

- كلمة رئيس مجلس الإدارة لعام 2016
- التقرير السنوي لهيئة الرقابة الشرعية لعام 2016
- البيانات المالية لعام 2016



مجموعة عارف الإستثمارية | AREF Investment Group

كلمة رئيس مجلس الإدارة

السادة مساهمي شركة مجموعة عارف الإستثمارية المحترمين

السلام عليكم ورحمة الله وبركاته

يضع مجلس إدارة شركة مجموعة عارف الإستثمارية بين أيديكم التقرير السنوي للشركة لسنة 2016 مرفقا به البيانات المالية المدققة للسنة المالية المنتهية في 2016/12/31.

حضرات السادة المساهمين: -

بداية فإنه لا يخفي عليكم استمرار التحديات الداخلية والخارجية التي تواجهها المجموعة وشركاتها التابعة. التحديات الداخلية المتمثلة في عدم الانتهاء من الاتفاق النهائي على خطة إعادة هيكلة ديون المجموعة وشركاتها التابعة مع الجهات الدائنة وكذلك الحاجة لاستكمال تطوير البيئة الصحية للعمل وتنمية الثقافة المؤسسية لتحقيق أفضل اشتراطات ومتطلبات الحوكمة والإدارة الرشيدة للمجموعة وشركاتها التابعة. والتحديات الخارجية الناجمة عن استمرار ضعف الأداء الاقتصادي ومؤشراته على جميع مستوياته المحلية والإقليمية والعربية والعالمية وتأثيراته السلبية المستمرة على القيم الدفترية لأصول المجموعة.

أن عام 2016 لم يكن سهلا أو هينا على المجموعة وشركاتها التابعة، ومع ذلك فإن المجموعة وجميع العاملين فيها بذلوا وبيذلون جهود جبارة وحثيئة من أجل الاستمرار في المحافظة على المجموعة وأصولها ومحاولة إعادة ترتيبها وتميئتها بقدر المستطاع لمقابلة الالتزامات المالية الكبيرة التي ورثتها الإدارة الحالية من الإدارات السابقة للمجموعة. إن من أهم الإنجازات التي نجحت الإدارة الحالية للمجموعة في تحقيقها هو بيع غالبية أصول الشركة في جمهورية السودان وتحصيل مبلغ البيع. إن النجاح في الخروج من السودان وتحصيل رؤوس أموالنا وعوائدنا من هذه الأصول الإستثمارية هو بحد ذاته نجاح متميز في ظل الظروف السياسية والاقتصادية التي تواجهها المنطقة، بالإضافة الى النجاح في تحصيل دفعتين من الدفعات المتأخرة من خطاب الضمان الصادر من بنك لسودان المركزي وتسجيلها





كأرباح صافية. ومن أهم الإنجازات أيضا التخارج من استثمار المجموعة في باكستان وتحصيل مبلغ البيع بالكامل وما ترتب عليه من تحقيق أرباح حقيقة للمجموعة.

ومن الإنجازات الرئيسية أيضا هو نجاح إحدى الشركة التابعة (منشآت العقارية) في تشغيل أكبر فندق خمس نجوم في المدينة المنورة بعد صراع طويل مع المقاول. هذا الفندق هو ثاني أكبر مشروع خدمي تشغيلي للمجموعة في المملكة العربية السعودية وسيترتب على تشغيله زيادة رئيسية في أنشطة وإيرادات المجموعة. وأخيرا النجاح في تحويل شركة مينا للاستثمار العقاري والسياحي الى الربحية بعد عدة سنوات عجاف.

أما على مستوى التكاليف والمصاريف التشغيلية والتي هي نصب عين الإدارة الحالية للمجموعة، فلقد تم والله الحمد والمنة تحقيق وفر إضافي شامل في تكاليف الموظفين وفي المصاريف العمومية والإدارية نسبته 21% مقارنة عن العام الماضي 2015 ولينحقق بذلك إجمالي وفر نسبته 36 % خلال الثلاث سنوات الماضية.

فيما يلي نتائج المجموعة (الشركة الام):

- خسارة دفترية قدرها (21,530,730 د.ك) (واحد وعشرون مليون وخمسمائة وثلاثون ألف وسبعمائة وثلاثون دينار كويتي) عن العام 2016، خصص منها لمساهمي الشركة الأم خسارة قدرها (12,994,701 د.ك) (اثني عشر مليون وتسعمائة وأربعة وتسعون ألف وسبعمائة وواحد دينار كويتي) مقابل صافي ربح قدره 1,035,920 د.ك (مليون وخمسة وثلاثون ألف وتسعمائة وعشرون دينار كويتي) عن العام 2015، خصص منها لمساهمي الشركة الأم ربح وقدره 399,638 د.ك (ثلاثمائة وتسعة وتسعون وستمائة وثمانية وثلاثون دينار كويتي). ومن أهم مصادر ومسببات هذه الخسارة الدفترية هو تسجيل 13,761,043 د.ك إطفاء عقار مستأجر ضمن خسائر التشغيل لقطاع الفنادق بالإضافة الي 8,761,641 د.ك صافي خسائر انخفاض القيمة.
- في حين بلغ إجمالي أصول المجموعة 434,612,573 د.ك (أربعمائة وأربعة وثلاثون مليون وستمائة واثنى عشر ألف وخمسمائة وثلاثة وسبعون دينار كويتي) مقابل إجمالي أصول بلغت 462,338,021 د.ك (أربعمائة وأثنى عشر مليون وثلاثمائة وثمانية وثلاثون ألف وواحد وعشرون دينار كويتي) في العام 2015. ويعود هذا الانخفاض الى التخارج من بعض الأصول بالإضافة الي خسائر انخفاض القيمة.





- وبلغ إجمالي حقوق المساهمين 116,127,111 د.ك (مائة وستة عشر مليون ومائة سبعة وعشرون ألف ومائة وأحدي عشر دينار كويتي) خصص منها لمساهمي الشركة الام 16,869,080 د.ك (ستة عشر مليون وثمانمائة وتسعة وستون ألف وثمانون دينار كويتي) مقابل مبلغ 137,997,619 د.ك (مائة وسبعة وثلاثون مليون وتسعمائة وسبعة وتسعون ألف وستمائة وتسعة عشر دينار كويتي) خصص منها لمساهمي الشركة الام 25,805,393 د.ك (خمسة وعشرون مليون وثمانمائة وخمسة ألف وثلاثمائة وثلاثة وتسعون دينار كويتي) في العام 2015.

- في حين استمرت الإدارة الحالية في تخفيض مصروفات الموظفين والمصروفات العمومية والإدارية للمجموعة بنسبة حوالي 21.4 % حيث بلغت 7,130,296 د.ك (سبعة ملايين ومائة وثلاثون ألف ومائتين وستة وتسعون دينار كويتي) عن العام 2016 مقارنةً بالعام 2015 والتي بلغت 9,064,326 د.ك (تسعة ملايين وأربعة وستون ألف وثلاثمائة وستة وعشرون دينار كويتي)

- وكذلك استمرت المجموعة في دعم ومساندة شركاتها التابعة والزميلة في إعادة ترتيب أولوياتها وأوضاعها المالية وتنمية أصولها الاستثمارية بما يخدم مساهمي المجموعة.

وفي الختام لا يسعنا إلا أن نتوجه لكم بالشكر والتقدير على دعمكم المستمر للشركة ومساندتكم لها في جهودها نحو البقاء والوفاء بالتزاماتها، ونأمل أن يستمر هذا النهج لتحقيق ما تصبون إليه، والشكر موصول لأخواني أعضاء مجلس الإدارة ولجميع العاملين في الشركة على تفانيهم بالعمل لتحقيق أفضل الإنجازات التي تعود على الشركة ومساهميها بالإيجاب إن شاء الله تعالى.

وصلي اللهم على سيدنا وقودتنا محمد بن عبدالله عليه أفضل الصلاة والسلام،

والسلام عليكم ورحمة الله وبركاته.





مجموعة عارف الاستثمارية | AREF Investment Group

التقرير السنوي لهيئة الرقابة الشرعية

إلى مساهمي مجموعة عارف الاستثمارية المحترمين

السلام عليكم ورحمة الله وبركاته،،

الحمد لله رب العالمين والصلاة والسلام على نبينا محمد وعلى آله وصحبه أجمعين، أما بعد:

فقد راجعنا المنتجات المستخدمة والعقود المتعلقة بالمعاملات والتطبيقات التي أجرتها مجموعة عارف الاستثمارية خلال السنة المالية المنتهية في 31 ديسمبر 2016، كما قمنا أيضا بالمراجعة الواجبة لإبداء الرأي فيما إذا كانت مجموعة عارف الاستثمارية قد التزمت بمبادئ أحكام الشريعة من خلال الفتاوى والقرارات والتوجيهات التي أصدرناها.

ولقد قمنا بمراجعة واعتماد نماذج العقود والاتفاقيات بعد الحصول على المعلومات التي رأت الهيئة ضرورتها لإصدار رأيها، ومن خلال الرقابة الشرعية تمت مراجعة معاملات مجموعة عارف الاستثمارية مع المساهمين والمستثمرين وغيرهم، ومن خلال إفادة المراقب الشرعي من عمليات التدقيق والزيارات الميدانية، وعن سير العمل وسلامة تطبيق الفتاوى والقرارات الصادرة عن الهيئة.

كما تم الحصول على جميع المعلومات والتوضيحات التي اعتبرناها ضرورية لتزويدنا بأدلة تكفي لإعطاء تأكيد معقول بأن مجموعة عارف لم تخالف أحكام وقواعد ومبادئ الشريعة الإسلامية في جميع المعاملات التي عرضت علينا.

ومن خلال الإجراءات والخطوات التي اتبعناها تبين لنا مايلي:

- أن العقود والمعاملات التي أبرمتها مجموعة عارف الاستثمارية خلال السنة المالية المنتهية 2016/12/31م، والتي اطلعنا عليها، تمت وفقا لأحكام ومبادئ الشريعة الإسلامية، وقرارات وتوصيات الهيئة الشرعية.

وصلى الله على سيدنا محمد وعلى آله وصحبه أجمعين، والحمد لله رب العالمين.

أعضاء هيئة الرقابة الشرعية

د. أنور شعيب عبد السلام

التوقيع

أ.د. سيد محمد عبد الرزاق الطبطبائي

التوقيع

أ.د. مبارك جزاء الحربي

التوقيع

**AREF INVESTMENT GROUP S.A.K. (CLOSED)
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AREF INVESTMENT GROUP S.A.K. (CLOSED)

Report on the Audit of Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements, which states that the Group is significantly exposed to Islamic finance payables and currently the Group is unable to meet the principal and finance cost instalment payments. Further, the Group's accumulated losses exceeds 75% of paid up share capital. These conditions, along with other matters set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter

We draw attention to:

- (i) Note 18 to the consolidated financial statements, which states that Munshaat Real Estate Projects Company K.S.C.P. (a subsidiary of the Parent Company or 'Munshaat') has received a tax demand notice amounting to SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ('GAZT'), Kingdom of Saudi Arabia ("tax claim"). In response to the tax claim, Munshaat has filed an objection letter with GAZT. Based on the advice from the tax consultant, the management of Munshaat has estimated and recorded a potential liability against the tax claim representing Zakat, withholding tax and related penalties in the consolidated financial statements. Notwithstanding the above facts, there is a significant material uncertainty as to the outcome of the tax claim. The provision recognized in the books as at 31 December 2016 represents the best estimate from the management of Munshaat and as recorded by the Group.
- (ii) Note 21 to the consolidated financial statements, which describes that, as at the date of these consolidated financial statements, the contractor of one of the properties of Munshaat in Kingdom of Saudi Arabia has claimed an amount of SAR 501 million (equivalent to KD 41 million) from Munshaat and Munshaat has counter claimed an amount of SAR 627 million (equivalent to KD 51 million) on the same contractor for the delay in completing the project. The claim is currently under arbitration with the Saudi Arbitration Committee. The management of Munshaat, based on the advice from an independent legal counsel, believes that the outcome of the arbitration ruling would most probably be in favour of Munshaat and hence no provision has been made for this claim in the consolidated financial statements as at 31 December 2016.



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AREF INVESTMENT GROUP S.A.K. (CLOSED) (CONTINUED)

Report on the Audit of Consolidated Financial Statements (continued)

Emphasis of Matter (continued)

- (iii) Note 10, to the consolidated financial statements which describes the uncertainty related to the final outcome of a draft expropriation decree published in relation to a real estate development property owned by the Group in Morocco.
- (iv) Note 10, to the consolidated financial statements which describes the uncertainty related to the final outcome of an ongoing lawsuit in relation to a real estate property owned by one of the subsidiaries of the Group.

Our opinion is not modified in respect of these matters.

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

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

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

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

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

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

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

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



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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AREF INVESTMENT GROUP
S.A.K. (CLOSED) (CONTINUED)**

Report on the Audit of Consolidated Financial Statements (continued)

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

- 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.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended, and its executive regulations 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.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010, as amended, concerning the Capital Markets Authority and its related regulations 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.

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AL AIBAN, AL OSAIMI & PARTNERS

ALI A. AL-HASAWI
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5 September 2017
Kuwait

Aref Investment Group S.A.K. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Operating revenues	4	37,250,733	31,015,782
Operating costs	4	(39,076,555)	(26,716,650)
Gross (loss) profit		(1,825,822)	4,299,132
Income			
Islamic finance income		56,994	85,603
Net gain (loss) on financial assets at fair value through profit or loss		656,389	(412,065)
Dividend income		410,134	934,842
Net management and consultancy fees		269,711	821,397
Income from financial assets available for sale	13	1,784,962	1,128,005
Income from investment properties	14	1,151,964	395,828
Share of results of associates and joint ventures	15	(1,270,199)	4,250,988
Gain from extinguishment of financial liabilities	8	-	3,752,978
Net gain on business combination	6	-	439,168
Gain on sale of property and equipment	16	-	1,006,441
Gain on sale of a subsidiary	12	855,124	-
Foreign exchange (loss) gain		(1,487,283)	964,391
Other income		948,147	894,134
		1,550,121	18,560,842
Expenses			
Islamic finance costs		5,427,284	4,957,472
Staff salaries and benefits		4,353,885	5,068,333
General and administration expenses		2,776,411	3,995,993
Net impairment losses	5	8,761,641	1,957,933
		21,319,221	15,979,731
(Loss) profit for the year before taxation		(19,769,100)	2,581,111
Taxation	9	(1,761,630)	(1,545,191)
(Loss) profit for the year		(21,530,730)	1,035,920
Attributable to:			
Equity holders of the Parent Company		(12,994,701)	399,638
Non-controlling interests		(8,536,029)	636,282
		(21,530,730)	1,035,920

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

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	<i>Notes</i>	2016 KD	2015 KD
(Loss) profit for the year		(21,530,730)	1,035,920
Other comprehensive (loss) income			
<i>Other comprehensive (loss) income to be reclassified to consolidated income statement:</i>			
Exchange difference on translation of foreign operations		(4,980,398)	255,991
Hyperinflation adjustment on associate	15	6,029,602	2,220,006
Change in fair value of financial assets available for sale		624,922	75,300
Share of other comprehensive income of associates	15	45,913	223,183
Net other comprehensive income to be reclassified to consolidated income statement in subsequent periods		1,720,039	2,774,480
<i>Other comprehensive income not to be reclassified to consolidated income statement:</i>			
Revaluation of leasehold property and prepaid operating lease rights	11, 12	1,542,141	1,573,381
Net other comprehensive income not to be reclassified to consolidated income statement in subsequent periods		1,542,141	1,573,381
Total other comprehensive income for the year		3,262,180	4,347,861
Total comprehensive (loss) income for the year		(18,268,550)	5,383,781
Attributable to:			
Equity holders of the Parent Company		(8,745,299)	3,059,587
Non-controlling interests		(9,523,251)	2,324,194
		(18,268,550)	5,383,781


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

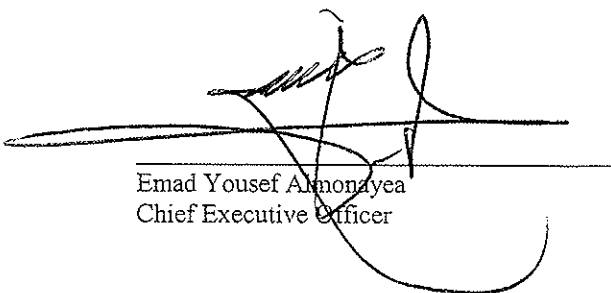
Aref Investment Group S.A.K. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 KD	2015 KD
ASSETS			
Cash and bank balances		43,621,704	43,518,142
Real estate development projects and inventories	10	16,132,058	20,284,422
Leasehold properties	11	195,399,690	207,191,009
Accounts receivable and other assets	12	27,561,269	31,510,247
Financial assets at fair value through profit or loss		4,569,703	3,907,584
Financial assets available for sale	13	11,664,745	13,807,979
Investment properties	14	52,783,078	55,267,493
Investment in associates and joint ventures	15	29,520,732	49,851,170
Property and equipment	16	34,967,794	36,999,975
Disposal group held for sale	7	18,391,800	-
TOTAL ASSETS		434,612,573	462,338,021
LIABILITIES AND EQUITY			
LIABILITIES			
Islamic finance payables	17	255,243,157	254,687,252
Accounts payable and other liabilities	18	63,242,305	69,653,150
TOTAL LIABILITIES		318,485,462	324,340,402
EQUITY			
Share capital	19	22,885,937	22,885,937
Share premium		371,450	371,450
Treasury shares		(371,450)	(371,450)
Statutory reserve	20	2,284,344	2,284,344
Reserve of disposal group held for sale		(827,515)	-
Revaluation reserve		8,694,995	8,740,952
Cumulative changes in fair values		1,793,795	1,122,960
Foreign currency translation reserve		230,221	(3,496,281)
Accumulated losses		(18,192,697)	(5,732,519)
Equity attributable to equity holders of the Parent Company		16,869,080	25,805,393
Non-controlling interests		99,258,031	112,192,226
TOTAL EQUITY		116,127,111	137,997,619
TOTAL LIABILITIES AND EQUITY		434,612,573	462,338,021


Khaled Yousif Al Shamlan
Chairman


Emad Youssef Almonayea
Chief Executive Officer

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

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the Parent Company											
	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Reserve of disposal group held for sale KD	Revaluation reserve KD	Cumulative changes in fair values KD	Foreign currency translation reserve KD	Accumulated losses KD	Sub Total KD	Non-controlling interests KD	Total equity KD
Balance at 1 January 2016	22,885,937	371,450	(371,450)	2,284,344	-	8,740,952	1,122,960	(3,496,281)	(5,732,519)	25,805,393	112,197,226	137,997,619
Loss for the year	-	-	-	-	-	-	-	-	(12,994,701)	(12,994,701)	(8,536,029)	(21,530,730)
Other comprehensive income (loss) for the year	-	-	-	-	-	679,580	670,835	2,898,987	-	4,249,402	(987,222)	3,262,180
Total comprehensive income (loss) for the year	-	-	-	-	-	679,580	670,835	2,898,987	(12,994,701)	(8,745,299)	(9,523,251)	(18,268,550)
Transfer to other reserve (Note 7)	-	-	-	-	(827,515)	-	-	827,515	-	-	-	-
Depreciation transfer	-	-	-	-	-	(725,537)	-	-	725,537	-	-	-
Arising on reacquisition of interest in subsidiary	-	-	-	-	-	-	-	-	(191,014)	(191,014)	(584,765)	(775,779)
Arising from disposal of a subsidiary (Note 11)	-	-	-	-	-	-	-	-	-	-	(198,476)	(198,476)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2,627,703)	(2,627,703)
As at 31 December 2016	22,885,937	371,450	(371,450)	2,284,344	(827,515)	8,694,995	1,793,795	230,221	(18,192,697)	16,869,080	99,258,031	116,127,111

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

Attributable to equity holders of the Parent Company

	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Revaluation reserve KD	Cumulative changes in fair values KD	Foreign currency translation reserve KD	Accumulated losses KD	Sub Total KD	Non-controlling interests KD	Total equity KD
Balance at 1 January 2015	22,885,937	371,450	(371,450)	2,244,380	8,750,601	824,477	(5,233,376)	(6,596,688)	22,875,331	117,924,831	140,800,162
Profit for the year	-	-	-	-	-	-	-	399,638	399,638	636,282	1,035,920
Other comprehensive income for the year	-	-	-	-	624,371	298,483	1,737,095	-	2,659,949	1,687,912	4,347,861
Total comprehensive income for the year	-	-	-	-	624,371	298,483	1,737,095	399,638	3,059,587	2,324,194	5,383,781
Depreciation transfer	-	-	-	-	(634,020)	-	-	634,020	-	-	-
Transfer to statutory reserve	-	-	-	39,964	-	-	-	(39,964)	-	-	-
Arising from acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	(1,241,830)	(1,241,830)
Acquisition of non-controlling interest	-	-	-	-	-	-	-	(129,525)	(129,525)	129,525	-
Capital redemption	-	-	-	-	-	-	-	-	-	(3,254,470)	(3,254,470)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,690,024)	(3,690,024)
As at 31 December 2015	22,885,937	371,450	(371,450)	2,284,344	8,740,952	1,122,960	(3,496,281)	(5,732,519)	25,805,393	112,192,226	137,997,619

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

Aref Investment Group S.A.K. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
OPERATING ACTIVITIES			
Profit for the year before taxation and directors' remuneration from continuing operations		(19,769,100)	2,581,111
Adjustments for:			
Net (gain) loss on financial assets at fair value through profit or loss		(656,389)	412,065
Dividend income		(410,134)	(934,842)
Share of results of associates and joint ventures	15	1,270,199	(4,250,988)
Income from financial assets available for sale		(1,784,962)	(1,128,005)
Change in fair values of investment properties	14	2,283,634	2,095,292
Gain on extinguishment of a financial liability	18	-	(3,752,978)
Islamic finance costs		5,427,284	4,957,472
Amortisation of leasehold property	11	13,761,043	9,599,875
Net impairment loss	5	8,761,641	1,957,933
Depreciation and amortisation		1,045,989	318,233
Gain on sale property and equipment		-	(1,006,441)
Provision for end of service benefits		401,563	478,409
Gain on business combination	6	-	(439,168)
Gain on sale of a subsidiary	12	(855,124)	-
		<u>9,475,644</u>	<u>10,887,968</u>
Changes in operating assets and liabilities:			
Real estate development projects		1,188,758	2,304,239
Financial assets at fair value through profit or loss		-	(47,939)
Accounts receivables and other assets		2,927,278	2,084,505
End of service benefits paid		(70,298)	(159,980)
Accounts payable and other liabilities		(8,503,743)	10,218,199
Net cash flows from operating activities		<u>5,017,639</u>	<u>25,286,992</u>
INVESTING ACTIVITIES			
Dividend income		410,134	934,842
Net movement in financial assets available for sale		-	-
Sale of financial assets available for sale		2,569,363	1,521,984
Net movement in property and equipment		(251,573)	(1,870,497)
Proceeds from sale of property and equipment		-	2,015,799
Addition to leasehold property		(4,827,103)	(9,938,042)
Cash inflow from acquisition of subsidiary	6	-	196,513
Consideration paid for acquisition of a subsidiary	6	-	(4,756,185)
Proceeds from sale of a subsidiary	12	2,005,610	-
Investment properties		-	(106,563)
Net movement in investment in associates and joint ventures	15	748,150	1,556,806
Dividend received from associates	15	2,410,094	7,253,871
Net cash flows from (used in) investing activities		<u>3,064,675</u>	<u>(3,191,472)</u>

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

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2016

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
FINANCING ACTIVITIES		
Movement in Islamic finance payables	(1,043,739)	5,991,879
Dividend paid to non-controlling interest	(2,627,703)	(6,944,494)
Issue of share by a subsidiary	-	-
Finance cost paid	(3,827,640)	(3,749,172)
Net cash flows used in financing activities	<u>(7,499,082)</u>	<u>(4,701,787)</u>
Foreign currency translation adjustment	(479,670)	258,639
NET INCREASE IN BANK BALANCES AND CASH	103,562	17,652,372
Bank balances and cash as at 1 January	<u>43,518,142</u>	<u>25,865,770</u>
BANK BALANCES AND CASH AT 31 DECEMBER	<u>43,621,704</u>	<u>43,518,142</u>

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

Aref Investment Group S.A.K. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

1 CORPORATE INFORMATION

The consolidated financial statements of Aref Investment Group S.A.K. (Closed), (the "Parent Company") and its Subsidiaries (together the "Group") were authorised for issue in accordance with a resolution of the Parent Company's board of directors on 22 August 2017 and are subject to the approval of the General Assembly of the shareholders' of the Parent Company. The general assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements.

The Parent Company is a Kuwaiti Shareholding Closed Company incorporated on 20 November 1975 and registered in the State of Kuwait. The registered office is at Floor 46, Arraya Tower 2, Sharq, Abdulaziz Al-Sager Street, P.O. Box 24100, Safat 13101, Kuwait.

The objectives of the Parent Company inside and outside the State of Kuwait are as follows:

- Managing financial funds and portfolios for its own account or third party's account, considering the diversification of the contents of the portfolios and other guidelines and rules established for well-managed financial investments and the foreign exchange dealings they necessitate.
- Dealing in shares, bonds and other securities and taking legally authorized actions regarding them.
- Undertaking activities for managing finance operations and bonds for third party's account as well as participating in the management and exchange of these bonds.
- Undertaking finance leasing activities.
- Acting as a broker in finance operations and the finance of investment and trade operations.
- Providing various types of finance to third party, complying with safety rules and maintaining a continuous sound financial position of the company in accordance with the conditions, rules and limits established by the Central Bank of Kuwait ("CBK").
- Investing in commercial and production sectors in the industrial, agriculture fields among others either by direct investments, participation in existing companies or by incorporation of new companies.
- Providing technical and administrative services for projects, preparing economic feasibility studies, surveying opportunities of establishing new projects and providing financial consultations on the restructuring of the financial conditions of companies as well as the proposal, finance and implementation of such restructuring.

The Parent Company is regulated by CBK for financing activities and by Capital Market Authority ("CMA") as an investment company. All activities are conducted in accordance with Islamic *Shari'a* as approved by the Parent Company's Fatwa and *Shari'a* Supervisory Board.

The Parent Company is a subsidiary of Kuwait Finance House K.S.C.P. (the "Ultimate Parent Company" or "KFH") by holding 52.864% of its equity. KFH is an Islamic bank registered with CBK and its shares are listed on Kuwait Stock Exchange ("KSE").

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

2 FUNDAMENTAL ACCOUNTING CONCEPT

During the year, the Group has incurred a loss of KD 21,530,730 (2015: profit of KD 1,035,920) and as at that date, the Group has accumulated losses of KD 18,192,697 (2015: KD 5,732,519) which exceeds 75% of paid up share capital (including share premium) (Note 19). Further subsequent to the year end, the Parent Company could not honour the principal payment of Islamic finance payable that was due on 9 February 2017 and sought for the renewal of the facility from the lenders. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Notwithstanding the above facts, the consolidated financial statements have been prepared under the going concern concept as the management of the Parent Company has initiated certain actions, as follows, to meet the obligations, when they fall due.

- a) On 29 May 2017, the Parent Company has renewed the Islamic finance payable amounting to KD 197 million in two tranches i.e KD 158 million renewed for 1 year maturing on 9 February 2018 and KD 39 million which has seniority in accordance with Master murabaha agreement will be renewed on monthly basis. Further, the renewal of Islamic finance payable give an opportunity to the Parent Company to negotiate and conclude the terms ongoing restructuring of the Islamic finance payable with banks and financial institutions.
- b) The revenues from hotel, real estate development and other operations have increased over the years and the management of the Parent Company is expecting to have these operational cash flows continued in future years. Further the Group has commenced operation of a new hotel in the Kingdom of Saudi Arabia during the current year and this would generate additional operational cash flows to the Group.
- c) The management of the Parent Company has constituted task groups to actively manage and generate cash flows from the assets of the Group to ensure Group's obligations are met, as they fall due. Subsequent to year end the Parent Company has entered into an agreement to sell a group of assets (Note 7).

The ability of the Group to continue as a going concern is dependent on implementation of the restructuring plan, continued support from the main shareholders and lenders and future profitability.

Had the going concern basis not been used, adjustments would be made relating to the recoverability of recorded asset amounts, or to the amounts of liabilities to reflect the fact the Group may be required to realise its assets and extinguish its liabilities other than in the normal course of business, at amounts different from those stated in the consolidated financial statements.

3.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the International Accounting Standard (IAS) 39 requirement for a collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

The consolidated financial statements are prepared under the historical cost convention, except for financial assets carried at fair value through profit or loss, certain financial assets available for sale, investment properties and leasehold properties that have been measured at fair value.

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

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

3.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of the following amendments to the existing standards relevant to the Group, effective as of 1 January 2016.

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.

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 statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to 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 statement of income.

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

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.

New and revised IASB Standards, but not yet effective

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

IFRS 9: Financial Instruments:

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 consolidated financial statements, when adopted.

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

3.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and revised IASB Standards, but not yet effective (continued)

IFRS 15 – Revenue from Contracts with customers

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

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

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact on the Group,

IFRS 16 Leases

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

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

Amendments to IAS 12 Income Taxes

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

3.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (investees which are controlled by the Group) (collectively the "Group") as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

3.3 BASIS OF CONSOLIDATION (continued)

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

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

Non-controlling interests represent the net assets (excluding goodwill) of consolidated subsidiaries not attributable directly, or indirectly, to the equity holders of the Parent Company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets acquired 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 swaps and profit rate contracts 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 consolidated statement of income.

Any contingent consideration to be transferred by the acquirer is recognized 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, is recognised in accordance with IAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is remeasured until it is finally settled within equity.

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

The following specific recognition criteria must also be met before revenue is recognised.

Contract revenue

Revenue and profits from long-term contracts are calculated in accordance with the percentage of completion method of accounting. Such contracts generally extend for periods in excess of one year. Under this method the amount of revenue and profit from construction contracts is measured by reference to the percentage of actual costs incurred to date to the estimated total costs for each contract applied to the estimated contract profit, and reduced by the proportion of profit previously recognised. Profit is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. During the early stages of a contract, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable; hence no profit is recognised. Claims and variation orders are only included in the determination of contract profit when negotiations have reached an advanced stage such that it is probable they will be approved by contract owners and can be reliably measured. Anticipated losses on contracts are recognised in full as soon as they become foreseen.

Airline revenues

Revenues from passenger and cargo sales are recognised as operating revenues when transportation services are provided. The value of tickets sold but not utilised is classified as advances received.

Rendering of services

Revenue from service contracts is recognized on the percentage of completion method.

Revenue from sale of real estate development projects

Revenue from sale of real estate development projects is recognised when significant risks and rewards of ownership of the real estate passes to the buyer and the amount of revenue can be measured reliably.

Islamic finance income

Income from Murabaha and Ijarah is recognized on a weighted time apportionment basis.

Hotel revenue income

Revenue represents the rental income and the invoiced value of goods and services provided by the Group from the hospitality services.

Dividend income

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

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Fee income

Fee earned for the provision of services over a period of time are accrued over that period. These fees include management fees, consultancy fees and promotion fees. Fee income is recognised when specific services are rendered.

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Taxation

Zakat

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

Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is provided in accordance with fiscal regulations applicable to each country of operation.

Financial instruments

Financial assets

Initial recognition and measurement

The Group classifies its financial assets within the scope of IAS 39 as "financial assets carried at fair value through profit or loss" "Islamic finance receivables", "accounts receivable" and "financial assets available for sale". The Group determines the classification of financial assets and liabilities at initial recognition. Financial assets are initially recognised at the date the Group becomes a party to the contract.

All financial assets are recognised initially at fair value plus, transaction costs, except in the case of financial assets recorded at fair value through profit or loss, transaction costs are recognised in the consolidated statement of income.

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, Islamic finance receivables, accounts receivable and other assets, financial assets carried at fair value through profit or loss and financial assets available for sale.

Subsequent measurement

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

Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of income. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. Dividend income is recorded in the consolidated statement of income when right to receive has been established.

Islamic finance receivables

Islamic finance receivables are financial assets originated by the Group and principally comprise Murabaha and Ijarah receivables. These are stated at amortised cost, using the effective profit rate method, less impairment losses, if any.

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis.

Ijara is a lease agreement between the Group and customers.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
Financial assets (continued)

Subsequent measurement (continued)

Accounts receivable

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounts receivable include trade accounts receivable which are stated at original invoice amount less a provision for any uncollectible amount. An estimate for doubtful debts is made when recovery of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Financial assets available for sale

Financial assets available for sale include equity and debt securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category (i.e. sukouk) are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

The Group evaluates whether the ability and intention to sell its financial assets available for sale in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available for sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to consolidated income statement over the remaining life of the investment using the effective interest rate method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

Derecognition

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

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

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
Financial liabilities

Initial recognition and measurement

Financial liabilities comprises of Murabaha, Istisna's and accounts payable and other liabilities and are measured at amortised cost. The Group determines the classification of its financial liabilities at initial recognition.

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

Subsequent measurement

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

Murabaha payable

Murabaha payable represents the amount payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payable is stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Istisnaa payable

Istisnaa is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future date.

Accounts payable and other liabilities

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

Derecognition

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

Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if enforceable legal right to offset the recognised amount and there is currently intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value measurement

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

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

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

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

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

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

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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:

- 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 financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

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

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

Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be 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 borrower or a Group of borrowers is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, an impairment loss is recognised in the consolidated income statement.

Impairment is determined as follows:

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

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

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

In accordance with CBK instructions, a minimum general provision on all finance facilities, net of certain categories of collateral to which CBK instructions are applicable and not subject to specific provision, is made.

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

Impairment of Financial assets available for sale

For financial assets available for sale, the Group assesses at each reporting date whether there is an objective evidence that an investment or a group of investments 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 investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is an evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment loss on equity investments is not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

Inventories and real estate development projects

Inventories and real estate development projects are stated at the lower of weighted average cost and net realisable value. Costs are those expenses incurred in bringing each product / property to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Leases

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

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of profit on the remaining balance of the liability. Finance charges are recognised in the consolidated income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, less any accumulated impairment. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the lease term.

When a capitalised leased asset is revalued, any increase in the carrying amount arising on revaluation is credited under revaluation reserve in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of income, in which case the increase is recognised in the consolidated statement of income. A revaluation deficit is recognised in the consolidated statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the original cost of the assets. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as lessor

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

Investment properties

Investment properties are initially measured at cost, including transaction costs. The carrying cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day to day servicing of investment property.

Subsequent to initial recognition, the investment property is carried at fair value that is determined based on valuation performed by independent valuers periodically using valuation methods consistent with the nature and usage of the investment property. Gains or losses from change in the fair value are recognised in the consolidated statement of income. However, in case of investment properties whose fair value cannot be reliably measured the same are carried at cost less accumulated impairment, if any. The Group obtains fair valuation of investment properties from two independent, accredited real estate valuers and consider the lower of two valuations as the fair value of the investment properties for recording in the consolidated financial statements.

Investment property is derecognised when either it has been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses are recognised in the consolidated statement of income in the year of retirement or disposal. Gains or losses on the disposal of investment properties determined as the difference between net disposal proceeds and the carrying value of the asset is recognised in the consolidated statement of income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investment in associates and joint ventures

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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investment in its associates and joint venture are accounted for under the equity method of accounting.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Losses in excess of the cost of the investment in associates or joint ventures are recognised when the Group has incurred obligations on its behalf. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Where there has been a change recognised directly in the other comprehensive income of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)

Distributions received from an associate or joint venture reduce the carrying value of the investment. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate or joint venture is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate or joint venture and therefore is profit after tax and non-controlling interest in the subsidiaries of the associate or joint venture.

The financial statements of the associates or joint ventures are prepared for the same reporting period as the Group, using consistent accounting policies.

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

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and/or impairment losses, if any. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of income.

Land is not depreciated. Depreciation of other property and equipment is computed on a straight-line basis over the estimated useful lives as follows:

- Buildings 12-50 years
- Aircraft and engines 20 years (residual value 27%)
- Furniture and fixtures 2-7 years
- Heavy equipment 4-10 years

Depreciation on separately identified significant components of aircraft is computed based on actual usage over the life of these components. Major overhaul expenditure is depreciated over the shorter of the period to the next major overhaul or lease term or useful life of the asset concerned.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

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

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

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing activities, down to the level of profit, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

Impairment of non-financial assets

The Group conducts internal reviews annually or more frequently if events or changes in circumstances indicate that, the intangible assets and property and equipment are impaired. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. An asset's recoverable amount is determined as the higher of an asset's cash-generating units fair value less costs to sell or 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.

If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the consolidated statement of income and the asset is written down to its recoverable amount. Impairment losses of continuing operations are recognised in consolidated income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amounts.

Treasury shares

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

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The Group's consolidated financial statements are presented in Kuwaiti Dinars, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by 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.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in the consolidated statement of comprehensive income, foreign exchange differences are recognised directly in the consolidated statement of comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated statement of income are recognised in the consolidated statement of income.

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 income statement is translated at exchange rates prevailing at the dates of the transactions. 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the consolidated statement of income in the period in which they are incurred.

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

The Group provides employees' end of service benefits to all its employees in accordance with Labour Law applicable to each country of operation and policy approved by the company. The expected costs of these benefits are accrued over the period of employment.

With respect to its Kuwaiti employees, the Group makes contributions to Public Institutions for Social Security as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Fiduciary assets

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

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 benefits is probable.

Significant accounting judgments, estimates and assumptions

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

The most significant use of judgements and estimates are as follows:

Classification of financial instruments

Judgments are made in the classification of financial instruments based on management's intention at acquisition.

Classification of real estate and leasehold properties

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

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

The management classifies real estate as property under development if it is acquired with the intention of development.

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

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Structured entities

The Group uses judgment in determining which entities are structured entities. If the voting or similar rights are not the dominant factor in deciding who controls the entity and such voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements, the Group identifies such entities as structured entities. After determining whether an entity is a structured entity, the Parent Company determines whether it needs to consolidate this entity based on the consolidation principles of IFRS 10.

Fair values of assets and liabilities including intangible assets

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

Fair value measurement of financial instruments

Where the fair value of financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

Valuation of investment properties and leasehold property under development

For investment properties and leasehold properties fair value is determined by independent, registered, real estate valuers or by reference to recent transactions in similar properties. As per the Group's policy two independent real estate valuations are obtained to assess fair values as at the reporting date. For investment properties and leasehold properties, for which there is a lack of comparable market data because of the nature of the properties, valuation methodologies based on a discounted cash flow model and terminal value model is used. Investment property held for capital appreciation is valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

The key assumptions used to determine the fair value of leasehold properties and investment properties is further explained in Note 11 and 14.

Impairment of leasehold properties

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment of financial assets available for sale

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments 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 investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Impairment losses of accounts receivable

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

Useful lives of property and equipment

Management assigns useful lives and residual values to property and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Estimated cost and profit on uncompleted contracts

Revenue from installation contracts is measured by reference to the percentage of costs incurred to the estimated total costs for each contract applied to the estimated contract revenue, and reduced by the proportion of revenue previously recognised. This requires the management to use judgement in the estimation of the total cost expected to complete each contract. Profit on uncompleted contracts is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. This requires the Group's management to determine the level at which reasonable estimates can be reached.

4 OPERATING REVENUES AND COSTS

	2016 KD	2015 KD
Operating Revenues		
Hotel revenue	33,304,234	26,028,901
Revenue on sale of real estate development projects	3,833,603	4,365,063
Airline revenue	112,896	621,818
	<u>37,250,733</u>	<u>31,015,782</u>
Operating Costs		
Hotel operating cost *	36,743,560	23,692,962
Cost of sale of real estate development projects	2,108,863	2,806,818
Airline cost	224,132	216,870
	<u>39,076,555</u>	<u>26,716,650</u>

* Hotel operating cost includes amortisation of leasehold property amounting to KD 13,761,043 (2015: 9,599,875) (Note 11).

5 NET PROVISIONS (WRITE BACK) OF IMPAIRMENT LOSSES

	2016 KD	2015 KD
Impairment on leasehold property (Note 11)	5,210,923	3,498,912
Provision (write off) on accounts receivable and other assets	393,912	(1,144,312)
Impairment of financial assets available for sale (Note 13)	834,102	494,733
Impairment of investment in associates and joint venture (Note 7 and Note 15)	2,322,704	422,626
Write back of provision no longer required	-	(1,314,026)
	<u>8,761,641</u>	<u>1,957,933</u>

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6 BUSINESS COMBINATION

During the prior year, one of the subsidiaries of the Group, Munshaat Real Estate Project Company K.S.C.P ("Munshaat"), acquired additional equity interest in Al Qebalah JV (previously accounted as an investment in associate) for a cash consideration of USD 22,500,000 (equivalent to KD 6,808,050) resulting in the increase of its equity interest from 37.11% to 62.11%. As a result, the entity became a subsidiary of the Group and was consolidated from the date of exercise of control.

The business combination of Al Qebalah JV was achieved in stages and accordingly, the Group recognized a net gain on business combination of KD 439,168 in the consolidated statement of income of previous year as follows:

	KD
Loss on acquisition	(8,843,681)
Gain on settlement of pre-existing transaction between the Group and the acquire	9,282,849
Net gain on business combination	439,168

7 DISPOSAL GROUP HELD FOR SALE

On 13 December 2016 the Board of Directors of the Parent Company committed to sell two of its associates (Note 15) and assigned right of financial assets in republic of Sudan. Further subsequent to the year end, on 16 May 2017, the Parent Company has entered into a conditional sale agreement with third party to sell these investments in associates and right of financial assets in republic of Sudan for a total sell consideration of USD 60 million approximately KD 18,391,800. Both parties are committed to execute the deal within the time frame stipulated in the agreement. Therefore, the Parent Company has reclassified these assets, as disposal group held for sale in accordance with the requirement of IFRS 5: Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5") and carried these assets at lower of carrying value and fair value less costs to sell and recorded an impairment loss of KD 2,322,704.

Further, the foreign currency translation reserve of KD 827,515 relating to the above associates has been transferred to "reserve of disposal group held for sale".

8 GAIN FROM EXTINGUISHMENT OF FINANCIAL LIABILITIES

One of the subsidiaries of the Group had signed a settlement agreement with the developer of Zamzam Tower and upon the payment of final instalment, the Group recorded a gain of KD 3,752,978 in the consolidated statement of income for the year ended 31 December 2015.

9 TAXATION

	2016 KD	2015 KD
Contribution to KFAS (a)	-	-
Zakat (b)	-	-
Overseas taxation (c)	1,761,630	1,545,191
	<u>1,761,630</u>	<u>1,545,191</u>

- a. The Parent Company calculated the contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution. Accordingly, there was no income base upon which the contribution to KFAS could be calculated for the year ended 31 December 2016.

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9 TAXATION (continued)

- b. The Parent Company calculated the Zakat in accordance with the Ministry of Finance resolution No. 58/2007. As per law, income from associates and subsidiaries, cash dividends which are subjected to Zakat have been deducted from the profit for the year. Accordingly, there was no income base upon which the Zakat could be calculated for the year ended 31 December 2016.
- c. Taxation includes overseas taxation for the year ended 31 December 2016 of which KD 1,822,311 (2015 KD 1,351,738) represents the Zakat and withholding tax arising from the operations of the Group from projects in the Kingdom of Saudi Arabia. (Note 17).

10 REAL ESTATE DEVELOPMENT PROJECTS AND INVENTORIES

- a. During 2012, one of the subsidiaries of the Group, Sukouk Holding Company K.S.C.P (“Sukouk”) acquired a trading property at its fair value of KD 1,500,022 in lieu of settlement of a wakala receivable from the borrower. The title of this property was transferred to the Subsidiary as on that date. However subsequent to acquisition, the management of Sukouk became aware that there is an ongoing lawsuit between the borrower and a third party in relation to ownership of this property. Consequently, any transfer of the title of this property is subject to final outcome of the ongoing lawsuit. The trial is currently in process in the court of law and therefore it is not practical to assess the final outcome of the court judgment. Accordingly, no provision has been recognised in the consolidated financial statements.
- b. During the current year, a draft expropriation decree has been published in the Official Gazette by the Moroccan State on 21 September 2016 relating to a real estate property owned by a subsidiary of the Group, AREF Real Estate Projects S.A.R.L., with a carrying value of KD 5,449,483 as of 31 December 2016, located in M'diq City Morocco. According to the draft expropriation decree, this property along with other properties in the same area might be taken over by the Moroccan state for development of the second part of M'diq City. This property is classified as real estate development projects in the consolidated statement of financial position.

The transfer of the ownership of this property is subject to completion of legal procedures of promulgation related to the expropriation decree followed by two procedures for the purpose of transferring the ownership and determining the compensation by the expropriator. The amount of compensation shall be determined as per the value of the property as on the date of expropriation decree issuance. However, no legal procedures of promulgation related to the expropriation decree has been initiated other than the draft expropriation decree published in the Official Gazette. Accordingly, no adjustment has been made to the carrying value of the property in the consolidated financial statements of the Group for the year ended 31 December 2016.

The trading properties of the Group are carried at lower of cost or net realisable value. The net realisable value has been determined based on the lower of two valuations obtained from external real estate appraisers with relevant experience in the market where the property is located. The assessment of the net realisable values of trading properties has been carried out based on comparable market values for similar properties considering the rental value, maintenance status, market knowledge and historical transactions.

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11 LEASEHOLD PROPERTIES

	2016 KD	2015 KD
As at 1 January	207,191,009	172,047,004
Additions	4,827,103	9,938,042
Acquired through a business combination	-	37,534,515
Revaluation	1,930,191	370,652
Amortisation for the year	(13,761,043)	(9,599,875)
Impairment loss charged to income statement (Note 5)	(5,210,923)	(3,498,912)
Foreign currency translation adjustment	423,353	399,583
As at 31 December	195,399,690	207,191,009
Accumulated amortisation		
As at 1 January	26,648,263	17,048,388
Charge for the year	13,761,043	9,599,875
As at 31 December	40,409,306	26,648,263

Leasehold properties comprise of Zam Zam Tower and Qebalah Tower. Both these properties are located in Kingdom of Saudi Arabia and are amortised over a period of useful life of the leasehold.

The fair value of leasehold properties have been determined based on lower of the two valuations obtained from independent, registered real estate valuers in the location of leasehold properties. Based on the fair valuation, management has recognised an impairment loss of KD 5,210,923 (December 2015 KD 3,498,912) (Note 5). The fair value is determined on the existing use basis by using a valuation technique described below and has been categorised as level 3 fair value based on inputs to the valuation technique used. The following are the primary inputs have been used.

Type of property	Valuation technique	Significant unobservable inputs	Range (weighted average)	
			2016	2015
a. Zam Zam Tower, Kingdom of Saudi	Discounted Cash Flow method ("DCF")	Estimated Average room rate in Saudi Riyals (SAR)	906 - 1,019	859 - 1,036
		Long term Rev PAR* Growth	7.2%-2.9%	9.9% - 3.8%
		Occupancy rate	78.44% - 82.7%	79.2% - 85.1%
		Discount rate	11%	11%
		Inflation rate	3%	3%
		Gross operating profit	51.3%-52.6%	47.7%-52.7%
b. Qebalah Tower, Kingdom of Saudi	• Hotel Discounted Cash Flow method ("DCF")	Estimated Average room rate in Saudi Riyals (SAR)	562 -843	620-880
		Long term Rev PAR growth*	3.5%-10.5%	2.4%-16.9%
		Occupancy rate	66% - 71%	61% - 71%
		Discount rate	11.5%	12%
		Inflation rate	3.5%	3.5%
		Gross operating profit	38% - 70%	49% - 77%

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11 LEASEHOLD PROPERTIES (continued)

• Shopping center	Discounted Cash Flow method ("DCF")	Estimated yearly rent in SAR per square metre	6,500	6,500
		Occupancy rate	65%-95%	65%-95%
		Discount rate		11.65%

* RevPar : Revenue Per Available Room

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes by 5% in the most significant assumptions underlying the valuation of the leasehold properties.

	Changes in the valuation assumption	Impact on other comprehensive income for the year	
		2016 KD	2015 KD
Leasehold properties	+/-5%	9,769,985	10,359,550

12 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2016 KD	2015 KD
Trade and other receivables	13,991,868	18,073,717
Amount due from related parties (Note 22)	7,623,074	6,142,649
Other assets*	405,471	1,258,145
Prepaid operating lease **	2,042,250	2,430,300
Receivable against sale of investments (Note 13)	3,498,606	3,605,436
	<u>27,561,269</u>	<u>31,510,247</u>

* During the prior year, the Parent Company had entered into an agreement to sell its 81.25% shareholding in one of the subsidiary, Al Hambra Town Faisalabad (Private) Limited (incorporated in Pakistan). Accordingly, the carrying value of the subsidiary of KD 1,150,486 was classified as asset held for sale and included in other assets, net of advance received up to 31 December 2015. During the current year, the Parent Company received the balance consideration, aggregating the total consideration received of KD 2,005,610 and recorded a gain of KD 855,124 in the consolidated statement of income for the year ended 31 December 2016.

**During the current year, the Group has performed the fair valuation of prepaid operating lease and recorded a decline of KD 388,050 (2015: increase of KD 1,207,830) with corresponding effect in revaluation reserve in the consolidated statement of comprehensive income.

13 FINANCIAL ASSETS AVAILABLE FOR SALE

	2016 KD	2015 KD
Unquoted equity securities	9,312,942	10,407,455
Managed funds (unquoted)	2,351,803	3,400,524
	<u>11,664,745</u>	<u>13,807,979</u>

As at 31 December 2016, financial assets available for sale (unquoted managed funds) amounting to KD 1,148,329 (2015: KD 1,907,010) were carried at cost as the nature of these investments is such that a reasonable estimate of fair value can only be determined when the individual investments are realised or disposed. Management has performed a review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments.

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13 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Based on the latest available financial information, management is of the view that no additional impairment provision is required as at 31 December 2016 in respect of these investments other than the impairment loss of KD 834,102 (2015: KD 494,733) (Note 5) recorded in the consolidated income statement.

Income from financial assets available for sale includes KD 1,784,962 (2015: KD 1,128,005) that represents amount against sale of equity interest in Sudan Airways in prior years, of which KD 1,784,962 (2015: KD Nil) was collected subsequently to the year end and prior to approval of this consolidated financial statement for issuance. The amount has been included in accounts receivable and other assets (Note 12).

14 INVESTMENT PROPERTIES

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
As at 1 January	55,267,493	55,990,088
Additions	-	113,268
Disposal	-	(6,706)
Change in fair values	(2,283,634)	(2,095,292)
Foreign exchange adjustment	(200,781)	1,266,135
As at 31 December	52,783,078	55,267,493

The fair values of these properties are based on external valuations by accredited independent valuers registered valuator in the location of the investment properties. The valuation techniques used and key inputs are disclosed below.

Investment properties with a carrying value of KD 16,210,000 (2015: KD 16,762,000) are mortgaged against certain Islamic finance payables amounting to KD 8,863,608 (2015: KD 8,920,786) (Note 17).

Income from investment properties in the consolidated statement of income includes the following:

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Net rental income	3,435,598	2,491,120
Change in fair values	(2,283,634)	(2,095,292)
	1,151,964	395,828

Quantitative disclosures of fair value measurement hierarchy for investment properties are as follows:

At 31 December 2016:

	<i>Total</i> <i>KD</i>	<i>Level 3</i> <i>KD</i>
Land in Lebanon	25,644,405	25,644,405
Land in Kuwait	10,550,000	10,550,000
Building in Kuwait	5,660,000	5,660,000
Building in United Kingdom	2,591,088	2,591,088
Building in Kingdom of Saudi Arabia	8,337,585	8,337,585

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14 INVESTMENT PROPERTIES (continued)

At 31 December 2015:

	<i>Total KD</i>	<i>Level 3 KD</i>
Land in Lebanon	26,769,549	26,769,549
Land in Kuwait	10,550,000	10,550,000
Building in Kuwait	6,212,000	6,212,000
Building in United Kingdom	2,905,854	2,905,854
Building in Kingdom of Saudi Arabia	8,830,090	8,830,090

Description of valuation techniques used and key inputs to valuation of investment properties are as follows:-

Type of property	Valuation technique	Significant unobservable inputs	Range (weighted average)	
			<i>2016</i>	<i>2015</i>
Land in Lebanon	Market comparison	Price per square meter	\$-731-\$750	\$-770-\$780
Land in Kuwait	Market comparison	Price per square meter	KD 4,000 – KD 4,200	KD 4,000 – KD 4,300
Building in Kuwait	Yield method	Estimated Market price For land (Per SQM)	KD 1,693	KD 1,817
		Market comparison	KD 128	KD 133
	Cost approach	Average monthly rent (SQM)	KD 4	KD 4
		Yield Rate	8%	7.6%
		Occupancy rate	100.00%	100.00%
Building in United Kingdom	Discounted Cash Flow Method (DCF)	Average rent	GBP 883-943 per apartment/ month	GBP 883-943 per apartment/ month
		Occupancy rate	100%	100%
		Discount Rate	6.5%	6.5%
		Average Apartment Value	GBP 170 – 288 psf	GBP 195 – 204 psf
Bakkah Tower in Kingdom of Saudi Arabia	Discounted Cash Flow Method (DCF)	The fair value is determined based on discounted cash flow method, using contractually fixed cash flows and discount rate of 13% (2015:13%).		

*RevPAR = Revenue per Available Room.

Under market comparison approach, fair value is estimated based on comparable transactions. The market comparison approach is based upon the principal of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre ('sqm').

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14 INVESTMENT PROPERTIES (continued)

Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value, if any. This method involves the projection of a series of cash flows on a real estate property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real estate property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, if any, is then discounted.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by:

- A directionally similar change in the rent growth per annum and discount rate (and exit yield)
- An opposite change in the long term vacancy rate.

15 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2016 KD	2015 KD
Opening balance	49,851,170	52,831,579
Additions	-	38,645
Capital redemption / disposals	(748,150)	(1,595,452)
Transfer to disposal group held for sale (Note 7)	(18,391,800)	-
Share of results of associates	(1,270,199)	4,250,988
Dividends received	(2,410,094)	(7,253,871)
Hyperinflation adjustment on associate (refer Note (b) below)	6,029,602	2,220,006
Foreign currency translation adjustment	(1,263,006)	(441,282)
Impairment losses (Note 5 and Note 7)	(2,322,704)	(422,626)
Cumulative change in fair value recognised directly in other comprehensive income	45,913	223,183
	<u>29,520,732</u>	<u>49,851,170</u>

The carrying amount of investment in associates and joint ventures includes goodwill of KD NIL after impairment and foreign currency adjustment (2015: KD 1,092,926).

Details of principal investment in associates and joint ventures are as follows:

Name of the entity	Country of Incorporation	Effective equity interest	
		2016 %	2015 %
Financial Institutions			
United Capital Bank (UCB) (refer note (b) below) *		40.02	40.02
Halic Financial Kiralama A.S.		-	40.00
Mawared United Investment Company K.S.C. (Mawared)		21.29	21.29
Real Estate			
Wafra / Aref Re Equity Company Limited (Note (a) below)		50.00	50.00
Wafra/Aref International Value-added real estate Fund II		25.35	25.35
Napa El Hamra for Touristic Development		50.00	50.00
Al Mehrab Real Estate Company K.S.C. (Closed) (Mehrab)		42.29	42.29
Aref Euro Real Estate S.A.S (Aref Euro) (Note (a) below)		50.00	50.00

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15 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

Name of the entity	Country of Incorporation	Effective equity interest	
		2016 %	2015 %
Real estate (continued)			
Florida Group of Construction		35.00	35.00
Logistic			
American Higher Education Development Corporation C.I Limited (AHED) (Note (a) below)		84.95	84.95
Maritime Tanker and Shipping Company K.S.C (Closed)		29.00	29.00
Gulf Africa Holding Company K.S.C (Closed) (GAH)		50.00	50.00
Sudan River Transport Company (SRTC) (refer note (b) below)		34.13	34.13
Nile River Transport Company (NRTC) (refer note (b) below) *		50.00	50.00
Eastern Networks BVI		31.24	31.24
Prolific Systems and Technologies Pvt. Ltd.		42.98	45.00
Grand Lake Co. for Fishing (S.A.K.)		25.00	25.00
Marmarah for Investment Counselling and Trading Company		25.00	25.00
Jiaxing World Education Holding Company Ltd.		21.30	21.30
Synergy Corporation Consulting Company K.S.C.C.		22.42	22.42

* These associates have been included in disposal group held for sale as at 31 December 2016 (Note 7).

- (a) These entities are jointly controlled by the Parent Company and the third party. Hence, it is concluded that the Group investment in these entities is a joint arrangement in accordance with IFRS 11 and accounted for as a joint venture using equity method under IFRS 11 and IAS 28.
- (b) The Group had assessed Sudanese economy as hyperinflationary economy in accordance with requirements of IAS 29: Financial Reporting in Hyperinflationary Economies ("IAS 29"). Hence, it has been accounted in accordance with requirements of IAS 29. The financial statements of investee companies (classified as investment in associates) namely UCB, NRTC and SRTC whose functional currency is Sudanese Pounds have been adjusted at the Group level for inflation, prior to their translation to Kuwaiti Dinars for equity accounting. For the purpose of indexation, the Group has used the Consumer Price Index (CPI).

The net impact from the restatement of statement of financial position items as at 31 December 2015 by restating it to the purchasing power as at 31 December 2016 is a gain of KD 6,029,602 (2015: KD 2,220,006). This amount has been recorded as 'Hyperinflation adjustment' in the consolidated statement of comprehensive income for the year ended 31 December 2016 and disclosed under "Foreign currency translation reserve" in the consolidated statement of changes in equity with a corresponding increase in the carrying amount of investment in associates.

Thereafter, the net impact from the restatement to bring the balances, noted above, and the transactions recorded in the current year's consolidated income statement to the current purchasing power, representing the net monetary loss, of KD 3,051,845 (2015: KD 1,430,416) has been adjusted against the share of results of associates in the consolidated statement of income of the Group for the year ended 31 December 2016.

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15 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

The movement in non-monetary assets and liabilities due to hyperinflation is summarised as follows

<i>31 December 2016</i>	<i>UCB KD</i>	<i>SRTC KD</i>	<i>NRTC KD</i>	<i>Total KD</i>
Property, plant and equipment	2,538,344	490,691	4,331,579	7,360,614
Investment in associates	-	745,336	-	745,336
Investment securities	1,637,269	-	-	1,637,269
Monetary loss in the income statement	(1,973,360)	(188,524)	(853,772)	(3,015,656)
	<u>2,202,253</u>	<u>1,047,503</u>	<u>3,477,807</u>	<u>6,727,563</u>
Impact in the statement of change in equity	8,991,341	1,139,620	4,084,630	14,215,591
Impact in the income statement	(6,789,089)	(92,118)	(606,824)	(7,488,031)
	<u>2,202,252</u>	<u>1,047,502</u>	<u>3,477,806</u>	<u>6,727,560</u>
Group's % of ownership	40.02%	34.13%	50.00%	-
Impact on Group's consolidated statement of comprehensive income	3,598,335	388,952	2,042,315	6,029,602
Impact on Group's consolidated income statement	(2,716,993)	(31,440)	(303,412)	(3,051,845)
<i>31 December 2015</i>	<i>UCB KD</i>	<i>SRTC KD</i>	<i>NRTC KD</i>	<i>Total KD</i>
Property, plant and equipment	827,568	365,604	1,830,079	3,023,251
Investment in associates	(49,790)	(281,577)	-	(331,367)
Investment securities	638,977	-	-	638,977
Monetary loss in the income statement	(1,135,839)	(147,268)	(432,135)	(1,715,242)
	<u>280,916</u>	<u>(63,241)</u>	<u>1,397,944</u>	<u>1,615,619</u>
Impact in the statement of change in equity	3,355,028	51,043	1,719,806	5,125,877
Impact in the income statement	(3,074,112)	(114,284)	(321,862)	(3,510,258)
	<u>280,916</u>	<u>(63,241)</u>	<u>1,397,944</u>	<u>1,615,619</u>
Group's % of ownership	40.02%	34.13%	50.00%	-
Impact on Group's consolidated statement of comprehensive income	1,342,682	17,421	859,903	2,220,006
Impact on Group's consolidated income statement	(1,230,480)	(39,005)	(160,931)	(1,430,416)

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15 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

The following table provides summarised information of the Group's material investment in associates and joint ventures individually and non-significant associates and joint ventures in aggregate under the 'Others' column:

<i>31 December 2016</i>	<i>UCB</i> <i>KD</i>	<i>Mehrab</i> <i>KD</i>	<i>AHED</i> <i>KD</i>	<i>Wafra II</i> <i>KD</i>	<i>Mawared</i> <i>KD</i>	<i>NRTC</i> <i>KD</i>	<i>Others</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Non-current assets	-	33,921,381	6,615,488	655,145	11,994,483	-	19,214,544	72,401,041
Current assets	-	3,708,804	2,630,883	195,067	6,144,599	-	5,369,689	18,049,042
Non-current liabilities	-	-	(1,699,216)	-	-	-	(1,172,659)	(2,871,875)
Current liabilities	-	(3,405,182)	(67,835)	(217,096)	(179,167)	-	(9,407,698)	(13,276,978)
Equity	-	34,225,003	7,479,320	633,116	17,959,915	-	14,003,876	74,301,230
Proportion of the Group's ownership	40.02%	42.29%	84.95%	25.35%	21.29%	50.00%	-	-
Total carrying value	-	14,475,324	6,353,683	160,495	3,823,666	-	4,707,564	29,520,732
Dividends received during the year	704,583	1,705,511	-	-	-	-	-	2,410,094
Income	6,884,009	5,708,955	9,985,386	33,192	457,719	767,604	8,358,853	32,195,718
Expenses	(14,052,875)	(1,222,572)	(10,569,318)	(115,767)	(131,618)	(2,189,488)	(7,171,026)	(35,452,664)
(Loss) profit for the year	(7,168,866)	4,486,383	(583,932)	(82,575)	326,101	(1,421,884)	1,187,827	(3,256,946)
Group's share in (loss) profit for the year	(2,868,980)	1,897,497	(496,050)	(20,933)	69,427	(710,942)	399,459	(1,730,522)
Other adjustment	-	-	-	-	460,323	-	-	460,323
Total (loss) profit	(2,868,980)	1,897,497	(496,050)	(20,933)	529,750	(710,942)	399,459	(1,270,199)

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15 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

31 December 2015	UCB KD	Mehrab KD	AHED KD	Wafra II KD	Manward KD	NRTC KD	Others KD	Total KD
Non-current assets	8,426,599	34,621,703	7,170,322	664,924	12,081,000	15,021,045	15,847,825	93,833,418
Current assets	98,885,014	1,329,062	2,396,534	182,108	4,045,878	176,452	7,718,223	114,733,271
Non-current liabilities	(61,252,728)	-	(1,094,170)	-	-	-	(1,533,349)	(63,880,247)
Current liabilities	(15,514,446)	(2,294,111)	(472,045)	136,578	(264,410)	(1,032,820)	(7,661,505)	(27,102,759)
Equity	30,544,439	33,656,654	8,000,641	983,610	15,862,468	14,164,677	14,371,194	117,583,683
Proportion of the Group's ownership	40.02%	42.29%	84.95%	25.35%	21.29%	50.00%	-	-
Group's share in the equity	12,223,884	14,234,943	6,796,545	249,345	3,377,120	7,082,338	4,794,069	48,758,244
Goodwill	1,092,926	-	-	-	-	-	-	1,092,926
Total carrying value	13,316,810	14,234,943	6,796,545	249,345	3,377,120	7,082,338	4,794,069	49,851,170
Contingent liabilities and capital commitments	21,001,733	-	-	-	-	-	-	21,001,733
Dividends received during the year	784,318	1,485,445	-	3,417,476	-	-	1,566,632	7,253,871
Income	9,983,641	5,309,163	11,775,969	14,808,421	811,059	292,507	10,029,824	53,010,584
Expenses	(10,414,413)	(1,195,734)	(13,607,074)	(727,958)	(2,451,650)	(1,641,738)	(7,018,154)	(37,056,721)
Profit (loss) for the year	(430,772)	4,113,429	(1,831,105)	14,080,463	(1,640,591)	(1,349,231)	3,011,670	15,953,863
Group's share in (loss) profit for the year	(172,395)	1,739,758	(1,555,524)	3,569,397	(349,282)	(674,615)	1,596,869	4,154,208
Other adjustment	-	-	-	-	96,780	-	-	96,780
Total (loss) profit	(172,395)	1,739,758	(1,555,524)	3,569,397	(252,502)	(674,615)	1,596,869	4,250,988

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16 PROPERTY AND EQUIPMENT

Property and equipment mainly includes land and building in the State of Kuwait amounting to KD 33,472,789 (2015: KD 33,110,389) representing a hotel located in the State of Kuwait. Certain property and equipment are pledged against Islamic finance payable (Note 16). Cumulative borrowing costs amounting to KD 3,916,007 (2015: KD 3,916,007) has been capitalised in the carrying value of land and buildings in the State of Kuwait.

During the previous year one of the Group subsidiary in Egypt has sold a land for a consideration of KD 1,849,848 and recognised a gain of KD 866,903 and included under gain on sale of property and equipment.

17 ISLAMIC FINANCE PAYABLES

The average profit rate of Islamic finance payables, currency wise, is as follows:

Currency	<i>Profit rate per annum</i>		2016 KD	2015 KD
	2016 %	2015 %		
Kuwaiti Dinar	1% - 6%	1% - 6%	255,243,157	254,594,814
Others	3% - 13.8%	3% - 13.8%	-	92,438
			<u>255,243,157</u>	<u>254,687,252</u>

Islamic finance payables equivalent to KD 8,863,608 (2015: KD 8,920,786) is secured against investment properties amounting to KD 16,210,000 (2015: KD 16,762,000) (Note 13) and KD 22,850,000 (2015: KD 23,909,279) is secured by property and equipment with a carrying value of KD 34,768,667 (2015: KD 35,476,534).

Of the total Islamic finance payables, KD 197,495,734 (2015: KD 197,490,371) represents the outstanding Murabaha payables to syndicate of banks and financial institutions ("consortium lenders") of the parent company as at 31 December 2016. The key terms of the Murabaha agreement are as follows:

- The facility is secured by a first mortgage on all assets of the Parent Company.
- In case the value of the secured assets falls below 75% of the outstanding facility amount (at any stage) the Parent Company may be required to pledge additional security.
- The valuation exercise shall be carried out once every year.
- The facility shall attract a profit payment at discount rates applicable for Kuwaiti Dinar as fixed by the CBK on the appropriate dates as increased by a pre agreed margin.
- The facility imposes certain conditions in terms of disposal of assets, dividend distribution by the Parent Company and use of the proceeds of its divestments of any of its assets or realisation of its receivables. It also imposes conditions on the Parent Company to disclose information about its operations and financial position periodically.
- Parent Company cannot make any acquisition of, or investment in, any assets or shares other than acquisitions or investments made in the ordinary course of business of the Group provided that the purchaser can meet certain conditions as set forth in the murabaha agreement.
- Parent Company cannot materially change the general nature of business.
- Other than in the ordinary course of business, Parent Company will not provide indemnity, guarantee or counter indemnity to any third party other than within its Group without the prior written consent of the participants.

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Trade payables	1,012,937	3,826,703
Staff related provisions	2,526,968	2,842,471
Due to related parties (Note 22)	7,563,731	6,708,755
Advances received against real estate development project	3,006,871	8,744,131
Payable to contractors for leasehold property and investment properties	6,009,041	2,621,948
Provision against payment to development authority	7,281,035	6,822,096
Due to leasehold property manager and maintenance contractor	13,198,005	16,246,664
Tax liability (refer note below)	16,771,100	13,973,542
Other payables	5,872,617	7,866,840
	<u>63,242,305</u>	<u>69,653,150</u>

On 5 January 2016, one of the subsidiaries of the Group, Munshaat, received a demand notice for SAR 1,891 million (equivalent to KD 153 million) from General Authority of Zakat and Tax ("GAZT"), Kingdom of Saudi Arabia for the years 2003 to 2013 and claimed Capital gains tax, corporate income tax, withholding tax and penalties ("tax claim"). In addition, GAZT has also claimed penalties for failure to register, non-submission of declarations and the consequential delay penalties at the rate of 1% for every thirty days delay on the settlement of income tax and withholding tax calculated as of the due date and till the payment date. The tax claim covers the transactions of properties owned and / or managed by Munshaat that includes Zamzam, Bakkah and Mehrab towers in the Kingdom of Saudi Arabia.

The management of Munshaat believes that the tax claim do not reflect the correct application of tax laws in the Kingdom of Saudi Arabia, the correct nature of the operations of Munshaat and also the underlying numbers used in the computation of tax claim are significantly different from the actual results of operations.

Further, the management of Munshaat has appointed a tax consultant in the Kingdom of Saudi Arabia to review the tax claim and file an objection letter with GAZT. Accordingly, the tax consultant has filed an objection letter dated 2 March 2016 with GAZT primarily covering the Capital gains tax on the transfer of leasing rights, tax on the lease contracts of Bakkah and Mehrab towers, deemed revenue from the operations of Zamzam tower and the penalties on delays, non-filing, non-registration and evasion of tax.

The management of the Parent company, based on the advice from a tax consultant, has computed the estimated impact of the aforesaid tax claim at the Group level for the year ended 31 December 2016 and recorded a tax liability of KD 14,548,428 (2015: KD 11,588,643) in the consolidated statement of financial position with a charge of KD 1,822,311 (2015: KD 1,351,738) in the consolidated income statement for the year ended 31 December 2016. The balance KD 1,280,715 (2015: KD 1,674,693) has been recorded as receivable from affiliate entities that were also subjected in the tax claim (Note 22). However, as on the date of these consolidated financial statements there is a significant uncertainty as to the outcome of the tax claim. The provision recorded in the consolidated financial statements for the year represents the best estimate of the tax liability that may arise from the tax claim.

19 SHARE CAPITAL

The authorised, issued and fully paid share capital comprises 228,859,370 shares (2015: 228,859,370 shares) of 100 fils each, paid in cash.

As at 31 December 2016, the accumulated losses of the Group have exceeded 75% of the paid up share capital of the Parent Company. In order to comply with the Commercial Companies Law of 2016, as amended, the Board of Directors of the Parent Company have proposed to offset the accumulated losses to the extent of balance in statutory reserve.

This proposal to offset the accumulated losses as at 31 December 2016 is subject to the approval of the Regulatory Authorities and the approval of the extra ordinary General Assembly of the shareholders' of the Parent Company.

Aref Investment Group S.A.K. (Closed) and its Subsidiaries

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20 STATUTORY RESERVE

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, Zakat and directors fees is required to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. During the year, no transfer has been made to the statutory reserve since the Group incurred loss for the year and has accumulated losses.

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 the payment of a dividend of that amount.

21 COMMITMENTS AND CONTINGENT LIABILITIES

- (i) At 31 December 2016, the Group had no commitment on capital expenditures related to financial assets available for sale, real estate development projects, investment in subsidiaries and property and equipment. (2015: KD 4,942,060) extending beyond one accounting period. The amount of capital commitment may be reduced by participation of other investors.
- (ii) During the prior year, the contractor of one of the properties of the Group in Kingdom of Saudi Arabia has claimed a penalty of SAR 501 million (equivalent to KD 41 million) from one of the subsidiaries of the Group, Munshaat Real Estate Project Company K.S.C P ("Munshaat") for the delay in the execution of the project and various other related costs. Munshaat has counter claimed an amount of SAR 627 million (equivalent to KD 51 million) against the same contractor for the delay in handing over the project and operational losses. The dispute has been referred to Saudi Arbitration Committee and as on the date of these consolidated financial statements, the trial is in progress and the management of the Munshaat, based on the advice from the legal counsel representing the Munshaat in the aforesaid arbitration, believes that the outcome of the arbitration ruling will be in favour of the Munshaat and also the counter claim filed by the Munshaat on the developer is higher than the amount claimed by the developer. Accordingly, as at 31 December 2016, the Group has not made any provision against this claim in the consolidated financial statements.

Aref Investment Group S.A.K. (Closed) and its Subsidiaries

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As at 31 December 2016

22 RELATED PARTY TRANSACTIONS

The Group enters into transactions with the Ultimate Parent Company, associates, major shareholders, directors and key management, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties (other related parties) including hotel operator in the ordinary course of business. The terms of these transactions are approved by the Group's management. Transactions with related parties are as follows:

	Ultimate Parent Company KD	Associates KD	Directors and key management KD	Other related parties* KD	Total 2016 KD	Total 2015 KD
Consolidated statement of financial position						
Cash and bank balances	16,233,242	4,568,686	-	53,400	20,855,328	15,908,815
Accounts receivable and other assets (Note 12)	1,737,289	3,714,086	-	2,171,699	7,623,074	6,142,649
Islamic finance payables	143,804,232	-	-	15,133,151	158,937,383	158,743,742
Accounts payable and other liabilities (Note 18)	6,402,349	338,606	370,553	452,223	7,563,731	6,708,755
Consolidated income statement						
Islamic finance income	7,606	-	-	-	7,606	8,624
Islamic finance costs	2,473,671	-	-	150,000	2,623,671	3,910,385
Fee income	-	112,937	-	130,145	243,082	-

* Other related parties balances include an amount of KD 625,957 (2015: KD 620,750) which is due from previous key management personnel of the Group.

Aref Investment Group S.A.K. (Closed) and its Subsidiaries
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22 RELATED PARTY TRANSACTIONS (continued)

The principle subsidiaries included in the consolidated financial statements are as follows:

	<i>Effective equity interest as at</i>	
	<i>31 December</i>	
	2016	2015
Directly held		
Real estate		
ZamZam 2013 JV	76.22%	76.22%
Munsha'at Real Estate Projects Co. K.S.C. (Closed) ("Munshaat")	52.91%	52.91%
Sokouk Holding Company K.S.C. (Closed) ("Sokouk")	50.17%	50.17%
Lamar Holding Company K.S.C. (Closed) ("Lamar")	98.87%	98.87%
Athman Gulf for General Trading and Contracting Company	85.75%	85.75%
Qitaf Joint Venture ("Qitaf")	45.56%	45.56%
Aref Real Estate Company K.S.C. (Closed)	99.99%	99.99%
Al Hambra Town Faisalabad (Private) Limited (incorporated in Pakistan) (Note 11)	-	81.25%
AREF Real Estate Projects S.A.R.L. (incorporated in Morocco) (Note 9)	70.80%	70.80%
Aref Moroccan Value Added Investment Company S.A.R.L (incorporated in Morocco)	85.40%	85.40%
Aref Moroccan Real Estate Projects Co. S.A.R.L (incorporated in Morocco)	100.00%	100.00%
Aref Real Estate Company S.A.R.L (incorporated in Morocco)	100.00%	100.00%
Aref Real Estate Development Company S.A.R.L (incorporated in Morocco)	100.00%	100.00%
Aref Moroccan Real Estate Company S.A.R.L (incorporated in Morocco)	80.00%	80.00%
Aref Moroccan Investment Co. S.A.R.L.	100.00%	100.00%
Aref Moroccan Real Estate Development Company S.A.R.L (incorporated in Morocco)	100.00%	100.00%
Fera Investment Group (Holding) S.A.L. (incorporated in Lebanon) ("Fera")	100.00%	100.00%
Logistics		
Rubban Holding Company K.S.C. (Closed) ("Rubban")	99.99%	99.99%
Others		
Rakayya Holding Company K.S.C. (Closed) ("Rakayya")	99.99%	99.99%
Aref Ahlea Trading company W.L.L	99.99%	99.99%
Aref Mushtraka Trading Company W.L.L	99.99%	99.99%
Athman Ahlea Trading company W.L.L	99.99%	99.99%
Athman Mushtraka Trading Company W.L.L	99.99%	99.99%
Technology World Company K.S.C	99.75%	99.75%
Aladaa Holding Company K.S.C	99.99%	99.99%

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22 RELATED PARTY TRANSACTIONS (continued)

	<i>Effective equity interest as at</i>	
	<i>31 December</i>	
	2016	2015
Held through Lamar		
Mena for Agriculture Projects L.L.C. (incorporated in Egypt)	95.00%	95.00%
Mena City Center S.A.E. (incorporated in Egypt)	98.00%	98.00%
Mena Resorts S.A.E. (incorporated in Egypt)	99.80%	66.66%
Mena for Touristic Development & Investment S.A.E. (incorporated in Egypt)	99.80%	99.80%
El Masria Project Management	64.69%	64.69%
Mena Touristic & Real Estate Investment Company E.S.C. (incorporated in Egypt)	50.58%	50.58%
Asia Human Capital Holding Company Limited (incorporated in Hong Kong)	100.00%	100.00%
Asia Vocational Training Company (incorporated in Mauritius)	100.00%	100.00%
SOS Company for Recruitment of Human Resources W.L.L	99.99%	99.99%
Qualitas Consulting and Training Company K.S.C.C	99.99%	99.99%
Universal Knowledge Solution – UKS- FZ LLC (incorporated in United Arab Emirates)	100.00%	100.00%
Universal Knowledge Solution – SAL- (UKS) (incorporated in Lebanon)	100.00%	100.00%
Human Dimensions Company for General Trading and Contracting W.L.L.	99.99%	99.99%
Held through Munshaat		
Munshaat for Projects and Contracting Company W.L.L	100.00%	99.99%
MAS Holding Company K.S.C. (Closed)	60.00%	60.00%
Al Safwa joint venture	40.00%	40.00%
MAS International General Trading and Contracting Company W.L.L.	98.00%	98.00%
MAS International Egypt W.L.L.	100.00%	100.00%
MAS Al Oula W.L.L.	99.50%	99.50%
Al Qebalah JV (Note 7)	62.11%	62.11%
Held through Sokouk		
Gulf Real Estate Development House Co. K.S.C (Closed)	75.00%	75.00%
Sokouk Investment Advisory Co.	100.00%	99.99%
Soukoku Real estate Co.- K.S.C (Closed)	96.52%	96.52%
Gulf Money House For Money Collection W.L.L.	99.00%	99.00%
Held through Rubban		
Aref Marine Tanker Company K.S.C. (Closed)	99.99%	99.99%
Rubban Airways Company Limited (incorporated in Saudi Arabia)	80.00%	80.00%
Held through TWC		
Incube General Trading Company W.L.L.	99.99%	99.99%
Held through Fera		
Amchit Beach Hotel S.A.L (incorporated in Lebanon)	100.00%	100.00%
Amchit Beach Club S.A.L (incorporated in Lebanon)	100.00%	100.00%
Amchit Beach Resort S.A.L (incorporated in Lebanon)	100.00%	100.00%
Real Estate SPVs		
Gotts Holdings Ltd.	87.00%	87.00%
Emarati Holdings Ltd.	51.00%	51.00%
Duncan Tract Holdings Ltd.	95.00%	95.00%
Hillard Tract Holdings Ltd.	96.80%	96.80%

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22 RELATED PARTY TRANSACTIONS (continued)

All subsidiaries are incorporated in Kuwait except otherwise stated. All the SPV's are incorporated in Island of Guernsey. Each SPV has a wholly owned subsidiary in Guernsey (that is beneficially held by the SPV) in which the real estate asset and related debt are held.

The shares in SPVs and certain subsidiaries are held in the name of nominees on behalf of the Parent Company. The nominees have confirmed in writing that the Parent Company is the beneficial owner of the shares. Further, certain subsidiaries of the Group have been consolidated based on contractual rights.

Key management personnel compensation

	2016 KD	2015 KD
Salaries and short-term employee benefits	1,488,069	1,709,927
Termination benefits	118,297	181,856
	<u>1,606,366</u>	<u>1,891,783</u>

23 MATERIAL PARTLY-OWNED SUBSIDIARIES

The management of the Group has concluded that following subsidiaries (as mentioned in the table below) which have non-controlling interests are material to the Group. Financial information of these subsidiaries as of 31 December 2016 and 31 December 2015 is provided below:

Non-controlling interests to the Group

	<i>Munshaat</i> KD	<i>Sokouk</i> KD	<i>ZamZam</i> KD	<i>Lamar</i> KD
<i>31 December 2016</i>				
Accumulated balances	27,529,814	33,876,732	41,278,258	436,937
(Loss) profit attributable	(5,581,229)	(3,168,838)	(246,037)	440,039
<i>31 December 2015</i>				
Accumulated balances	33,620,249	38,182,826	42,809,901	2,120,697
Profit attributable	979,954	11,676	650,139	172,190

The summarised financial information is provided below. This information is based on amounts before inter-company eliminations.

Summarized income statement of the material partly-owned subsidiaries for the year ended 31 December:

2016	<i>Munshaat</i> KD	<i>Sokouk</i> KD	<i>ZamZam</i> KD	<i>Lamar</i> KD
Income	10,056,283	1,817,134	22,477,041	3,382,501
Expenses	(19,924,763)	(8,675,325)	(23,490,218)	(3,163,216)
(Loss) profit for the year	<u>(9,868,480)</u>	<u>(6,858,191)</u>	<u>(1,013,177)</u>	<u>219,285</u>
Total comprehensive (loss) income	<u>(9,805,223)</u>	<u>(6,774,315)</u>	<u>931,225</u>	<u>219,285</u>
Attributable to non-controlling interests	<u>(2,385,566)</u>	<u>(112,633)</u>	<u>-</u>	<u>190,968</u>

Aref Investment Group S.A.K. (Closed) and its Subsidiaries

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23 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

2015	Munshaat KD	Sokouk KD	ZamZam KD	Lamar KD
Income	5,714,843	250,816	23,675,042	3,388,950
Expenses	(5,551,492)	(1,247,763)	(22,876,475)	(3,874,281)
Profit (loss) for the year	163,351	(996,947)	798,567	(485,331)
Total comprehensive income (loss)	1,697,863	(682,730)	1,478,424	(485,331)
Attributable to non-controlling interests	(771,012)	(232,627)	-	193,364

Summarised statement of financial position of the material partly-owned subsidiaries as at 31 December:

2016	Munshaat KD	Sokouk KD	ZamZam KD	Lamar KD
Total assets	149,068,212	105,566,794	142,138,174	10,365,366
Total liabilities	(75,244,262)	(32,894,868)	(26,729,938)	(63,162,109)
Total equity	73,823,950	72,671,926	115,408,236	(52,796,743)
Attributable to:				
Equity holders of the Parent Company	73,074,457	71,600,015	115,408,236	(53,846,077)
Non-controlling interests	749,493	1,071,911	-	1,049,334
	73,823,950	72,671,926	115,408,236	(52,796,743)
2015	Munshaat KD	Sokouk KD	ZamZam KD	Lamar KD
Total assets	168,578,046	113,095,859	150,088,593	21,033,705
Total liabilities	(84,948,873)	(33,649,618)	(17,245,457)	(70,847,971)
Total equity	83,629,173	79,446,241	132,843,136	(49,814,266)
Attributable to:				
Equity holders of the Parent Company	80,494,114	78,261,697	132,843,136	(51,934,963)
Non-controlling interests	3,135,059	1,184,544	-	2,120,697
	83,629,173	79,446,241	132,843,136	(49,814,266)

Summarised cash flow information of the material partly-owned subsidiaries for year ended 31 December:

2016	Munshaat KD	Sokouk KD	ZamZam KD	Lamar KD
Operating	(19,669,727)	984,915	16,853,601	(715,961)
Investing	13,199,547	960,768	(388,327)	281,250
Financing	(198,038)	(2,370,003)	(10,147,767)	65,906
Net (decrease) increase in cash and cash equivalents	(6,668,218)	(424,320)	6,317,507	(368,805)

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23 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

2015	Munshaat KD	Sokouk KD	Zamzam KD	Lamar KD
Operating	1,062,459	1,365,757	5,183,030	(252,693)
Investing	(2,979,377)	(1,664,982)	(386,696)	1,327,645
Financing	2,601,287	1,419,742	-	(276,880)
Net increase in cash and cash equivalents	<u>684,369</u>	<u>1,120,517</u>	<u>4,796,334</u>	<u>798,072</u>

24 FAIR VALUE MEASUREMENT

Fair value of financial instruments are not materially different from their carrying values except for certain financial assets available for sale carried at cost less impairment (Note 12). Fair value disclosure for non-financial instruments are disclosed in the respective notes.

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities.

31 December 2016	Total KD	Level 1 KD	Level 3 KD
Assets measured at fair value			
<i>Financial assets at fair value through profit or loss</i>	4,569,703	4,569,703	-
<i>Financial assets available for sale :</i>			
Unquoted securities	9,312,942	-	9,312,942
Managed funds (unquoted)	1,203,474	-	1,203,474
	<u>15,086,119</u>	<u>4,569,703</u>	<u>10,516,416</u>
31 December 2015	Total KD	Level 1 KD	Level 3 KD
Assets measured at fair value			
<i>Financial assets at fair value through profit or loss</i>	3,907,584	3,907,584	-
<i>Financial assets available for sale :</i>			
Unquoted securities	10,407,455	-	10,407,455
Managed funds (unquoted)	1,493,514	-	1,493,514
	<u>15,808,553</u>	<u>3,907,584</u>	<u>11,900,969</u>

During the year, there have been no transfers between the fair value hierarchies.

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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24 FAIR VALUE MEASUREMENT (continued)

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

	<i>At 1 January 2016 KD</i>	<i>Loss recorded in the consolidated income statement KD</i>	<i>Gain recorded in consolidated statement of comprehensive income KD</i>	<i>Sales and settlements KD</i>	<i>At 31 December 2016 KD</i>
<i>31 December 2016</i>					
<i>Financial assets available for sale:</i>					
Unquoted securities	10,407,455	(652,721)	624,922	(1,066,714)	9,312,942
Managed funds (unquoted)	1,493,514	(181,381)	-	(108,659)	1,203,474
	<u>11,900,969</u>	<u>(834,102)</u>	<u>624,922</u>	<u>(1,175,373)</u>	<u>10,516,416</u>
	<i>At 1 January 2015 KD</i>	<i>Loss recorded in the consolidated income statement KD</i>	<i>Gain recorded in consolidated statement of comprehensive income KD</i>	<i>Sales and settlements KD</i>	<i>At 31 December 2015 KD</i>
<i>31 December 2015</i>					
<i>Financial assets available for sale:</i>					
Unquoted securities	10,863,871	(211,443)	41,396	(286,369)	10,407,455
Managed funds (unquoted)	1,850,508	(283,290)	35,225	(108,929)	1,493,514
	<u>12,714,379</u>	<u>(494,733)</u>	<u>76,621</u>	<u>(395,298)</u>	<u>11,900,969</u>

25 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined based on contractual maturity except for real estate development projects and inventories, leasehold property, account receivables and other assets, financial assets carried at fair value through income statement, financial assets available for sale, investment properties, other assets, investment in associates, property and equipment and other liabilities which are based on management's estimate of liquidation / settlement of those financial assets / liabilities.

The maturity profile of assets and liabilities at 31 December are as follows:

<i>31 December 2016</i>	<i>Up to 3 months KD</i>	<i>4 – 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
ASSETS				
Cash and bank balances	43,621,704	-	-	43,621,704
Real estate development projects and inventories	1,047,021	3,356,280	11,728,757	16,132,058
Leasehold property	-	-	195,399,690	195,399,690
Accounts receivable and other assets	4,489,975	9,073,138	13,998,156	27,561,269
Financial assets at fair value through profit or loss	-	4,479,591	90,112	4,569,703
Financial assets available for sale	-	-	11,664,745	11,664,745
Investment properties	-	-	52,783,078	52,783,078
Investment in associates	-	160,492	29,360,240	29,520,732
Property and equipment	-	-	34,967,794	34,967,794
Disposal group held for sale	-	18,391,800	-	18,391,800
Total assets	<u>49,158,700</u>	<u>35,461,301</u>	<u>349,992,572</u>	<u>434,612,573</u>
LIABILITIES				
Islamic finance payables	7,861,507	198,399,026	48,982,624	255,243,157
Accounts payable and other liabilities	18,336,803	21,537,990	23,367,512	63,242,305
Total liabilities	<u>26,198,310</u>	<u>219,937,016</u>	<u>72,350,136</u>	<u>318,485,462</u>

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25 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

<i>31 December 2015</i>	<i>Up to 3 months KD</i>	<i>4 – 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
ASSETS				
Cash and bank balances	43,518,142	-	-	43,518,142
Real estate development projects and inventories	543,682	3,204,571	16,536,169	20,284,422
Leasehold property	-	-	207,191,009	207,191,009
Accounts receivable and other assets	6,146,451	9,902,273	15,461,523	31,510,247
Financial assets at fair value through profit or loss	-	3,817,472	90,112	3,907,584
Financial assets available for sale	-	-	13,807,979	13,807,979
Investment properties	-	-	55,267,493	55,267,493
Investment in associates	-	433,242	49,417,928	49,851,170
Property and equipment	-	-	36,999,975	36,999,975
Total assets	<u>50,208,275</u>	<u>17,357,558</u>	<u>394,772,188</u>	<u>462,338,021</u>
LIABILITIES				
Islamic finance payables	201,762,977	12,897,934	40,026,341	254,687,252
Accounts payable and other liabilities	10,447,973	13,930,630	45,274,547	69,653,150
Total liabilities	<u>212,210,950</u>	<u>26,828,564</u>	<u>85,300,888</u>	<u>324,340,402</u>
Commitments	<u>-</u>	<u>4,942,060</u>	<u>-</u>	<u>4,942,060</u>

26 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

Each subsidiary of the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management Committees such as Credit / Investment Committee and Asset Liability Committee (ALCO), or equivalent, with responsibilities generally analogous to the Group's committees.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process. The Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Group classifies the risks faced as part of its monitoring and controlling activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified categories of risks. The categories of risks are:

- A. Risks arising from financial instruments:
 - i. Credit risk which includes default risk of clients and counterparties
 - ii. Liquidity risk
 - iii. Market risk which includes profit rate, foreign exchange and equity price risks
 - iv. Prepayment risk
- B. Other risk - Operational risk which includes risks due to operational failures

Market risk arises as profit rates, foreign exchange rates and equity prices fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Group has established appropriate procedures and limits approved by the Board of Directors.

26.1 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. Financial assets subject to credit risk consist principally of bank balances, Islamic finance receivables, trade receivables and certain other assets. The Group's bank balances are placed with financial institutions having high credit ratings. Islamic finance receivables are presented net of impairment losses. The Group manages credit risk by setting limits for individual borrowers and Group of borrowers and for geographical and industry segments. The Group also monitors credit exposures and continually assesses the creditworthiness of counterparties.

Gross maximum exposure to credit risk

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The Group's policy is to grant Islamic finance receivables to customers after assessing their credit worthiness. Customers with high credit worthiness are granted murabaha without any collateral. Collateral is taken from other customers except from Group companies (for which the management does not believe to have any significant credit risk exposure). Short term murabaha and other asset balances are monitored on an ongoing basis with the result that the Group's exposure to credit risk is not significant.

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26 RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

Gross maximum exposure to credit risk (continued)

The table below shows the maximum exposure to credit risk for the financial assets, without taking account of any collateral and other credit enhancements. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, if any.

	2016 KD	2015 KD
Bank balances	43,594,684	43,477,801
Accounts receivable and other assets	25,213,307	28,865,634
Gross maximum credit risk exposure before credit risk mitigation	<u>68,807,991</u>	<u>72,343,435</u>

The exposures set above are based on net carrying amounts as reported in the consolidated statement of financial position.

Collateral and other credit enhancements

While granting Islamic finance, management analyses the financial strength and credit worthiness of the counter parties and where necessary obtains security in the form of quoted shares, unquoted shares and real estate properties. Facilities granted to affiliated companies are unsecured.

Management monitors the market value of collateral and requests additional collateral, if required. The Group has a right to sell the collateral in case of default by the borrower in accordance with the agreements entered with the borrowers. The Group has an obligation to return the collateral on the settlement of the Islamic finance receivables.

Risk concentration of the maximum exposure to credit risk

Concentration arises 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 geographic location.

The Group's credit risk bearing assets before taking into account any collateral held or credit enhancements can be analysed by the geographical regions and industry wise sector as follows:

	2016 KD	2015 KD
Geographic region:		
Kuwait	44,189,714	42,978,441
Rest of Middle East and North Africa	19,623,973	25,104,780
Europe	2,494,871	1,083,901
Others	2,499,433	3,176,313
	<u>68,807,991</u>	<u>72,343,435</u>
	2016 KD	2015 KD
Industry sector:		
Banks and financial institutions	45,350,200	45,235,294
Construction and real estate	20,083,200	25,663,362
Other	3,374,591	1,444,779
	<u>68,807,991</u>	<u>72,343,435</u>

Aref Investment Group S.A.K. (Closed) and its Subsidiaries

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At 31 December 2016

26 RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

Risk concentration of the maximum exposure to credit risk (continued)

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio.

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

Neither internal credit grading system nor external credit grades are used by the Group.

Analysis of financial assets past due but not impaired

As at 31 December 2016 and 31 December 2015, the Group had no financial assets that were past due but not impaired.

26.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages this risk by active cash flow management and undrawn limits with banks and financial institutions and generation of funds from its operations.

The table below summarises the maturity profile of the Group's liabilities based on contractual undiscounted repayment obligations:

<i>31 December 2016</i>	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Islamic finance payables	7,895,205	205,383,280	42,146,515	255,425,000
Accounts payable and other liabilities	18,336,803	21,537,990	23,367,512	63,242,305
TOTAL LIABILITIES	26,232,008	226,921,270	65,514,027	318,667,305
<i>31 December 2015</i>	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Islamic finance payables	6,281,347	211,653,476	44,999,245	262,934,068
Accounts payable and other liabilities	10,447,973	14,011,606	45,193,571	69,653,150
TOTAL LIABILITIES	16,729,320	225,665,082	90,192,816	332,587,218

26.3 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets 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.

26.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates of Islamic financial instruments will affect future profitability of the Group. Profit rate risk is managed by the treasury department of the Parent Company. The Group is exposed to profit rate risk as a result of mismatches of profit rate re-pricing of assets and liabilities on floating rate Islamic financial assets and Islamic financial liabilities that could have a material impact on the Group's profit before taxes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

26 RISK MANAGEMENT (continued)

26.3 MARKET RISK (continued)

26.3.1 Profit rate risk (continued)

The following table demonstrates the sensitivity of the consolidated income statement to a reasonably possible change in profit rates, with all other variables held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the Group's consolidated profit for one year, based on the profit bearing financial assets and financial liabilities held at 31 December.

Based on the Group's financial assets and liabilities held at the year end, an assumed 25 basis points increase in profit rate, with all other variables held constant, would impact the Group's results before taxation as follows:

Currency	<i>Increase of 25 basis points</i>	
	<i>Effect on the results before taxation</i>	
	<i>2016</i>	<i>2015</i>
	<i>KD</i>	<i>KD</i>
KD	<u>638,108</u>	<u>635,376</u>

The decrease in the basis points will have a favourable impact on the results before taxation. Also, as there are no profits bearing financial assets available for sale, no sensitivity of other comprehensive income has been disclosed.

26.3.2 Currency risk

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

The management monitors on a regular basis to ensure positions are maintained within established limits.

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

	<i>Increase in currency rate by 5 %</i>			
	<i>Effect on other</i>		<i>Effect on results before tax</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
United State Dollar	1,392,282	1,346,537	1,720,106	709,722
Pound Sterling	174,336	-	182,097	(151)
Euro	57,416	-	77,408	208
Moroccan Dinar	538,555	(9,985)	(6,265)	81
Sudanese Pounds	1,068,684	1,036,341	219,343	228,425
Saudi Riyal	-	-	120,201	-

26.3.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. The Group manages the risk by focusing on the long term holding of equity assets, keeping its exposure at an acceptable level and by continuously monitoring the markets.

The effect on the results of the Group due to a change in the fair value of financial assets carried at fair value through income statement at 31 December 2016 due to a 5% change in regional market indices, with all other variables held constant is KD 228,485 (2015: KD 195,379).

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26 RISK MANAGEMENT (continued)

26.4 PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on Islamic finance income is not material after taking in to account the effect of any prepayment penalties.

26.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from the failures in operational process, people and system that supports operational processes. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by Risk management. Risk management ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Group risk management.

27 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years end 31 December 2016 and 31 December 2015.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, which is total debt divided by total equity. The Group includes within total debt profit bearing murabaha payables and Accounts payable and other liabilities. The Group's policy is to keep the gearing ratio in the range 2 to 4 times of shareholder's equity.

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Profit bearing Islamic finance payables	255,243,157	254,687,252
Accounts payable and other liabilities	63,242,305	69,653,150
Total debt	<u>318,485,462</u>	<u>324,340,402</u>
Total equity	<u>116,127,111</u>	<u>137,997,619</u>
Gearing ratio	<u>2.74</u>	<u>2.35</u>