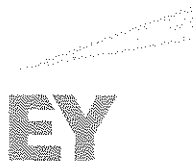


**AL MAZAYA HOLDING COMPANY
K.S.C.P. AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016



Building a better
working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18-21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena



**BAKER TILLY
KUWAIT**

Audit, tax and consulting
P.O.Box 1486 Safat 13015
Kuwait

T: +965 1 8877 99
F: +965 2 294 2651

info@bakertillykuwait.com
www.bakertillykuwait.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL MAZAYA HOLDING COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Al Mazaya Holding 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 related 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 the summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the 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 *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with the *IESBA Code*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We identified the following key audit matters:

a) Valuation and impairment of investment securities

Investment securities primarily consist of available for sale investments. These instruments are measured at fair value with the corresponding fair value change recognised in other comprehensive income.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL MAZAYA HOLDING COMPANY K.S.C.P. (continued)**

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Valuation and impairment of investment securities (continued)

The valuation of investment securities is inherently subjective, most predominantly for the instruments classified under level 3 as these are valued using inputs other than quoted prices in an active market. Key inputs used in the valuation of individual level 3 investments are expected cash flows, risk free rates and credit spreads. In addition, the Group determines whether objective evidence of impairment exists for individual investments, whether it represents a significant or prolonged decline. In these cases, the difference between carrying value and fair value is transferred from other comprehensive income to the consolidated statement of income. Given the inherent subjectivity in the valuation of the investment securities classified under level 3, we determined this to be a key audit matter.

Our audit procedures comprised, amongst others, assessment of the methodology and the appropriateness of the valuation models and inputs used for valuation of investment securities. As part of these audit procedures we assessed the accuracy of key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data. We also evaluated the Group's assessment whether objective evidence of impairment exists for individual investments, whether it represents significant or prolonged decline. Finally, we assessed the appropriateness of disclosures relating to investment securities, as shown in Note 12 of the consolidated financial statements.

b) Valuation of investment properties

Investment properties of the Group represent a significant part of the total assets and is carried at fair value as at 31 December 2016.

The management is determining the fair value of its investment properties and uses external appraisers to support the valuation. The valuation of the investment properties at fair value is highly dependent on estimates and assumptions such as rental value, occupancy rates, discount rates, financial stability of tenants, 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 investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we considered this as a key audit matter.

We have evaluated the assumptions and estimates made by the management and the external appraisers in the valuation to assess the appropriateness of the data supporting the fair value. Our real estate specialists were part of our audit team for evaluating the external valuation, including the assumptions and estimates used. Amongst others, we have considered the objectivity, independence and expertise of the external appraisers. Furthermore, we assessed the appropriateness of the disclosures relating to the sensitivity of the assumptions as shown in Note 9 of the consolidated financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL MAZAYA HOLDING COMPANY K.S.C.P. (continued)**

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

c) Properties held for trading

Properties held for trading represent a significant part of total assets and is carried at the lower of cost or net realisable value, which requires management's judgement in determining the appropriate costing basis and provision for write down of properties held for trading since they are based on forecast of estimated selling price less costs to sell and assessing whether the provision is adequate. Given the size and complexity of the valuation of properties held for trading, we addressed this as a key audit matter.

We have tested a sample of properties held for trading to assess the cost basis and challenged the estimates made by management by assessing whether the estimates regarding sales forecasts and sales prices are based on the existing contracts and whether these are in line with historical revenues to date. Further, we have assessed the determination of the net realisable value by verifying recent sales transactions and the related costs necessary to make the sale. Further, we compared the properties held for trading provision to the Group's policy and evaluated management's judgement on the adequacy of this by performing a review of the overall level of provisions on an aggregate as well as understanding the levels of demand for properties. Finally, we assessed the appropriateness of disclosures relating to properties held for trading, as shown in Note 13 of the consolidated financial statements.

d) Acquisition of a subsidiary

During the year ended 31 December 2016, The Parent Company has acquired an additional 50% equity interest in its existing joint venture i.e. Ritim Istanbul ("Ritim") – an entity incorporated in Turkey.

The Group completed the purchase price allocation (in which identifiable assets and liabilities assumed were recognised at fair value) including the Group's previously held equity interest. The fair value of the identifiable assets acquired and liabilities assumed in a business combination is different from their carrying amounts in the acquired statement of financial position, which gave rise to fair value adjustments. Management, assisted by its external valuation specialists, determined the fair value of Ritim's identifiable assets and liabilities. Since the majority of the identifiable assets acquired comprises of real estate properties, thus the fair value of assets acquired is mainly dependent on the valuations of these properties. Furthermore, the acquisition involve certain pre-existing relationships between the Parent Company and Ritim. As, the determination of fair value of assets acquired and liabilities assumed requires significant judgement and due to the complexity involved in accounting for business combination, we have considered this as a key audit matter.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL MAZAYA HOLDING COMPANY K.S.C.P. (continued)**

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

d) Acquisition of a subsidiary (continued)

As part of our audit procedures, amongst other procedures, we analysed of the fair value of the identifiable assets acquired and liabilities assumed supporting the purchase price allocation. We considered the objectivity, independence and expertise of the external appraisers. Our internal valuation specialists were part of our audit team to assist us in assessing the external valuation, including the assumptions and estimates used. Furthermore, we assessed the impact of the accounting for acquisition of a subsidiary on the consolidated financial statements of the Group for the year ended 31 December 2016.

The disclosures relating to the acquisition of Ritim are detailed in Note 6 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 auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not 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 during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, on the other information we obtained prior to the date of the auditors report, we conclude that there is a material misstatement of other information; we are required to report that fact. We have nothing to report in this regard.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL MAZAYA HOLDING COMPANY K.S.C.P. (continued)**

Report on the Audit of Consolidated Financial Statements (continued)

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL MAZAYA HOLDING COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL MAZAYA
HOLDING COMPANY K.S.C.P. (continued)**

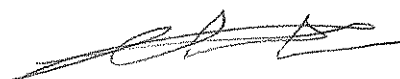
Report on Other Legal and Regulatory Requirements

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

9 February 2017
Kuwait



DR. SAUD HAMAD AL-HUMAI
LICENSE NO. 51 A OF DR. SAU
HAMAD AL-HUMAI & PARTNERS
MEMBER OF BAKER TILLY
INTERNATIONAL

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 KD	2015 KD
ASSETS			
Non-current assets			
Goodwill	8	2,266,732	2,266,732
Property and equipment		595,221	665,393
Investment properties	9	129,286,975	115,006,585
Investment in joint venture and associate	10,11	9,352,843	12,174,873
Financial assets available-for-sale	12	9,126,960	11,121,542
Advances for purchase of properties		7,495,086	16,157,047
		<u>158,123,817</u>	<u>157,392,172</u>
Current assets			
Properties held for trading	13	69,036,258	71,653,133
Accounts receivable and other debit balances	14	17,438,418	10,023,184
Cash and bank balances	15	10,185,452	11,973,198
		<u>96,660,128</u>	<u>93,649,515</u>
Total assets		<u>254,783,945</u>	<u>251,041,687</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	16	68,827,896	68,827,896
Share premium	16	21,655,393	21,655,393
Statutory reserve	17	13,195,539	12,123,874
Voluntary reserve	17	10,260,619	9,188,954
Fair value reserve		549,283	465,563
Treasury shares	18	(21,310,897)	(21,788,181)
Employee stock option plan	24	360,360	268,693
Other reserves		845,160	845,160
Foreign currency translation reserve		364,977	636,832
Retained earnings		15,388,358	11,922,391
Equity attributable to equity holders of the Parent Company		<u>110,136,688</u>	<u>104,146,575</u>
Non-controlling interests		<u>9,471,589</u>	<u>7,307,768</u>
Total equity		<u>119,608,277</u>	<u>111,454,343</u>
Liabilities			
Non-current liabilities			
Employees' end of service benefits		873,797	734,210
Tawarruq and ijara payable	19	66,522,971	71,986,902
Term Loans	20	7,471,129	-
		<u>74,867,897</u>	<u>72,721,112</u>
Current liabilities			
Tawarruq and ijara payable	19	10,319,641	8,379,544
Term Loans	20	2,322,458	-
Advances from customers		27,789,257	42,586,452
Accounts payable and other credit balances	21	19,876,415	15,900,236
		<u>60,307,771</u>	<u>66,866,232</u>
Total liabilities		<u>135,175,668</u>	<u>139,587,344</u>
TOTAL EQUITY AND LIABILITIES		<u>254,783,945</u>	<u>251,041,687</u>

Rasheed Y. Al Nafisi
Chairman

Ibrahim A. Al Soqabi
Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial information.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Revenue from sale of properties held for trading		47,814,320	53,265,302
Rental income		7,112,362	6,174,227
Net management fees and commission income	22	245,543	378,830
REVENUE		55,172,225	59,818,359
Cost of sale of properties held for trading		(39,741,345)	(42,375,649)
Cost of rental		(1,444,129)	(1,300,616)
COST OF REVENUE		(41,185,474)	(43,676,265)
GROSS PROFIT		13,986,751	16,142,094
Net change in fair value of investment properties	9	(965,641)	817,386
Loss on disposal of investment properties		(303,633)	(12,293)
Net gain from business combination	6	2,425,221	-
Share of results from joint venture and associate	10,11	1,055,072	128,125
Net gain on sale of a subsidiary	32	1,184,979	-
Gain on disposal of joint venture and an associate		-	883,165
(Provision for) write back of impairment loss on properties held for trading	13	(296,282)	1,411,010
General and administrative expenses		(4,634,002)	(4,274,123)
Net investment income	23	741,826	11,413
Other income (expenses)	25	2,422,863	(1,641,567)
Finance costs		(4,062,517)	(3,450,440)
Foreign exchange gain		230,680	6,540
Profit for the year before contribution for Board of Directors' remuneration, Kuwait Foundation for Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST") and Zakat		11,785,317	10,021,310
Board of Directors' remuneration	16	(185,000)	(160,000)
KFAS		(70,713)	(88,583)
Zakat		(48,192)	(63,326)
NLST		(159,507)	(241,518)
PROFIT FOR THE YEAR		11,321,905	9,467,883
Attributable to:			
Equity holders of the Parent Company		10,253,235	9,319,104
Non-controlling interests		1,068,670	148,779
		11,321,905	9,467,883
BASIC EARNING PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	7	16.51 fils	15.04 fils
DILUTED EARNING PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	7	16.39 fils	15.04 fils

The attached notes 1 to 32 form part of these consolidated financial statements.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 KD	2015 KD
Profit for the year		11,321,905	9,467,883
Other comprehensive income (loss):			
<i>Item that are (or) will be reclassified subsequently to consolidated statement of income:</i>			
<i>Foreign currency translation adjustments:</i>			
Net exchange difference on translation of foreign operations		827,063	(1,459,275)
<i>Financial assets available-for-sale:</i>			
Transferred to consolidated statement of income on impairment	23	224,672	54,947
Transferred to consolidated statement of income on sale	23	(628,888)	(324)
Net changes in fair value of financial assets available-for-sale		484,169	(915,958)
		79,953	(861,335)
Total other comprehensive income (loss) for the year		907,016	(2,320,610)
Total comprehensive income for the year		12,228,921	7,147,273
Attributable to:			
Equity holders of the Parent Company		10,065,100	6,984,660
Non-controlling interests		2,163,821	162,613
		12,228,921	7,147,273

The attached notes 1 to 32 form part of these consolidated financial statements.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Fair value reserve KD	Treasury shares KD	Employees' share option plan KD	Other reserves KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total KD
As at 1 January 2016	68,827,896	21,655,393	12,123,874	9,188,954	465,563	(21,788,181)	268,693	845,160	636,832	11,922,391	104,146,575	7,307,768	111,454,343
Profit for the year	-	-	-	-	-	-	-	-	-	10,253,235	10,253,235	1,068,670	11,321,905
Other comprehensive income (loss) for the year	-	-	-	-	83,720	-	-	-	(271,855)	-	(188,135)	1,095,151	907,016
Total comprehensive income (loss) for the year	-	-	-	-	83,720	-	-	-	(271,855)	10,253,235	10,065,100	2,163,821	12,228,921
Employees' share based payment (Note 24)	-	-	-	-	-	-	272,682	-	-	-	272,682	-	272,682
Employee share options exercised (Note 24)	-	-	-	-	-	477,284	(181,015)	-	-	(296,269)	-	-	-
Transfer to reserves	-	-	1,071,665	1,071,665	-	-	-	-	-	(2,143,330)	-	-	-
Dividend paid (Note 16)	-	-	-	-	-	-	-	-	-	(4,347,669)	(4,347,669)	-	(4,347,669)
As at 31 December 2016	68,827,896	21,655,393	13,195,539	10,260,619	549,283	(21,310,897)	360,360	845,160	364,977	15,388,358	110,136,688	9,471,589	119,608,277
As at 1 January 2015	68,827,896	21,655,393	11,136,621	8,201,701	1,340,732	(21,788,181)	-	845,160	2,096,107	8,294,866	100,610,295	7,145,155	107,755,450
Profit for the year	-	-	-	-	-	-	-	-	-	9,319,104	9,319,104	148,779	9,467,883
Other comprehensive (loss) income for the year	-	-	-	-	(875,169)	-	-	-	(1,459,275)	-	(2,334,444)	13,834	(2,320,610)
Total comprehensive (loss) income for the year	-	-	-	-	(875,169)	-	-	-	(1,459,275)	9,319,104	6,984,660	162,613	7,147,273
Employees' share based payment (Note 24)	-	-	-	-	-	-	268,693	-	-	-	268,693	-	268,693
Transfer to reserves	-	-	987,253	987,253	-	-	-	-	-	(1,974,506)	-	-	-
Dividend paid (Note 16)	-	-	-	-	-	-	-	-	-	(3,717,073)	(3,717,073)	-	(3,717,073)
As at 31 December 2015	68,827,896	21,655,393	12,123,874	9,188,954	465,563	(21,788,181)	268,693	845,160	636,832	11,922,391	104,146,575	7,307,768	111,454,343

The attached notes 1 to 32 form part of these consolidated financial statements.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
OPERATING ACTIVITIES			
Profit for the year before contribution for Board of Directors' remuneration, KFAS, NLST and Zakat		11,785,317	10,021,310
Adjustments to reconcile profit to net cash flows:			
Net change in fair value of investment properties	9	965,641	(817,386)
Loss on disposal of investment properties		303,633	12,293
Net gain on business combination	6	(2,425,221)	-
Share of results from joint venture and associate	10,11	(1,055,072)	(128,125)
Gain on disposal of joint venture and associate		-	(883,165)
(Provision for) write back of impairment loss on properties held for trading	13	296,282	(1,411,010)
Depreciation of property and equipment		192,848	139,083
Net investment income	23	(741,826)	(11,413)
Finance costs		4,062,517	3,450,440
Foreign exchange gain		(230,680)	(6,540)
Provision for employees' end of service benefits		139,587	148,202
Provision for employees' stock option plan	24	272,682	268,693
		<u>13,565,708</u>	<u>10,782,382</u>
Working capital adjustments:			
Properties held for trading		14,630,250	28,509,100
Accounts receivable and other debit balances		3,262,994	(174,785)
Accounts payable and other credit balances		(14,313,460)	6,603,779
Advances from customers		(17,159,053)	(37,070,525)
		<u>(13,561)</u>	<u>8,649,951</u>
Net cash flows (used in) from operating activities			
INVESTING ACTIVITIES			
Decrease in restricted cash balances		5,880,653	104,481
Purchase of property and equipment		(122,676)	(186,296)
Addition to investment properties	9	(2,410,200)	(20,234,071)
Investment in joint venture		-	(912,000)
Proceeds from disposal of investment properties		1,165,619	217,183
Proceeds from sale of financial assets available-for-sale		2,478,751	2,779
Advances for purchase of properties		8,661,961	659,975
Proceeds from disposal of a joint venture		-	385,063
Acquisition of a subsidiary, net of cash acquired	6	(1,084,120)	-
Dividend income received	23	382,613	127,075
		<u>14,952,601</u>	<u>(19,835,811)</u>
Net cash flows from (used in) investing activities			
FINANCING ACTIVITIES			
Net movement in term loans		-	(12,500,000)
Net movement in tawarruq and ijara payable		(3,523,834)	28,107,932
Dividend paid		(4,347,669)	(3,717,073)
Finance costs paid		(4,062,517)	(3,450,440)
		<u>(11,934,020)</u>	<u>8,440,419</u>
Net cash flows (used in) from financing activities			
NET INCREASE (DECREASE) IN CASH AND BANK BALANCES		3,005,020	(2,745,441)
Foreign currency translation adjustments		1,087,887	(1,494,560)
Cash and bank balances at the beginning of the year		1,930,983	6,170,984
		<u>6,023,890</u>	<u>1,930,983</u>
CASH AND BANK BALANCES AT THE END OF THE YEAR	15		

The attached notes 1 to 32 form part of these consolidated financial statements.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

1 CORPORATE INFORMATION

Al Mazaya Holding Company - K.S.C.P. (the "Parent Company") was incorporated on 7 November 1998. These consolidated financial statements presents the results of the Parent Company and its subsidiaries (collectively referred to as the "Group"). The registered head office of the Parent Company is at Mazaya Tower 01, Al Murqab, P.O. Box 3546, Safat 13036, State of Kuwait.

The principal activities of the Parent Company as per the memorandum of incorporation are as follows:

Ownership of Kuwaiti and foreign shareholding companies, ownership of shares and portions of limited liability Kuwaiti and foreign companies or participating in the formation of those companies, as well as managing and guaranteeing those companies, granting loans to the companies in which it owns shares in and guaranteeing them towards others, provided that the percentage of participation of the holding company in the capital of the borrowing company is not less than 20%, ownership of industrial property rights including intellectual rights, trade marks, industrial marks, industrial fees or any other rights relating to such assets and leasing them to other companies to utilize them whether inside or outside the state of Kuwait, ownership of the movable assets and real properties needed to operate within the applicable laws, utilization of its available financial surpluses by investing them in financial real estate portfolios managed by specialized companies.

The Parent Company has the right to practice its aforementioned objectives inside the State of Kuwait and abroad for itself or as agent or representative to other, the Parent Company has the right as well to have interest or to participate with entities that practice similar operations or assist the Parent Company in achieving its objectives inside and outside Kuwait, and such it has the right to establish, form partnership, purchase or merge with those entities.

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 5 February 2017, and are issued subject to the approval of the Ordinary General Assembly of the shareholders of the Parent Company. The shareholders' General Assembly has the power to amend the consolidated financial statements after issuance.

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 of 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 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for financial assets available-for-sale, and investment properties that have been measured at fair value.

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

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

3 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

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 amendments to the existing standards relevant to the Group, 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.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

3 CHANGES IN ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (continued)

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 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014 Cycle

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This amendment did not have any impact on the consolidated financial statements of the Group.

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

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(s) of income and other comprehensive 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 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 consolidated statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the consolidated statement(s) of income and other comprehensive income. These amendments do not have any impact on the consolidated financial statements of the Group.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

3 CHANGES IN ACCOUNTING POLICIES (continued)

Standard issued but not yet effective

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

IFRS 9 Financial Instruments

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 recognizing 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 consolidated financial statements, when adopted.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued by IASB on 28 May 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 on the Group and does not expect any significant impact on adoption of this standard.

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 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). 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.

3 CHANGES IN ACCOUNTING POLICIES (continued)

Standard issued but not yet effective (continued)

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

Additional disclosures will be made in the consolidated financial statements when these standards, revisions and amendments become effective. The Group, however, expects no material impact from the adoption of the amendments on its consolidated financial position or performance.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries 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.

The financial statements of the subsidiary are prepared at the same reporting year as the Parent Company using consistent accounting policies. Subsidiaries are consolidated from the date on which the Group obtains control and continues to be consolidated until the date that such control ceases.

All material intra-group balances and transactions, including material unrealised gains and losses arising on intra-group transactions are eliminated on consolidation.

Non-controlling interest represents the portion of profit and loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position separately from equity attributable to the equity holders of the Parent Company.

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

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

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries, where the Parent Company has direct investment:

<i>Entity</i>	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Ownership interest %</i>	
			<i>2016</i>	<i>2015</i>
Al Mazaya Real Estate Development Company K.S.C. (Closed)	Kuwait	Real estate development	99.7%	99.7%
Seven Zones Real Estate Company K.S.C. (Closed)	Kuwait	Real estate development	96%	96%
Gulf Turkey for General Trading and Contracting Company W.L.L.	Kuwait	Real estate development	98%	98%
First Dubai Real Estate Development Company - K.S.C.P.	Kuwait	Real estate development	90.42%	90.42%
Mezzan Combined For General Trading Company - W.L.L.	Kuwait	Real estate development	99%	99%
First Kuwait for Projects Management Company W.L.L.	Kuwait	Real estate development	98%	98%
Al Mazaya Real Estate FZ – LLC	UAE	Real estate development	100%	100%
Ritim Istanbul Insaat Anonim Sirketi (Ritim)*	Turkey	Real estate development	90%	40%
Al Yammar Kuwaiti Agriculture Co. OPC	Kuwait	Real estate development	100%	100%
Al Mazaya Emirates Real Estate Development Company O.P.C.	UAE	Real estate development	100%	100%
Mazaya Real Estate Turkey Gayrimenkul Yatirimlari Anonim Sirketi	Turkey	Real estate development	100%	100%
Advantage General Trading Co. O.P.C.	UAE	Real estate development	99%	99%
Al Mazaya Lebanon Company - S.A.L. (Holding)	Lebanon	Real estate development	99.85%	99.85%
Grand Mazaya Real Estate Company W.L.L.	KSA	Real estate development	99%	99%
Al Mazaya Real Estate Development Company L.L.C.	Oman	Real estate development	100%	100%

* During the year ended 31 December 2016, the Parent's acquired additional equity interest in Ritim, accordingly its effective ownership increased from 40% to 90% and is consolidated from the date of acquisition (Note 6).

Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. 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 interests in the acquiree. Under this method, the Group recognises, separately from goodwill, identifiable assets acquired, liabilities assumed and any non-controlling interests in the acquiree at the acquisition date. For each business combination, the Group elects to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other 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, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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

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

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

Financial instruments – initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets within scope of IAS 39 are classified as loans and receivables, financial assets available-for-sale. The Group determines the appropriate classification of each instrument at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include bank balances and cash, accounts receivable and other debit balances and financial assets available-for-sale.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Cash and bank balances

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any. Amortised cost is calculated by taking into account any discount or premium arising on acquisition and fees or costs that are an integral part of the interest rate method.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

Loans and receivables (continued)

The effective interest rate method amortisation is included in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income.

Bank deposit and accounts receivable are classified as “Loan and receivables”.

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 loans and receivables. After initial recognition at cost including transaction costs associated with the acquisition, financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

After initial recognition, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised as cumulative changes in fair values in other comprehensive income until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss is removed from the cumulative changes in fair values and recognised in the consolidated statement of income. Financial assets whose fair value cannot be reliably measured are stated as cost less impairment losses, if any.

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into pass-through arrangement, 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. 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.

(ii) Impairment of financial assets

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

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Impairment of financial assets (continued)

Financial assets available-for-sale

For financial assets available-for-sale, the Group assess at each reporting date whether there is objective evidence that a financial asset available-for-sale or a group of financial assets available-for-sale is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of investment and 'prolonged' against the period in which fair value has been below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets available-for-sale previously recognised in the consolidated statement of income is removed from other comprehensive income and recognised in the consolidated statement of income.

Impairment losses in equity investments are not reversed through consolidated statement of income; subsequent increase in their fair value after impairment is recognized directly in other comprehensive income.

Impairment of receivable

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

(iii) Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include tawarruq and ijara payable and accounts payable and other credit balances.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Term loans and bank borrowings

After initial recognition, interest bearing term loans and bank overdraft are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognized as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of income.

Term loans are carried on the consolidated statement of financial position at their principal amounts less any repayment. Installments due within one year from the reporting date are shown as current liabilities.

Tawarruq payables

Tawarruq payable represent amounts due to financial institutions arising from an Islamic financing arrangement where the liability is settled on a deferred settlement basis for assets purchased. Tawarruq payable are stated at the gross amount of the payables, net of deferred profit payable. Tawarruq cost is expensed on a time apportionment basis by taking account of the profit rate attributable and the balance outstanding.

Ijara payables

Ijara payable represents the amount payable on a deferred settlement basis for assets purchased under ijara and leasing arrangements. Ijara payable is stated at the aggregate of the minimum lease payment due, net of any deferred costs.

Accounts payable and other credit balances

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

iii) *Financial liabilities (continued)*

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

iv) *Offsetting of financial instruments*

Financial assets and liabilities are offset and net amount is reported in the consolidated statement of financial position when the Group has currently legal enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Fair value measurement

The Group measures financial instruments, such as, financial asset available-for-sale and non-financial assets, at fair value at each consolidated statement of financial position 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 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.

Fair value measurement of financial instruments

Fair values for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including financial instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants. For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

The fair value of financial instruments carried at amortised cost, other than short-term in nature is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Fair value measurement of non-financial instruments

Fair values of non-financial instruments are measured based on valuation provided by independent valuers.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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.

Interest in joint venture

The Group has investment in joint venture, which is a jointly controlled entity, whereby the venturer have a contractual arrangement that establishes joint control over the economic activities of the entities. The arrangement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method. Under the equity method, investment in a 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 joint venture. Any goodwill arising on the acquisition of the Group's interest in a jointly control entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of joint venture.

The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the joint venture from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from a 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 that have not been recognised in the joint venture's statement of income. The Group's share of those changes is recognised directly in equity. Unrealised gains on transactions with a 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.

Investment in an associate

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

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate 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 associate arising from changes in the associate's equity that have been recognised in the associate's statement of comprehensive income.

The Group's share of those changes is recognised directly in equity. Unrealised gains on transactions with an associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever impairment requirements of IAS 36, indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value.

The difference in reporting dates of the associates and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate (continued)

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

Investment properties

Investment properties comprises developed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment properties when the definition of an investment property is met.

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

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the consolidated statement of income in the year in which they arise.

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. Any gains or losses on the retirement or disposal of investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Property and equipment

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

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

- | | |
|----------------------------------|---------|
| • Computer hardware and software | 3 years |
| • Furniture and fixtures | 5 years |
| • Motor vehicles | 5 years |

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs 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. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which goodwill allocated. These budgets and forecast cash flow calculations generally cover a period of two to five years.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Properties held for trading

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital operation, is held as properties held for trading and is measured at lower of cost and net realisable value.

Cost includes freehold and leasehold rights for land, amount paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realizable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money of material, less costs of completion and estimated cost of sale.

The cost of properties held for trading recognised in consolidated statement of income on disposal is determined with reference to the specific cost incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Employees' end of service benefits

The Group provides end of service benefits to its employees. Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment.

Also, with respect to its national employees, the Parent Company makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries, which are expensed when due.

Share based payment transactions

The Group operates an equity-based payment plan to its employees. Under the terms of the plan, shares are granted to permanent employees. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value of the shares is measured based on market prices available taking into account the terms and conditions upon which those shares were granted.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and / or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged in equity. When the treasury shares are reissued, gains are credited to a separate account in equity (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. 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 paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Other reserves

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

Provisions

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

Revenue recognition

Revenue is recognized 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 fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sale of property held for trading

A property is regarded as sold when the significant risks and rewards of ownership of real estate property have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Sales of property under development

Where property is under development and agreement has been reached to sell such property when construction is complete, the Group consider whether the contract comprises:

- i) A contract to construct a property or,
- ii) A contract for the sale of a completed property.

Where a contract is judged to be for the construction of a property, revenue is recognised using the percentage of completion method as construction progresses. Where the contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer. If, however, the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage-of-completion method of revenue recognition is applied and revenue is recognised as work progresses. Continuous transfer of work in progress is applied when:

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sales of property under development (continued)

- The buyer controls the work in progress, typically when the land on which the development takes place is owned by the final customer; and
- All significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically, when buyer cannot put the incomplete property back to the Group.

In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Gain on sale of investments financial assets available-for-sale

Gain on sale of investment is measured by the difference between the sale proceeds and the carrying amount of investment at the date of disposal, and is recognised at the time of the sale.

Rental income

Rental income receivable from operating leases except for contingent rental income which is recognised when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Dividends income

Dividend income is recognized when the right to receive payment is established, which is generally when shareholders approve the dividend.

Management fees

Management fees earned for the provision of services over a period of time are accrued over that period.

Finance income

Finance income is recognised as accrued using the effective yield method.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the 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.

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

A property interest that is held by the Group under an operating lease may be classified and accounted for as an investment property when the property otherwise meets the definition of an investment property, evaluated property by property, and based on management's intention. The initial cost of a property interest held under a lease and classified as an investment property is determined at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised if they are directly attributable to a project, as part of projects under construction, over the period of the construction until the project concerned is completed and becomes ready for its intended use on the basis of actual borrowings and actual expenditure incurred on the project. Capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the project for its intended use are complete. Borrowing costs capitalised is calculated using the Group's weighted average cost of borrowings.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

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

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

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007.

Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance and the reporting is consistent with the internal reports provided to the chief operation decision maker. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

Foreign currency translation

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

Transactions and balances

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Group companies

The assets and liabilities of foreign operations are translated into Kuwaiti Dinars at the rate of exchange prevailing at the reporting date and their statement of incomes are translated at average exchange rates during the period where such averages are reasonable approximation of actual rates. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

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5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

Classification of property

The Group determines whether a property is classified as investment properties or properties held for trading:

- Investment properties comprise land and buildings which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and/or capital appreciation.
- Properties held for trading comprise properties that are held for sale in the ordinary course of business.

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 described below:

The group had based its assumptions and estimation on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however may change due to market changes or circumstances arising beyond the content of the Group. Such changes are reflected in the assumptions when they occur.

Estimation of net realisable value for property held for trading

Property held for trading is stated at the lower of cost and net realisable value (NRV). NRV for completed property held for trading is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions.

NRV in respect of property held for trading under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less an estimate of the time value of money to the date of completion.

Valuation of investment properties

Fair value of investment properties have been assessed by an independent real estate appraiser. Three main methods were used to determine the fair value of property interests in investment properties; (a) formula based discounted cash flow analysis (b) Income approach and (c) comparative analysis as follows:

- (a) Formula based discounted cash flow, is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.
- (b) Income approach, where the property's value is estimated based on the its income produced, and is computed by dividing the property's net operating income by the expected rate of return on the property in the market, known as 'Capitalization Rate'.
- (c) Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

The significant methods and assumptions used by valuers in estimating fair value of investment properties are stated in Note 9 and 29.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Valuation of unquoted equity investments

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. Where this estimation cannot be reliably determined these investments are carried at cost less impairment.

Impairment of trade receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates. Any difference between the actual amounts collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

Impairment of goodwill

The Group tests whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair values of assets and liabilities including intangibles

Considerable judgement by management is required in the estimation of the fair value of the assets including intangibles with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

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6 BUSINESS COMBINATION

The Parent Company owned 40% equity interest in Ritim Istanbul Insaat Anonim Sirketi ("Ritim") which was classified as a joint venture with carrying value of KD 3,904,559. During the current year, the Parent Company acquired additional 50% equity interest in Ritim from the other shareholders of the company. As a result, the Parent's Company effective equity interest in Ritim increased from 40% to 90%. As this transaction meets the criteria of IFRS 3 – Business Combination for the business combination achieved in stages, the Group reclassified its investment in Ritim from investment in joint venture to investment in subsidiary and consolidated Ritim from the effective date of control.

The acquisitions have been accounted based on the fair values assigned to the identifiable assets and liabilities assumed of the acquiree Company as on the reporting date.

The consideration paid and the values of assets acquired and liabilities assumed, as well as the non-controlling interests at the proportionate share of the acquiree's identifiable net assets, are summarized as follows:

	<i>KD</i>
ASSETS	
Investment properties (Note 9)	13,825,998
Properties held for trading (Note 13)	12,309,657
Deferred tax assets (included in accounts receivables and other debit balances)	7,095,308
Accounts receivable and other debit balances	3,582,920
Cash and bank balances	418,183
	37,232,066
LIABILITIES	
Term loans	10,023,718
Advances from customers	1,041,594
Accounts payable and other credit balances	13,570,939
	24,636,251
Total identifiable net assets at provisional fair value	12,595,815
Cash consideration for the acquisition	(1,502,303)
Non-controlling interests share in the acquiree's identifiable net assets	(1,547,333)
Fair value of acquirer's previously held equity interests	(6,189,334)
Settlement of pre-existing relationship *	(3,000,000)
Gain on bargain purchase on acquisition	356,845
Gain on remeasurement of previously held equity interest **	2,068,376
Net gain arising on business combination	2,425,221
Consideration paid	(1,502,303)
Cash and cash equivalents in subsidiary acquired	418,183
Cash outflow on acquisition	(1,084,120)

* Settlement of pre-existing relationship represents certain properties owned by the seller before the business combination and considered part of the consideration.

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6 BUSINESS COMBINATIONS (continued)

** The gain on remeasurement of previously held equity interest is the net of the fair value of acquirer's previously held equity interest of KD 6,189,334, carrying value of KD 3,904,559, foreign currency translation reserve of KD 625,595 and effect of the upstream/downstream transaction of KD 409,196.

Had the business combinations taken place at the beginning of the year, revenue of the Group and profit attributable to equity holders of the Parent Company, would have been higher by KD 29 million and KD 1.4 million, respectively.

7 BASIC AND DILUTED EARNING PER SHARE

Basic:

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

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Profit for the year attributable to equity holders of the Parent Company	<u>10,253,235</u>	<u>9,319,104</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of ordinary shares	688,278,956	688,278,956
Less: weighted average number of treasury shares	<u>(67,272,742)</u>	<u>(68,690,479)</u>
Weighted average number of shares outstanding adjusted for treasury shares	<u>621,006,214</u>	<u>619,588,477</u>
Basic earnings per share attributable to the equity holders of the Parent Company (fils)	<u>16.51</u>	<u>15.04</u>

Diluted:

Diluted earnings per share is calculated by dividing the profit for the period attributable to the equity holders of the Parent Company by the weighted average number of shares outstanding plus the weighted average number of ordinary shares that would be issued on the conversion of all employees stock options. The Parent Company has outstanding share options, issued under the share based payment transaction, which have a dilutive effect on earnings.

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Profit for the year attributable to equity holders of the Parent Company	<u>10,253,235</u>	<u>9,319,104</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of shares outstanding	621,006,214	619,588,477
Add: effect of share options on issue	<u>4,429,914</u>	<u>-</u>
Weighted average number of shares outstanding adjusted for the effect of dilution	<u>625,436,128</u>	<u>619,588,477</u>
Diluted earnings per share attributable to the equity holders of the Parent Company (fils)	<u>16.39</u>	<u>15.04</u>

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8 GOODWILL

Goodwill represents excess of consideration paid for acquisition of First Dubai Real Estate Development Company K.S.C.P. shares over and above the fair value of the identifiable assets and liabilities. During the year, the management has tested the carrying value of goodwill for impairment and has noted no impairment.

The carrying value of goodwill is tested for impairment on an annual basis (or more frequently if evidence exists that goodwill might be impaired) by estimating the recoverable amount of the cash-generating unit ("CGU") based on active market price which is higher than the carrying value of the CGU.

9 INVESTMENT PROPERTIES

	2016 KD	2015 KD
Balance at the beginning of the year	115,006,585	92,312,256
Additions	2,410,200	20,234,071
Arising on business combination (Note 6)	13,825,998	-
Disposals	(1,469,252)	(229,476)
Net (loss) gain from fair value adjustments	(965,641)	817,386
Foreign currency translation adjustments	479,085	1,872,348
Balance at the end of the year	129,286,975	115,006,585

Investment properties mainly comprise of the following:

	2016 KD	2015 KD
Land	10,948,252	12,140,291
Properties under development	8,959,695	6,746,295
Developed properties held for earning rental income	109,379,028	96,119,999
	129,286,975	115,006,585

Certain investment properties with a carrying value of KD 45,790,665 (31 December 2015: KD 42,408,670) are collateralised against tawarruq payable amounting to KD 37,388,397 (31 December 2015: KD 45,097,173) (Note 19). Certain investment properties with a carrying value of KD 33,060,275 (2015: KD 32,443,880) are collateralised against ijara payable amounting to KD 18,753,945 (2015: KD 19,594,655) (Note 19).

Valuations of investment properties were conducted by two independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of investment properties being valued.

For valuation purpose, the Group has selected the lower of these two valuations (2015: the lower of two valuations) as required by the Capital Market Authority (CMA). Based on these valuations, the Group has recorded a revaluation loss of KD 965,641 (2015: revaluation gain of KD 817,386) in the consolidated statement of income.

10 INVESTMENT IN JOINT VENTURE

	Country of incorporation	Principal activity	Ownership percentage % 2016 2015	Carrying value 2016 2015 KD KD
Ritim Istanbul Insaat Anonim Sirketi (Ritim) (formerly known as Mazaya Turkey Gayimenkil Yatirimlarianonim Sirketi)*	Turkey	Real estate development	- 40	- 2,881,861

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10 INVESTMENT IN JOINT VENTURE (continued)

* During the year ended 31 December 2016, the Parent Company acquired additional equity interest in Ritim, accordingly it was reclassified from investment in joint venture to investment in subsidiaries pursuant to business combination (Note 6).

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
<i>The movement in investment in joint venture during the year was as follows:</i>		
Balance at the beginning of the year	2,881,861	3,702,816
Additions	-	912,000
Share of results	1,052,805	(23,033)
Foreign currency translation adjustments	(30,107)	(1,709,922)
Reclassified to investment in subsidiary (Note 6)	(3,904,559)	-
Balance at the end of the year	<u>-</u>	<u>2,881,861</u>

11 INVESTMENT IN AN ASSOCIATE

	<i>Country of Incorporation</i>	<i>Ownership %</i>	<i>Principal activities</i>
		<i>2016</i>	<i>2015</i>
First Qatar Real Estate Development K.S.C.(Closed)	Kuwait	17.54	17.54
			Real Estate Development Services

Movement in the carrying amount of investment in associate during the year is as follows:

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Balance at the beginning of the year	9,293,012	9,181,630
Share of results	2,267	151,158
Share of associate's other reserve	57,564	-
Share of associate's foreign currency translation reserve	-	(39,776)
Balance at the end of the year	<u>9,352,843</u>	<u>9,293,012</u>

Although the Group holds less than 20% of the ownership interest and voting control of the associate, the Group has the ability to exercise significant influence through its nominated director's participation in the associate's board. Investment in associate with carrying value of KD 8,630,379 (2015: 9,293,012) is collateralised against certain tawarruq payable (Note 19).

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11 INVESTMENT IN AN ASSOCIATE (continued)

	2016 KD	2015 KD
<i>Movement in the carrying amount of investment in an associate is as follows:</i>		
Assets	69,813,134	54,719,143
Liabilities	(16,490,198)	(1,737,319)
Equity	<u>53,322,936</u>	<u>52,981,824</u>
Proportion of the Group's ownership	17.54%	17.54%
Carrying value of the investment	<u>9,352,843</u>	<u>9,293,012</u>
<i>Share of associates' results for the year:</i>		
Revenues	<u>75,045</u>	1,475,604
Profit for the year	<u>12,925</u>	861,790
Group's share of profit for the year	<u>2,267</u>	<u>151,158</u>

12 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2016 KD	2015 KD
<i>Quoted:</i>		
Equity securities	<u>60,013</u>	<u>2,022,930</u>
<i>Unquoted:</i>		
Equity securities	2,236,178	1,952,600
Funds and managed portfolios	<u>6,830,769</u>	<u>7,146,012</u>
	<u>9,126,960</u>	<u>11,121,542</u>

Financial assets available-for-sale investments with a fair value of KD 6,081,296 (2015: KD 6,377,658) are collateralised against certain tawarruq payable (Note 19).

Certain unquoted equity shares amounting to KD 1,863,879 (2015: 1,952,600) are carried at cost, less impairment, if any, due to the non-availability of reliable measures of their fair values. Management has performed a review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments and recorded an impairment loss of KD 76,000 (2015: KD 38,349) in the consolidated statement of income. Based on the latest available financial information, management is of the view that no further impairment loss is required as at 31 December 2016 in respect of these investments. Impairment loss of KD 148,672 (2015: KD 16,598) is recorded in consolidated statement of income on funds and managed portfolios.

13 PROPERTIES HELD FOR TRADING

	2016 KD	2015 KD
Balance at the beginning of the year	71,653,133	98,751,223
Additions	16,977,740	11,347,712
Arising on business combination (Note 6)	12,309,657	-
Disposals	(31,627,409)	(42,375,649)
(Provision for) write back of impairment loss during the year	(296,282)	1,411,010
Foreign currency translation adjustments	19,419	2,518,837
Balance at the end of the year	<u>69,036,258</u>	<u>71,653,133</u>

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13 PROPERTIES HELD FOR TRADING (continued)

Valuation of properties held for trading were conducted by two independent appraisers with recognised and relevant professional qualifications and experience of the location and category of properties being valued. The reversal of impairment provision was calculated based on the lower of the two valuations. Net realisable value of the properties held for trading is arrived at by reference to industry acknowledged methods of valuations that depend on market data including recent sales value of comparable properties, annual rental income and capitalization rate.

Properties held for trading mainly comprise the following:

	2016		
	<i>Unsold KD</i>	<i>Sold KD</i>	<i>Total KD</i>
Land	8,863,578	-	8,863,578
Properties under development	35,084,090	23,201,640	58,285,730
Developed properties	1,212,201	674,749	1,886,950
	<u>45,159,869</u>	<u>23,876,389</u>	<u>69,036,258</u>
	2015		
	<i>Unsold KD</i>	<i>Sold KD</i>	<i>Total KD</i>
Land	9,202,901	-	9,202,901
Properties under development	22,170,278	38,345,875	60,516,153
Developed properties	1,264,816	669,263	1,934,079
	<u>32,637,995</u>	<u>39,015,138</u>	<u>71,653,133</u>

14 ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES

	2016 KD	2015 KD
Trade receivables	13,155,345	4,926,471
Advance payments	4,119,062	4,193,573
Amounts due from related parties (Note 24)	16,356	1,539,780
Other receivables	1,490,488	1,164,030
	<u>18,781,251</u>	<u>11,823,854</u>
Provision for doubtful debts	(1,342,833)	(1,800,670)
	<u>17,438,418</u>	<u>10,023,184</u>

Gross amount due amounting to KD 13,155,345 (2015: KD 4,926,471) were impaired with a provision of KD 1,342,833 (2015: KD 1,800,670). The movement in provision allowance during the year is as follows:

	2016 KD	2015 KD
<i>Allowance for impairment of receivables movement:</i>		
Balance at the beginning of the year	1,800,670	972,494
Charged during the year	154,490	828,176
Reversal during the year	(612,327)	-
	<u>1,342,833</u>	<u>1,800,670</u>

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15 CASH AND BANK BALANCES

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Cash in hand and at banks	9,796,605	11,964,716
Cash in portfolios	388,847	8,482
	<u>10,185,452</u>	<u>11,973,198</u>
Restricted bank balances	(4,161,562)	(10,042,215)
	<u>6,023,890</u>	<u>1,930,983</u>

Restricted bank balances represent escrow accounts restricted for receiving and making payments for specific construction activity and these may not be available for use within 90 days.

16 SHARE CAPITAL, SHARE PREMIUM, ANNUAL GENERAL ASSEMBLY AND CASH DIVIDEND

a) Share capital:

	<i>Authorised, issued and fully paid</i> <i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
688,278,956 Shares of KD 0.100 each	<u>68,827,896</u>	<u>68,827,896</u>

b) Share premium:

Share premium represents the cash received in excess of the par value of the share issued. This is not available for distribution.

c) Dividend and annual general meeting:

The board of directors have proposed a cash dividend of 8% (2015: 7%) for the year ended 31 December 2016 which is subject to approval at the annual general meeting.

The annual general meeting of the shareholders held on 28 March 2016, has approved the cash dividend of 7% for the fiscal year ended 31 December 2015.

d) Board of directors remuneration:

The board of directors have proposed directors' remuneration for the year ended 31 December 2016 amounting to KD 185,000 which is subject to approval by annual general assembly.

The proposed board of director's remuneration amounting to KD 160,000 for the year ended 31 December 2015 was approved by the annual general assembly held on 28 March 2016.

17 RESERVES

i) Statutory reserve

In accordance with the Companies Law and the Parent Company's Memorandum of Incorporation, 10% of the profit for the year attributable to shareholders of the Parent Company (before contributions to KFAS, NLST, board of directors' remuneration and Zakat) has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of the 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 such dividend payment.

17 RESERVES (continued)*ii) Voluntary reserve*

The Parent Company's Memorandum of Incorporation require that 10% of the profit for the year attributable to the shareholders of the Parent Company (before contributions to KFAS, NLST, board of directors' remuneration and Zakat) has to be transferred to a voluntary reserve. There are no restrictions on distribution of voluntary reserve. An amount equivalent to the cost of purchase of treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

18 TREASURY SHARES

	<i>2016</i>	<i>2015</i>
Number of shares	67,185,771	68,690,479
Percentage of issued shares (%)	9.76	9.98
Market value (KD)	7,256,063	7,006,429

One of the Group's subsidiaries had pledged shares of the Parent Company, included in treasury shares above against tawarruq payable amounting to KD 2,466,870 (2015: KD 1,914,408) (Note 19) as detailed below:

	<i>2016</i>	<i>2015</i>
Number of shares (numbers)	24,185,000	34,185,000
Cost (KD)	7,671,327	11,493,899
Market value (KD)	2,611,980	3,486,870

Reserves (share premium and a part of voluntary reserve) of the Parent Company equivalent to the cost of treasury shares have been earmarked as non-distributable.

19 TAWARRUQ AND IJARA PAYABLE

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Tawarruq payable	58,088,667	60,771,791
Ijara payable	18,753,945	19,594,655
	<u>76,842,612</u>	<u>80,366,446</u>
	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
<i>a) Tawarruq payable:</i>		
Gross amount	66,731,206	70,999,066
Less: deferred profit payable	(8,642,539)	(10,227,275)
	<u>58,088,667</u>	<u>60,771,791</u>
Non-current	48,896,174	53,426,809
Current	9,192,493	7,344,982
	<u>58,088,667</u>	<u>60,771,791</u>
<i>b) Ijara payable:</i>		
Gross amount	22,250,721	24,159,762
Less: deferred profit payable	(3,496,776)	(4,565,107)
	<u>18,753,945</u>	<u>19,594,655</u>
Non-current	17,626,797	18,560,093
Current	1,127,148	1,034,562
	<u>18,753,945</u>	<u>19,594,655</u>

The average cost rate attributable to tawarruq payable is 4.70% (2015: 4.83%). The cost rate attributable to ijara payable is 3.75% (2015: 3.75%).

Certain assets with carrying value of KD 60,502,340 (2015: KD 58,079,340) are collateralised against Tawarruq payable (Note 9, 11 and 12).

Certain shares in a subsidiary with a fair value of KD 41,819,968 (2015: KD 32,564,728) are pledged against tawarruq payable maturing on 31 December 2018. Also, certain treasury shares are pledged as collateral against tawarruq payable (Note 18).

Certain investment properties with carrying value of KD 33,060,275 (2015: KD 32,443,880) are collateralised against ijara payable (Note 9).

20 TERM LOAN

Term loans are denominated in Euro and USD and carries effective interest rate of 5.68%.

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21 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Trade payables	12,237,065	8,837,008
Retentions payable	2,136,448	1,267,692
Accrued development costs	59,973	59,974
Dividends payable	246,961	211,192
Due to related parties (Note 24)	761,101	1,645,413
Deferred tax liability	1,004,131	-
Other payables and accrued expenses	3,430,736	3,878,957
	<u>19,876,415</u>	<u>15,900,236</u>

22 NET MANAGEMENT FEES AND COMMISSION INCOME

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Management fees and commission income	304,639	477,064
Cost of management fees and commission income	(59,096)	(98,234)
	<u>245,543</u>	<u>378,830</u>

23 NET INVESTMENT INCOME

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Realized gain on disposal of financial assets available-for-sale	628,888	324
Dividend income	382,613	127,075
Portfolio management fees	(45,003)	(61,039)
Impairment loss on financial assets available-for-sale (Note 12)	(224,672)	(54,947)
	<u>741,826</u>	<u>11,413</u>

24 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. subsidiaries, shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the consolidated financial statements are as follows:

	<i>Major</i> <i>shareholders</i> <i>KD</i>	<i>Joint venture</i> <i>and associate</i> <i>KD</i>	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
<i>Consolidated statement of financial position:</i>				
Accounts receivable and other debit balances (Note 14) (Note i)	16,356	-	16,356	1,539,780
Accounts payable and other credit balances (Note 21) (Note i and ii)	761,101	-	761,101	1,645,413
Advances for purchase of properties	-	-	-	11,933,090
<i>Consolidated statement of income:</i>				
Gain on sale of a subsidiary (Note 32)	1,184,979	-	1,184,979	-

i) Amounts due from/to related parties are interest free and are receivable/ payable on demand.

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24 RELATED PARTY TRANSACTIONS (continued)

ii) Amounts due to related parties comprise an amount of KD 116,461 (31 December 2015: KD 1,575,937) which represents an advance received for partial disposal of a subsidiary.

Compensation for board members and other key management members for the year are as follows:

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Salaries and other short term benefits	977,461	1,181,362
Terminal benefits	59,830	71,274
Share based payment	272,682	268,693
	<u>1,309,973</u>	<u>1,521,329</u>

The Group granted share based payment to its senior executives with more than 6 months' service over a vesting period of 3 years from the grant date.

During the year ended 31 December 2016, the Parent Company recognised an expense of KD 272,682 (December 2015: KD 268,693) relating to equity-settled share-based payment transactions to its employees. Certain employees exercised 1,504,708 shares that were issued from treasury shares held by the Group.

25 OTHER INCOME (EXPENSES)

Included in other income (expenses), KD 3,870,000 (2015: KD 90,000) relating to reversal of provision no longer required, reversal of provision for doubtful debts of KD 457,837 (2015: provision for doubtful debts of KD 828,176), provision for legal cases of KD 1,010,000 (2015: KD 1,276,035).

26 SIGNIFICANT NON-CONTROLLING INTEREST

Financial information of the subsidiaries that have material non-controlling interest is provided below:

Proportion of equity interest held by non-controlling interests:

	<i>Country of incorporation</i>	<i>Percentage</i>	<i>2016</i>	<i>2015</i>
First Dubai Real Estate Development Company - K.S.C.P.	Kuwait	9.58%		9.58%
Ritim Istanbul Insaat Anonim Sirketi (Ritim)	Turkey	10%		-
	<i>First Dubai</i>	<i>Ritim</i>	<i>2016</i>	<i>2015</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>Summarised statement of income:</i>				
Revenue	10,976,071	9,566,732	20,542,803	8,785,553
Expenses	(9,201,797)	(8,812,173)	(18,089,425)	(6,787,749)
Profit for the year	<u>1,774,274</u>	<u>754,559</u>	<u>2,453,378</u>	<u>1,997,804</u>
Attributable to non-controlling interests	<u>169,975</u>	<u>75,456</u>	<u>245,431</u>	<u>191,390</u>

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26 SIGNIFICANT NON-CONTROLLING INTEREST (continued)

	<i>First Dubai KD</i>	<i>Ritim KD</i>	<i>2016 KD</i>	<i>2015 KD</i>
<i>Summarised statement of financial position as at 31 December:</i>				
Current assets	16,258,006	13,825,998	30,084,004	50,931,607
Non-current assets	78,077,506	23,406,068	101,483,574	48,340,518
Current liabilities	5,627,238	16,112,679	21,739,917	11,161,415
Non-current liabilities	17,585,738	8,523,572	26,109,310	19,640,883
Total equity	71,122,536	12,595,815	83,718,351	68,469,827
Attributable to:				
Non-controlling interests	6,813,539	1,259,582	8,073,120	6,559,409
<i>Summarised cash flow statement for the year ended 31 December:</i>				
Operating	4,438,415	(8,709,844)	(4,271,429)	2,708,449
Investing	(1,485,771)	-	(1,485,771)	(1,321,388)
Financing	(2,597,677)	8,659,964	6,062,287	(1,885,127)
Net increase (decrease) in cash and cash balances	354,967	(49,880)	305,087	(498,066)

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27 SEGMENT INFORMATION

i) Primary segment information:

For management purposes, the Group is divided into five main geographical segments that are: State of Kuwait, United Arab Emirates (UAE), Kingdom of Saudi Arabia (KSA), Turkey and others, where the Group performs its main activities in the real estate segment. There is no income generating transactions between the Group's segments.

	2016					2015						
	Kuwait KD	UAE KD	KSA KD	Turkey KD	Others KD	Total KD	Kuwait KD	UAE KD	KSA KD	Turkey KD	Others KD	Total KD
Segment revenue	3,363,364	40,706,002	1,178,239	9,566,732	357,888	55,172,225	3,185,432	55,795,208	522,140	-	315,579	59,818,359
Segment results*	2,358,938	4,978,237	506,878	3,943,314	(465,462)	11,321,905	(421,775)	8,789,585	539,145	(23,033)	583,961	9,467,883
*Segment results are computed after allocating common costs to the geographical segments based on asset base of the segment.												
	2016					2015						
	Kuwait KD	UAE KD	KSA KD	Turkey KD	Others KD	Total KD	Kuwait KD	UAE KD	KSA KD	Turkey KD	Others KD	Total KD
Total segment assets	78,810,934	113,559,934	16,325,350	35,245,806	10,841,921	254,783,945	76,690,952	132,525,087	16,443,599	14,967,240	10,414,809	251,041,687
Total segment liabilities	58,531,395	49,315,364	176,822	26,687,634	464,453	135,175,668	71,909,025	67,483,056	103,017	73,236	19,010	139,587,344
Other segmental information:												
Net change in fair value of investment properties	(59,354)	307,933	(490,830)	-	(723,390)	(965,641)	393,850	(11,035)	91,530	-	343,041	817,386
Net gain arising on business combination	-	-	-	2,425,221	-	2,425,221	-	-	-	-	-	-
Share of results from joint venture and associate	2,267	-	-	1,052,805	-	1,055,072	151,158	-	-	(23,033)	-	128,125
Net gain on sale of a subsidiary	-	-	-	1,184,979	-	1,184,979	-	-	-	-	-	-
(Provision for) write back of impairment loss on properties held for trading	-	(296,282)	-	-	-	(296,282)	-	1,411,010	-	-	-	1,411,010

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27 SEGMENT INFORMATION (continued)

ii) Secondary segment information:

	2016			
	<i>Residential KD</i>	<i>Commercial KD</i>	<i>Others KD</i>	<i>Total KD</i>
Total segment revenue	49,708,896	5,463,329	-	55,172,225
Total segment assets	106,262,865	92,060,368	56,460,712	254,783,945

	2015			
	<i>Residential KD</i>	<i>Commercial KD</i>	<i>Other KD</i>	<i>Total KD</i>
Total segment revenue	55,308,046	4,510,313	-	59,818,359
Total segment assets	121,397,261	62,262,456	67,381,970	251,041,687

28 CAPITAL COMMITMENTS

The Group has concluded construction contracts with third parties and is consequently committed to future capital expenditure in respect of properties under construction amounting to KD 13,191,774 (2015: KD 13,234,883).

The Group has commitments amounting to KD 5,218,925 (2015: KD 7,250,671) to purchase land from a third party.

29 FAIR VALUES MEASUREMENT

Financial instruments comprise financial assets and financial liabilities

The fair value of financial assets and financial liabilities that are not carried at fair value is not materially different from their carrying amounts.

The methodologies and assumptions used to determine fair values of assets is described in fair value section of Note 4: Significant Accounting Policies.

Financial instruments

The Group held the following financial instruments available-for-sale that are fair valued at the reporting date in the consolidated statement of financial position:

	<i>Level 1 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
2016			
Financial assets available-for-sale	60,013	7,203,068	7,263,081
2015			
Financial assets available-for-sale	2,022,930	7,146,012	9,168,942

Certain unquoted investments with carrying value of KD 1,863,879 (31 December 2015: KD 1,952,600) are carried at cost less impairment losses.

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29 FAIR VALUES MEASUREMENT (continued)

Financial instruments (continued)

The following table shows a reconciliation of the opening and closing amount of level 3 assets which are recorded at fair value:

			Loss recorded in the consolidated statement of income	Gain recorded in other comprehensive income	Net purchases, sales and settlements	At 31 December 2016
	At 1 January 2016	Reclassification from level 1 to level 3				
	KD	KD	KD	KD	KD	KD
<i>Financial assets available-for-sale:</i>						
Funds and managed portfolio	7,146,012	1,961,956	(148,672)	92,046	(1,848,274)	7,203,068

		Loss recorded in the consolidated statement of income	Loss recorded in other comprehensive income	Net purchases, sales and settlements	At 31 December 2015
	At 1 January 2015				
	KD	KD	KD	KD	KD
<i>Financial assets available-for- sale:</i>					
Funds and managed portfolio	7,413,632	(16,708)	(250,912)	-	7,146,012

Description of significant unobservable inputs to valuation of financial assets:

Managed portfolio and funds have been valued based on Net Asset Value (NAV) provided by the custodian of the fund. The information relating to valuation techniques and significant unobservable inputs to valuation to compute the sensitivity of the fair value measurement to changes in unobservable inputs is not available.

Non-financial assets

Investment properties were classified under level 2 and level 3 fair value hierarchy as follows:

	Level 2 KD	Level 3 KD	Total KD
2016			
Investment properties	20,973,946	108,313,029	129,286,975
2015			
Investment properties	50,553,670	64,452,915	115,006,585

The following table shows a reconciliation of the opening and closing amount of level 3 non-financial assets which are recorded at fair value:

			Loss recorded in the consolidated statement of income	Gain recorded in other comprehensive income	Net purchases, sales and settlements	At 31 December 2016
	At 1 January 2016	Reclassification from level 2 to level 3				
	KD		KD	KD	KD	KD
Investment properties	64,452,915	31,463,371	(603,427)	472,064	12,528,106	108,313,029

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29 FAIR VALUES MEASUREMENT (continued)

Non-financial assets (continued)

	<i>At 1 January 2015 KD</i>	<i>Gain recorded in the consolidated statement of income KD</i>	<i>Gain recorded in other comprehensive income KD</i>	<i>Net purchases, sales and settlements KD</i>	<i>At 31 December 2015 KD</i>
Investment properties	50,498,006	423,536	1,872,348	11,659,025	64,452,915

Fair value of investment properties were determined using sales comparison approach and income capitalisation approach. The fair valuation conducted by valuers considering transaction prices of the property and similar properties in case of sales comparison approach and the significant unobservable valuation input used is the market price per square foot and varies from property to property. A reasonable change in this input would result in an equivalent amount of change in fair value.

Capitalisation of rental income method assumes capitalisation of annual rental income and the significant unobservable valuation input used is the capitalisation rate in the range of 5.8% to 9.5% (2015: 5.8% to 7%). A 5% increase in this input would result in an equivalent decrease in fair value.

Certain investment properties owned by the Group on Build Operate and Transfer (BOT) basis are valued using discounted cash flow method.

30 RISK MANAGEMENT

Introduction

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.

Risk management structure

The Board of Directors of the Parent Company is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

The major risks to which the Group is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value are outlined below.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

30.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual counter-parties, monitors credit exposures, and continually assesses the creditworthiness of counterparties, with the result that the Group's exposure to bad debts is not significant.

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As at 31 December 2016

30 RISK MANAGEMENT (continued)

30.1 Credit risk (continued)

The Group trades only with recognised creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Group management.

With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances, short term deposits the Group manages that risk by dealing only with reputable banks. The Group's exposure to credit risk arising from default of the counterparty has a maximum exposure equal to the carrying amount these instruments.

Due to the nature of the Group's business, the Group does not take collaterals against receivables.

30.1.1 Gross maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk across the Group's financial assets.

Financial assets of the Group subject to credit risk are distributed over the following geographical regions:

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Kuwait	4,739,049	7,511,877
UAE	11,646,745	13,025,378
Turkey	9,101,695	-
Other	1,336,057	7,645
	<u>26,823,546</u>	<u>20,544,900</u>

The Group's exposure relates predominately to real estate and construction sectors.

There is no concentration of credit risk with respect to real estate receivables, as the Group has a large number of tenants.

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

The Group neither uses internal credit grading system nor external credit grades. The Group manages credit quality by ensuring that credit is granted only to known creditworthy parties.

30.1.3 Past due and impaired

The Group does not have any past due but not impaired financial assets as at 31 December 2016 and 2015.

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As at 31 December 2016

30 RISK MANAGEMENT (continued)

30.2 Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank deposits and facilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future finance cost payments over the life of these financial liabilities.

	<i>Within 1 year KD</i>	<i>1-2 years KD</i>	<i>Over 2 years KD</i>	<i>Total KD</i>
31 December 2016				
Term Loans	2,912,234	1,870,280	6,779,524	11,562,038
Tawarruq and ijara payable	13,641,941	15,912,055	59,427,931	88,981,927
Accounts payable and other credit balances	13,585,304	3,217,127	3,073,984	19,876,415
Total undiscounted liabilities	<u>30,139,479</u>	<u>20,999,462</u>	<u>69,281,439</u>	<u>120,420,380</u>
Capital commitments	<u>3,682,140</u>	<u>4,602,675</u>	<u>10,125,884</u>	<u>18,410,699</u>
	<i>Within 1 year KD</i>	<i>1-2 years KD</i>	<i>Over 2 years KD</i>	<i>Total KD</i>
31 December 2015				
Tawarruq and ijara payable	11,172,259	12,346,328	70,738,144	94,256,731
Accounts payable and other credit balances	11,467,525	3,035,569	1,397,142	15,900,236
Total undiscounted liabilities	<u>22,639,784</u>	<u>15,381,897</u>	<u>72,135,286</u>	<u>110,156,967</u>
Capital commitments	<u>2,646,977</u>	<u>3,308,721</u>	<u>14,529,856</u>	<u>20,485,554</u>

30.3 Market risk

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

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

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As at 31 December 2016

30 RISK MANAGEMENT (continued)

30.3 Market risk (continued)

30.3.1 Interest/profit rate risk

Interest/profit rate risk arises from the possibility that changes in interest/profit rates will affect future profitability or the fair values of financial instruments. Interest rate risk is managed by the finance department of the Parent Company. The Group is exposed to interest/profit rate risk on its interest bearing assets and liabilities (bank deposits and facilities) as a result of mismatches of interest rate repricing of assets and liabilities. It is the Group's policy to manage its interest/profit cost using a mix of fixed and variable rate debts. The Group's policy is to keep a substantial portion of its borrowings at variable rates of interest.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest/profit rates on the Group's profit before directors' remuneration and taxation, based on floating rate financial assets and financial liabilities held at 31 December 2016. There is no impact on equity.

The following table demonstrates the sensitivity of the consolidated statement of income to a reasonable charge in interest /profit rates of 50 basis points, with all other variables held constant.

	<i>50 basis points increase</i>	
	<i>Effect in profit for the year</i>	
	<i>2016</i>	<i>2015</i>
	<i>KD</i>	<i>KD</i>
Kuwaiti Dinars	433,181	401,832

30.3.2 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration. All of the Group's quoted investments are quoted on the regional Stock Exchanges.

The effect on other comprehensive income (OCI) as a result of a change in the fair value of equity instruments held as available-for-sale financial assets at 31 December 2016 due to 5% increase in the following market indices with all other variables held constant is as follows:

<i>Market indices</i>	<i>Effect on OCI</i>	
	<i>2016</i>	<i>2015</i>
	<i>KD</i>	<i>KD</i>
KSE ($\pm 5\%$)	-	1,962
Others	3,901	5,298

30.3.3 Foreign currency risk

Currency risk is the risk that the value of the financial instrument on monetary items will fluctuate due to changes in the foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the Kuwaiti Dinar. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

If the Kuwaiti Dinar had strengthened or weakened against the foreign currencies assuming a change of 5%, this would have the following impact on the consolidated statement of income:

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As at 31 December 2016

30 RISK MANAGEMENT (continued)

30.3 Market risk (continued)

30.3.3 Foreign currency risk (continued)

	<i>Effect on profit for the year</i>	
	<i>2016</i>	<i>2015</i>
	<i>KD</i>	<i>KD</i>
UAE Dirhams (+5%)	(101,293)	218,684

31 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 to maximise shareholder value and remain within the quantitative covenants of bank facilities.

The Group manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares and obtain or settle bank facilities. No changes were made in the objectives, policies or processes during the year ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio as per the debt covenant for their bank facilities, which is net debt divided by total equity plus net debt. The Group's policy is to keep the gearing ratio below 60%. The Group includes within net debt, ijara payable, tawarruq payable less cash and bank balances. The Group considers equity as shown in the consolidated statement of financial position.

	<i>2016</i>	<i>2015</i>
	<i>KD</i>	<i>KD</i>
Debts	86,636,199	80,366,446
Less: cash and bank balances	(6,023,890)	(1,930,983)
Net debt	80,612,309	78,435,463
Equity	119,608,277	111,454,343
Equity and net debt	200,220,586	189,889,806
Gearing Ratio	40.26%	41.31%

32 SALE OF SUBSIDIARY

On 11 February 2016, one of the Group's subsidiaries sold its 100% equity interest in Gulf Turkey Gayimenkul Yatirimlarianonim Sirketi ("GTGYS") for a total consideration of KD 16,364,294 to Ritim. The sale of GTGYS resulted in a gain of KD 1,184,979 net of downstream elimination recognised in the consolidated statement of income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 SALE OF SUBSIDIARY (continued)

The details of the consideration paid and the fair values of the assets and liabilities sold, equivalent to their carrying values, are summarised as follows:

	<i>2016</i> <i>KD</i>
Assets	
Advances for purchase of properties	12,119,942
Other receivables	501
Cash and bank balances	1,102
Total assets transferred	12,121,545
Liabilities	
Other payables	(312)
Amount due to related parties	(445,671)
Total liabilities transferred	(445,983)
Net assets transferred	11,675,562
Consideration received	16,364,294
Foreign currency translation reserve	(3,094,556)
Gain on sale of a subsidiary	1,594,176
Less: adjustment for upstream/down-stream transaction	(409,197)
Net gain on sale of a subsidiary	1,184,979