SALHIA

ANNUAL REPORT

2016

H. H. SHAIKH
SABAH AL-AHMAD AL-JABER AL-SABAH
The Amir of the State of Kuwait

H. H. SHAIKH
NAWAF AL-AHMAD AL-JABER AL-SABAH
Crown Prince of the State of Kuwait

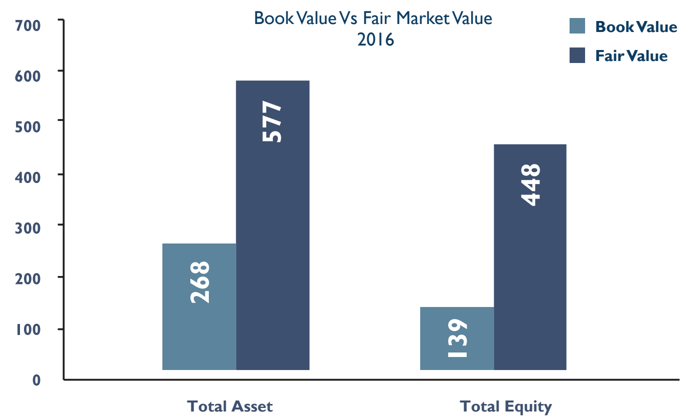
H. H. SHAIKH
JABER MUBARAK AL HAMAD AL-SABAH
Prime Minister - State of Kuwait

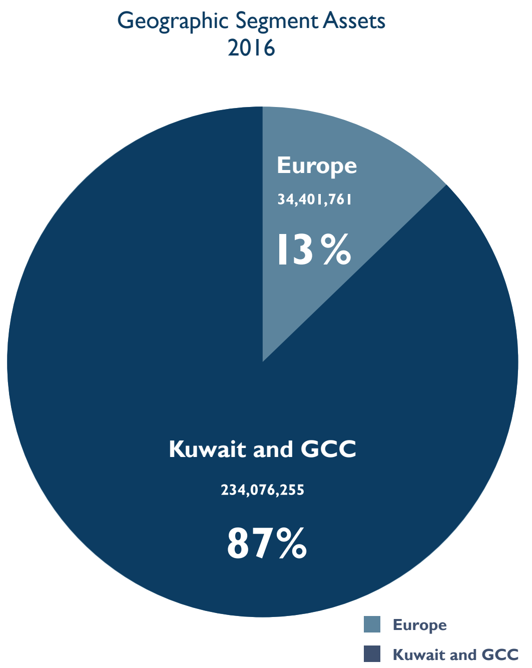
CONTENTS

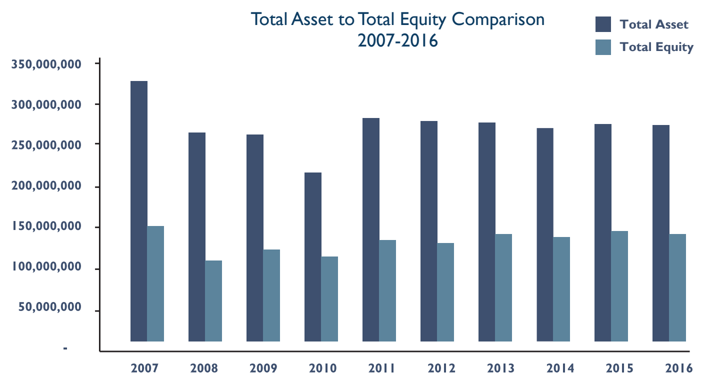
BOARD MEMBERS	5
CHAIRMAN'S STATEMENT	6
REPORT OF THE BOARD OF DIRECTOR	10
CORPORATE GOVERNANCE REPORT	24
INTERNAL CONTROL REPORT (ICR)	36
AUDITING COMMITTEE REPORT	38
FINANCIAL STATEMENTS	41

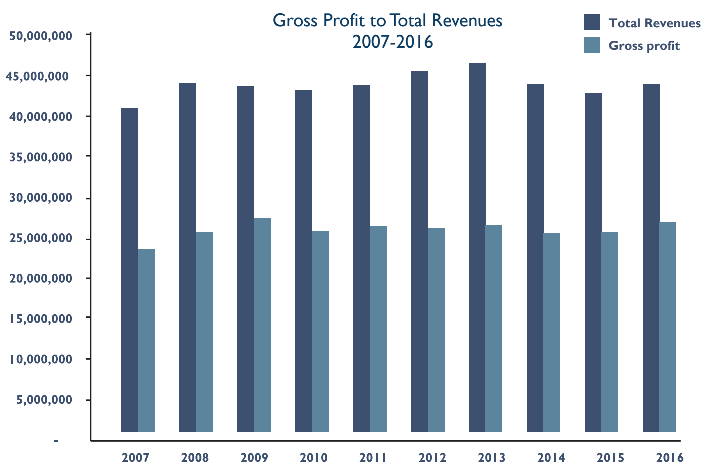
- The Company evaluates its assets by independent professional appraiser in the G.C.C and the European market ,The total Asset has been estimated fair market value KD577 Million (Book Value KD268 Million).

- The Estimated fair market value for the total shareholders equity KD448 Million (Book Value KD139 Million).









BOARD MEMBERS

GHAZI FAHAD ALNAFISI
Chairman

FAISAL ABDUL MOHSEN AL-KHATRASH
Vice Chairman

ANWAR ABDULAZIZ AL-USAIMI
Board Member & Chief Executive Officer

ABDULAZIZ GHAZI ALNAFISI
Board Member & Deputy Chief Executive Officer

YOUSSEF ESSA AL-OTHMAN
Board Member

ABDULRAHMAN ABDULAZIZ AL BABTAIN
Board Member

MARZOUK FAJHAN AL-MUTAIRI
Board Member

SAUD AHMAD FAISAL AL-ZABIN
Board Member

MOHAMMAD KHALIL AL-MUSAIBEEH
Board Secretary

EXECUTIVE MANAGEMENT

ANWAR ABDULAZIZ AL-USAIMI
Chief Executive Officer

ABDULAZIZ GHAZI ALNAFISI

Deputy Chief Executive Officer – Investment Group Head

HANY A. ABDELNOUR
Finance, Accounting & HR Group Head

ENG. BADER KHALIFAH AL-ADSANI
Real Estate Management & Development Group Head

MOHAMMAD KHALIL AL-MUSAIBEEH
Group Accounting Manager

NASSER BADER AL-GHANIM
Group Investment Manager

ENG. KIFAH GEORGES
Group Construction Manager

ABDULNASSER BADER ALTURKAIT
Group Information Technology Manager

ALI JASSIM ABUL

Group Human Resources & Administration Deputy Manager

AHMED MAHMOUD AL-QURAISH
Project Property Development Manager

CHAIRMAN`S STATEMENT

Dear Shareholders,

On behalf of myself and my colleague members of the board of directors, I'm pleased to extend to you the best greetings and warm gratitude for your deep unlimited confidence. I'm honored to put at your kind hands the annual report and financial results of Salhia Real Estate Company for the fiscal year ended on 31 December 2016.

The year 2016 was full of numerous dramatic political and economic scenes which involved many positively or negatively influencing factors on the local and global economy in general, which included Britain's exit from the European Union, following the general referendum, leading to the voting of the United Kingdom in favor of exiting from the European Union in June 2016. This is in addition to the climates which prevailed in the world during the US elections in the same year, as well as the continued fluctuation of oil prices. These factors together led to the spread of a type of the spirit of pessimism and concern among investors in general.

As a continuation of the Company's vision to create investment opportunities, make achievements and successful investments, Salhia Real Estate Company started the execution of the Assima Project, after obtaining the required approvals and licenses to construct the Assima Project, which consist of a number of commercial and investment properties of rare value in Sharq area, which combine to form a total area of 21,414 m^2, making it a candidate to become the biggest commercial project in Kuwait City.

The estimated cost of the project amounts to KD 148 million, noting that the finance of the project shall be self-finance from the Company's portfolio, in addition to borrowing from the banks.

In connection with the summary of the financial performance for 2016, the Company realized a profit by 12.2 million Kuwaiti Dinar and a share profit amounting to 24.81 fils per share, compared with the last year where profitability amounted to 11.6 million Kuwaiti Dinar, with a share profit of 23.55 fils per share and an increase by 5%.

Further, the total assets of the Company amounted to 268 million Kuwaiti Dinar for the current year compared with 270 million Kuwaiti Dinar for the past year, i.e. a drop by 0.6%.

The value of liabilities increased to amount to 127 million Kuwaiti Dinar in the current year, compared with 125 million Kuwaiti Dinar for the past year, i.e. a rise by 1.3%.

On the other hand, equities decreased to amount to 139 million Kuwaiti Dinar for the current year, compared with the past year in which they amounted to 142 million Kuwaiti Dinar, i.e. a drop by 2.3%.

Therefore, the book value dropped to 271 fils compared with the last year in which it amounted to 277 fils, i.e. a drop by 2.2%.

The Company operational revenues increased to amount to 43 million Kuwaiti dinar for the current year compared with 42 million Kuwaiti Dinar for the past year, i.e. an increase by 1.4%.

It should be taken into consideration that all the previous financial statements have been recorded according to the historical cost based on the financial statements for 2016.

As regards the market value of the total assets, comprising assets which have been valuated by neutral professional valuators at the end of 2016, they amounted to 577 million Kuwaiti Dinar. Hence, equities, plus the surplus of the re-assessment of assets, amounted to 447 million Kuwaiti Dinar approximately. Thus, the book value increased according to the share fair value to 874 fils per share. Further, remuneration of members of the board of directors proposed for 2016 amounted to 120,000/- Kuwaiti Dinar (120,000/- Kuwaiti Dinar for 2015), subject to the approval of the annual general assembly of the Company shareholders.

The Company board of directors proposed cash dividends by the value of 20 fils for 2016 (20 fils for 2015), provided this proposal is subject to the approval of the annual general assembly of the Company shareholders.

Esteemed shareholders,

At the end, we would like to extend to you our deep gratitude and appreciation for your continuous support to us. Further, we take this opportunity to value and appreciate the efforts and continuous inputs of members of the board of directors and executive staff, as well as all the Company personnel in all its departments and external branches.

Further, we appeal to the Almighty Allah to grant us and you success under the leadership of His Highness the Amir of Kuwait Sheikh Sabah Al Ahmad Al Jaber Al Sabah, may God protect him, as a leader of humanity and a symbol of giving and building, his trusted Crown Prince His Highness Sheikh Nawaf Al Ahmad Al Jaber Al Sabah, the Prime Minister Sheikh Jaber Al Mubarak Al Hamad Al Sabah and his wise government, and extend to all of them our sincere gratitude and appreciation.

May God protect Kuwait and its people against all evils. Please accept our wishes for everyone for continuous health, wellness and unity for the advancement of our beloved country.

Ghazi Fahad Alnafisi

Chairman

REPORT OF THE
BOARD OF DIRECTORS

Local Investments

THE ASSIMA PROJECT

Salhia Real Estate Company has initiated the execution stage after obtaining the full approvals and licenses required to set up the Assima Project, which comprises from a number of commercial and investment properties in Sharq area, and overall form a part of a 21,414 m^2 area island which is rarely found in the Capital area and considered as the biggest commercial project inside Kuwait City. This project is distributed into the following manner: 7,358 m^2 commercial plots- 10,611 m^2 investment plots/ commercial offices- 3,445 m^2 investment (hotel) surrounded with the State lands of approximately 18,738 m^2 surrounded by streets from the four directions, including two significant streets which are Abdulaziz Al-Sager (Al Shuhda'a previously) Street and Khalid Bin Al Waleed Street.

Project Development Concept:
The project concept is based on the development of the Company properties, hand in hand with the surrounding State lands, according to modern visions which are suitable with the requirements of the existing status and market inputs. Such works have been entrusted to major international consultant offices, each according to its activity and the functional tasks mandated to it.

The properties consist of a commercial centre and a hotel over the property area of 19,668 m^2 and an office tower over 1,746 m^2 area, in addition to two buildings on State domains allocated as car parking areas with total approximate build up area of 380,000 m^2.

Project Components:
The Assima Project consists of several elements and basic parts which form this significant and benchmark edifice, as follows:

First: Commercial Part
Consists of a commercial mall over an area of 19,668 m^2, consisting of three basements on the property boundaries, including two basements (second and third) to be used as car parking for the service of the mall and a first basement to be used fully commercially, followed by five floors to be used as retail shops, restaurants, coffee shops, entertainment activities, cinema and a health club.

Second: Hotel Part of the Project
This consists of a hotel after the floors allocated for the commercial part, which consists of 11 floors with more than 151 suites with their services of restaurants, multi-purpose halls, and a health club.

Third: Office Part of the Project:
This consists of offices tower of 1,746 m^2 area, consisting of a ground floor and 54 floors, fully utilized as commercial offices with a rental space equivalent to 59,700 m^2, with an average of 1,146 m^2 to 1,328 m^2 per each floor.

Fourth: Service Part of the Project:
This part consists of several buildings to be used as car parking, including those constructed on the company land and including those built on the State lands, for a total number of approximately (2,000 parking lot) distributed in a convenient manner to the visitors of the commercial, office and hotel part to be used with flexibility and great efficiency.

As regards the landscaping works and the surrounding yard, we have addressed attention to provide separate entrances and exits for the full elements of the project to ensure maximum efficiency for the flow of traffic and avoid congestion for its guests and visitors. Further, the Company was keen to provide external areas with landscaping works and greenery plants, and seating areas for those wishing to sit in the external areas and enjoy the weather in the winter and spring season, according to architectural solutions in line with the architectural and functional form of the project.

Project Execution Stage (Current Status):
The Company laid down the cornerstone for the execution of the project in the fourth quarter of 2015, whereby the executive and technical works were entrusted to major specialized companies.

The Company laid down strategic plans and perspective for completion of the project and starting its operation on stages to start on the 1st quarter of 2019, according to a precise time schedule which outlines the full execution stages of all parts of the project and its components with high professionalism and a logical manner to ensure completion by the scheduled time and without delay. During the past year, the overall works were cast at the project basements level and starting to rise above the ground surface level and cost a number of columns which will carry the ceiling of the first mezzanine.

Project Rental Works:
During the development works of the project, the Company coordinated with the marketing consultant to lay down the final plans for the overall usages and their distribution in the project, and starting in parallel form with the execution stage in the marketing process of the big areas locations to be exploited as hypermarket, entertainment activities and cinemas. Many companies applied and all the bids are being examined in order to stand on them for the final signing with them, and thus they shall become the first building block of our partners in the project and success.

In 2016, the Company signed a contract with Marriott International Company for the management and exploitation of the hotel intended to be built.

Finally, Salhia Real Estate Company was keen to fully invest its technical and financial expertise in the Assima Project, which is considered the biggest real estate edifice to be built by the private sector currently in Kuwait City in terms of the total land area and financial costs. It is expected that the estimated cost of the project is KD148 million (One hundred and forty eight million Kuwaiti Dinar), noting that the project will be self-financed from the Company portfolio in addition to borrowing from the banks.

Salhia Commercial Complex

Salhia Commercial Complex is the company's original flagship property, and it is the first multi-function retail and leisure in the GCC region with the strong reputation today as it was in 1978 when the complex was opened.

It includes three floors of stores, focusing on high fashion and classic luxury brands, five floors of luxury offices located above the three floors of stores with a total rentable area of 25,503 m^2 occupied by major commercial corporations and government agencies.

Three neighbouring Salhia properties – the JW Marriott Hotel, the Sahab Office Tower, Salhia Plaza and dedicated car parking for 804 vehicles– augment this outstanding development that offers a quality and all-inclusive experience for shoppers, businesses and visitors alike. And due to its continuous modernizations and enhancement program, Salhia Complex is proudly have a unique record of 100% occupancy over the years.

Salhia Plaza

Salhia has created Salhia Plaza in 2005 on the surface of the outdoor parking, which contain 428 parking and facing Salhia Commercial Complex - Salhia Plaza proving a popular meeting point with an elegant landscaped yard fringed with cafés, restaurants, gardens incorporating a fountain, to enjoy a great experience of Salhia Outdoor recreation facilities.

Sahab Tower

Sahab Tower is owned and managed by Salhia with three levels dedicated to commercial activities along with 20 storeys of luxurious corporate office space that has a rentable equivalent to 10,738 m^2. Occupied by high quality local and international firms. The tower offers magnificent views over Kuwait City, with its central location and the many benefits arising from the neighboring facilities make it an ideal base for doing business in Kuwait. Sahab Tower has yielded a continuous 100% occupancy rate since its opening in 1997.

JW Marriott Hotel Kuwait City

The award-winning JW Marriott Hotel Kuwait City is situated in the heart of Kuwait and stands shoulder-to-shoulder with the luxurious Salhia mall. Located just 10 minutes from Kuwait International Airport and 5 minutes from Kuwait's well-known shopping centers, the hotel has a location that suits business and leisure travelers alike.

The JW Marriott Kuwait is considered one of Kuwait's leading hotels and consists of 313 rooms, 73 of which are suites. The executive floor offers a private lounge and a library. Other facilities of the hotel include a cutting edge health club, an indoor swimming pool, a sun deck area and a spa with a steam room. The hotel also offers a wide range of restaurants and cuisines, including the newly opened 'Crossroads' restaurant and 'Terrace Grill' restaurant, Kuwait's best steakhouse. The hotel is also the venue of choice for conferences, meetings and social events, with its spacious meeting rooms, the latest audio-visual equipment, attractive design and a professional events management team. JW Marriott Kuwait offers multipurpose ballrooms on 1st and 16th floors with a combined space of 1,560 m^2 which enables it to host events of any type and any size.

This year, the hotel has undergone a number of changes and renovations, including upgrading its air-conditioning system and changing the carpets in all rooms and corridors to give the property a modern and fresh look.

New projects also include the opening of a new restaurant 'Crossroads'. The new food and beverage outlet features a wide range of distinctive cuisines, including Italian, Japanese, Chinese, Indian and Mediterranean. The restaurant offers an open kitchen to enable guests to see and smell their food choices while chefs are preparing them. This concept is the first of its kind in Kuwait, offering a world of authentic cuisines under one roof.
Moreover, the 'Al Jahra' Ballroom was also renovated this year. The ballroom's upgrades include new carpeting, lighting, paneling and furnishings—all in a fresh color palette.

It is worth mentioning that the hotel was recognized by many international organizations and has received various international awards, including the Best Luxury Business Hotel Award by the World Luxury Hotel Awards and The Best Business Hotel in Kuwait Award by Business Traveler Middle East. In addition, the hotel was also recognized by many local organizations for its unparalleled service and facilities, including the award presented by his Excellency Sheikh Salman Al Homoud Al Sabah, the Minister of Information and Minister of State of Youth Affairs in Kuwait during the last Arab Media Forum held at the hotel.

Arraya Commercial Centre - Retail and Leisure

Arraya Centre is considered one of the most significant projects of Salhia Real Estate Company. Its distinguished location in the east of Kuwait City has turned it into a centre attracting visitors, local and international companies since its opening in 2003. The Centre comprises three commercial floors which include an extensive and distinguished variety of showrooms, retail shops, coffee shops and restaurants. Further, the Centre includes seven floors for commercial offices, distinguished by high standard services. Arraya Commercial Centre is annexed with a six floor building as parking for visitors and guests which accommodates 1400 cars, connected by suspended bridges overlooking Arraya Plaza, an estimated area of 3000 m^2 distinguished by a beautiful and comfortable impression for everyone who prefers to sit outside the Centre. This area is surrounded by modern shades and water fountains, in addition to innovative lighting which add magnificent ambience for the visitors of this area, and helped to guest and organize the various events, functions, entertainment and social activities aimed at bringing happiness and pleasure in the heart of every visitor and shopper.

Arraya Tower

Arraya Tower occupies an area of 1058 m^2 of Arraya integrated project, with a height of approximately 300 meters, which comprises 60 floors allocated for office independence and occupied by major local and international companies. The tower is served by 16 elevators distributed to three entrances with modern design and ultra-deluxe architectural finishing. Each entrance of them serves a number of floors, in order to facilitate access to the floors with convenient speed. The tower provides the best services to the tenants such as parking facility, modern information technology systems, and a 24 hour security and maintenance system, by applying the open layout method for the floors, with suitable rental spaces clear of columns, ranging approximately from 250 m^2 to 740 m^2. This has provided the floor tenant with the absolute freedom to apply the divisions they deems suitable for their businesses. The activity continued in 2016 for renting the few remaining offices, whereby the occupancy rate amounted to 99%.

Arraya Ballroom

Proudly managed by Marriott International, the Arraya Ballroom is an epitome of luxury and unmatched elegance in the heart of Kuwait. Renowned for hosting some of the country's most important and historic events and celebrations, this 1,500 m^2 ballroom is one of the biggest event venues in Kuwait with its unparalleled services and facilities. The Ballroom can be divided into six massive sub sections to fit any meeting type or size, alongside a grand foyer and its own exclusive driveway with parking for over 1,000 vehicles.

In recent years, Arraya Ballroom underwent various refurbishments ranging from improving the design of the ceiling to updating the paneling on the walls. To complement its strong presence as Kuwait's most prestigious events venue, Arraya Ballroom has launched a new website www.arrayaballroomkuwait.com, to provide all the necessary information to events' organizers and facilitate the booking process.

"Arraya" has recently introduced exquisite new lines of glassware, china ware, floral presentations, futuristic lighting and sound equipment, as well as attentive staff members to handle every detail necessary. The luxury ballroom also provides amazing wedding cakes, ice carvings and a wide range of menus to make every event a huge success.

Courtyard by Marriott Hotel Kuwait City

Courtyard by Marriott Hotel Kuwait City is the perfect choice for travelers who want to enjoy comfortable and memorable stays. Located in the heart of Kuwait's main business district, this modern property offers 264 rooms and is sitting alongside the famed 'Arraya' Shopping Mall.

This year, "Waves" Health Club & Spa at the hotel has introduced a wide array of new offers and treatments to cater to all their guests' needs and requirements. "Waves" offers a superb range of equipment, a stunning swimming pool located at the roof top and an alluring selection of holistic massages to provide guests with an exceptional experience.

The Courtyard by Marriott Kuwait has three gastronomic restaurant destinations that offer a taste of everything from Japanese and Indian to international cuisines. There are also two additional casual outlets, the Atrium Lounge and Tiramisu Cafe.

The hotel is ideal for events, conferences and meetings with spacious meeting rooms, state of the art equipment, delicious meals, attractive designs, high-speed internet, a business centre and the latest audio-visual equipment.

Courtyard by Marriott Kuwait completed this year a major Suites renovation, adding 3 new suite categories to its inventory, namely 'Diplomatic', 'Amiri' and 'Royal' Suites. The new suites feature modern designs and colours in keeping with the overall ambience of the hotel, and offer luxurious amenities fit for royalty.

While driving room sales is the 1st priority, the hotel is very creative and innovative in generating revenues from new sources. Courtyard Kuwait introduces new rooms and restaurants offers on a regular basis, in addition to food festivals in its popular Indian restaurant 'Soul & Spice', which makes it one of the best hotels in the country.

Marriott International has recently launched a new concept called "Meetings Imagined". This is a first-of-its kind concept that reinvents how meetings are planned, making them more social, visual and purposeful. Meetings Imagined is the perfect tool for events planners to design the most successful and memorable events. Since its launch in Kuwait, 'Meetings Imagined' has given Kuwait Marriott Hotels a competitive advantage over their competitors when it comes to organizing and holding events.

REPORT OF THE
BOARD OF DIRECTORS

International Investment

Key property investments

There have been several major UK and worldwide economic events which have affected sentiment and the UK property market during the last 12 months. These have included changes in Stamp Duty in April, particularly affecting domestic and overseas purchases of residential property in the UK; Brexit, the public referendum resulting in the UK voting to leave the European Union in June and most recently, the US elections. These have all caused a degree of uncertainty at times. However, the market has remained steady throughout this period and there is an underlying confidence in the future.

The UK remains one of the most stable and safe havens for international investment and presents a very exciting buying opportunity both in terms of an attractive exchange rate and the potential now of agreeing a special post Brexit relationship with our European partners. As a result of Brexit, the UK is likely to become more global in outlook.

The strength and continued attraction of the market is evidenced by UK and overseas investors committing to substantial investment transactions and projects since the referendum in June this year.

The central London commercial property investment market has remained robust, particularly with international investor interest, driven by a desire to find a 'safe haven' for investment diversification. The weaker pound has also stimulated further activity, particularly from the Far East. This has resulted in the need to look outside London for secure investment properties and to growth in values in most sectors.

The KPI portfolio continues to perform well and improvement in revaluation expectations are positive. Contracts have recently been exchanged at over £24m on one of the largest assets in the portfolio, with completion set for January 2017, resulting in a good profit to the company. Further potential sales have been identified for 2017 and will be prepared for sale at the appropriate time. Negotiations are in hand with tenants regarding lease expiries and renewals to suit the portfolio and a number of development opportunities have also been identified and these are being taken through the planning process.

BEORMA QUARTER BIRMINGHAM

Birmingham City Council is continuing its policy to change and development with and by encouraging a number of significant major developments which are transforming the city centre and the city's recognition in national and international markets. They are continuing the changes set out in their Big City Plan over recent years.

The city's positive approach to its development plans continues to encourage occupational commitment and domestic and international investment into all sectors within the city. Recent announcements have included HMRC (government legal and tax department) seeking 18,500 m^2 of offices for occupation, HSBC Alternative Investments' interest in purchasing the Brindley Place office complex at £260m, Spitfire Properties £45m purchase in a residential development and Apache Capital's (Middle Eastern investors) acquisition of a site for a £145m Private Rented Sector (PRS) residential scheme. The 300 room Hyatt Regency hotel has recently been bought by the Bin Otaiba Group for £39m.

Almost £1bn of investment is also being committed by the government to the Curzon Investment Plan, a 20-year strategy to regenerate 141 hectares around the planned HS2 (High Speed Rail link) Curzon Street Station with 4,000 homes and up to 5.5 million m^2 of commercial development, led by the Greater Birmingham & Solihull LEP (GBSLEP) and Birmingham City Council. The government has already committed £38m to the infrastructure studies required to commence this project.

Birmingham is programmed to increase its population by about 15% over the next ten years. It has a declared shortage of housing stock with a need to provide over 80,000 homes by 2030. Birmingham City Corporation's Smithfield Market scheme comprises 14 hectares (approx. 35 acres) and is immediately adjacent to the Beorma Quarter and the Bullring Shopping Centre and Selfridges and is intended to provide up to 4,000 family residential units together with offices and leisure facilities, a significant boost to the residential market.

Phase 1 of the Beorma Quarter having been completed, the 108 room Adagio aparthotel has been trading very successfully over the 14 months and is already achieving a 90% occupancy rate. Two floors of the Grade II Listed Coldstore in

Phase 1 are under offer with a tenant keen to be in occupation. This will significantly enhance the profile of the scheme.

Revised planning permission for Phases 2 & 3 of the scheme has been granted and this will provide over 14,000 m^2 of modern Grade A offices, some ancillary retail units and 194 of the most unique mainly 1 and 2 bed residential apartments in Birmingham. Demolition will start early in 2017 with construction of Phase 2 commencing towards the end of 2017.

The Beorma Quarter continues to be a very exciting development which will contribute significantly to the changing face of Birmingham City Centre.

HADDIA HOLDING GMBH

Haddia Holding GmbH, our German subsidiary is 91% owned by Salhia. Haddia, through its operating subsidiary Dana GmbH which has its Head Office in Hannover with an overall staff of 950 highly qualified and trained employees specialized in geriatric care, manages and operates a total of 1,614 beds in 13 nursing homes and 4 assisted living properties as well as 2 "Dana Lifestyle" properties all located in the north western region of Germany.

SAREC, which is another subsidiary of Haddia, wholly owns the nursing homes and the assisted living properties in Germany.

"Dana Lifestyle", a new concept created to meet the current market requirements in elderly care, was developed in 2013. "Dana Lifestyle" was implemented on two new properties each consisting of 17 apartments which were especially outfitted to meet the specialized needs of elderly clients and residents and to provide maximum comfort and quality of living. The apartments are available with the option of being rented or purchased outright. The construction of these two new properties was completed in 2014, with a total of 34 apartments and Dana is currently managing the lease or sale of these apartments.

Dana has completed in October 2016 the refurbishment work of one of its senior residences in Bad Pyrmont, to bring this residence up to market standards to meet the current demand for spacious apartments for elderly residents. To achieve this, several small studio apartments were merged into attractive larger and spacious apartments equipped with the latest amenities and facilities for senior residents. Similar refurbishment work on the second residence will start in 2017.

As one of the country's best geriatric health care and assisted living providers offering a choice of top class properties with a very high standard of health care and services to its elderly clients and residents, Haddia continues year after year to maintain its established market position and prominence in Germany.

HUMAN RESOURCES

The Human Resources and Administration Group plays a significant and vital role in executing the policies of Salhia Real Estate Company, represented in retaining the human competencies available in the Company through local and international training and development programs, for the purpose of upgrading employees to the highest performance levels. Further, the Company attracts the best distinguished qualified staff in the labor market in order to contribute in developing the general performance in all fields of works to fulfill the future objectives and aspirations laid down by the board of directors.

INFORMATION TECHNOLOGY

With the assistance of a highly qualified and trained team of IT personnel equipped with the latest technology, Salhia utilizes sophisticated IT systems to accommodate all aspects of its business and development needs

The IT Department also explores and researches some of the latest technologies available in the market in order to utilize the best available tools to implement and benefit Salhia on any upcoming projects.

The IT Department is working in close cooperation with the design and construction teams of the Assima Project, which is Salhia's new project, in order to meet all the required services and facilities necessary to implement the best possible design and construction solutions for the project.

The Assima project will incorporate state-of-the art architecture and IT technologies in the completed structure.

Based on the findings of last year's audit review, the IT Department is working on the expansion of some of the company's IT systems such as backup storage, email system and windows servers and is also in the process of reviewing the department's procedures and policies in order to meet Salhia's risk assessment and business impact strategies.

CORPORATE GOVERNANCE REPORT
SALHIA REAL ESTATE COMPANY K.S.C.P.

Composition of the Board of Directors:

The Board of Directors of Salhia Real Estate Company has approved the current composition of the board in its meeting No.2/2016 held on 21 March 2016 in the following manner:

Name	Member classification (executive/non executive/ independent) secretary	Date of election / appointment of the secretary
Ghazi Fahad Alnafisi Chairman	Non executive	21/3/2016
Faisal Abdulmohsen Al Khatrash Vice Chairman	Non executive	21/3/2016
Anwar Abdulaziz Al Usaimi Board Member Chief Executive Officer	Executive	21/3/2016
Abdulaziz Ghazi Alnafisi Board Member Deputy Chief Executive Officer	Executive	21/3/2016
Youssef Essa Al Othman Board Member	Non executive	21/3/2016
Abdulrahman Abdulaziz Al Babtain Board Member	Non executive	21/3/2016
Marzouk Fajhan Al Mutairi Board Member	Independent	21/3/2016
Saud Ahmad Al Zabin Board Member	Non executive	21/3/2016
Mohammad Khalil Al Musaibeeh	Secretary	12/5/2014

Qualifications and experiences of Salhia Real Estate Company Board Members:

Mr. Ghazi Fahad Alnafisi
Chairman
Mr. Ghazi Alnafisi is a founding member of Salhia Real Estate Company since its incorporation in 1974. He is a holder of aviation engineering diploma from (Chelsea College for Aeronautical Engineering – London) Britain, June 1965. His tenure in the function of Salhia Real Estate Company chairman was renewed on 21/3/2016.

Mr. Ghazi Alnafisi chairs the Board of Directors of the Hotels Association in Kuwait since in 1979 up to date. Further, he is a founding member of the Petroleum Independent Group, founded in 1975, where he holds the position of deputy chairman.

His experience includes working in many companies, which include Al Zad Trading Group Company, in which he holds the position of its chairman since 1994. During the period from 1986 to 1996, he held the post of chairman in the Gulf Investment Company – Bahrain, and chairman and managing director of the National Investments Company-Kuwait. Further, during the period from 1971 to 1976, he was a member of the Board of Directors of Kuwait National Petroleum Company (KNPC). He held several positions in Kuwait Aviation Fuelling Company from 1967 to 1976.

Mr. Faisal Abdulmohsen Al Khatrash
Vice Chairman
Mr. Faisal Al Khatrash holds the position of deputy chairman of Salhia Real Estate Company since 1981. His tenure was renewed during the last elections of the Board of Directors on 21/3/2016.

Mr. Faisal Al Khatrash holds a bachelor of military sciences, 1967. He worked as officer in the Kuwaiti army up to 1974. Currently, he holds the position of vice chairman of the International Investor Company since 2003. His experiences include holding positions in several corporations in Kuwait, including the vice chairman of Kuwait Finance House from 1982 to 1993, Furher, he held the position of managing director of Kuwait Foreign Trade, Contracting and Investment Company, between the period from 1974 to 1982.

Mr.Anwar Abdulaziz Al Usaimi
Board Member (CEO)
Mr.Anwar Al Usaimi joined the Board of Directors of Salhia Real Estate Company since 1981. He held the position of CEO of the company since 1997. He was re-elected to the board membership on 21/3/2016. Further, he is currently holding the membership of the Company Nominations and Remunerations Committee.

Mr. Anwar Al Usaimi is the holder of a bachelor of administrative sciences from the USA (Emporia Kansas State College) in 1976 and has extensive experience in the banking,financial and administration fields inside and outside Kuwait. He is currently holding the position of the chairman of the Assima Real Estate Company and membership of the Board of Directors of Haddia Holding Company (Germany) and KPI Company (Britain). Further, he held the membership of the Board of Directors of companies and banks in Kuwait, including the Commercial Bank, the International Investor Company, and was the deputy of the chairman in Pearl of Kuwait Real Estate Company and Kuwait Lebanese Real Estate Development Company.

Mr. Abdulaziz Ghazi Alnafisi
Board Member (Deputy CEO)
Mr. Abdulaziz Alnafisi joined the Board of Directors of Salhia Real Estate Company since 2007. He is currently holding the position of deputy CEO of the Company, and was re-elected to the board membership on 21/3/2016.

Mr. Abdulaziz Alnafisi is the holder of masters degree in business administration from the United Kingdom (City University – London) in 2002. Further, he holds a bachelor of accounting and international relations from the USA (Northeastern University – Boston, MA) in 1997. He is currently holding the position of the chairman of Kuwait Packing Materials Manufacturing Company and the position of the deputy chairman of the Assima Real Estate Company. Further, he is a co-founding partner and board member of (Cross Bridge Capital Limited, London, UK).

Mr. Youssef Essa Al Othman
Board Member
Mr. Yousef Al Othman joined the Board of Directors of Salhia Real Estate Company in 1992. He was re-elected to the board membership on 21/3/2016. Further, he is currently holding the chairmanship of the Risk Management and Internal Auditing Committee

and the Nominations and Remunerations Committee in the company.
Mr. Yousef Al Othman is the holder of a bachelor of business administration from Kuwait University in 1975. He holds several certificates, scientific and professional courses in the field of administration from institutions inside and outside Kuwait. He is currently holding the position of chairman and CEO of Al Bustan Real Estate Company and Al-Mirror Holding Company. Further, he is the general manager of Al Othman and Al Zamel General Trading & Contracting Company and the general manager of Essa Al Othman General Trading & Contracting Company.

Mr. Abdulrahman Abdulaziz Al Babtain
Board Member
Mr. Abdulrahman Al Babtain joined the Board of Directors of Salhia Real Estate Company in 2010. He was re-elected to the membership of the board on 21/3/2016. Further, he is currently holding the membership of the Risk Management and Internal Auditing Committee of the company.

Mr.Abdulrahman Al Babtain is the holder of a bachelor of business administration from Kuwait University in 1990. He is currently working as deputy chairman of Abdulaziz Saud Al Babtain Company. He is a member of the Board of Directors of Murabhat Investment Company. Earlier, he held the position of assistant manager of the Gulf Investment Corporation between the period from 1993 to 1998. Previously, he was a member of the Board of Directors of Gulf Franchising Company and Safat Dairy Company.

Mr. Marzouk Fajhan Al Mutairi
Board Member
Mr. Marzouk Al Mutari joined the membership of Salhia Real Estate Company's Board of Directors in 2002. He was re-elected to the board membership on 21/3/2016. Further, he is currently holding the membership of the Company Nominations and Remunerations Committee and the Risk Management and Internal Auditing Committee.

Mr. Marzouk Al Mutari is the holder of a bachelor of accounting from the USA (University of Central Flordia) in 1996. He is currently the chairman of the board of directors of Tharwa Investment Company since 2013. Further, he was a board member of the First Investment Company during the period from 2004 and 2014 and a member of the Board of Directors of the Livestock Transport and Trading Company from 2004 to 2013. Mr. Marzouk holds an extensive financial and investment experience in forming investment portfolios and their management. He has also contributed in founding Markaz Real Estate Fund.

Mr. Saud Ahmad Al Zabin
Board Member
Mr. Saud Al Zabin joined the Board of Directors Salhia Real Estate Company in 2013. He was re-elected to the membership of the Board of Directors on 21/3/2016.

He is a holder of bachelor of economics from the USA (Old Dominion University). He held several positions during his service in Zain Telecommunication Company during the period from 2005 to 2013. Currently, he is the chairman of the Board of Directors of (Overseas Links Company) since 2013. He also held the membership of the Board of Directors two companies in Egypt.

Mr. Mohammad Khalil Al Musaibeeh
Board Secretary
Mr. Mohammad Al Musaibeeh joined Salhia Real Estate Company in 1998. He was appointed as secretary of the Board of Directors on 12/5/2014, and held earlier the post of the board secretary.

He is a holder of the bachelor of accounting from (Cairo University- Egypt) in 1998. Further, he obtained professional certificates (ABA-CIDA- CTA-CST) and is currently working in the position of the accounting group manager in Salhia Real Estate Company. He is also a member of the Board of Directors of the Assima Real Estate Company. Mr. Al Musaibeeh holds numerous experiences and courses in accounting, finance, auditing and investment fields. He held the membership of many committees in Kuwait Accountants and Auditors Society. He also held the membership of the Society Board of Directors from 2011 to 2014. He was a member of the Standing Technical Committee for Laying Down Accounting Rules and Auditing Charts in the Ministry of Commerce and Industry, as a representative of Kuwait Accountants and Auditors Society.

Members' Attendance of the Board Meetings

The Board of Directors of Salhia Real Estate Company held 9 meetings during the year 2016. The following table illustrates the details of such meetings and the number of meetings attended by each member.

	Meeting No. 1/2016 dated 15/2/2016	Meeting No. 2/2016 dated 21/3/2016	Meeting No. 3/2016 dated 23/3/2016	Meeting No. 4/2016 dated 11/5/2016	Meeting No. 5/2016 dated 21/6/2016	Meeting No. 6/2016 dated 10/8/2016	Meeting No. 7/2016 dated 24/10/2016	Meeting No. 8/2016 dated 9/11/2016	Meeting No. 9/2016 dated 23/11/2016	Number of meetings
Ghazi Al Nafisi Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Faisal Al Khatrash Vice Chairman		✓	✓		✓	✓	✓	✓		6
Anwar Al Usaimi Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Abdulaziz Al Nafisi Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Youssef Al Othman Member		✓	✓	✓	✓	✓	✓	✓		7
Abdulraman Al Babtain Member	✓		✓	✓	✓	✓	✓	✓	✓	8
Marzouq Al Mutairi (independent member)	✓	✓	✓	✓	✓	✓	✓		✓	8
Saud Al Zabin Member		✓	✓	✓	✓	✓	✓	✓	✓	8

*The check mark is inserted if the board member attended the meeting.

Recording, coordinating and keeping minutes of the Board of Directors meetings:

The Board of Directors secretary prepared a special register for the minutes of the Board of Directors of Salhia Real Estate Company and records for minutes of the meetings of the Risk Management and Auditing, Nominations and Remunerations Committees. Each register contains information on the agenda of each meeting, its date, venue, starting and ending timing of the meeting. Each meeting has a serial number according to the year. Further, special files are prepared in which the minutes of the meetings are kept and the deliberations and discussions held in the meetings.

Members of the board and committees are furnished with the agenda, supported with the relevant documents, by a sufficient time in advance in order to permit the members to study the agenda items. The minutes of the meeting are signed by all those present. Minutes of the meetings held by passing are signed by all members. The secretary acts for the proper coordination and distribution of information among the members and other stakeholders.

Company Board of Directors Working Policy:

The Company Board of Directors Working Manual, approved by the Board of Directors in its meeting

No.8/2016, stipulates that the company's board assumes the comprehensive responsibility for Salhia Real Estate Company, including the laying down of the company strategic objectives, risk strategy, governance criteria, supervision responsibility over the executive management, safeguarding the interests of shareholders, creditors, personnel and all stakeholders, ensure that the company's management is carried out wisely and under the framework of the applicable laws and effective instructions of the regulatory bodies, articles of association, internal rules and policies of the company. The following is a brief on the general duties of the board of directors:

- The Board of Directors of Salhia Real Estate Company assumes all the required powers and authorities for management of the company without exceeding the general assembly's terms of reference. The board's responsibility remains standing for all the committees emanating from the board, which implies the board's responsibility for preparing the annual report read to the annual general assembly of the company, comprising all the information and data concerned with the company's business, financial position, results of its works and extent of compliance with the governance rules.
- The Board of Directors performs its duties with responsibility, good faith, seriousness and diligence. Its decisions are based on adequate information from the executive management or any other reliable source. The board is entitled to issue delegations for a number of its terms of reference without such authorizations being general or of unspecified period. The board's responsibility shall remain existing towards any authorization issued by it.
- Ensure that the executive management provides to the existing and potential shareholders and the investment community with all the information relevant to the company's activities and most significant developments, and verify that the annual report and financial reports published and forwarded to shareholders reflect the real conditions of the company.
- The board member is a representative of all shareholders and acts to achieve the general interest of the company and its shareholders.

Policies and Procedures Regulating the Executive Management Members' Work:
The Board of Directors adopted in its meeting No.3/2016 the policies and procedures regulating work for all the departments and executive groups within the company. Every Work Manual comprises all the duties carried out by each executive department in a detailed manner according to the strategic objectives laid down by the Board of Directors and the company internal regulations. Further, such policies clarify all the obligations shouldered by the executive management and CEO in light of the responsibilities empowered to them by the Company board of directors.

Company Board of Directors' Achievements During 2016
Salhia Real Estate Company's Board of Directors is keen to follow up the implementation of the strategic objectives and plans it laid down, and interact continuously with the executive department in order to achieve such strategies. Further, the Board addressed a great significance to the corporate governance criteria. This was not only for executing the procedures required from it, but also in view of the desire to make such criteria a working method and strategy within the company. During the past year, a number of achievements accomplished by the Board in such fields were manifested. The following is a brief on the most significant of such achievements:

1. Approval of the company's organizational structure, governance rules, regulations and policies, the investment policy of Salhia Real Estate Company, as well as all the procedures and policies regulating work for all the executive departments and groups within the company.
2. Review of the summary of the results of the Internal Auditing Committee's work in connection with the internal auditor's report to the company groups.
3. Contracting with the independent auditor in connection with preparing the internal control report (ICR).
4. Contracting with an independent office in connection with preparing a report for determining and measuring the company risks.
5. General supervision over the effective enforcement of the governance rules and internal control procedures.

6. Follow up the company's progress of work with the executive management and discussion of all remarks of the regulatory bodies.
7. Hold periodical meetings with the key risk owners to discuss the risks tendency in the company.
8. Review of all periodical reports issued by the committees emanating from the Board and discussion of their contents.
9. Supervision of the works of the Nominations and Remunerations Committee in connection with the self evaluation process of members of the Board of Directors and executive management.
10. Approval of the banking facilities and joint guarantees required for establishing the Assima Project.

Committees Emanating from the Board of Directors:
The Board of Directors of Salhia Real Estate Company formed the required number of specialized committees according to the corporate governance rules issued by the Capital Markets Authority. The board performs its work duties supported with two basic committees. The following is a description of these committees:

First: Risks Management and Internal Auditing Committee

Committee Tasks:
After obtaining approval of the Capital Markets Authority, the Risk Management and Internal Auditing Committees were merged in one committee. The Board approved the internal regulation of the committee, in which it outlined the terms of reference, objectives and responsibilities of the committee. The Risk Management and Internal Auditing Committee works to establish the culture of compliance and foster the efficiency of performance in the company, by analyzing the nature and volume of risks facing the company activities in order to limit them as much as possible, ensure the soundness and integrity of the financial reports, in addition to ensure the adequacy and efficiency of the applicable internal control systems.

Committee composition: the committee composition was approved in the Board of Directors meeting No.1/2016, according to the following:

Members of the Risk Management and Internal Auditing Committee

Committee chairman	Mr. Youssef Essa Al Othman	Salhia Company board member- non executive
Committee member	Mr. Marzouk Fajhan Al Mutairi	Salhia Company board member- independent
Committee member	Mr. Abdulrahman Abdulaziz Al Babtain	Salhia Company board member- non executive

The committee held 5 meetings during the year 2016. The following are its most prominent achievements:

1. Approval of the proposed annual auditing plan for 2016.
2. Review of the internal auditor's report for the internal groups and departments in the company.
3. Discussion of the working policies and procedures manual of the company Board of Directors and submitting a recommendation to the Board of Directors for approval.
4. Discussion of the work policies and procedures regulating the legal affairs' work in the company and submitting the recommendation to the Board of Directors for approval.
5. Review of the annual and quarterly financial statements of Salhia Real Estate Company and discussion with the external auditor in this connection.

6. Discussion of the company's risk management evaluation work framework and taking the decisions in this respect.
7. Prepare the annual report on the company internal control procedures and present the report to the Shareholders General Assembly.

Second: Nominations and Remunerations Committee

Committee Duties:

Salhia Real Estate Company's Board of Directors approved the composition of the Nominations and Remunerations Committee according to the regulatory requirements for the composition of the committee. The board approved its internal regulation in which it outlined the committee terms of reference, objectives and responsibilities, which aim at fostering the efficiency of work and production through contribution in the selection of the required competences for the Board of Directors and executive management, submit the recommendations to the Board of Directors in connection with the required skills and experiences which contribute in achieving the company's vision and objectives and protect the interests of shareholders and investors, in line with the approved policies and criteria. Further, the committee prepares the recommendations in connection with the development of the policies for granting remunerations and compensations to the board members and senior executives in the company.

Committee composition: the committee composition was approved in the Board of Directors meeting No.1/2016 according to the following:

Members of the Nominations and Remunerations Committee

Committee chairman	Mr. Youssef Essa Al Othman	Salhia Company board member- non executive
Committee member	Mr. Anwar Abdulaziz Al Usaimi	Salhia Company board member – CEO
Committee member	Mr. Marzouk Fajhan Al Mutairi	Salhia Company board member- independent

General framework for performance evaluation of the board of directors and executive management:

The company has laid down clear mechanisms for conducting the annual evaluation of members of the Board of Directors and executive management, based on the concept of self and comprehensive evaluation by the members. The evaluation is carried out by the Nominations and Remunerations Committee and is supervised by the Board of Directors. Such evaluation is based on several objective indicators measuring the general performance in a neutral and objective manner, which assists in avoiding the error and rectifying the default which distracts the enforcement of governance properly.

Mechanism for the board of directors members' obtaining of information and data accurately and in the right time

Salhia Real Estate Company provided the mechanism and instruments which enable the Board of Directors to obtain the required information and data in the right time, through the development of information technology environment in the Company, create direct communication channels between the Board of Directors secretariat and the board members, and providing the reports and discussion topics in connection with the meetings by an adequate time in advance to discuss and take decisions in this regard.

Report on the Remunerations Granted to Members of the Board of Directors and Executive Management

Summary of the Company Remunerations and Incentives Policy

The remunerations policy adopted by the board of directors of Salhia Real Estate Company reflects the desire to retain the competencies in the Company in the board of directors, executive management and various groups in the Company. This is in addition to providing the element of attraction to join the Company by all competences in the market, which helps to achieve the best results for the objectives and strategies which the board of directors acts to execute them on the long, medium and short term.

The Company Nominations and Remunerations Committee operates under the framework of this policy, whereby it recommends the remunerations determined for members of the board of directors and the executive management, pursuant to the procedures outlined by the remunerations policy, and based on the Company's performance and success criteria in achieving the objectives and volume of realized profits.

Implementing the Company remunerations policy:

- The Nominations and Remunerations Committee emanating from the Board of Directors undertakes the management of the process of granting remuneration sin the Company, starting with the performance evaluation up to the preparation of the final report on the total of the granted remunerations, provided the board of directors assumes the full responsibility in taking the final decisions in connection with the approval of all the incentives, allowance sand remunerations.
- Through the Nominations and Remunerations Committee, the board of directors undertakes the periodical review of this policy and follow up of the extent of its efficiency or the need to conduct any amendment on it.

Disclosures of the granted Remunerations

The Nominations and Remunerations Committee has prepared a detailed statement for all granted remuneration to the chairman and the company`s board members including the members of the risk management and internal auditing committee and the members of the nominations and remunerations committee, the statement is also including the granted remuneration to the executive management members includes the CEO, Deputy CEO (head of the Investment Group), and the head of the Financial, Accounting and Human Resources Group.

The Remunerations statement has been reviewed and accepted on the company`s forty fifth general assembly dated on 15/3/2017

Nominations and Remunerations Committee — **State of Kuwait**
Salhia Real Estate Company — **Date : 26/01/2017**

Undertaking for the Soundness and Integrity of the Prepared Financial Reports

The executive management presents a written undertaking to the Board of Directors of Salhia Real Estate Company for the soundness and integrity of the Company financial reports, and that they cover all the financial aspects of operational data and results and prepared according to the International Financial Reporting Standers (IFRS). Further, the Board of Directors presents to the company shareholders a declaration of the soundness and integrity of the financial statements and reports relevant to the company's business.

Pursuant to the authorities vested into it by the Board of Directors, the Auditing Committee is entitled to access and review all the information, data, reports, records and correspondences related to the company's activities or risk management, as well as other matters which the committee deems significant to review. The Board of Directors guarantees to the committee and its members full independence.

Independence and impartiality of the external auditor :

The company ordinary general assembly held on 21/3/2016 approved the re-appointment of the external auditor, Al Aiban, Al Osaimi & Partners "Earnest and Young" Office and the external auditor Baker Telly Kuwait, each of which are registered auditors in the special register of the Capital Markets Authority, and each enjoys full independence from the company and its Board of Directors.

Company Risk Management:

Salhia Real Estate Company's Board of Directors approved in its meeting No.3/2016 the new organizational structure of the company. A compliance and risk management officer was appointed. Further, the proposal submitted by an independent consultant office was approved in connection with identifying and measuring the risks in the company.

Internal Control Systems

Salhia Real Estate Company relies on a number of control systems and regulatory rules which cover all the company activities and management. These controls and rules work to safeguard the soundness of the company's financial position, accuracy of its data and efficiency of its operations from the different aspects. The company's organizational structure reflects the double controls (Four Eyes Principles), which include the proper identification of the authorities and responsibilities, complete segregation of the tasks, non conflict of interests, double inspection and control and double signing.

The company's Board of Directors mandated an independent consultant office to undertake the internal control and auditing works of the groups and departments in Salhia Real Estate Company. The office works as a consultation body accountable to the Auditing Committee and therefore the company's Board of Directors directly. The office submits periodical reports for the review and evaluation of the internal control systems applied in the company. Therefore, the company's Auditing Committee reviews the works of the Auditing Committee and discusses its reports, in preparation of submitting them to the Board of Directors.

Further, the Board of Directors approved in its meeting No.3/2016 the proposal submitted by an independent auditing office to prepare the internal control report (ICR) on annual basis, according to the requirements of the Capital Markets Authority.

Code of Conduct and Ethical Values:

The Board of Directors laid down a code for encouraging the sound practices, ethical behaviors and protection of long term interests for those concerned. Among its most significant clauses are the following:

- Integrity ranks first in terms of the priority in the company values, and acts as the goal guiding personnel in all their acts. Therefore, focusing on integrity fosters the method of work which spreads ethics and taking ethical decisions.
- The ethical direction and behavior supports the decisions based on values upon providing services to the customers and during the performance of works. The company is proud not only with the works for the interest of work but also for the interest of stakeholders.
- To support these ideals, the code of ethical conduct and ethics was prepared, which aims at assisting members of the Board of Directors and executive management in the company in performing their duties through a system based on ethical values. The principles and values of this code form an indivisible part of the strict compliance which the company aims to achieved in order to safeguard its reputation and the public's confidence in the company.

Company policies and procedures to limit conflict of interest cases:
As part of the corporate governance, the company laid down a code for the conflict of interests policies, including the methods and necessary measures to confront and manage them, in order to satisfy such requirements and prohibit these conducts by members of the Board of Directors and executive management and segregate personal interests from their official responsibilities in the Company.

The objective of these policies exemplifies in assisting the company and each of its direct and indirect subsidiary companies, as well as members of the Board of Directors and executive management to identify the spread of regulatory values of the company, and sound management methods of the actual and potential conflict of interests cases. Such policies and procedures apply on all the company's personnel, suppliers, officials and members of its Board of Directors.

Disclosure and Transparency:
The company adhered with clear instructions regulating the disclosure of substantial information and the mechanism of announcing them, which also satisfy the legal and ethical requirements of the company. Further, the company was keen to ensure that substantial information related to the company's activity are disclosed in the proper time, including the financial position and performance of the company's management to the concerned bodies to understand the strategy and practices of the company to facilitate the evaluation of its performance.

The company complies with the mechanism of disclosing substantial information laid down by the Authority through the Stock Exchange website and notifies the Authority with the same notification. Further, the company posts such disclosures on the company's website by the end of the same business day, and keeps an archive of such disclosures for the past five years, whereby it may be accessed at any time. Salhia Real Estate Company retains a special register in which it provides all the disclosures of members of the Board of Directors and the executive management. All the Company shareholders are entitled to access them for free.

Investors Affairs
The company has complied with laying down policies and procedures for representing the company fairly, whereby the current and potential investors are informed of the investment decisions. The Investors Affairs Unit in the company enjoys the required independence, whereby it works to provide data information and reports in the right time with the required accuracy through the accustomed disclosure methods.

Information Technology Infrastructure in the Company:
The company has updated its website in which it created a special section on corporate governance. Salhia Real Estate Company provides through the website all the information about the company, subsidiary and affiliate companies and its projects locally and abroad. Further, it provides the various financial and non-financial data and other information. This information is updated on timely basis.

General rights of shareholders:
According to the company's manual for the policies of protecting the rights of stakeholders and shareholders, all the Company shareholders enjoy general and clear rights which include registering the value of owned shares in the accounting records, registration and transfer of ownership of shares, receiving profits distribution, receiving a part of the company's assets in the event of its liquidation, receiving the data and information relevant to the company's activities, operational and investment strategies in the right time, participate in the meetings of the general assemblies of shareholders and voting on its decisions, election of members of the Board of Directors, monitoring the company's performance in general and the Board of Directors in particular, accountability of the Board of Directors and executive management and filing accountability lawsuits in the event of not performing the functional duties they are mandated with.

Further, a special register exists in the company kept with Kuwait Clearing Company in which the names of shareholders, their nationalities, domicile and the number of shares held by them are recorded. This register is marked with any changes on the data registered therein, according to the details received by the company or Kuwait Clearing Company. Every concerned party may request the company or Kuwait Clearing Company to furnish him with details from this register.

Company general assembly meeting;
Salhia Real Estate Company is keen to organize meetings of the general assembly of shareholders as set forth in the corporate governance rules, laws

and rules regulating the same. The agenda items shall include the minimum items required according to the rules. Details and information of the agenda shall be furnished to shareholders in advance of the date of holding the assembly by a sufficient time. Shareholders are permitted effective participation in the general assembly meetings, discussion of the topics listed therein and raise questions. Further, the company is keen that all shareholders practice the right of voting without any hurdles.

Rights of Stakeholders:
Salhia Real Estate Company prepared the policies and procedures which guarantee the protection of stakeholders' rights and permit them to obtain legal compensations in the event of breaching any of their rights as set forth in the corporate governance rules. Further, these policies outline the Company's need to maintain positive working relationships and clarify the policy of reporting violations, receiving complaints and address them.

Through several procedures, the company is keen at increasing the contributions and participations of stakeholders in the company activities. Such procedures include the publishing of all relevant information accurately and at the right time to the stakeholders, and taking the interests of such parties into consideration upon taking the significant decisions. Further, stakeholders are provided with the opportunity of submitting their remarks on their experiences in dealing with the company.

Training programs and courses:
Salhia Real Estate Company guarantees to all members of the Board of Directors and executive management the required training needs to increase skills and knowledge to achieve a better standard of management and competence at work.

Institutional values of the Company personnel:
The company outlined in the professional and ethical code of conduct the fundamental principles on which the company's policy is based for creating the institutional values based on that the company reputation is established on the conduct of members of the Board of Directors, executive management and personnel. Everyone should play a role in safeguarding the Company reputation by compliance with the highest ethical standards. The Board of Directors assumes the responsibility of laying down the criteria and specifications of the company's ethical values. Each member of the senior management and staff shall assist to enforce this manual as part of his function and ethical responsibility and report any violation to the board of directors.

Further, the company's management has prepared the "Employee's Manual" in light of the private sector labor law in the State of Kuwait. This manual was circulated to all the company's personnel. The Manual comprises the guidelines and applicable procedures of Salhia Real Estate Company for the purpose of presenting a clear image on the employee's rights and duties which fosters the employees' vital and fundamental role in providing the best high standard services.

Social Responsibility:
The company is keen for the continuance compliance with its social responsibilities through social conducts aimed at achieving sustainable development for the community in general and its personnel in particular. This is achieved through the initiatives aimed at enhancing the conditions of living for the personnel, their families and the society, and working to reduce the unemployment rate in the society and reduce the wasting of environmental resources.

The Company aims at fostering the concept of management to include social and environmental problems within its operations and relations with stakeholders. The social responsibility paves the way for the company to establish the balance of the economic, environmental and social requirements, and at the same time fulfill the expectations of the shareholders and stakeholders, contribute in confronting the problems of the society, contribute in solving them, then enhance the company's image and promote its (trademark). Nevertheless, the concept of social responsibility goes further than this.

During the past year, Salhia Real Estate Company exerted several efforts in the field of social responsibility, which was diversified between social, environment and various youth and other activities, whereby Salhia provided sponsorship to many youth exhibitions and functions. The company's complexes were open to host such activities, in addition to charity activities, financial and moral support to numerous social institutions inside Kuwait.

REPORT ON INTERNAL CONTROL SYSTEMS IN RESPECT OF SALHIA REAL ESTATE COMPANY K.S.C.P.

Russell Bedford
Bader Al Abduljader & Partners
Chartered Accountants & Business Advisers

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The Board of Directors
Salhia Real Estate Company K.S.C.P
State of Kuwait

Dear Sirs,

Report on Internal Control Systems in respect of Salhia Real Estate Company K.S.C.P ("the Company" or "Salhia")

In accordance with our engagement letter dated 06 April, 2016, with Salhia Real Estate Company K.S.C.P, we have examined the internal control systems of the Company, which were in existence for the year ended 31 December 2016. The divisions examined were as follows:

- Corporate Governance
- Real Estate Facilities Management
- Real Estate Development
- Construction
- Investments
- Finance & Accounts
- Human Resources & Administration
- Information Technology
- Compliance
- Investor Relations Unit
- Risk Management
- Internal Audit Function
- Legal

Our examination has been carried out with respect to Article 6-9 of Module 15 - 'Corporate Governance' of the Executive By-Laws issued by the Capital Market Authority ("CMA").

We would like to indicate that you as Directors of the Company are responsible for establishing and maintaining adequate internal control systems of your Company, taking into account that the related cost of such systems to be commensurate with the benefits expected from implementation thereof. It shall be noted that the objective of this report is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that risks are properly monitored and evaluated, that transactions are executed in accordance with established authorization procedures and are recorded properly, and to enable you to conduct the business in a prudent manner, with care and caution.

Because of inherent limitation in any internal control system, errors or irregularities may nevertheless occur and not be detected or traced. Also projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

In our opinion, having regard to the nature and size of the Company's business and operations for the year ended 31 December 2016, the internal control systems examined by us were established and maintained in accordance with the scope set out above with the exception of the matters set out in the respective areas of this report.

Bader A. Al Abduljader
Licence No. 207 "A"
of Russell Bedford Bader Al Abduljader & Partners
Member firm of Russell Bedford International

State of Kuwait
08 February 2017

AUDITING COMMITTEE REPORT

Salhia Real Estate Company
Auditing Committee Report for the Fiscal Year ended on 31 December 2016

Introduction:
The Board of Directors of Salhia Real Estate Company undertakes the duties of creating and following up the control, auditing and review systems in the Company, whereby the responsibility of the Board of Directors does not rely solely on the forms, policies and procedures related to auditing, but exceed them until the control systems represent a general conduct in the company, by its personnel in the various departments.

Internal Control Systems:
The Board of Directors has approved the general policies and procedures for the internal auditing systems covering all the company's activities and departments. The work strategy defines the control work for the company, as well as the responsibilities, duties and tasks of the company personnel. The Board of Directors Auditing Committee follows up the execution of such policies and procedures, whereby the committee held regularly its periodical meetings for the management and efficiency measurement of the internal control systems. Further, the remarks and reports submitted to the committee have been discussed according to the route of submitting reports at the company's various departments in order to achieve double control.

Furthermore, the committee held periodical meetings with the internal auditor in which it discussed the reports relevant to the various groups of the company. In these meetings, all the regulatory remarks issued by the internal auditor have been discussed, as well as review of the previous remarks and extent of response to these remarks in order to identify the aspects of risks and hurdles to which the company may be exposed, the degree of their significance and attempt to avoid such risks, as well as ensure that the control functions of the various groups of the company are laid down properly. This is in addition to the availability of the human competences and required and appropriate regulatory tools to achieve an effective internal control.
Furthermore, the Auditing Committee reviews the proposed plan for the auditing works inside the company in order to maintain the periodicity of convening the committee according to predetermined agenda and dates. The committee practices its authority for review and approval of the annual auditing plan and all the main changes on the internal control policies and procedures.

Accuracy of the financial statements and reports:
The Auditing Committee performs its role in the review and supervision over the external auditors' reports in connection with the quarterly and annual financial statements of the company before submitting them to the Board of Directors – and meets with the auditors if required – in order to ensure the soundness of the company's financial statements, the independence and integrity of the external auditor whose opinion remains independent, and enclosed with the contents of the company's annual report.

Regulatory Obligations:
According to the requirements of the Capital Markets Authority, the committee has taken the required steps to execute the new instructions for corporate governance, which included updating the existing auditing procedures and preparation of the special registers for recording the minutes of the committee, its decisions and agendas. Further, a contract was signed with an independent external auditor office in order to express the opinion and prepare the internal control report for the year ended on 31 December 2016.

The Board of Directors and executive management have both pledged to comply with submitting written and clear undertakings for the accuracy and integrity of the annual financial statements and financial reports related to the company's operations, and that they include all the financial aspects of the company and its operational results, and that they are prepared according to the International Financial Reporting Standards (IFRS).

At the end, the Auditing Committee observes that the follow up and supervision works it carried out and the review procedures of the auditors' reports and the applicable internal control systems, point out that Salhia Real Estate Company has a suitable control environment for its activities, which do not stand as a barrier for achieving its goals, and that the company is advancing in the efficiency of the monitoring and compliance system to the laws and regulations issued by the regulatory bodies.

Risk Management and Auditing Committee
Salhia Real Estate Company

State of Kuwait
Date : 09/02/2017

SALHIA REAL ESTATE COMPANY K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

INDEPENDENT AUDITOR'S REPORT 42
CONSOLIDATED STATEMENT OF INCOME 48
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 49
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 50
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 51
CONSOLIDATED STATEMENT OF CASH FLOWS 52
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 53

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

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

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

Key Audit Matters (continued)

Impairment of properties

Properties in the consolidated statement of financial position include investment properties, and certain freehold land and buildings classified under property and equipment. These properties are measured at cost less accumulated depreciation and impairment, if any, and constitutes significant portion of the Group's total assets as at the reporting date.

The management of the Group is determining the fair value of its properties, for disclosure and impairment testing purposes, at the reporting date and uses external appraisers to support these valuations. The valuation of the properties is highly dependent on estimates and assumptions such as rental value, occupancy rates, discount rates, market knowledge and historical transactions. Further, the disclosures relating to the assumptions are relevant, given the estimation uncertainty and sensitivity of the valuations. Given the size and complexity of the valuation of properties and the importance of the disclosures relating to the assumptions used in the valuation, we addressed this as a key audit matter.

Our audit procedures included, amongst others, evaluating the assumptions and methodologies used by the Group, and considered the independence, reputation and capabilities of its external valuators. We also evaluated the accuracy of the data inputs used by the external evaluator. We also assessed the appropriateness of the disclosures relating to the investment properties of the Group in Note 10 of the consolidated financial statements.

Other information included in the Group's 2016 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our 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.

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

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

Other information included in the Group's 2016 Annual Report (continued)

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.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SALHIA REAL ESTATE 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)

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SALHIA REAL ESTATE 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)
the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

MOHAMMED HAMED AL SULTAN
LICENCE NO. 100 A
AL SULTAN AND PARTNERS
MEMBER OF BAKER TILLY INTERNATIONAL

13 February 2017
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Revenues		43,558,782	42,973,431
Operating costs		(16,902,418)	(16,663,623)
Gross profit		26,656,364	26,309,808
Share in joint venture's results, net of tax	9	741,751	1,733,924
General and administrative expenses		(5,420,478)	(5,297,565)
Depreciation	10,11	(5,872,989)	(5,774,325)
Sales and marketing expenses		(669,925)	(785,007)
Investment income	4	1,513,417	203,438
Foreign exchange (loss) gain		(85,074)	115,156
Interest income		29,983	28,337
Other income, net		172,628	51,768
Impairment loss on financial assets available for sale	8	(548,813)	(3,117,912)
(Provision) reversal of impairment loss on investment properties	10	(1,843,053)	1,255,236
Finance costs		(1,630,969)	(2,451,937)
Profit before tax		13,042,842	12,270,921
Taxation on overseas subsidiaries		(62,353)	(27,706)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOUR SUPPORT TAX ("NLST"), ZAKAT AND DIRECTORS' FEES		12,980,489	12,243,215
KFAS		(117,463)	(109,879)
NLST		(326,286)	(305,375)
Zakat		(117,463)	(109,879)
Directors' fees	18	(120,000)	(120,000)
PROFIT FOR THE YEAR		12,299,277	11,598,082
Attributable to:			
Equity holders of the Parent Company		12,228,328	11,626,302
Non-controlling interests		70,949	(28,220)
		12,299,277	11,598,082
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	5	24.81 fils	23.55 fils

The attached notes 1 to 27 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Profit for the year		12,299,277	11,598,082
Other comprehensive income (loss):			
Items of other comprehensive income (loss) that are or may be reclassified to consolidated statement of income in subsequent periods:			
Financial assets available for sale:			
Net movement in cumulative changes in fair value of financial assets available for sale		1,136,067	(2,614,612)
Realised gain on sale of financial assets available for sale transferred to consolidated statement of income	4	(1,351,344)	(70,885)
Impairment loss of financial assets available for sale transferred to consolidated statement of income	8	548,813	3,117,912
Exchange differences arising on translation of foreign operations		(6,045,317)	1,438,691
Other comprehensive (loss) income for the year		(5,711,781)	1,871,106
Total comprehensive income for the year		6,587,496	13,469,188
Attributable to:			
Equity holders of the Parent Company		6,657,853	13,753,455
Non-controlling interests		(70,357)	(284,267)
		6,587,496	13,469,188

The attached notes 1 to 27 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 KD	2015 KD
ASSETS			
Cash and bank balances	6	6,573,017	7,688,185
Fixed deposits		2,328,290	1,396,951
Inventories		306,971	334,748
Accounts receivable and other assets	7	16,155,483	6,092,211
Financial assets available for sale	8	7,112,993	8,702,681
Interest in joint venture	9	8,356,690	14,494,630
Investment properties	10	155,857,791	157,085,671
Property and equipment	11	71,786,781	74,369,372
TOTAL ASSETS		268,478,016	270,164,449
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and other liabilities	12	16,786,405	16,246,053
Commercial financing	13	33,850,908	33,167,987
Islamic financing	14	76,623,928	76,192,005
TOTAL LIABILITIES		127,261,241	125,606,045
EQUITY			
Share capital	15	51,272,341	51,272,341
Share premium		35,055,163	35,055,163
Treasury shares	16	(4,783,820)	(4,713,364)
Treasury shares reserve		1,817,810	1,817,810
Statutory reserve	17	26,793,867	25,488,723
Voluntary reserve	17	20,489,290	20,489,290
Retained earnings		16,380,747	15,316,232
Fair value reserve		361,547	28,011
Foreign currency translation reserve		(8,584,476)	(2,680,465)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		138,802,469	142,073,741
Non-controlling interests		2,414,306	2,484,663
TOTAL EQUITY		141,216,775	144,558,404
TOTAL LIABILITIES AND EQUITY		268,478,016	270,164,449

Ghazi Fahad Alnafisi

Chairman

 The attached notes 1 to 27 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the Parent Company											
	Share capital	Share premium	Treasury shares	Treasury shares reserve	Statutory reserve	Voluntary reserve	Retained earnings	Fair value reserve	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance as at 1 January 2016	**51,272,341**	**35,055,163**	**(4,713,364)**	**1,817,810**	**25,488,723**	**20,489,290**	**15,316,232**	**28,011**	**(2,680,465)**	**142,073,741**	**2,484,663**	**144,558,404**
Profit for the year	-	-	-	-	-	-	12,228,328	-	-	12,228,328	70,949	12,299,277
Other comprehensive income (loss)	-	-	-	-	-	-	-	333,536	(5,904,011)	(5,570,475)	(141,306)	(5,711,781)
Total comprehensive income (loss)	-	-	-	-	-	-	12,228,328	333,536	(5,904,011)	6,657,853	(70,357)	6,587,496
Purchase of treasury shares	-	-	(70,456)	-	-	-	-	-	-	(70,456)	-	(70,456)
Dividends (Note 15)	-	-	-	-	-	-	(9,858,669)	-	-	(9,858,669)	-	(9,858,669)
Transfer to reserves	-	-	-	-	1,305,144	-	(1,305,144)	-	-	-	-	-
Balance as at 31 December 2016	**51,272,341**	**35,055,163**	**(4,783,820)**	**1,817,810**	**26,793,867**	**20,489,290**	**16,380,747**	**361,547**	**(8,584,476)**	**138,802,469**	**2,414,306**	**141,216,775**
Balance as at 1 January 2015	51,272,341	35,055,163	(4,289,737)	1,817,810	24,261,580	20,489,290	14,801,129	(404,404)	(4,375,203)	138,627,969	2,768,930	141,396,899
Profit for the year	-	-	-	-	-	-	11,626,302	-	-	11,626,302	(28,220)	11,598,082
Other comprehensive income (loss)	-	-	-	-	-	-	-	432,415	1,694,738	2,127,153	(256,047)	1,871,106
Total comprehensive income	-	-	-	-	-	-	11,626,302	432,415	1,694,738	13,753,455	(284,267)	13,469,188
Purchase of treasury shares	-	-	(423,627)	-	-	-	-	-	-	(423,627)	-	(423,627)
Dividends (Note 15)	-	-	-	-	-	-	(9,884,056)	-	-	(9,884,056)	-	(9,884,056)
Transfer to reserve	-	-	-	-	1,227,143	-	(1,227,143)	-	-	-	-	-
Balance as at 31 December 2015	51,272,341	35,055,163	(4,713,364)	1,817,810	25,488,723	20,489,290	15,316,232	28,011	(2,680,465)	142,073,741	2,484,663	144,558,404

The attached notes 1 to 27 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat and Directors' fees		12,980,489	12,243,215
Adjustments for:			
Share in joint venture's results, net of tax	9	(741,751)	(1,733,924)
Provision for employees' terminal benefits		749,507	481,360
Depreciation	10,11	5,872,989	5,774,325
Investment income	4	(1,513,417)	(203,438)
Foreign exchange loss (gain)		85,074	(115,156)
Interest income		(29,983)	(28,337)
Gain on sale of property and equipment		(80,512)	(12,330)
Impairment loss on financial assets available for sale	8	548,813	3,117,912
Provision (reversal) of impairment loss on investment properties	10	1,843,053	(1,255,236)
Finance costs		1,630,969	2,451,937
		21,345,231	20,720,328
Changes in operating assets and liabilities			
Inventories		27,777	14,362
Accounts receivable and other assets		(277,721)	397,338
Accounts payable and other liabilities		(469,388)	(1,276,181)
Cash from operations		20,625,899	19,855,847
Employees' terminal benefits paid		(109,463)	(195,205)
KFAS paid		(109,879)	(110,359)
NLST paid		(316,257)	(306,065)
Zakat paid		(126,503)	(110,357)
Directors' fees paid		(120,000)	(120,000)
Net cash flows from operating activities		19,843,797	19,013,861
INVESTING ACTIVITIES			
Purchase of financial assets available for sale		-	(1,818,167)
Proceeds from sale of financial assets available for sale		2,725,452	169,201
Additions to investment properties	10	(4,523,530)	(11,382,901)
Additions to property and equipment	11	(2,545,311)	(1,029,606)
Net movement in advance payments to contractors		(9,785,551)	(1,193,996)
Proceeds from sale of property and equipment		127,625	18,734
Dividend income received	4	162,073	132,553
Dividends received from joint venture	9	2,604,008	4,590,000
Interest income received		29,983	28,337
Fixed deposits		(931,339)	(867,056)
Net cash flows used in investing activities		(12,136,590)	(11,352,901)
FINANCING ACTIVITIES			
Proceeds from commercial and Islamic financings obtained		26,072,000	19,011,185
Repayment of commercial and Islamic financings		(23,334,281)	(14,200,006)
Finance costs paid		(1,630,969)	(2,451,937)
Dividends paid	15	(9,858,669)	(9,884,056)
Purchase of treasury shares		(70,456)	(423,627)
Net cash flows used in financing activities		(8,822,375)	(7,948,441)
NET DECREASE IN CASH AND BANK BALANCES		(1,115,168)	(287,481)
Cash and bank balances as at 1 January		7,688,185	7,975,666
CASH AND BANK BALANCES AS AT 31 DECEMBER	6	6,573,017	7,688,185

 The attached notes 1 to 27 form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1. CORPORATE INFORMATION

The consolidated financial statements of Salhia Real Estate Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively "the Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors 13 February 2017. The general assembly of the shareholders of the Parent Company has the power to amend these consolidated financial statements after issuance.

The Group comprises Salhia Real Estate Company K.S.C.P. and its Subsidiaries listed in Note 19.

The Parent Company is a Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. The Parent Company's registered office is located at Salhia Complex, Mohammed Thunayan Al-Ghanim, P.O. Box 23413 Safat 13095 Kuwait.

The Group's main activities comprise real estate leasing and development of commercial properties and hotel operations in Kuwait and care home operation in Germany. Surplus funds are invested in real estate and securities portfolios managed by specialist investment managers.

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

2. SIGNIFICANT ACCOUNTING POLICES

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

The consolidated financial statements are prepared under the historical cost basis except for certain financial assets available for sale that have been measured at fair value.

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

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries including special purpose entities as at 31 December 2016. 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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

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

Consolidated statement of income and each component of other comprehensive income ("OCI") are attributed to the shareholders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of Subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 the consolidated statement of income. Any investment retained is recognised at fair value.

2.3 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 2016:

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim consolidated financial statements or incorporated by cross-reference between the interim consolidated financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim consolidated financial statements and at the same time. This amendment is applied retrospectively. These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the consolidated statement of income and the consolidated statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to consolidated financial statements
- That the share of other comprehensive income (OCI) of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to IAS 1 Disclosure Initiative (continued)
Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the consolidated statement of income and OCI. These amendments do not have any impact on the Group.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 7 Disclosure Initiative – Amendments to IAS 7
The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IFRS 9 Financial Instruments
The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's financial statements, when adopted.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases (continued)

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

2.5 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 Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the consolidated statement of income within "General and 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.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for 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 interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in 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 has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and also exposed to credit risk. The specific recognition criteria described below must also be met before revenue is recognised.

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms, and included in revenue due to its operating nature.

Interest income
Interest income is recognised as it accrues using the effective interest rate method ("EIR").

Hotel and care home income
Hotel and care home income represents the invoiced value of services provided during the year.

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

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

Finance costs

Finance costs 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 capitalised as part of the cost of that asset. Capitalisation 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 recognised as an expense in the period in which they are incurred.

The finance cost capitalised is calculated using the weighted average cost of borrowing after adjusting for borrowing associated with specific development. Where borrowings are associated with specific developments, the amount capitalised is the gross finance cost incurred on those borrowing less any investment income arising on their temporary investment. Finance cost is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Finance cost is also capitalised in the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Foreign currency translation

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to the consolidated statement of income reflects the amount that arises from using this method.

Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are included within foreign currency gain or loss in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

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

Leases

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

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

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

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

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)
Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit of the Parent Company (net of accumulated losses brought forward) after accounting for the transfer to statutory reserve and after deducting its share of income from shareholding subsidiaries and associates and transfer to statutory reserve.

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 taxable profit for the year. In determining taxable profit, profit of associates and Subsidiaries subject to NLST and cash dividends from listed companies subject to NLST are deducted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Taxation on overseas Subsidiaries
Taxation on overseas Subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

Financial assets and liabilities

The Group recognises 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 recognised 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 other assets
Accounts receivable and other assets 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. When accounts receivable and other assets are uncollectible, it is written off.

Cash and bank balances
Cash and bank balances are short-term, highly liquid investments including short-term fixed deposits that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value, net of due to banks contractually due within three months.

Fixed deposits
Fixed deposits in the statement of financial position comprise term deposit with original maturity of one year or less.

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 OCI 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.

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.

Commercial financing
After initial recognition, interest bearing commercial financing is subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate.

Islamic financing
Islamic financing represents murabaha and wakala financing taken under murabaha and wakala arrangements. Islamic financing is stated at the gross amount of the payable, net of deferred cost payable. Deferred cost payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

The Group measures financial instruments, such as financial assets at fair value through profit or loss and financial assets available for sale, 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.

An analysis of fair values of financial instruments and further are provided in Note 26.

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 derecognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

De-recognition of financial assets and liabilities (continued)

Financial assets (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 derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same 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 recognised in 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 amortised 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 available for sale equity financial assets, 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 Groups 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 available for sale equity financial assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories of food and beverages are valued at the lower of cost and net realisable value after making due allowance for any expired or slow-moving items. Cost is determined by the first-in, first-out basis.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on sale.

Inventories of operating supplies are valued at cost less due allowance for any obsolete or slow-moving items. Cost is determined on a weighted average basis.

Interest in joint venture

The interest in the joint venture is accounted for using the equity method. Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

Under the equity method, the interest in joint venture is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. Goodwill relating to a joint venture is included in the carrying amount of the investment and is not amortised. The Group recognises in the consolidated statement of income its share of the results of the joint venture from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the joint venture reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the joint venture arising from changes in the joint venture's equity. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes in the consolidated statement of comprehensive income.

Unrealised gains on transactions with joint venture are eliminated to the extent of the Group's share in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of interest in joint venture is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The joint venture's financial statements are prepared to the Parent Company's reporting date or to a date not earlier or later than three months of the Parent Company's reporting date. Where practicable, appropriate adjustments are made to the joint venture's financial statements to bring them in line with the Group's accounting policies.

Upon loss of joint control over the venture, the Group measures and recognise any retained investment at its fair value.

Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at depreciated cost less provision for impairment. Buildings are depreciated using the straight line method over their estimated useful lives which vary between 10 to 50 years.

The carrying amounts are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, properties are written down to their recoverable amount.

Investment property is derecognised when it has been disposed of or 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 year 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment in value (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial year in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is provided on a straight line basis at rates calculated to write-off the cost of each asset over its expected useful life as follows:

• Buildings and related immovable equipment	10 to 50 years
• Furniture and equipment	5 to 10 years
• Motor vehicles	5 years

The carrying amounts are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

The useful economic lives of property and equipment are reviewed at each financial year and revised for significant change where necessary.

An item of property and equipment initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposals.

Any gain or loss arising on derecognition of the assets is included in the consolidated statement of income when the asset is derecognised.

Capital work in progress
Capital work in progress is carried at cost less impairment in value (if any). Costs are those expenses incurred by the Group that are directly attributable to the construction of asset. Once completed, the asset is transferred to the respective assets class.

The carrying values of capital work in progress 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.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group 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 fair 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is the asset's recoverable amount since the last impairment loss was recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income. After such 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.

Treasury shares

The Parent Company's own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is non-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 the treasury shares reserve account. No cash dividends are distributed 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.

Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) 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 each reporting date 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 incurred to settle the obligation.

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.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, 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.

Judgments

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

Operating lease commitments – Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Business combinations
The Group acquires Subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.

When the acquisition of Subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Classification of real estate
Management of the Group decides on acquisition of a developed and under development property whether it should be classified as trading, investment property or properties and equipment.

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

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

The Group classifies property as property and equipment when it is acquired for owner occupation.

Classification of equity investments
All investments are classified as available for sale.

Impairment of financial assets available for sale
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 judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Impairment of receivables
An estimate of the collectible amount of receivables 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.

Estimates and assumptions

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

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

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- An earnings multiple or industry specific earnings multiple;
- 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. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment (Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

4. INVESTMENT INCOME

	2016 KD	2015 KD
Gain on sale of financial assets available for sale	1,351,344	70,885
Dividend income	162,073	132,553
	1,513,417	203,438

5. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic:

Basic earnings per share attributable to equity holders of the Parent Company is computed by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares).

Diluted:

Diluted earnings per share attributable to the equity holders of the Parent Company is computed by dividing the profit for the year attributable to the equity holders of the Parent Company, adjusted for the effect of conversion of employees share options, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees share options. The Parent Company does not have outstanding share options under the employees share option plan as at 31 December 2016.

	2016	2015
Profit for the year attributable to equity holders of the Parent Company (KD)	12,228,328	11,626,302
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	492,951,169	493,661,421
Basic and diluted earnings per share attributable to equity holders of the Parent Company	24.81 fils	23.55 fils

6. CASH AND BANK BALANCES

Cash and bank balances comprises of the following:

	2016 KD	2015 KD
Cash on hand	19,884	21,936
Bank balances	6,553,133	7,666,249
	6,573,017	7,688,185

Bank balances represent non-interest bearing current bank accounts held with commercial banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

7. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2016 KD	2015 KD
Hotel guests and care home residents receivables	1,446,745	1,189,676
Rent receivable	568,588	343,243
Staff receivables (Note 20)	41,527	43,004
Deposits and prepaid expenses	1,070,866	963,251
Advance payments to contractors*	10,724,443	938,892
Due from related parties (Note 20)	674,171	789,243
Other receivables	1,629,143	1,824,902
	16,155,483	6,092,211

* During the year, the Group made advance payments to the main contractor for the construction of the Assima project amounting to KD 10,297,548 (2015: KD 32,592).

Hotel guests, care home residents receivables and rent receivable are non-interest yielding and are generally on 30-90 days terms.

Movement in the provision for impairment of hotel guests, care home and residents and rent receivable is as follows:

	2016 KD	2015 KD
As at 1 January	315,604	285,965
Charge of impairment for the year	8,032	29,639
As at 31 December	323,636	315,604

As at 31 December, the analysis of hotel guests, care home residents receivables and rent receivable that were past due but not impaired is as follows:

		Past due but not impaired					
	Neither past due nor impaired KD	< 30 days KD	30 to 60 days KD	60 to 90 days KD	90 to 120 days KD	> 120 days KD	Total KD
2016	**127,626**	**857,451**	**262,744**	**112,215**	**104,524**	**550,773**	**2,015,333**
2015	120,965	545,229	188,716	49,072	200,334	428,603	1,532,919

Hotel guests, care home residents receivables and rent receivable include amounts denominated in the following major currencies:

	2016 KD	2015 KD
Kuwaiti Dinar	1,568,972	1,119,086
Euro	207,135	207,041
GBP	239,226	206,792
	2,015,333	1,532,919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

8. FINANCIAL ASSETS AVAILABLE FOR SALE

	2016 KD	2015 KD
Managed quoted portfolios	400,993	1,460,572
Managed unquoted portfolio	94,812	94,812
Unquoted equity securities	6,617,188	7,147,297
	7,112,993	8,702,681

Managed quoted portfolios represent equity investments carried at market bid prices and fair values as reported by the portfolio managers. During the year, the Parent Company did not record any impairment loss (2015: KD 2,459,931) against equity investments.

Managed unquoted portfolio represents unquoted equity securities amounting to KD 94,812 (2015: KD 94,812) are carried the latest net asset value provided by the respective portfolio managers.

Unquoted equity securities amounting to KD 6,617,188 (2015: KD 7,147,297) and are carried at cost less impairment since fair values cannot be reliably estimated and the investment managers have been unable to indicate any estimates of the range within which fair values might lay. The management recorded an impairment loss of KD 548,813 (2015: KD 657,981) against these investments based on the most recently available information.

Financial assets available for sale (excluding unquoted equity securities) are fair valued and classified under fair value hierarchies in Note 26.

9. INTEREST IN JOINT VENTURE

This represents the Group's 50% (2015: 50%) interest in a United Kingdom based joint venture entity, Key Property Investments limited, engaged in real estate leasing and development.

	2016 KD	2015 KD
Carrying amount of the investment in the joint venture:		
As at 1 January	14,494,630	15,194,875
Share in the joint venture's results, net of tax	741,751	1,733,924
Dividends received	(2,604,008)	(4,590,000)
Foreign currency translation adjustment	(4,275,683)	2,155,831
As at 31 December	8,356,690	14,494,630
Share of joint venture entity's statement of financial position:		
Current assets	1,027,126	80,980
Non-current assets	23,800,994	34,580,742
Current liabilities	(2,423,701)	(3,110,056)
Non-current liabilities	(14,047,729)	(17,057,036)
Net assets	8,356,690	14,494,630
Share of joint venture entity's revenue and results:		
Revenues	8,443,176	7,749,717
Results	741,751	1,733,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

10. INVESTMENT PROPERTIES

	Freehold land	*Buildings*	*Properties under construction*	*Total*
Cost	*KD*	*KD*	*KD*	*KD*
Balance as at 1 January 2016	100,789,813	58,783,826	26,171,195	185,744,834
Additions	-	15,350	4,508,180	4,523,530
Transfers from capital work in progress	-	6,957,194	(6,957,194)	-
Foreign currency translation adjustment	(717,952)	(927,794)	(859,391)	(2,505,137)
Balance as at 31 December 2016	**100,071,861**	**64,828,576**	**22,862,790**	**187,763,227**
Accumulated depreciation and impairment				
Balance as at 1 January 2016	5,447,343	23,211,820	-	28,659,163
Charge for the year	-	1,985,124	-	1,985,124
Impairment loss	1,053,744	789,309	-	1,843,053
Foreign currency translation adjustment	(118,007)	(463,897)	-	(581,904)
Balance as at 31 December 2016	**6,383,080**	**25,522,356**	**-**	**31,905,436**
Net Book Value as at 31 December 2016	**93,688,781**	**39,306,220**	**22,862,790**	**155,857,791**

	Freehold land	*Buildings*	*Properties under construction*	*Total*
Cost	*KD*	*KD*	*KD*	*KD*
Balance as at 1 January 2015	99,597,238	58,783,826	16,152,369	174,533,433
Additions	1,220,610	-	10,162,291	11,382,901
Transfers from capital work in progress	-	-	-	-
Foreign currency translation adjustment	(28,035)	-	(143,465)	(171,500)
Balance at 31 December 2015	100,789,813	58,783,826	26,171,195	185,744,834
Accumulated depreciation and impairment				
Balance as at 1 January 2015	6,612,615	21,376,775	-	27,989,390
Charge for the year	-	1,835,045	-	1,835,045
Reversal of impairment	(1,255,236)	-	-	(1,255,236)
Foreign currency translation adjustment	89,964	-	-	89,964
Balance as at 31 December 2015	5,447,343	23,211,820	-	28,659,163
Net Book Value as at 31 December 2015	95,342,470	35,572,006	26,171,195	157,085,671

Investment properties with a carrying value of KD 155,792 (2015: KD 155,792) are registered in the name of a nominee. The nominee has confirmed in writing that the Parent Company is the beneficial owner of the properties.

The fair value of investment properties amounted to KD 353,227,014 (2015: KD 354,030,019) at the reporting date based on valuations obtained from two independent appraisers, who are industry specialists in valuing these types of investment properties using mixed acceptable methods of valuation such as sales comparison and market comparable method. These are classified under level 2 fair value hierarchy.

For properties under construction amounting to KD 1,319,563 (2015: KD 8,571,844), no fair valuation was available as there is no reliable measurement of fair value since the project is under construction.

Investment properties amounting to KD 71,794,141 (2015: 71,794,141) are secured against Islamic financing obtained by a local subsidiary amounting to KD 39,750,000 (2015: 44,166,667). Under the terms of the liability, the lenders have no recourse to the Parent Company in the event of default (Note 14).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

11. PROPERTY AND EQUIPMENT

	Freehold land KD	*Buildings KD*	*Furniture and equipment KD*	*Motor vehicles KD*	*Capital work in progress KD*	*Total KD*
Cost						
Balance as at 1 January 2016	12,109,856	93,286,407	37,406,716	404,537	615,397	143,822,913
Additions	-	283,272	2,106,716	56,355	98,968	2,545,311
Disposals	-	(30,389)	(82,898)	(43,791)	(13,470)	(170,548)
Transfers from capital work in progress	-	-	32,273	-	(32,273)	-
Foreign currency translation adjustment	(161,016)	(1,425,986)	(147,892)	-	(1,486)	(1,736,380)
Balance as at 31 December 2016	**11,948,840**	**92,113,304**	**39,314,915**	**417,101**	**667,136**	**144,461,296**
Accumulated depreciation						
Balance as at 1 January 2016	-	37,021,586	32,147,272	284,683	-	69,453,541
Charge for the year	-	2,137,782	1,701,884	48,199	-	3,887,865
Depreciation on disposals	-	-	(79,647)	(43,788)	-	(123,435)
Foreign currency translation adjustment	-	(512,404)	(31,052)	-	-	(543,456)
Balance as at 31 December 2016	**-**	**38,646,964**	**33,738,457**	**289,094**	**-**	**72,674,515**
Net Book Value as at 31 December 2016	**11,948,840**	**53,466,340**	**5,576,458**	**128,007**	**667,136**	**71,786,781**

11. PROPERTY AND EQUIPMENT (continued)

	Freehold land KD	*Buildings* KD	*Furniture and equipment* KD	*Motor vehicles* KD	*Capital work in progress* KD	*Total* KD
Cost						
Balance as at 1 January 2015	12,444,425	96,226,694	36,822,594	328,826	615,412	146,437,951
Additions	-	-	920,183	75,890	33,533	1,029,606
Disposals	-	(762)	(77,770)	(179)	(1,773)	(80,484)
Transfers from capital work in progress	-	-	26,829	-	(26,829)	-
Foreign currency translation adjustment	(334,569)	(2,939,525)	(285,120)	-	(4,946)	(3,564,160)
Balance as at 31 December 2015	12,109,856	93,286,407	37,406,716	404,537	615,397	143,822,913
Accumulated depreciation						
Balance as at 1 January 2015	-	35,523,905	30,979,631	242,645	-	66,746,181
Charge for the year	-	2,439,753	1,457,763	42,038	-	3,939,554
Depreciation on disposals	-	(177)	(74,181)	-	-	(74,358)
Foreign currency translation adjustment	-	(941,895)	(215,941)	-	-	(1,157,836)
Balance as at 31 December 2015	-	37,021,586	32,147,272	284,683	-	69,453,541
Net Book Value as at 31 December 2015	12,109,856	56,264,821	5,259,444	119,854	615,397	74,369,372

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2016 KD	2015 KD
Accounts payable	5,231,606	4,772,107
Retentions payable	275,090	264,119
Accrued expenses	3,417,870	3,828,262
Deposits from tenants, hotel and care home guests	778,274	564,770
Rents received in advance	1,174,056	1,214,162
Employees' terminal benefits	4,138,507	3,498,463
Other payables	1,771,002	2,104,170
	16,786,405	16,246,053

13. COMMERCIAL FINANCING

Commercial financing are contractually due for repayment as follows:

	2016 KD	2015 KD
Installments payable within one year	9,921,408	7,016,701
Installments payable within one year to two years	5,759,452	6,729,541
Installments payable within two years to three years	971,817	980,911
Installments payable within three years to four years	971,817	1,007,396
Installments payable after four years	16,226,414	17,433,438
	33,850,908	33,167,987

Commercial financing are denominated in the following currencies:

	2016 KD	2015 KD
Kuwaiti Dinars	9,000,000	6,070,000
Euro	20,037,724	21,323,587
GBP	4,813,184	5,774,400
	33,850,908	33,167,987

Commercial financing are repayable in periodic installments over variable periods of time with maturities extending to December 2040.

Commercial financing denominated in Kuwaiti Dinar carries variable interest rates which range from 0.75% to 1.5% per annum (2015: 0.75% to 1.5% per annum) over the Central Bank of Kuwait discount rate.

Commercial financing denominated in euro carries variable interest rates which range from 1.5% to 2% per annum (2015: 1.5% to 2% per annum) over EURIBOR.

Commercial financing amounting to KD 24,850,908 (2015: KD 27,097,987) has been obtained by foreign subsidiaries under the terms of which lenders have no recourse to the Parent Company in the event of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

14. ISLAMIC FINANCING

	2016 KD	2015 KD
Murabaha financing	72,223,928	71,742,005
Wakala financing	4,400,000	4,450,000
	76,623,928	76,192,005

Islamic financing are contractually due for repayment as follows:

	2016 KD	2015 KD
Installments payable within one year	4,188,667	9,833,335
Installments payable within one year to two years	2,250,000	19,333,333
Installments payable within two years to three years	1,000,000	6,666,667
Installments payable within three years to four years	9,450,000	5,416,667
Installments payable after four years	59,735,261	34,942,003
	76,623,928	76,192,005

The average profit rate attributable to Islamic financing during the years is 1.5% per annum (2015: 1.5% per annum) over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 39,750,000 (2015: 44,166,667) has been obtained by a local subsidiary acquired during the year 2011, and is secured by an investment property with a carrying value of KD 71,794,141 (2015: 71,794,141). Under the terms of the facility, the lenders have no recourse to the Parent Company in the event of default (Note 10).

15. SHARE CAPITAL AND GENERAL ASSEMBLY MEETING

At the annual general assembly of the shareholders of the Parent Company held on 21 March 2016, the shareholders approved the distribution of cash dividends of 20 fils (2014: 20 fils) per share amounting to KD 9,858,669 for the year ended 31 December 2015 (31 December 2014: KD 9,884,056) for shareholders registered on that date paid subsequent.

As at 31 December 2016, the authorised, issued and paid up capital comprises of 512,723,413 shares (31 December 2015: 512,723,413 shares) of 100 fils (31 December 2015: 100 fils) each paid in cash.

For the year ended 31 December 2016, the Board of Directors of the Parent Company has proposed cash dividends of 20 fils (2015: 20 fils) per share. This proposal is subject to the approval of the annual general assembly of the shareholders of the Parent Company.

16. TREASURY SHARES

As at 31 December 2016, the Parent Company' held 19,789,949 (2015: 19,571,449) of its own shares, equivalent to 3.86% (2015: 3.82%) of the total issued share capital at that date. The market value of these shares at the reporting date was KD 7,025,432 (2015: KD 7,241,436). Reserves of the Parent Company equivalent to the cost of the treasury shares have been ear-marked as non distributable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

17. STATUTORY RESERVE AND VOLUNTARY RESERVE

As required by the Companies Law and the Parent Company's Articles of Association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and directors' fees and after offsetting accumulated losses brought forward, is required to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals or exceeds 50% of paid-up share capital. Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

As required by the Parent Company's Articles of Association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and directors' fees and after offsetting accumulated losses brought forward is required to be transferred to voluntary reserve. In 2012, the shareholders of the Parent Company agreed on the proposal of the Board of Directors to discontinue annual transfer to voluntary reserve.

18. DIRECTORS' FEES

Directors' fees of KD 120,000 are subject to approval by the annual general assembly of the shareholders of the Parent Company. Directors' fees of KD 120,000 for the year ended 31 December 2015 were approved by the annual general assembly of the shareholders of the Parent Company held on 21 March 2016 (Note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

19. SUBSIDIARIES

Details of Subsidiaries are set out below:

Name of the company	*Percentage of ownership*		*Country of incorporation*	*Principal activity*
	31 December 2016	31 December 2015		
Directly held:				
Haddia Holding GMBH	**90.89%**	90.89%	Germany	Holding company
Drawbridge Securities Limited*	**50%**	50%	United Kingdom	Property development
Salhia International Investment Limited	**100%**	100%	United Kingdom	Property development
Bunyan Al-Salhia Project Management Company W.L.L.	**99%**	99%	Kuwait	Project management
The Assima Real Estate Company K.S.C	**99.74%**	99.74%	Kuwait	Real estate
Salhia Real Estate Bahrain S.P.C.	**100%**	100%	Kingdom of Bahrain	Real estate
Held through Haddia Holding GMBH:				
SAREC GMBH	**100%**	100%	Germany	Leasing of properties
DANA Lebensstil GmbH*	**50%**	50%	Germany	Dormant company
Dana Senioreneinrichtungen GMBH*	**40%**	40%	Germany	Care home operator
Dana Ambulante Pfegedienste GMBH*	**40%**	40%	Germany	Care home service provider
Dana Services GMBH (Gredo GMBH)*	**40%**	40%	Germany	Care home catering service provider
Held through Salhia International Investments Limited:				
Salhia Jersey Limited	**100%**	100%	United Kingdom	Real estate
Salhia Investments (Birmingham) Limited	**100%**	100%	United Kingdom	Real estate
Ingelby Limited	**100%**	100%	United Kingdom	Property development
Salhia Investment Residential Limited	**100%**	100%	United Kingdom	Real estate
Held through Bunyan Al-Salhia Project Management Company W.L.L.:				
Al Suwaihra Real Estate L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Suwaihra Development L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Suwaihra Global L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Waqaiba Real Estate L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Waqaiba Development L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Al Had Development L.L.C.	**99%**	99%	Sultanate of Oman	Real estate
Omq Real Estate L.L.C.	**99%**	99%	Sultanate of Oman	Real estate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

19. SUBSIDIARIES (continued)

The financial year end of all the above subsidiaries is 31 December except for Drawbridge Securities Limited, Ingelby Limited and Salhia International Investment Limited which have a financial year end of 30 November.

* During the year ended 31 December 2016, the Group continued to consolidate Drawbridge Securities Limited, DANA Lebensstil GmbH, Dana Senioreneinrichtungen GMBH, Dana Ambulante Pfegedienste GMBH and Dana Services GMBH (Gredo GMBH) as the Group exercise control and has in substance the majority of ownership risks in order to obtain benefits from their activities.

20. RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, joint venture entities, directors and key management personnel of the Group, and companies which are controlled by them or over which they have significant influence and dealing with the Group. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions with related parties included in the consolidated statement of income are as follows:

	2016 KD	2015 KD
Directors' fees (Note 18)	120,000	120,000

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

	Other related parties KD	Total 2016 KD	Total 2015 KD
Staff receivables (Note 7)	41,527	41,527	43,004
Due from related parties (Note 7)	674,171	674,171	789,243

Amounts due from related parties are receivable on demand and are interest-free.

Compensation of key management personnel

The remuneration of key management personnel of the Group during the year is as follows:

	2016 KD	2015 KD
Short-term benefits	618,147	621,127
Employees' end of service benefits	107,667	117,642
	725,814	738,769

21. SEGMENTAL INFORMATION

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating consolidated statement of income as explained below:

Segment results include revenue and expenses directly attributable to a segment.

- Real estate operations: Consist of development and leasing of properties.
- Hotel operations: Consist of the hotel hospitality services provided through JW Marriott Hotel – Kuwait, Courtyard Marriott Hotel-Kuwait and Arraya Ballroom - Kuwait.
- Care home operations: Consist of care home activities provided by subsidiary companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

21. SEGMENTAL INFORMATION (continued)

The following is the detail of the above segments, which constitutes the Group's operating segments:

	31 December 2016				31 December 2015			
	Real estate operations	Hotel operations	Care home operations	Total	Real estate operations	Hotel operations	Care home operations	Total
	KD	KD	KD	KD	KD	KD	KD	KD
Segment revenue	17,947,549	11,159,953	14,451,280	43,558,782	16,637,067	12,426,412	13,909,952	42,973,431
Segment operating costs	(2,862,690)	(3,427,806)	(10,611,922)	(16,902,418)	(2,568,624)	(3,710,228)	(10,384,771)	(16,663,623)
Segment gross profit	15,084,859	7,732,147	3,839,358	26,656,364	14,068,443	8,716,184	3,525,181	26,309,808
Share in joint venture's results, net of tax	741,751	-	-	741,751	1,733,924	-	-	1,733,924
Depreciation	(3,037,188)	(1,846,963)	(988,838)	(5,872,989)	(3,248,344)	(1,542,589)	(983,392)	(5,774,325)
Administrative and marketing expenses	(2,634,633)	(2,236,790)	(1,218,980)	(6,090,403)	(2,750,268)	(2,102,500)	(1,229,804)	(6,082,572)
Finance costs	(922,108)	(81,912)	(626,949)	(1,630,969)	(1,706,753)	(79,801)	(665,383)	(2,451,937)
Taxation on overseas subsidiaries	-	-	(62,353)	(62,353)	-	-	(27,706)	(27,706)
Segment results	9,232,681	3,566,482	942,238	13,741,401	8,097,002	4,991,294	618,896	13,707,192
Interest income				29,983				28,337
Investment income				1,513,417				203,438
Impairment loss on financial assets available for sale				(548,813)				(3,117,912)
(Provision for) reversal of impairment of investment properties				(1,843,053)				1,255,236
Other non-operating expenses				87,554				166,924
KFAS, NLST, Zakat and Directors' fees				(681,212)				(645,133)
Profit for the year				12,299,277				11,598,082
Segment assets	215,577,264	10,142,301	34,401,761	260,121,326	208,461,897	11,133,804	36,074,118	255,669,819
Investment in joint venture	8,356,690	-	-	8,356,690	14,494,630	-	-	14,494,630
Total assets	223,933,954	10,142,301	34,401,761	268,478,016	222,956,527	11,133,804	36,074,118	270,164,449
Segment liabilities	103,201,450	2,675,413	21,384,378	127,261,241	100,420,765	2,681,836	22,503,444	125,606,045
Capital expenditure	5,260,686	1,295,518	512,637	7,068,841	11,725,857	497,439	189,211	12,412,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

21. SEGMENTAL INFORMATION (continued)

Geographic information

The Group operates in two geographical markets: Kuwait and GCC and Europe. The following table shows the distribution of the Group's segment revenues, assets and capital expenditure.

	31 December 2016			*31 December 2015*		
	Kuwait and GCC	***Europe***	***Total***	*Kuwait and GCC*	*Europe*	*Total*
	KD	***KD***	***KD***	*KD*	*KD*	*KD*
Revenue	**28,781,728**	**14,777,054**	**43,558,782**	28,889,854	14,083,577	42,973,431
Assets	**234,076,255**	**34,401,761**	**268,478,016**	205,398,893	64,765,556	270,164,449
Capital expenditure	**6,043,403**	**1,025,438**	**7,068,841**	8,389,978	4,022,529	12,412,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

22. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group's principal financial liabilities comprise non-derivatives financial instruments such as commercial financing, Islamic financing and account payables. The main purpose of these financial liabilities is to fund the Group's operations. The Group has various financial assets such as accounts receivable, bank balances, fixed deposits and financial assets available for sale.

The main risk arising from the Group's financial instruments are market risk, credit risk and liquidity risk.

The Parent Company's Board of Directors, Risk and Internal Audit Committee are ultimately responsible for overall risk management including setting, reviewing and agreeing policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, foreign currency risk and equity price risk.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk with respect to its bank balances, fixed deposits and commercial financing which are both at fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between floating rate and fixed rate borrowings.

Positions are monitored on a regular basis to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit for the year to a reasonable possible change of interest rate in terms of basis points with effect from the beginning of the year. The calculation is based on the Group's floating rate financial instruments held at each reporting date. All other variables are held constant.

	Increase/decrease in basis points	*Effect on profit before KFAS, NLST, Zakat and Directors' fees KD*
2016		
KD	**25**	**213,380**
Euro	**25**	**50,094**
GBP	**25**	**12,033**
2015		
KD	25	205,655
Euro	25	53,309
GBP	25	14,436

Sensitivity to interest rates movement will be on symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

22. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's exposure to foreign currency monetary assets and liabilities.

The following table demonstrates the sensitivity to changes in currency rates, with all other variables held constant:

	2016		*2015*	
Currency	***Change in currency rate in %***	***Effect on consolidated statement of income KD***	*Change in currency rate in %*	*Effect on consolidated statement of income KD*
US Dollar	1%	**-**	1%	5,118
SAR	1%	**1,980**	1%	43,646
OMR	1%	**-**	1%	14,913
Euro	1%	**(184,230)**	1%	(200,431)
GBP	1%	**(44,919)**	1%	(47,109)

Equity price risk
Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the Parent Company through diversification of investments in terms of geographical distribution and industry concentration. The Group's quoted investments include securities listed on the Kuwait Stock Exchange and a portfolio of foreign investments (managed by foreign financial institutions) sensitive to recognised international indices.

The effect on other comprehensive income in equity (as a result of a change in the fair value of financial assets available for sale at 31 December 2016) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2016		*2015*	
Market indices	***Change in equity price %***	***Effect on other comprehensive income KD***	*Change in equity price %*	*Effect on other comprehensive income KD*
International	+/-5	**11,349**	+/-5	98,644

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 manages credit risk by setting limits for individual counter-parties, and groups of counter-parties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties.

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

	2016 KD	2015 KD
Bank balances (Note 6)	6,553,133	7,666,249
Fixed deposits	2,328,290	1,396,951
Accounts receivable (Note 7)	2,015,333	1,532,919
Due from related parties (Note 7)	674,171	789,243
Total exposure of credit risk	11,570,927	11,385,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

22. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The credit risk exposure for bank balances and fixed deposits is not considered to be significant because the counterparties are reputable, financially sound financial institutions.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant (Note 7). The maximum exposure to a single counter party is KD 870,888 (2015: KD 789,243). There are no significant concentrations of credit risk within the Group.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. The Group objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, commercial and Islamic financing.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted payments:

2016	***Within 3 months KD***	***3 to 6 months KD***	***6 to 12 months KD***	***Over one year KD***	***Total KD***
Accounts payable and other liabilities	**4,374,043**	**2,413,691**	**731,918**	**9,266,753**	**16,786,405**
Commercial financing	**447,408**	**448,394**	**9,898,761**	**29,171,788**	**39,966,351**
Islamic financing	**2,256,910**	**1,478,336**	**3,446,041**	**86,136,476**	**93,317,763**
TOTAL LIABILITIES	**7,078,361**	**4,340,421**	**14,076,720**	**124,575,017**	**150,070,519**
Contingent liabilities	**-**	**-**	**741,187**	**897,720**	**1,638,907**
Capital commitments	**12,635,409**	**12,635,409**	**25,270,817**	**-**	**50,541,635**
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS	**12,635,409**	**12,635,409**	**26,012,004**	**897,720**	**52,180,542**

2015	*Within 3 months KD*	*3 to 6 months KD*	*6 to 12 months KD*	*Over one year KD*	*Total KD*
Accounts payable and other liabilities	4,796,522	1,900,821	394,077	9,154,633	16,246,053
Commercial financing	6,493,650	376,083	752,013	32,144,662	39,766,408
Islamic financing	1,941,510	1,680,018	9,011,978	75,718,494	88,352,000
TOTAL LIABILITIES	13,231,682	3,956,922	10,158,068	117,017,789	144,364,461
Contingent liabilities	-	-	1,812,446	-	1,812,446
Capital commitments	-	-	-	17,210,005	17,210,005
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS	-	-	1,812,446	17,210,005	19,022,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturity profile of cash and cash equivalents, fixed deposits, accounts receivable and other assets, accounts payable and other liabilities, interest bearing loans and borrowings at the year-end is based on contractual repayment arrangements. The maturity profile for the remaining assets is determined based on the management estimate of liquidation of those financial assets. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of assets and liabilities was as follows:

2016 **ASSETS**	***Within 3 months KD***	***3 to 6 months KD***	***6 to 12 months KD***	***Over one year KD***	***Total KD***
Cash and bank balances	6,573,017	-	-	-	6,573,017
Fixed deposits	-	2,328,290	-	-	2,328,290
Inventories	306,971	-	-	-	306,971
Accounts receivables and other assets	4,076,608	6,208,637	5,503,101	367,137	16,155,483
Financial assets available for sale	-	-	123,000	6,989,993	7,112,993
Interest in joint venture	-	-	-	8,356,690	8,356,690
Investment properties	-	-	-	155,857,791	155,857,791
Property and equipment	-	-	-	71,786,781	71,786,781
TOTAL ASSETS	**10,956,596**	**8,536,927**	**5,626,101**	**243,358,392**	**268,478,016**
LIABILITIES					
Accounts payable and other liabilities	4,374,043	2,413,691	731,918	9,266,753	16,786,405
Commercial financing	228,058	229,580	9,463,770	23,929,500	33,850,908
Islamic financing	1,501,167	729,167	1,958,333	72,435,261	76,623,928
TOTAL LIABILITIES	**6,103,268**	**3,372,438**	**12,154,021**	**105,631,514**	**127,261,241**
NET ASSETS	**4,853,328**	**5,164,489**	**(6,527,920)**	**137,726,878**	**141,216,775**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

2015 ASSETS	*Within 3 months KD*	*3 to 6 months KD*	*6 to 12 months KD*	*Over one year KD*	*Total KD*
Cash and bank balances	7,688,185	-	-	-	7,688,185
Fixed deposits	-	1,396,951	-	-	1,396,951
Inventories	334,748	-	-	-	334,748
Accounts receivables and other assets	3,776,850	1,296,982	576,966	441,413	6,092,211
Financial assets available for sale	-	-	1,343,903	7,358,778	8,702,681
Interest in joint venture	-	-	-	14,494,630	14,494,630
Investment properties	-	-	-	157,085,671	157,085,671
Property and equipment	-	-	-	74,369,372	74,369,372
TOTAL ASSETS	11,799,783	2,693,933	1,920,869	253,749,864	270,164,449
LIABILITIES					
Accounts payable and other liabilities	4,796,522	1,900,821	394,077	9,154,633	16,246,053
Commercial financing	6,304,362	235,897	476,442	26,151,286	33,167,987
Islamic financing	1,229,167	979,167	7,625,001	66,358,670	76,192,005
TOTAL LIABILITIES	12,330,051	3,115,885	8,495,520	101,664,589	125,606,045
NET (LIABILITIES) ASSETS	(530,268)	(421,952)	(6,574,651)	152,085,275	144,558,404

24. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At the reporting date, the Group had the following contingencies and capital commitments:

	2016 KD	2015 KD
Letters of guarantee	1,638,907	1,812,446
Construction projects*	50,541,635	17,210,005
	52,180,542	19,022,451

* Capital commitments related to construction projects are determined based on management's estimate since the contract with the main contractor is under the closing process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

25. 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 review the dividend payment to shareholders, return capital to shareholders or issue new shares.

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, accounts payable and other liabilities, and commercial and Islamic financing, less cash and bank balances. Capital includes equity attributable to the equity holders of the Parent Company less fair value reserve.

	2016 KD	2015 KD
Accounts payable and other liabilities	16,786,405	16,246,053
Term financing	110,474,836	109,359,992
Less: Cash and bank balances	(6,573,017)	(7,688,185)
Net debt	120,688,224	117,917,860
Equity attributable to the equity holders of the Parent Company	138,802,469	142,073,741
Less: Fair value reserve	(361,547)	(28,011)
Total capital	138,440,922	142,045,730
Capital and net debt	259,129,146	259,963,590
Gearing ratio	47%	45%

26. FAIR VALUES MEASUREMENTS

Financial assets available for sale (excluding unquoted equity securities) are fair valued and classified under fair value hierarchies as given below:

2016	***Level 1***	***Level 2***	***Level 3***	***Total***
	KD	***KD***	***KD***	***KD***
Managed quoted portfolios (Note 8)	**400,993**	**-**	**-**	**400,993**
Managed unquoted portfolio (Note 8)	**-**	**-**	**94,812**	**94,812**
	400,993	**-**	**94,812**	**495,805**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

26. FAIR VALUES MEASUREMENTS (continued)

2015	*Level 1*	*Level 2*	*Level 3*	*Total*
	KD	*KD*	*KD*	*KD*
Managed quoted portfolios (Note 8)	1,460,572	-	-	1,460,572
Managed unquoted portfolio (Note 8)	-	-	94,812	94,812
	1,460,572	-	94,812	1,555,384

During the year ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

For other financial assets and financial liabilities carried at amortised 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.

27. SUBSEQUENT EVENTS

Subsequent to the year ended 31 December 2016, the Parent Company sold an investment property carried under its joint venture, with a carrying value of KD 15,411,228 (2015: KD Nil), which resulted in a gain amounting to KD 1,726,867. The Group's share of the gain on sale will be recorded in the next period's consolidated financial statements.

SALHIA