**2.7 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS POLICIES
(continued)**

Judgements

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

Classification of real estate

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

The Group classifies property as trading property if it is acquired or developed principally for sale in the ordinary course of business.

The Group classifies property as investment property if it is acquired or developed or is in the process of development to generate rental income or for capital appreciation, or for undetermined future use.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as carried at fair value through income statement or financial assets available for sale. All investments of the Group are classified as financial assets available for sale.

Impairment of investments

The Group treats financial assets available for sale 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date are discussed below:

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Valuation of investment properties

Valuation of investment properties are based on the valuation made by two independent valuer who holds a recognised and relevant professional qualifications and relevant experience.

Impairment of accounts receivable

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

Properties under construction

Properties under construction are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset.

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

Abyaar Real Estate Development Company K.S.C.P. and its Subsidiary

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3 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss for the year by the weighted average number of shares outstanding during the year less treasury shares.

	2017	2016
Loss for the year (KD)	<u>(3,993,344)</u>	<u>(5,001,851)</u>
Weighted average number of shares outstanding during the year, net of treasury shares	<u>1,099,525,000</u>	<u>1,099,525,000</u>
Basic and diluted loss per share	<u>(3.63) fils</u>	<u>(4.55) fils</u>

As there are no dilutive potential ordinary shares basic and diluted loss per share are identical.

4 WRITE BACK OF LIABILITIES NO LONGER REQUIRED

During the year, the management of the Parent Company reversed payables that have been outstanding for more than 9 years and were no longer required, based on the advice from their internal legal counsel.

5 PROPERTIES UNDER DEVELOPMENT

	2017 KD	2016 KD
As at 1 January	105,534,103	31,553,402
Additions	1,385,777	3,893,815
Transfer from investment properties (Note 6)	-	69,155,626
Foreign currency adjustments	<u>(1,460,383)</u>	<u>931,260</u>
As at 31 December	<u>105,459,497</u>	<u>105,534,103</u>

Properties under development represent the cost of freehold properties and subsequent development cost incurred by the Group. The properties are located in the United Arab Emirates.

At the reporting date, properties under development with a carrying value of KD 104,215,784 (2016: KD 104,272,942) are mortgaged as collateral against Islamic financing payables (Note 15).

6 INVESTMENT PROPERTIES

	2017 KD	2016 KD
As at 1 January	30,814,695	103,236,569
Transfer to properties under development (Note 5)	-	(69,155,626)
Unrealised loss on revaluation	<u>(1,625,000)</u>	<u>(3,550,000)</u>
Foreign currency adjustments	<u>(462,998)</u>	<u>283,752</u>
As at 31 December	<u>28,726,697</u>	<u>30,814,695</u>

Included in investment properties are certain properties amounting to KD 11,500,700 (2016: KD 13,347,036) for which legal titles have not been transferred in the name of the Group by the vendor. The vendor has confirmed in writing that the Parent Company is the beneficial owner of these properties.

At the reporting date, investment properties with a carrying value of KD 4,496,133 (2016: KD 4,559,209) are mortgaged as collateral against Islamic financing payables (Note 15).

The Group's investment properties were revalued at 31 December 2017 based on valuations obtained from two independent professionally qualified valuers. The valuation of the properties has been determined based on comparable market values for similar properties and are classified under level 2 of fair value hierarchy (Note 22).

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7 INVESTMENT IN ASSOCIATES (continued)

b) Other associates are individually immaterial and are either fully impaired or under liquidation.

* The Parent Company exercises significant influence (even though the percentage of ownership is less than 20%) over the above investments in associate, through representation on the Board of Directors of this entity and joint participation in major business transactions.

* On 18 September 2014, the Extraordinary General Assembly of Abyaar Qatar Real Estate Development Company K.S.C. (Closed) decided to liquidate the Company. Accordingly the Group received an amount of KD 2,676,402 as liquidation settlement and the only amount remaining is KD 143,390 (2016: KD 420,874) which the Group Management believes is recoverable on the final settlement, after recording an impairment amounting to KD 200,00 (2016: KD Nil) in the consolidated statement of income.

8 FINANCIAL ASSETS AVAILABLE FOR SALE

These represent investments in unquoted equity securities amounting to KD 2,590,908 (2016: KD 2,622,318) and are carried at cost, less impairment, if any, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. There is no active market for these financial assets and the Group intends to hold them for the long term. Management has performed a review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments and concluded that there are no indicator of further impairment on these financial assets available for sale (2016: Nil).

Financial assets available for sale amounting to KD 1,500,000 (2016: KD 1,500,000) are mortgaged as collateral against Islamic financing payables (Note 15).

9 IJARAH RECEIVABLES

	2017 KD	2016 KD
Gross amount	34,883,741	35,362,982
Less: deferred profit payable	<u>(5,944,685)</u>	<u>(6,028,811)</u>
	<u>28,939,056</u>	<u>29,334,171</u>

Ijarah receivables amounting to KD 27,793,134 (2016: 28,172,173) is classified as non-current assets in the consolidated statement of financial position.

Ijarah receivables represent sublease of certain plots of land to a third party which were held under operating leases and were classified and accounted for as investment properties by the Group.

Ijarah receivable is secured and carry profit at an average rate of 1.9% (2016: 1.9%) per annum.

The counter party has defaulted on Ijara receivables instalments. The fair value of the Sublease is higher than the carrying value of the receivables.

Ijarah receivable is due for collection on a semiannual basis starting form 31 December 2012 to 30 June 2039.

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2017 KD	2016 KD
Receivable from customers	4,507,220	5,523,411
Prepaid expenses and commissions	946,569	961,194
Advance for purchase of property and equipment	2,241,434	2,272,879
Other receivables	<u>1,377,588</u>	<u>1,403,116</u>
	<u>9,072,811</u>	<u>10,160,600</u>

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11 BANK BALANCES AND CASH

	2017 KD	2016 KD
Bank balances and cash	654,734	801,651
Less: restricted bank balances	<u>(654,703)</u>	<u>(801,466)</u>
Bank balances and cash for the purpose of consolidated statement of cash flows	<u>31</u>	<u>185</u>

Restricted bank balances represent amounts held in escrow accounts. The Group cannot use these amounts until fulfilment of obligations related to construction and completion of certain projects.

12 SHARE CAPITAL

At 31 December 2017, issued and fully paid up capital of the Parent Company is 1,107,275,000 shares (2016: 1,107,275,000 shares) of 100 fils each paid fully in cash.

13 RESERVES

a) Statutory reserve

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

b) Voluntary reserve

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

14 TREASURY SHARES

	2017	2016
Number of treasury shares	7,750,000	7,750,000
Percentage of issued shares	<u>0.7%</u>	<u>0.7%</u>
Market value (KD)	<u>157,325</u>	<u>178,250</u>

Reserves of the Parent Company equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable in the Parent Company.

15 ISLAMIC FINANCING PAYABLES

	2017 KD	2016 KD
Gross amount	43,580,468	43,378,184
Less: deferred profit payable	<u>(1,118,436)</u>	<u>(1,691,898)</u>
	<u>42,462,032</u>	<u>41,686,286</u>
Classified as		
Current	19,717,408	12,933,787
Non-current	<u>22,744,624</u>	<u>28,752,499</u>
	<u>42,462,032</u>	<u>41,686,286</u>

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15 ISLAMIC FINANCING PAYABLES (continued)

The effective rate of profit payable vary from 4.5% to 7.0% (2016: 4.5% to 7.0%) per annum.

Islamic financing payables amounting to KD 37,416,106 (2016: KD 35,936,112) are secured by way of collaterals in the form of properties under development amounting to KD 104,215,784 (2016: KD 104,272,942) (Note 5), investment properties amounting to KD 4,496,133 (2016: KD 4,559,209) (Note 6), investment in associates amounting to KD 4,824,279 (2016: KD 4,892,226) (Note 7), and financial assets available for sale amounting to KD 1,500,000 (2016: KD 1,500,000) (Note 8).

During the year, the Group has not settled installments of Islamic financing payables amounting to KD 7,662,262 (2016: KD 3,728,339) and is currently in process of rescheduling these payments.

16 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Advances from customers	44,030,906	43,769,806
Accrued expenses and other payables	983,898	744,972
Payable on purchase of investment properties	1,278,173	1,296,105
Payable to contractors and consultants	4,932,478	5,171,402
	<u>51,225,455</u>	<u>50,982,285</u>
Classified as		
Current	7,194,549	7,212,479
Non-current	44,030,906	43,769,806
	<u>51,225,455</u>	<u>50,982,285</u>

17 RELATED PARTY TRANSACTIONS

Related parties represent associates, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties.

These represent transactions with certain parties entered into by the Group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Parent Company's management.

There were no balances and transactions with related parties included in the consolidated statement of financial position and consolidated statement of income as at and for the year ended 31 December 2017.

Key management compensation:

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Short term benefits	257,925	297,357
Employees' end of service benefits	77,638	92,645
Total	<u>335,563</u>	<u>390,002</u>

18 COMMITMENTS

At 31 December 2017 the Group has commitments related to future capital expenditure amounting to KD 10,858,504 (2016: KD 10,690,670).

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19 SEGMENT INFORMATION

For management purpose the Group is organised into three major geographical segments:

- United Arab Emirates ("UAE")
- Kuwait
- Other countries

Management monitors the operating results of its geographical units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on return on investments. The Group does not have any inter-segment transactions.

	UAE		Kuwait		Other countries		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	KD	KD	KD	KD	KD	KD	KD	KD
Segment revenue	811,539	1,689,893	154,337	-	-	-	965,876	1,689,893
Segment expenses	(626,888)	(499,103)	(2,707,332)	(2,642,641)	(1,625,000)	(3,550,000)	(4,959,220)	(6,691,744)
Segment result	184,651	1,190,790	(2,552,995)	(2,642,641)	(1,625,000)	(3,550,000)	(3,993,344)	(5,001,851)
Segment assets	163,531,863	165,458,775	5,402,980	5,819,025	11,500,700	13,347,036	180,435,543	184,624,836
Segment liabilities	57,974,746	57,377,529	36,142,837	35,662,749	-	-	94,117,583	93,040,278
Commitments and capital expenditures	10,858,504	10,690,670	-	-	-	-	10,858,504	10,690,670

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20 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group achieving profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into profit rate risk and currency risk. It is also subject to operational risks.

The Board of Directors of the Parent Company are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

20.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group monitors credit exposures and continually assesses the creditworthiness of counterparties.

	<i>2017</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>
Ijarah receivables (Note 9)	28,939,056	29,334,171
Accounts receivable and prepayments* (Note 10)	8,126,242	9,199,406
Bank balances (Note 11)	654,734	801,651
Total	<u>37,720,032</u>	<u>39,335,228</u>

* Excluded from accounts receivable and prepayments are prepaid expenses and commissions of KD 946,569 for the year ended 31 December 2017 (2016: KD 961,194).

Maximum exposure to credit risk

The Group's policy is to enter into arrangements only with recognised, creditworthy counter parties. The maximum exposure with respect to credit risk arising from financial assets of the Group, which comprise accounts receivables, Ijarah receivables and bank balances, is equal to the carrying amount of these instruments.

Risk concentrations of the maximum exposure to credit risk

The maximum credit exposure to any client or counterparty as of 31 December 2017 was KD 1,740,649 (2016: KD 1,950,005) before taking account of collateral or other credit enhancements.

The Group's receivable is primarily from clients located in United Arab Emirates.

Collateral and other credit enhancements

Receivable from customers are secured by way of title documents of the property.

Credit quality for class of financial assets that are neither past due nor impaired

Neither internal credit grading system nor external credit grades are used by the Group to manage the credit quality of receivables. Receivable balances are monitored on an ongoing basis.

Financial asset by class that are individually impaired

	<i>Gross Exposure</i>	<i>Impairment provision</i>
	<i>KD</i>	<i>KD</i>
2017		
Accounts receivable	1,740,649	-
Total	<u>1,740,649</u>	<u>-</u>
2016		
Accounts receivable	1,950,005	-
Total	<u>1,950,005</u>	<u>-</u>

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20 RISK MANAGEMENT (continued)

20.2 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, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately and are included in less than three months.

Financial liabilities	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
2017				
Islamic financing payables	6,163,600	14,091,233	23,325,635	43,580,468
Accounts payables and accruals*	469,845	6,724,704	-	7,194,549
Total	6,633,445	20,815,937	23,325,635	50,775,017
2016				
Islamic financing payables	3,493,489	10,143,503	29,741,192	43,378,184
Accounts payables and accruals*	476,436	6,736,043	-	7,212,479
Total	3,969,925	16,879,546	29,741,192	50,590,663

* Excluded from accounts payable and accruals are advances from customers amounting to KD 44,030,906 for the year ended 31 December 2017 (2016: KD 43,769,806).

20.3 Market Risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Market risks arise for open positions in profit, currency and equity product, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rate foreign exchange rates and equity prices. Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and the directors' estimate of long and short term changes in fair value.

20.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit will affect future cash flows or the fair values of financial instruments. The Group's borrowings are in the form of Murabaha and Ijarah which are Islamic financing instruments with a fixed rate of profit. Consequently the Group is not exposed to profit risk.

20.3.2 Currency risk

Currency risk is managed on the basis of limits determined by the Parent Company's Board of Directors' and a continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is a minimal risk of losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

The effect on loss (due to change in the fair value of monetary assets and liabilities), as a result of change in currency rate, with all other variables held constant is shown below:

	<i>Currency</i>	<i>Change in currency rate in %</i>	<i>Effect on result KD</i>
2017	KD	+/- 1	188,838
2016	KD	+/- 1	552,098

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20 RISK MANAGEMENT (continued)

20.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

21 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, Islamic financing payables, accounts payables and accruals, less bank balances and cash.

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Islamic financing payables (Note 15)	42,462,032	41,686,286
Less: bank balance and cash (Note 11)	<u>(654,734)</u>	<u>(801,651)</u>
Net debt	41,807,298	40,884,635
Equity	<u>86,317,960</u>	<u>91,584,558</u>
Capital and net debt	<u>128,125,258</u>	<u>132,469,193</u>
Gearing ratio	<u>33%</u>	<u>31%</u>

22 FAIR VALUE MEASUREMENTS

Determination of fair value and fair value hierarchy:

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

	<i>Significant observable inputs (Level 2) KD</i>	<i>Total KD</i>
31 December 2017		
Investment properties (Note 6)	<u>28,726,697</u>	<u>28,726,697</u>
31 December 2016		
Investment properties (Note 6)	<u>30,814,695</u>	<u>30,814,695</u>

Level 2 hierarchy

The fair value of investment properties under the Level 2 hierarchy were determined using the market comparable approach, conducted by valuers considering recent transaction prices of the property and similar properties. Market price per square meter and annual income are the significant observable market inputs to the valuation.

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22 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group's financial assets available for sale are carried at cost less impairment.

For other financial assets and financial liabilities carried at amortized cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or re-priced immediately based on market movement in profit rates.