

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING)  
AND ITS SUBSIDIARY  
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
WITH  
INDEPENDENT AUDITOR'S REPORT

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING)  
AND ITS SUBSIDIARY  
STATE OF KUWAIT

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WITH  
INDEPENDENT AUDITOR'S REPORT

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## INDEPENDENT AUDITOR'S REPORT

The Shareholders  
Dar Al Dhabi Holding Company K.S.C. (Holding)  
State of Kuwait

### Report on the Audit of the Consolidated Financial Statements

#### Qualified Opinion

We have audited the consolidated financial statements of Dar Al Dhabi Holding Company K.S.C. (Holding). (the "Parent Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

#### Basis for Qualified Opinion

As mentioned in Note 4 (a) to the accompanying consolidated financial statements, trade payables include an amount of KD 23,801,512 (AED 285,198,846) that represent the remaining amount payable to the Master Developer on the acquisition of properties under development and for which the Master Developer has claimed interest and other charges amounting to KD 10,062,244 (AED 120,569,669) from the Parent Company's subsidiary on account of delay in settlement of the outstanding balance as per the terms of contract. The Parent Company's subsidiary is not in agreement with the claims of the Master Developer and has not accounted for the interest due and other charges in the books of account. Due to the uncertainty surrounding the settlement of interest and other charges by the Group, we were unable to ascertain the final liability due to the Master Developer as of December 31, 2016. Consequently, we were unable to determine whether any adjustments to the carrying value was necessary.

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

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### Material Uncertainty Related To Going Concern

We draw attention to Note (18) in the consolidated financial statements, which indicates that the Group's current liabilities exceeded its current assets by KD 26,258,931. As stated in Note (18), this condition, along with other matters as set forth in Note (18), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

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

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

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

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

#### Report on Other Legal and Regulatory Requirements

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

State of Kuwait  
April 12, 2017



Nayef M. Al Bazie  
Licence No. 91-A  
RSM Albazie & Co.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2016  
(All amounts are in Kuwaiti Dinars)

<u>ASSETS</u>	Note	2016	2015
<b>Current assets:</b>			
Cash on hand and at banks		6,875	5,835
<b>Total current assets</b>		<u>6,875</u>	<u>5,835</u>
<b>Non-current assets:</b>			
Properties under development	3	76,177,682	75,559,384
<b>Total non-current assets</b>		<u>76,177,682</u>	<u>75,559,384</u>
<b>Total assets</b>		<u><u>76,184,557</u></u>	<u><u>75,565,219</u></u>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities</b>			
Accounts payable and other credit balances	4	26,265,806	26,079,153
<b>Total current liabilities</b>		<u>26,265,806</u>	<u>26,079,153</u>
<b>Non-current liabilities:</b>			
Revenue received in advance	5	5,970,077	5,921,620
Due to a related party	6	7,753,908	7,538,492
Provision for end of service indemnity	7	1,496	3,379
<b>Total non-current liabilities</b>		<u>13,725,481</u>	<u>13,463,491</u>
<b>Total liabilities</b>		<u>39,991,287</u>	<u>39,542,644</u>
<b>Equity:</b>			
Share capital	8	100,000,000	100,000,000
Share premium	9	4,950,000	4,950,000
Statutory reserve	10	22,739	22,739
Voluntary reserve	11	22,739	22,739
Foreign currency translation adjustments		(802,229)	(753,773)
Accumulated losses		<u>(67,999,979)</u>	<u>(68,219,130)</u>
<b>Total equity</b>		<u>36,193,270</u>	<u>36,022,575</u>
<b>Total liabilities and equity</b>		<u><u>76,184,557</u></u>	<u><u>75,565,219</u></u>

The accompanying notes (1) to (18) form an integral part of the consolidated financial statements.

  
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Mohamed Hamad Al-Mutawa  
Chairman

  
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Faisal Ali Al-Mutawa  
Vice Chairman

**DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
 (All amounts are in Kuwaiti Dinars)

	Note	2016	2015
<b>Revenue:</b>			
Impairment loss reversal on properties under development	3	618,298	1,206,212
Other income		2,465	-
		<u>620,763</u>	<u>1,206,212</u>
<b>Expenses and other charges:</b>			
General and administrative expenses	13	42,244	99,778
Finance costs	6	135,370	135,000
Foreign exchange loss	14	223,998	969,046
		<u>401,612</u>	<u>1,203,824</u>
<b>Net profit for the year</b>		<u>219,151</u>	<u>2,388</u>

The accompanying notes (1) to (18) form an integral part of the consolidated financial statements.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(All amounts are in Kuwaiti Dinars)

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	2016	2015
Net profit for the year	<u>219,151</u>	<u>2,388</u>
<b>Other comprehensive loss:</b>		
<u>Items that may be reclassified subsequently to profit or loss</u>		
Exchange differences on translating foreign operations	<u>(48,456)</u>	<u>(209,623)</u>
<b>Other comprehensive loss for the year</b>	<u>(48,456)</u>	<u>(209,623)</u>
<b>Total comprehensive income (loss) for the year</b>	<u><u>170,695</u></u>	<u><u>(207,235)</u></u>

The accompanying notes (1) to (18) form an integral part of the consolidated financial statements.



DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts are in Kuwaiti Dinars)

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Foreign currency translation adjustments	Accumulated losses	Total
Balance as at December 31, 2014	100,000,000	4,950,000	22,739	22,739	(544,150)	(68,221,518)	36,229,810
Total comprehensive (loss) income for the year	-	-	-	-	(209,623)	2,388	(207,235)
Balance as at December 31, 2015	100,000,000	4,950,000	22,739	22,739	(753,773)	(68,219,130)	36,022,575
Total comprehensive (loss) income for the year	-	-	-	-	(48,456)	219,151	170,695
Balance as at December 31, 2016	100,000,000	4,950,000	22,739	22,739	(802,229)	(67,999,979)	36,193,270

The accompanying notes (1) to (18) form an integral part of the consolidated financial statements.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(All amounts are in Kuwaiti Dinars)

	2016	2015
<b>Cash flows from operating activities:</b>		
Net profit for the year	219,151	2,388
Adjustments for:		
Impairment loss reversal on properties under development	(618,298)	(1,206,212)
Provision for end of service indemnity	345	1,673
Finance costs	135,370	135,000
Foreign exchange loss	223,998	969,046
	<u>(39,434)</u>	<u>(98,105)</u>
Changes in operating assets and liabilities:		
Accounts payable and other credit balances	(6,531)	9,967
Net movement in related party balances	49,233	90,811
Cash generated from operations	<u>3,268</u>	<u>2,673</u>
Payment of end of service indemnity	<u>(2,228)</u>	<u>-</u>
Net cash generated from operating activities	<u>1,040</u>	<u>2,673</u>
Net increase in cash on hand and at banks	1,040	2,673
Cash on hand and at banks at the beginning of the year	<u>5,835</u>	<u>3,162</u>
Cash on hand and at banks at the end of the year	<u>6,875</u>	<u>5,835</u>

The accompanying notes (1) to (18) form an integral part of the consolidated financial statements.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(All amounts are in Kuwaiti Dinars)

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1. Incorporation and activities of the Parent Company

Dar Al Dhabi Holding Company (the Parent Company) is a Kuwaiti shareholding company incorporated through an agreement No. 6601/Vol. 1 dated August 30, 2004. The Parent Company's commercial registration number is 103326 dated October 23, 2005 and its latest amendment on July 1, 2015.

The objectives of the Parent Company are:

- a) Own shares of Kuwaiti or foreign shareholding companies, shares or stocks of Kuwaiti or foreign limited liability companies or participate in the incorporation and management of these types of companies including lending and guarantee activities.
- b) Granting loans to companies in which the Company is a shareholder and guarantee them provided that the Company's share in the borrowing company's capital shall not be less than 20%.
- c) Own industrial property rights including patents, industrial trademarks, industrial fees or any other rights related thereto and leasing the same to other companies for usage inside and outside Kuwait.
- d) Own tangible assets and real estates required to conduct its activities as permitted by the law.
- e) Use available surplus in the investment of financial portfolios managed by specialized companies and entities.

The Parent Company may conduct the aforementioned business inside and outside Kuwait as a principal or an agent. The Parent Company may have interest or participate in any manner in entities conducting similar activities or assist them in achieving their objectives inside or outside Kuwait. Also, it may establish, participate or purchase such entities or have them annexed to it.

Dar Al Dhabi Holding Co. K.S.C. (Holding) (the Parent Company) is a subsidiary of Bayan Investment Company K.S.C. (Public) (the Ultimate Parent Company).

The Parent Company is located in Suad Commercial Building, Fahad Al-Salem St., Area 12, Building No. 21 and its registered address is P.O. Box No. 104, Al Dasma 35151, State of Kuwait.

The new Companies Law No. 1 of 2016 was issued on January 24, 2016 and it was published in the Official Gazette on February 1, 2016, which replaced the Companies Law No 25 of 2012 and its amendments. According to Article No. 5, the new Law will be effective retrospectively from November 26, 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on July 12, 2016 and was published in the Official Gazette on July 17, 2016 which cancelled the Executive Regulations of Law No. 25 of 2012. The adoption of the new Companies Law and its executive regulations is not expected to have any effect on the reporting entity.

The consolidated financial statements were approved for issue by the Board of Directors on April 12, 2017. The Shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

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

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars which is the functional currency of the Parent Company and are prepared under the historical cost convention.

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(All amounts are in Kuwaiti Dinars)

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

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

#### Amendments to standards issued and effective

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

#### Amendments to IAS 27 – Equity method in separate financial statements

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

#### Amendments to IAS 1 – Disclosure Initiative

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

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

#### Amendments to IFRS 7 – Financial Instruments: Disclosures

The amendments to this standard are effective for annual periods beginning on or after January 1, 2016. They clarify that for servicing agreements, if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. IFRS 7 provides guidance on what is meant by continuing involvement in this context, and adds specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. Another amendment to IFRS 7 clarifies that the additional disclosure required by the amendments to IFRS 7 is not specifically required for all interim periods, unless required by IAS 34.

The above mentioned amendments did not have any material impact on the consolidated financial statements.

#### Standards issued but not effective

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

Amendment to IAS 7 – Disclosure Initiative

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

IFRS 9 - Financial Instruments

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

IFRS 15 - Revenue from contracts with customers

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

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

This standard applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

The application of the above standards and amendments are not expected to have a material impact on the consolidated financial statements.

b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and the following subsidiary (together the "Group"):

<u>Name of subsidiary</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>Percentage of holding</u>	
			<u>2016</u>	<u>2015</u>
Dar Al Dhabi Real Estate Co. (K.S.C.C.) and its wholly owned subsidiary: Emirates Dar Al Dhabi Real Estate Co. (L.L.C.)	Kuwait	Real estate	99%	99%

Subsidiaries (investees) are those enterprises controlled by the Parent Company. Control is achieved when the Parent Company:

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

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts are in Kuwaiti Dinars)

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

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

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

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

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

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

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

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

c) Financial instruments

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

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

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash on hand and at banks, payable and due to a related party.

Financial liabilities

(i) Accounts payable

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

d) Properties under development

Properties acquired, constructed or in the course of construction for sale are classified as properties under development. Unsold properties are stated at cost. Sold properties in the course of development are stated at cost plus attributable profit/loss less progress billings. The cost of properties under development includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property. The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed. At that stage, the total asset value is eliminated from properties under development.

e) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

f) Provision for end of service indemnity

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

g) Provisions

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

h) Capital

Ordinary shares are classified as equity.

i) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Group's activities.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale and services rendered have been resolved.

(i) Sale of properties under development

- When the agreement is within the scope of IAS 11 – construction contracts and its outcome can be estimated reliably, the Group recognizes the revenue by reference to the stage of completion of the contract activity in accordance with IAS 11 – construction contracts.
- When the agreement is within the scope of IAS 18 – Revenue, the Group recognizes revenue at time of completion, when the significant risks and rewards of ownership of real estate are being transferred from Group at a single time.
- If the significant risks and rewards of ownership are transferred as when construction progresses, the Group recognize revenue by reference to the percentage of completion method.

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

(ii) Other income and expenses

Other income and expenses are recognized on an accrual basis.

j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are expense in the consolidated statement of profit or loss in the period in which they are incurred.



k) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated statement of profit or loss for the period.

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

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

Contribution to KFAS is calculated at 1% of the profit of the Parent Company before contribution to KFAS, Zakat and Board of Directors' remuneration and after deducting accumulated losses, its share of income from Kuwaiti shareholding subsidiaries and transfer to statutory reserve. There is no contribution to KFAS until the accumulated losses are fully set off.

m) Zakat

Zakat is calculated at 1% of the profit of the Parent Company before contribution to KFAS, Zakat and Board of Directors' remuneration and after deducting its share of Zakat paid by Kuwaiti shareholding subsidiary in accordance with Law No. 46 for the year 2006 and the Ministerial of Finance Resolution No. 58 for the year 2007 and their Executive Regulations. No Zakat has been provided since there was no eligible profit on which Zakat could be calculated.

n) Contingencies

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

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

o) Critical accounting estimates and judgments

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

### Judgments

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

(i) Revenue recognition

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

(ii) Classification of land

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

1) Properties under development

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

2) Work in progress

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

3) Properties held for trading

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

4) Investment properties

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

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of non-financial assets

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

(ii) Impairment of properties under development

Properties under development are measured at the lower of cost and net realizable value. When there is an impairment indication, an estimate is made of their net realizable value. Estimation is performed based on expected selling prices, fair market value or with reference to recent market transactions of similar properties less incremental costs for disposing of the asset. Any difference between the net realizable value and carrying value is recognized in the consolidated statement of profit or loss.

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3. Properties under development

Properties under development represent plots of land located in Reem Island - Abu Dhabi (UAE) and held with a view to be developed for sale in the future as residential apartments, offices and retail outlets. Based on the management assessment, the estimated cost of the project is AED 3,508,594,819 (KD 292,812,763). The transfer of ownership as per paragraph No. 7.2 of the contract will be done upon full payment and completion of the development work.

Properties under development are as follows:

	<u>2016</u>	<u>2015</u>
Lands	134,104,463	134,104,463
Consultancy and design	5,786,416	5,786,416
Impairment loss reversal on properties under development	<u>(63,713,197)</u>	<u>(64,331,495)</u>
	<u>76,177,682</u>	<u>75,559,384</u>

The movement during the year is as follows:

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the year	75,559,384	74,152,102
Additions	-	201,070
Impairment reversal on properties under development	<u>618,298</u>	<u>1,206,212</u>
Balance at the end of the year	<u>76,177,682</u>	<u>75,559,384</u>

Impairment loss reversal on properties under development for the year ended December 31, 2016 had been recorded based on the lowest of the valuations carried out by two independent valuers. In estimating the fair value of the properties under development, the market value approach has been used, considering the nature and usage of the properties under development.

4. Accounts payable and other credit balances

	<u>2016</u>	<u>2015</u>
Trade payables (a)	26,253,727	26,060,543
Accrued expenses	11,710	9,233
Accrued staff leave	<u>369</u>	<u>9,377</u>
	<u>26,265,806</u>	<u>26,079,153</u>

(a) Trade payables include KD 23,801,512 (AED 285,198,846) (December 31, 2015: KD 23,608,327 (AED 285,198,846)) that represent the remaining amount payable to the Master Developer on the acquisition of properties under development which is overdue as at December 31, 2016. As per the Master Developer's lawyer notice received by the Parent Company's subsidiary to settle the outstanding balance, the Master Developer has claimed interest and other charges amounting to KD 10,062,244 (AED 120,569,669) on the overdue balance for which the Parent Company's subsidiary is not in agreement and accordingly has not accounted the interest due and other charges in the books of account. The Group's management is currently in negotiations with the Master Developer for settlement of the overdue balance and related charges.

5. Revenue received in advance

Revenue received in advance represents advances from customers for booking their residential apartments or offices that would be constructed as part of the properties under development Note (3). Five customers have raised legal cases claiming refund for the advances paid amounting to KD 565,038 (AED 6,770,504) and final verdicts have been favorably issued for four customers amounting to KD 273,635 (AED 3,278,797).

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6. Related party balances and transactions

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

	<u>Major shareholders</u>	<u>2016</u>	<u>2015</u>
(i) <u>Balances included in the consolidated statement of financial position:</u>			
Due to a related party	(7,753,908)	(7,753,908)	(7,538,492)
(ii) <u>Transactions included in the consolidated statement of profit or loss:</u>			
Finance costs (a)	(135,370)	(135,370)	(135,000)

(a) During the year ended December 31, 2009, the Parent Company obtained financing from the Ultimate Parent Company amounting to KD 3,000,000 to finance the payments for properties under development. The effective interest rate was 4.5% per annum (December 31, 2015: 4.5% per annum). Accordingly finance costs amounting to KD 135,370 have been recognized in the consolidated statement of profit or loss for the year ended December 31, 2016 (December 31, 2015: KD 135,000).

(iii) Compensation to key management personnel

	<u>2016</u>	<u>2015</u>
Salaries and other short-term benefits	-	54,923
Termination benefits	-	5,237
	-	60,160

7. Provision for end of service indemnity

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the year	3,379	1,706
Charge for the year	345	1,673
Paid during the year	(2,228)	-
Balance at the end of the year	1,496	3,379

8. Share capital

The authorized, issued and fully paid-up capital consists of 1,000,000,000 shares of 100 fils each and all shares are paid in cash (December 31, 2015: 1,000,000,000 shares).

9. Share premium

This represents cash received in excess of the par value of the shares issued. The share premium is not distributable except in cases stipulated by law.

10. Statutory reserve

As required by Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for Advancement of Sciences, Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may discontinue resolve such annual transfer when the reserve exceeds 50% of capital. This reserve is not available for distribution except for in certain cases stipulated by law and the Parent Company's Articles of Association. No transfer was made to the statutory reserve during the year, due to accumulated losses.

11. Voluntary reserve

As required by the Parent Company's Articles of Association, a percentage of profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for Advancement of Sciences, Zakat and Board of Directors' remuneration is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the Shareholders' Annual General Assembly upon recommendation by the Board of Directors. No transfer was made to the voluntary reserve during the year, due to accumulated losses.

12. General assembly and proposed dividends

The Board of Directors proposed not to distribute dividends for the year ended December 31, 2016. This proposal is subject to the approval of the Shareholders' Annual General Assembly.

The Shareholders' Annual General Assembly held on June 26, 2016 approved the Board of Directors' proposal not to distribute dividends for the year ended December 31, 2015.

13. General and administrative expenses

General and administrative expenses include staff costs amounting to KD 10,497 (December 31, 2015: KD 64,944).

14. Foreign exchange loss

Foreign exchange loss is mainly represented by loss of KD 193,185 (December 31, 2015: loss of KD 835,747) resulting from the translation of the remaining amount payable on the acquisition of properties under development which is denominated in UAE Dirham (Note (4a)).

15. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash on hand and at banks, payables and due to a related party and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

a) **Interest rate risk**

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. At present, the Group has no significant exposure to such risk since the funding received from the Parent Company carry a fixed rate of return.

b) **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash at banks. The Group's cash at banks are placed with high credit rating financial institutions.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash at banks.

c) **Foreign currency risk**

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in the foreign exchange rate. The Group's exposure to currency risk arises from the balances denominated in UAE Dirham from its wholly owned subsidiary, Dar Al Dhabi Real Estate Co. (K.S.C.C.) and its subsidiary. The management monitors its exposure to currency risk periodically.

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

Year	Increase / (Decrease) against KD	Effect on consolidated statement of profit or loss	Effect on other comprehensive income
<u>2016</u>			
UAE Dirham	± 5%	±1,379,889	±298,511
<u>2015</u>			
UAE Dirham	± 5%	±1,368,690	±296,088

d) **Liquidity risk**

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

The maturity profile of financial liabilities was as follows:

<u>2016</u>	3-12 Months	More than 1 year	Total
Accounts payable and other credit balances	26,265,806	-	26,265,806
Due to a related party	-	7,753,908	7,753,908
	<u>26,265,806</u>	<u>7,753,908</u>	<u>34,019,714</u>
<u>2015</u>	3-12 months	More than 1 year	Total
Accounts payable and other credit balances	26,079,153	-	26,079,153
Due to a related party	-	7,538,492	7,538,492
	<u>26,079,153</u>	<u>7,538,492</u>	<u>33,617,645</u>

e) **Equity price risk**

Equity price risk is the risk that fair values of equity instrument decrease as the result of changes in level of equity indices and the value of individual stocks. As at December 31, 2016, the Group has no exposure to such risk.

16. Fair value measurement

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.

At December 31, the fair values of financial instruments approximate their carrying amounts. The management of the Group has assessed that fair value of cash on hand and at banks, accounts payable and due to a related party approximate their carrying amounts largely due to the short-term maturities of these instruments.

17. Capital risk management

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

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

18. Going concern

The Group's current liabilities exceeded its current assets by KD 26,258,931 (December 31, 2015: KD 26,073,318). The consolidated financial statements have been prepared assuming the Group will continue as a going concern. The Group's ability to continue as a going concern depends on its ability to improve profitability, enhance its future cash flows, restructure its debt repayments and continued support of its major shareholders. If those conditions are not viable, the accompanying consolidated financial statements shall be adjusted accordingly.

The Group's management is in the process of negotiating the terms of settlement of trade payables amounting to KD 23,801,512 and related charges with the Master Developer which pertains to the outstanding balance payable for the acquisition of properties under development (Note 4(a)).

If the Group is unable to reschedule the trade payable and related charges for the foreseeable future, it may be unable to realize its assets and discharge its liabilities in the normal course of business.