

THE LEBANESE COMPANY FOR THE
DEVELOPMENT AND RECONSTRUCTION OF
BEIRUT CENTRAL DISTRICT S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2016

THE LEBANESE COMPANY FOR THE DEVELOPMENT
AND RECONSTRUCTION OF BEIRUT CENTRAL DISTRICT S.A.L.
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE LEBANESE COMPANY FOR THE DEVELOPMENT AND RECONSTRUCTION OF BEIRUT CENTRAL DISTRICT S.A.L.

Opinion

We have audited the accompanying consolidated financial statements of The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Key Audit Matters (continued)

Revenue recognition on sale of properties

Revenue recognition on sale of properties, including land and real estate, involves significant judgment and estimation. Judgments around the conditions to be met was an item requiring significant audit attention, in particular consideration of:

- A sale is consummated and contracts are signed;
- The buyer's initial (in principle over 25% of sales price) and continuing investments are adequate to demonstrate a commitment to pay for the property;
- The Group's receivable is not subject to future subordination; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and the Group does not have a substantial continuing involvement with the property.

We reviewed the contracts for sale of land and real estate to identify the conditions under these contracts and assessed whether these conditions are satisfied over time or at a point in time. Our focus under these contracts included the determination of whether all the above conditions are met in order to recognize revenue or else defer initial amounts received from the buyer.

Note 3 to the consolidated financial statements includes the accounting policy followed by the Group for recognizing revenue on sale of properties.

Impairment of receivables

Due to the inherently judgmental nature of the computation of impairment provisions for notes and accounts receivable, there is a risk that the amount of impairment may be misstated. The impairment of notes and accounts receivable is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of notes receivable and related estimation uncertainty, this is considered a key audit risk. The notes receivable portfolio generally comprises large balances that are monitored individually by management. The assessment of notes receivable impairment is therefore based on management's knowledge of each individual borrower in addition to a collective assessment of impairment based on a statistical model.

The risks outlined above were addressed by us as follows:

- Specific impairment allowances are calculated on an individual basis when collection of the full amount is no longer probable. We have performed a detailed credit assessment on all notes and accounts receivable in excess of a defined threshold and assessed the accuracy of the specific provision booked by the Group.
- Where impairment allowance was calculated on a collective basis, we tested the completeness and accuracy of the underlying information used in the impairment model by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.

Note 8 to the consolidated financial statements discloses information on notes and accounts receivable and related impairment provision.

Other Information

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the 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 ISA 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 ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

Beirut, Lebanon
April 24, 2017


Deloitte & Touche


Ernst & Young

THE LEBANESE COMPANY FOR THE DEVELOPMENT AND RECONSTRUCTION
OF BEIRUT CENTRAL DISTRICT S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2016</u>	<u>2015</u>
		<u>US\$</u>	<u>US\$</u>
Cash and banks balances	6	111,806,517	136,209,358
Prepayments and other debit balances	7	40,074,145	51,853,137
Accounts and notes receivables, net	8	509,328,764	466,209,794
Investment in asset-backed securities	9	45,363,975	69,481,753
Inventory of land and projects in progress	10	1,091,875,392	1,134,114,848
Investment properties, net	11	606,421,737	593,436,775
Investment in associates and joint ventures	12	418,029,589	407,632,317
Fixed assets, net	13	<u>55,303,592</u>	<u>58,562,126</u>
Total Assets		<u>2,878,203,711</u>	<u>2,917,500,108</u>
 <u>LIABILITIES</u> 			
Bank overdrafts and short term facilities	14	309,762,330	556,042,962
Accounts payable and other liabilities	15	129,138,710	111,621,702
Dividends payable	16	64,458,148	61,245,107
Deferred revenue and other credit balances	17	60,302,664	98,728,003
Loans from banks and financial institutions	18	<u>298,608,456</u>	<u>132,371,974</u>
Total Liabilities		<u>862,270,308</u>	<u>960,009,748</u>
 <u>EQUITY</u> 			
Issued capital at par value			
US\$10 per share:	19		
100,000,000 class (A) shares		1,000,000,000	1,000,000,000
65,000,000 class (B) shares		<u>650,000,000</u>	<u>650,000,000</u>
		1,650,000,000	1,650,000,000
Legal reserve	20	170,435,346	164,070,347
Retained earnings		230,926,613	197,408,966
Cumulative foreign currency translation reserve		(372,709)	(440,731)
Deficit on treasury shares' activity		(35,055,847)	(21,382,494)
Less: Treasury shares	21	<u>-</u>	<u>(32,165,728)</u>
Total Equity		<u>2,015,933,403</u>	<u>1,957,490,360</u>
Total Liabilities and Equity		<u>2,878,203,711</u>	<u>2,917,500,108</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS

THE LEBANESE COMPANY FOR THE DEVELOPMENT AND RECONSTRUCTION
OF BEIRUT CENTRAL DISTRICT S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<u>Notes</u>	<u>Year Ended</u>	
		<u>December 31,</u>	
		<u>2016</u>	<u>2015</u>
		<u>US\$</u>	<u>US\$</u>
Revenues from land sales		203,259,282	26,801,762
Revenues from rented properties		56,447,311	56,972,879
Revenues from rendered services	22	6,520,544	6,986,779
Revenues from hospitality		<u>351,312</u>	<u>539,864</u>
Total revenues		<u>266,578,449</u>	<u>91,301,284</u>
Cost of land sales		(44,242,109)	(6,387,900)
Depreciation of and charges on rented properties	23	(31,477,801)	(25,698,051)
Cost of rendered services	24	(3,663,142)	(5,590,618)
Cost of hospitality		<u>(438,748)</u>	<u>(841,126)</u>
Total cost of revenues		<u>(79,821,800)</u>	<u>(38,517,695)</u>
Gain on sale and disposal of investment properties	11	<u>2,154,937</u>	<u>3,177,153</u>
Net revenues from operations		188,911,586	55,960,742
Share of associates and joint ventures	12	9,614,979	27,879,222
General and administrative expenses	25	(34,828,478)	(34,474,307)
Depreciation of fixed assets	13	(4,096,552)	(4,482,266)
Write off of receivables	8	(1,567,308)	(4,778,425)
Loss on rescheduled receivable balances	8	(16,693,309)	(2,553,157)
Provision for impairment	7(d),8(d,e)	(11,546,129)	(104,200,743)
Provision for contingencies	15(e)	(17,613,949)	(7,562,022)
Write-back/(provision) for impairment of fixed assets	13	185,420	(1,149,677)
Other expenses	27	(431,925)	(771,658)
Other income	28	430,842	4,663,240
Taxes, fees and stamps	15(c)	(544,992)	(540,869)
Interest income	26	18,877,086	19,346,706
Interest expense	29	(36,203,197)	(34,840,738)
Loss on exchange		<u>(1,050,649)</u>	<u>(991,970)</u>
Profit/(loss) before tax		93,443,425	(88,495,922)
Income tax (expense)/benefit	15(c)	<u>(18,187,975)</u>	<u>1,283,167</u>
Profit/(loss) for the year		<u>75,255,450</u>	<u>(87,212,755)</u>
Basic/diluted earnings per share	30	<u>0.46</u>	<u>(0.53)</u>
Attributable to:			
Equity owners of the Company		<u>75,255,450</u>	<u>(87,212,755)</u>
Profit for the year		<u>75,255,450</u>	<u>(87,212,755)</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS

THE LEBANESE COMPANY FOR THE DEVELOPMENT AND RECONSTRUCTION
OF BEIRUT CENTRAL DISTRICT S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year Ended	
	December 31,	
	<u>2016</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>
Profit/(loss) for the year	<u>75,255,450</u>	<u>(87,212,755)</u>
Other comprehensive income:		
<i>Other comprehensive income to be</i>		
<i>reclassified to profit or loss in subsequent periods:</i>		
Foreign currency translation reserve	<u>68,022</u>	<u>(122,394)</u>
Other comprehensive income/(loss) for the year	<u>68,022</u>	<u>(122,394)</u>
Total comprehensive income/(loss) for the year	<u>75,323,472</u>	<u>(87,335,149)</u>
Attributable to:		
Equity holders of the Company	<u>75,323,472</u>	<u>(87,335,149)</u>
	<u>75,323,472</u>	<u>(87,335,149)</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS

**THE LEBANESE COMPANY FOR THE DEVELOPMENT AND RECONSTRUCTION
OF BEIRUT CENTRAL DISTRICT S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Total Equity Attributable to Owners of the Company									
	Share Capital US\$	Legal Reserve US\$	Retained Earnings US\$	Cumulative Foreign Currency Translation Reserve US\$	Treasury Shares' Activity US\$	Treasury Shares US\$	Total US\$	Non-Controlling Interest US\$	Total US\$	
Balance January 1, 2015	1,650,000,000	164,070,347	337,497,132	(318,337)	(2,446,798)	(84,210,286)	2,064,592,058	-	2,064,592,058	
Distribution of dividends (Notes 16 and 21)	-	-	(52,875,411)	-	(18,935,696)	52,044,558	(19,766,549)	-	(19,766,549)	
Total comprehensive loss for the year 2015	-	-	(87,212,755)	(122,394)	-	-	(87,335,149)	-	(87,335,149)	
Balance as at December 31, 2015	1,650,000,000	164,070,347	197,408,966	(440,731)	(21,382,494)	(32,165,728)	1,957,490,360	-	1,957,490,360	
Allocation to legal reserve from 2016 profit	-	6,364,999	(6,364,999)	-	-	-	-	-	-	
Distribution of dividends (Notes 16 and 21)	-	-	(35,372,804)	-	(13,673,353)	32,165,728	(16,880,429)	-	(16,880,429)	
Total comprehensive income the year 2016	-	-	75,255,450	68,022	-	-	75,323,472	-	75,323,472	
Balance as at December 31, 2016	<u>1,650,000,000</u>	<u>170,435,346</u>	<u>230,926,613</u>	<u>(372,709)</u>	<u>(35,055,847)</u>	<u>-</u>	<u>2,015,933,403</u>	<u>-</u>	<u>2,015,933,403</u>	

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

THE LEBANESE COMPANY FOR THE DEVELOPMENT AND RECONSTRUCTION
OF BEIRUT CENTRAL DISTRICT S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31,	
		2016 US\$	2015 US\$
Cash flows provided by operating activities:			
Profit/(loss) for the year before income tax		93,443,425	(88,495,922)
Adjustments to reconcile profit to net cash provided by operating activities:			
Depreciation	31(a)	21,263,565	17,373,396
Gain on sale of investment properties	11	(2,154,937)	(3,177,153)
Loss on sale of fixed assets	27	394,129	370,178
Provision for end-of-service indemnity, net	15(d)	1,091,217	3,130,563
Provision for contingencies	15(e)	17,613,949	7,562,022
(Write-back)/provision for impairment of fixed assets	13	(185,420)	1,149,677
Provision for impairment	7(d), 8(d,e)	11,546,129	104,200,743
Write-off of receivables	8(c)	1,567,308	4,778,425
Loss on rescheduled receivables	8(a)	16,693,309	2,553,157
Share of result of associates and joint ventures	12	(9,614,979)	(27,879,222)
Interest income	26	(18,877,086)	(19,346,706)
Interest expense	31(b)	36,593,183	36,602,101
Changes in working capital:			
Prepayments and other debit balances		9,119,519	(3,277,094)
Accounts and notes receivable		(71,379,587)	(25,451,325)
Inventory of land and projects in progress	31(c)	10,356,912	(44,712,547)
Accounts payable and other liabilities		(19,258,106)	6,819,250
Deferred revenues and other credit balances		(41,677,312)	33,061,617
Interest received		21,742,403	13,924,000
Income tax paid		-	(15,746,906)
Net cash provided by operating activities		<u>78,277,621</u>	<u>3,438,254</u>
Cash flows provided by/(used in) investing activities:			
Investment in asset-backed securities		24,117,778	3,286,250
Acquisition of fixed assets	13	(1,253,151)	(870,504)
Acquisition of investment properties	11&31	(992,049)	(391,876)
Proceeds from sale of investment properties	11	4,430,934	5,590,532
Proceeds from sale of fixed assets	13	653,045	715,535
Investment in associates and joint ventures	12	(714,271)	(4,975,125)
Net cash provided by investing activities		<u>26,242,286</u>	<u>3,354,812</u>
Cash flows used in financing activities:			
Term bank loans	18	166,236,482	22,291,407
Dividends paid	16	(13,667,388)	(22,202,474)
Interest paid		(35,211,210)	(36,845,747)
Short term bank facilities	14	(63,997,094)	(1,254)
Net cash provided by/(used in) financing activities		<u>53,360,790</u>	<u>(36,758,068)</u>
Net change in cash and cash equivalents		157,880,697	(29,965,002)
Cash and cash equivalents--Beginning of the year	31(f)	(108,836,510)	(78,871,508)
Cash and cash equivalents--End of the year	31(f)	<u>49,044,187</u>	<u>(108,836,510)</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS

THE LEBANESE COMPANY FOR THE DEVELOPMENT AND RECONSTRUCTION
OF BEIRUT CENTRAL DISTRICT S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

1. FORMATION AND OBJECTIVE OF THE COMPANY

The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. (SOLIDERE) (the "Company") was established as a Lebanese joint stock company on May 5, 1994 based on Law No. 117/91, and was registered on May 10, 1994 under Commercial Registration No. 67000. The articles of incorporation of the Company were approved by Decree No. 2537 dated July 22, 1992.

The objective of the Company, is to acquire real estate properties, to finance and ensure the execution of all infrastructure works in the Beirut Central District (BCD) area, to prepare and reconstruct the BCD area, to reconstruct or restore the existing buildings, to erect buildings and sell, lease or exploit such buildings and lots and to develop the landfill on the seaside.

The duration of the Company is 25 years, beginning from the date of establishment. An extraordinary general assembly dated June 29, 1998 resolved to amend the duration of the Company to be 75 years beginning from the date of establishment. During 2005, the Council of Ministers approved the extension of the duration of the Company for 10 years.

The Company, based on law No.117/91 mentioned above, was exempt from income tax for a period of ten years beginning on the date of formation. As such beginning May 10, 2004, the Company became subject to income tax.

An extraordinary general assembly dated November 13, 2006 resolved to amend the objective of the Company to include providing services and consultancy in real estate development for projects outside the BCD area and all over the world.

During 2007, the Company granted Solidere International Limited (an associate) the right to use the "Solidere" brand in the execution of real estate projects outside the Beirut Central District area of Lebanon.

The Company's shares are listed on the Beirut stock exchange and Global Depository Receipts (GDR) are listed on the London stock exchange (International Trading List).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortization
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants*
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

2.2 New and revised IFRS in issue but not yet effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for Annual Periods Beginning on or After</u>
Annual Improvements to IFRS Standards 2014-2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017
Amendments to IAS 12 <i>Income Taxes</i> relating to the recognition of deferred tax assets for unrealized losses	January 1, 2017
Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	January 1, 2017
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	January 1, 2018
The interpretation addresses foreign currency transactions or parts of transactions where: <ul style="list-style-type: none">• there is consideration that is denominated or priced in a foreign currency;• the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and• the prepayment asset or deferred income liability is non-monetary.	
Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions	January 1, 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018

New and Revised IFRSs

Effective for Annual Periods Beginning on or After

Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.

January 1, 2018

Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9

When IFRS 9 is first applied

IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9

When IFRS 9 is first applied

IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014)

January 1, 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

New and Revised IFRSs

**Effective for
Annual Periods
Beginning on or After**

A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 Revenue from Contracts with Customers

January 1, 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

**Effective for
Annual Periods
Beginning on or After**

New and Revised IFRSs

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

January 1, 2018

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

January 1, 2019

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Effective date deferred
indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these new standards, will not have material impact on the financial statements of the Group in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation and Statement of Compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements are presented in U.S. Dollars.

The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of available-for-sale financial assets and derivatives, as applicable.

The consolidated financial statements incorporate the financial statements of The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. and its controlled subsidiaries drawn up to December 31 of each year. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company 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 Company has less than a majority of the voting or similar rights of an investee, the Company 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, and
- The Company's voting rights and potential voting rights.

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities

Group entities comprise the following:

<u>Company</u>	<u>Ownership Share</u> <u>2016 and 2015</u> %	<u>Date of Establishment</u>	<u>Activity</u>
Solidere Management Services S.A.L.	100	June 2006	Real Estate Management
Solidere Management Services (Offshore) S.A.L.	100	March 2007	Real Estate Management
Solidere International Holdings S.A.L.	100	May 2007	Holding
BHC Holding S.A.L.	100	March 2010	Holding
BHC1 S.A.L.	100	April 28, 2010	Hospitality
BHC2 S.A.L.	100	April 28, 2010	Hospitality
BHC3 S.A.L.	100	May 28, 2010	Hospitality
BHC4 S.A.L.	100	April 28, 2010	Hospitality
BHC5 S.A.L.	100	April 28, 2010	Hospitality
BHC6 S.A.L.	100	April 28, 2010	Hospitality
BHC7 S.A.L.	100	July 3, 2010	Hospitality
BHC9 S.A.L.	100	June 28, 2010	Hospitality
MATS S.A.L.	100	June 22, 2010	Hospitality

The significant accounting policies adopted are set out below:

In view of the long term nature and particulars of the Group's operations, the consolidated financial statements are presented on the basis that the operations have realization and liquidation periods spread over the duration of the Group and which are subject to market conditions and other factors commonly associated with real estate development projects; as such, the consolidated statement of financial position is shown as unclassified without distinction between current and long-term components.

B. Foreign Currencies:

The functional and presentation currency is the U.S. Dollar, in accordance with the applicable law, which reflects the economic substance of the underlying events and circumstances of the Group. Transactions denominated in other currencies are translated into U.S. Dollar at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities stated in currencies other than the U.S. Dollar are translated at the rates of exchange prevailing at the end of the year. The resulting exchange gain or loss is reflected in the consolidated statement of profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

C. Financial Instruments:

Financial assets and financial liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

When a financial instrument gives rise to a contractual obligation on the part of the Group to deliver cash or another financial asset or to exchange another financial instrument under conditions that are potentially unfavorable, it is classified as a financial liability. The instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met:

(a) The instrument includes no contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.

(b) If the instrument will or may be settled from the Group's own equity instruments; it is a non-derivative that includes no contractual obligation for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and Receivables:

Loans and receivables which include investment in asset-backed securities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired as well as through the amortization process.

Held-to-Maturity Investment Securities

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to maturity investments are carried at amortized cost.

Impairment and Uncollectibility of Financial Assets:

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset or group of assets and any impairment loss are determined based on the net present value of expected future cash flows discounted at original effective interest rates. Impairment losses are recognized in the consolidated statement of profit or loss.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair 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 assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (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.

Derecognition:

Financial assets

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

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flow 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 and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is derecognized to the extent of the Group's continuing involvement in the asset. 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.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

Offsetting:

Financial assets and financial liabilities are only offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set-off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

D. Inventory of Land and Projects in Progress:

Inventory of land and projects in progress are stated at the lower of cost and estimated net realizable value. Costs include appraisal values of real estate plots constituting the contributions in kind to capital (A shares), in addition to capitalized costs. Capitalized costs comprise the following:

- Project direct costs and overheads related to the properties development, construction and project management as a whole, as well as acquisition, zoning, and eviction costs.
- Indirect costs, such as overheads, which were partially allocated to inventory of land and projects in progress.
- Borrowing cost as defined in Note 3(M).

E. Investment Properties:

Investment properties which represent properties held to earn rent and/or for capital appreciation are measured initially at cost and subsequent to initial recognition are stated at their cost less accumulated depreciation and any impairment in value.

Depreciation is computed using the straight-line method over the estimated useful lives of the properties, excluding the cost of land, based on the following annual rates:

Buildings	2%
Furniture, fixtures, equipment and other assets	4%-15%

The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of investment properties. All other expenditure is recognized in the consolidated statement of income as the expense is incurred.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sell.

F. 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 considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized 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. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized 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 or joint venture.

The aggregate of the Group's share of profit or loss of associates and joint ventures is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of associates or joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share of results of associates and joint ventures' in the consolidated statement of profit or loss.

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

G. Fixed Assets:

Fixed assets are stated at cost net of accumulated depreciation and any impairment in value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets based on the following annual rates:

Buildings	2%
Marina	2%
Furniture and fixtures	8-20%
Freehold improvements	8-20%
Machines and equipment	15%-20%

Expenditure incurred to replace a component of an item of fixed assets that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of fixed assets. All other expenditure is recognized in the consolidated statement of profit or loss as the expense is incurred.

H. Impairment of Tangible Assets:

At each consolidated statement of financial position date, the carrying amounts of tangible assets (investment properties, fixed assets and inventory of land and projects in progress) are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the balance sheet date less cost to sell, if any.
- Value in use assessed as the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only for applicable assets with cash generation units, as applicable.

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

The impairment loss is recognized in the consolidated statement of profit or loss.

I. Treasury Shares:

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Gains on sale of treasury shares are recorded under a reserve account in equity. Losses in excess of previously recognized gains are charged to retained earnings.

J. Revenue Recognition:

Revenue on land and real estate sales transactions is recognized on the basis of the full accrual method as and when the following conditions are met:

- A sale is consummated and contracts are signed.
- The buyer's initial (in principle over 25% of sales price) and continuing investments are adequate to demonstrate a commitment to pay for the property.
- The Group's receivable is not subject to future subordination.
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and the Group does not have a substantial continuing involvement with the property.

If any of the above conditions is not met, the initial payments received from buyers are recorded under deferred revenues and other credit balances. Amounts are released to revenue as and when the above conditions are fulfilled.

Financial assets (including treasury shares) received in return for the sale of land and real estate are valued at fair market value.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Interest income is recognized as interest accrues using the effective interest method, by reference to the principal outstanding and the applicable interest rate.

Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the consolidated statement of financial position date.

Revenue from hospitality consists mainly of food and beverage revenue, and is recognized when the related services are provided.

Revenue from broadband network services is recognized when the service is rendered.

K. Cost of Sales:

Cost of properties sold is determined on the basis of the built up area (BUA) - permitted right to build in square meters - on the sold plots based on the terms of the sales agreements. The cost of one square meter of BUA is arrived at by dividing, total estimated cost of the land development project over total available BUA after deduction of the BUA relating to recuperated properties and those relating to the religious and public administrations.

L. Cash and Cash Equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents consists of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts and short-term facilities with an original maturity of three months or less.

M. Borrowing Costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, and inventory of land and projects in progress, and investing of land and projects in process, which are assets that necessarily take a substantial period of time to be ready for their intended use, are added to the cost of those assets, until such time that the assets are substantially ready for their intended use. All other borrowing costs are reflected in the consolidated statement of profit or loss in the period in which they are incurred.

N. Bank Borrowings:

Interest-bearing bank loans and overdrafts are initially measured at the fair value of the consideration received, less directly attributable costs and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized in profit or loss over the term of the borrowings through the amortization process, using the effective interest rate method.

O. Trade and other payables:

Trade and other payables are initially measured at fair value. Due to their short-term nature, the carrying amount of trade and other payables approximates their fair values as of the date of the consolidated statement of financial position. Average maturity dates of trade payables range between 30-90 days. Short duration payables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

P. Taxation:

Current Tax

Income tax is determined and provided for in accordance with the Lebanese tax laws. Income tax expense is calculated based on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in future years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted at the consolidated statement of financial position date. Provision for income tax is reflected in the consolidated statement of financial position net of taxes previously settled in the form of withholding tax.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the consolidated statement of financial position date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on laws that have been enacted at the consolidated statement of financial position date.

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Taxes payable on unrealized revenues are deferred until the revenue is realized.

Current tax and deferred tax relating to items that are credited or charged directly to other comprehensive income are recognized directly in other comprehensive income.

Q. Provisions:

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

R. Employees' End-of-Service Benefits:

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

S. Earnings per Share:

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

T. Dividends on shares

Dividends on shares are recognized as a liability and deducted from equity when they are approved by the General Assembly of the Company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4. CRITICAL ACCOUNTING JUDGMENTS AND USE OF ESTIMATES

In the application of the accounting policies described in Note 3 above, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant estimate made by the Group is the determination of the aggregate cost of the Beirut Central District Project.

GOING CONCERN

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore the consolidated financial statements continue to be prepared on the going concern basis.

IMPAIRMENT OF ACCOUNTS AND NOTES RECEIVABLE AND INVESTMENT IN ASSETS-BACKED SECURITIES

An estimate of the collectible amount of accounts and notes receivable and investment in asset-backed securities 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 is set up according to the length of time past due, based on historical recovery rates.

Any difference between the amounts actually collected in future periods and the amounts expected to be collected will be recognized in the consolidated statement of profit or loss.

IMPAIRMENT OF INVESTMENT IN JOINT VENTURES AND ASSOCIATES

The Group assesses at each reporting date whether there is indication that an investment may be impaired. If any indication exists the Group estimates the investment's recoverable amount. When the cost of the investment exceeds the recoverable amount, the investment is considered impaired and a provision for impairment is setup representing the difference between the investment's recoverable amount and its carrying value. The provision is charged to the consolidated statement of profit or loss.

ESTIMATION OF NET REALIZABLE VALUE FOR INVENTORY OF PROPERTY AND INVESTMENT PROPERTIES

Inventory property is stated at the lower of cost and net realizable value (NRV). NRV for completed inventory property is assessed by reference to market conditions and prices existing at the reporting date and is determined by the Group, based on comparable transactions identified by the Group for properties in the same geographical market serving the same real estate segment. NRV in respect of inventory property under construction is assessed with reference to market prices at reporting date for similar completed property, less estimated cost to complete construction, and an estimate of the time value of money to the date of completion

5. OPERATING SEGMENTS

For management purposes, the Group is organized into business units according to their operations and has three reportable segments as follows:

- Real estate sales
- Real estate rental and rendered services
- Hospitality

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and loss and is measured consistently with operating profit or loss in the consolidated financial statements.

IMPAIRMENT OF INVESTMENT IN JOINT VENTURES AND ASSOCIATES

The Group assesses at each reporting date whether there is indication that an investment may be impaired. If any indication exists the Group estimates the investment's recoverable amount. When the cost of the investment exceeds the recoverable amount, the investment is considered impaired and a provision for impairment is setup representing the difference between the investment's recoverable amount and its carrying value. The provision is charged to the consolidated statement of profit or loss.

ESTIMATION OF NET REALIZABLE VALUE FOR INVENTORY OF PROPERTY AND INVESTMENT PROPERTIES

Inventory property is stated at the lower of cost and net realizable value (NRV). NRV for completed inventory property is assessed by reference to market conditions and prices existing at the reporting date and is determined by the Group, based on comparable transactions identified by the Group for properties in the same geographical market serving the same real estate segment. NRV in respect of inventory property under construction is assessed with reference to market prices at reporting date for similar completed property, less estimated cost to complete construction, and an estimate of the time value of money to the date of completion

5. OPERATING SEGMENTS

For management purposes, the Group is organized into business units according to their operations and has three reportable segments as follows:

- Real estate sales
- Real estate rental and rendered services

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and loss and is measured consistently with operating profit or loss in the consolidated financial statements.

	December 31, 2016			
	Real Estate Sales US\$	Real Estate Rental and Other Services US\$	Eliminations US\$	Total US\$
Total assets	<u>2,309,851,622</u>	<u>657,743,901</u>	<u>(89,391,812)</u>	<u>2,878,203,711</u>
Total liabilities	<u>665,107,889</u>	<u>237,127,556</u>	<u>(39,965,137)</u>	<u>862,270,308</u>

	December 31, 2016			
	Real Estate Sales US\$	Real Estate Rental and Other Services US\$	Eliminations US\$	Total US\$
Revenues	203,259,282	64,658,379	(1,339,212)	266,578,449
Cost of revenues	(44,242,109)	(38,258,115)	2,678,424	(79,821,800)
Gain on sale and disposal of investment properties	<u>-</u>	<u>2,154,937</u>	<u>-</u>	<u>2,154,937</u>
Net revenues from operations	159,017,173	28,555,201	1,339,212	188,911,586
Share results of associates and joint ventures	-	9,614,979	-	9,614,979
General and administrative expenses	(29,426,462)	(4,062,804)	(1,339,212)	(34,828,478)
Depreciation of fixed assets	(3,136,699)	(959,853)	-	(4,096,552)
Write-off of receivables	(1,567,308)	-	-	(1,567,308)
Loss on rescheduled balance	(16,693,309)	-	-	(16,693,309)
Provision for contingencies	(17,400,000)	(213,949)	-	(17,613,949)
Provision for impairment of fixed assets, net	-	185,420	-	185,420
Provision for impairment of receivables	(10,000,000)	(1,546,129)	-	(11,546,129)
Other expenses	(152,202)	(279,723)	-	(431,925)
Other income	130,084	300,758	-	430,842
Taxes, fees and stamps	(528,996)	(15,996)	-	(544,992)
Interest income	18,763,244	113,842	-	18,877,086
Interest expense	(35,904,036)	(299,161)	-	(36,203,197)
Loss on exchange	<u>(1,045,822)</u>	<u>(4,827)</u>	<u>-</u>	<u>(1,050,649)</u>
Profit/(loss) before tax	62,055,667	31,387,758	-	93,443,425
Income tax expense	<u>(18,164,878)</u>	<u>(23,097)</u>	<u>-</u>	<u>(18,187,975)</u>
Profit/(loss) for the year	<u>43,890,789</u>	<u>31,364,661</u>	<u>-</u>	<u>75,255,450</u>

	December 31, 2015			
	Real Estate Sales	Real Estate Rental and Other Services	Eliminations	Total
	US\$	US\$	US\$	US\$
Total assets	<u>2,376,372,760</u>	<u>640,337,647</u>	<u>(99,210,299)</u>	<u>2,917,500,108</u>
Total liabilities	<u>752,870,378</u>	<u>243,103,790</u>	<u>(35,964,420)</u>	<u>960,009,748</u>

	December 31, 2015			
	Real Estate Sales	Real Estate Rental and Other Services	Eliminations	Total
	US\$	US\$	US\$	US\$
Revenues	26,801,762	66,081,160	(1,581,638)	91,301,284
Cost of revenues	(6,987,900)	(35,292,713)	3,162,918	(39,117,695)
Gain on sale and disposal of investment properties	-	3,177,153	-	3,177,153
Net revenues from operations	19,813,862	33,965,600	1,581,280	55,360,742
Share of results of associates and joint ventures	-	27,879,222	-	27,879,222
General and administrative expenses	(27,832,112)	(4,460,915)	(1,581,280)	(33,874,307)
Depreciation of fixed assets	(3,298,902)	(1,183,364)	-	(4,482,266)
Write-off of receivables	(4,778,425)	-	-	(4,778,425)
Loss on rescheduled receivables	(2,553,157)	-	-	(2,553,157)
Provision for contingencies	(7,500,000)	(62,022)	-	(7,562,022)
Provision for impairment of fixed assets	-	(1,149,677)	-	(1,149,677)
Provision for impairment	(93,450,743)	(10,750,000)	-	(104,200,743)
Other expense	(350,000)	(421,658)	-	(771,658)
Other income	4,592,817	70,423	-	4,663,240
Taxes, fees and stamps	(521,696)	(19,173)	-	(540,869)
Interest income	19,152,435	194,271	-	19,346,706
Interest expense	(34,323,964)	(516,774)	-	(34,840,738)
Loss on exchange	(986,625)	(5,345)	-	(991,970)
Profit/(loss) before tax	(132,036,510)	43,540,588	-	(88,495,922)
Income tax benefit	1,283,167	-	-	1,283,167
Profit/(loss) for the year	<u>(130,753,343)</u>	<u>43,540,588</u>	<u>-</u>	<u>(87,212,755)</u>

6. CASH AND BANK BALANCES

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Cash on hand	64,467	54,098
Checks under collection	7,622,104	6,197,926
Current accounts	11,197,032	11,896,267
Short term deposits	<u>92,922,914</u>	<u>118,061,067</u>
	<u>111,806,517</u>	<u>136,209,358</u>

Short term deposits mature between January and March 2017 (December 31, 2015: Short term deposits mature between January and March 2016). The average yield on the term deposits for the year ended December 31, 2016 was approximately 3.93% per annum (3.80% p.a. for the year ended December 31, 2015).

7. PREPAYMENTS AND OTHER DEBIT BALANCES

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Advance payments to contractors	1,251,693	1,662,211
Advances to employees	1,443,628	2,665,245
Accrued interest income (a)	21,502,588	24,367,905
Prepaid expenses	7,211,375	7,237,578
Deferred tax assets (b)	1,612,500	3,112,500
Due from associates, joint ventures and related parties (c)	2,323,539	4,065,353
Other debit balances, net (d)	<u>4,728,822</u>	<u>8,742,345</u>
	<u>40,074,145</u>	<u>51,853,137</u>

(a) Accrued interest income consists of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Interest on bank deposits and asset-backed securities (Note 9)	435,671	2,415,260
Interest on notes and accounts receivable	2,960,346	7,098,046
Interest on long term loan to a joint venture (Note 12(b))	<u>18,106,571</u>	<u>14,854,599</u>
	<u>21,502,588</u>	<u>24,367,905</u>

(b) Deferred tax assets consists of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Deferred tax assets on unrealized profits from sales to a joint venture (Note 12(b))	1,612,500	1,612,500
Deferred tax assets on provision for receivable (Note 15(c))	-	1,500,000
	<u>1,612,500</u>	<u>3,112,500</u>

(c) Due from associates, joint ventures and related parties consists of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Solidere International Limited (Associate)	23,325	856,558
City Makers S.A.R.L. (Related party)	84,731	64,640
BCD Cinemas S.A.L. (Associate)	2,084,187	3,021,568
Beirut Real Estate Management and Services S.A.L. (Joint Venture)	3,394	3,394
ASB – Downtown S.A.L. (Associate)	127,902	119,193
	<u>2,323,539</u>	<u>4,065,353</u>

The above balances are interest free and are of a current nature.

(d) Other debit balances are stated net of provisions in the amount of US\$2,850,939 as at December 31, 2016 (December 31, 2015: provisions in the amount of US\$500,000). The movement of the provisions was as follows:

	<u>2016</u>	<u>2015</u>
	US\$	US\$
Balance, beginning of the year	500,000	2,100,000
Transfer from accounts and notes receivables (Note 8(d))	804,710	-
Additions	1,546,129	-
Write-offs	-	(1,600,000)
Balance, end of the year	<u>2,850,839</u>	<u>500,000</u>

8. ACCOUNTS AND NOTES RECEIVABLE, NET

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Notes receivable (a)	646,481,645	604,952,289
Accounts receivable (b)	4,538,917	5,492,380
Reserve account receivable from BCD 1 Fund (Note 9)	3,175,715	7,350,579
Deferred charges from securitization of notes (Note 9)	9,279,831	4,928,469
Receivable from tenants (c)	55,511,817	52,717,443
Less: Unearned interest (a)	(119,467,402)	(97,571,393)
Less: Provision for problematic receivables (d)	(69,191,759)	(100,659,973)
Less: Provision for collectively assessed receivables (e)	(21,000,000)	(11,000,000)
	<u>509,328,764</u>	<u>466,209,794</u>

The Group's credit risk exposure in notes and accounts receivable is spread over 31 counter-parties; 16 customers constitute 90% of the total exposure and 15 customers constitute the remaining 10% as of December 31, 2016 (as of December 31, 2015, 27 counter-parties; 12 customers constitute 91% of the total exposure and 15 customers constitute the remaining 9%).

The Group's credit exposure in receivables from tenants is spread over a large number of counter-parties; 3 tenants constitute 61% of the total exposure as of December 31, 2016 (6 tenants constitute 50% of the total exposure as of December 31, 2015).

The average yield on accounts and notes receivable is mainly dependent on the Libor rate.

(a) Notes receivable, which mainly resulted from sales, carry the following maturities:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Doubtful balances	56,775,831	91,456,594
Overdue but not impaired	49,720,273	24,141,422
2016	-	98,416,370
2017	89,476,563	96,582,504
2018 and above	450,508,978	294,355,399
	<u>646,481,645</u>	<u>604,952,289</u>

During 2016, the Group rescheduled the payments of six customers whose aggregate notes receivable balance amounted to US\$273,060,241 (four customers amounting to US\$224,563,175 during 2015) resulting in a loss of US\$16,693,309 (loss amounting to US\$2,553,157 during 2015) recorded in the consolidated statement of profit or loss and other comprehensive income.

- (b) Accounts receivable carry the following maturities:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>
Overdue but not impaired	1,751,920	2,672,607
2016	-	2,819,773
2017	<u>2,786,997</u>	<u>-</u>
	<u>4,538,917</u>	<u>5,492,380</u>

- (c) On January 5, 2015, the final result of the arbitration between the Group and the Lebanese Ministry of Foreign Affairs and Immigrants regarding the rent of property 1134 Zokak Blat for the use of the Economic and Social Commission for Western Asia ESCWA was concluded. As a result, the Group was awarded an indemnity in the amount of US\$3,278,868 for the period from August 31, 2008 to August 31, 2013 in addition to a monthly indemnity in the amount of US\$703,292 for the entire period of usage of the plot by the Ministry of Foreign Affairs and Immigrants until final evacuation as per the final arbitration decision.

The balance due from the Ministry of Foreign Affairs and Immigrants amounted to US\$29,485,884 as of 31 December 2016 (US\$ 19,538,658 as of 31 December 2015).

During 2016 the Group wrote-off doubtful receivables from tenants in the amount of US\$1,567,308 recorded under "Write-off of receivables" in the consolidated statement of profit or loss and other comprehensive income (US\$4,778,425 during the year 2015).

- (d) The movement of the provision for problematic receivables is as follows:

	<u>2016</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>
Balance at the beginning of the year	100,659,973	7,459,230
Transfer from provision for contingencies (Note 15 (e))	5,670,000	-
Transfer to prepayments and other debit balances (Note 7 (d))	(804,710)	-
Additions	-	93,652,063
Write-back	-	(451,320)
Write-off (10 (a.6))	(36,333,504)	-
Balance at the end of the year	<u>69,191,759</u>	<u>100,659,973</u>

- (e) During 2016, the Group setup provision in the amount of US\$10,000,000 (2015: US\$11,000,000) against collectively assessed impairment of receivables.

9. INVESTMENT IN ASSET-BACKED SECURITIES

During 2013, the Group signed an agreement with a local financial institution to securitize notes receivable with an aggregate nominal value of US\$185million relating to 4 customers creating Beirut Central District SIF 1 Fund (the BCD 1 Fund). As a result, the Group collected an amount of US\$93,821,227, net of reserve account and transaction costs.

The Group subscribed to the following notes issued by the BCD 1 Fund:

Class of Notes	Total Issuance US\$	Subscription Amount US\$	Carrying Amount		Interest Rate %
			December 31,		
			2016 US\$	2015 US\$	
Loans and receivables:					
Class A	130,000,000	28,000,000	-	14,321,303	5.5
Class B	45,000,000	45,000,000	35,203,525	45,000,000	5.0
	<u>175,000,000</u>	<u>73,000,000</u>	<u>35,203,525</u>	<u>59,321,303</u>	
Held-to-Maturity:					
Class C	10,160,450	10,160,450	10,160,450	10,160,450	
	<u>10,160,450</u>	<u>10,160,450</u>	<u>10,160,450</u>	<u>10,160,450</u>	
	<u>185,160,450</u>	<u>83,160,450</u>	<u>45,363,975</u>	<u>69,481,753</u>	

Class A Notes are redeemable on a semi-annual basis. Class B Notes are also redeemable on a semi-annual basis provided the redeemable portion of Class A Notes is settled and funds are available. Class A and Class B Notes are classified as “loans and receivables”. Class B Notes are subordinated to Class A Notes. Class C Notes are subordinated to Class A and Class B Notes and will be repaid by the BCD 1 Fund solely if excess funds are available from collection of assets. Class C Notes are classified as held-to-maturity.

Interest on Class A and Class B Notes are payable semi-annually starting July 17, 2013 and July 17, 2014, respectively. Interest on Class B Notes is non-cumulative and is paid solely from available funds after payment of the BCD 1 Fund’s dues for the related periods. Effective end of the year 2014, interest on Class A Notes became payable on a monthly basis.

During 2016, the Group redeemed all class A notes and started redeeming Class B Notes.

Interest income on asset backed securities for the year 2016 amounted to US\$368,414 on Class “A” Notes (US\$786,513 for the year 2015), and to US\$455,143 on Class “B” Notes. Interest Income from asset backed securities are recorded under “Interest income” in the consolidated statement of profit or loss and other comprehensive income (Note 26). Furthermore, the Group accrued for an amount of US\$374,471 during 2016(US\$1,204,092 during 2015), representing its share in additional income allocated by the BCD 1 Fund to Class “A” Noteholders based on the approval of the noteholders assembly held, recorded under “Interest income” in the consolidated statement of profit or loss and other comprehensive income (Note 26).

The Group placed a reserve account in the amount of US\$6,650,000, as stipulated by the BCD 1 Fund’s regulations, to cover any shortfall in payments of principal and interest of the asset-backed securities issued by the BCD 1 Fund and to cover the senior expenses of the BCD 1 Fund. According to the BCD 1 Fund regulations, the reserve account balance should be maintained at US\$6,650,000. During 2016, an amount of US\$4,351,398 was used to cover the shortfall in payments. The decrease in the reserve account in the aggregate of US\$9,279,831 up to December 31, 2016 was recorded under “Deferred charges from securitization of notes” under “Accounts and notes receivables, net” and will be recovered from any subsequent distributions made by the BCD 1 Fund (Note 8).

The movement of the reserve account receivable from BCD 1 Fund presented under accounts receivable (Note 8), is as follows:

	<u>2016</u> US\$	<u>2015</u> US\$
Balance at the beginning of the year	7,350,579	7,350,579
Additions	176,534	-
Transfer to deferred charges from Securitization of notes (Note 8)	(4,351,398)	-
Balance at the end of the year	<u>3,175,715</u>	<u>7,350,579</u>

10. INVENTORY OF LAND AND PROJECTS IN PROGRESS

	<u>December 31,</u>	
	<u>2016</u> US\$	<u>2015</u> US\$
Land and land development works, net (a)	985,595,510	1,015,465,434
Real estate development projects, net (b)	<u>106,279,882</u>	<u>118,649,414</u>
	<u>1,091,875,392</u>	<u>1,134,114,848</u>

(a) Land and land development works include the following cost items:

	<u>December 31,</u>	
	<u>2016</u> US\$	<u>2015</u> US\$
Acquired properties (a.1)	970,823,554	970,823,554
Pre-acquisition costs (a.2)	9,412,802	9,412,802
Infrastructure costs (a.3)	877,070,669	850,798,097
Eviction costs (a.4)	260,351,968	260,351,968
Capitalized costs (a.5)	<u>99,886,613</u>	<u>94,631,155</u>
Cumulative costs	2,217,545,606	2,186,017,576
<u>Less:</u> Cost of land sold, net (a.6)	(1,049,577,257)	(1,010,618,148)
<u>Less:</u> Cost of land transferred to real estate development projects (Note 10 (b))	(176,019,718)	(153,580,873)
<u>Less:</u> Cost of infrastructure transferred to real estate development projects	(6,353,121)	(6,353,121)
	<u>985,595,510</u>	<u>1,015,465,434</u>

- (a.1) Acquired properties consist mainly of the aggregate initial appraised value attributed to the plots included in the BCD area of US\$1,170,001,290 net of the recuperated properties. The aggregate appraised value is determined in accordance with Decree No. 2236 (dated February 19, 1992 based on the decision of the Higher Appraisal Committee, which was established in accordance with Law No. 117/91). Acquired properties include the value of purchased and exchanged properties as well.

Law No. 117/91 stated the requirements for property recuperation and exemption. In this respect properties appraised at US\$255million were recuperated by original owners and properties appraised at US\$133million were not claimed for recuperation.

- (a.2) Pre-acquisition costs include technical and master plan studies incurred during the set up period.
- (a.3) Infrastructure costs consists of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Sea front defense	298,251,637	297,471,384
Work executed in the traditional BCD area	206,701,120	197,515,108
Land reclamation and treatment	103,271,117	103,231,290
Electricity power station	42,863,072	42,836,634
Borrowing costs (Note 29)	46,016,789	45,756,392
Other costs	<u>179,966,934</u>	<u>163,987,289</u>
	<u>877,070,669</u>	<u>850,798,097</u>

- (a.4) Eviction costs represent the costs of relocating previous settlers out of the BCD area which were mainly paid through the Central Fund for the Displaced (a public authority). This caption is stated net of US\$22.2million as of December 31, 2016 (US\$22.2million as of December 31, 2015) representing a 10% charge on recuperated properties appraised values collected from original owners other than religious and governmental recuperated properties.
- (a.5) Capitalized costs represent allocation of direct overheads. Costs capitalized during the year ended December 31, 2016 before indirect costs reallocation amounted to US\$7.6million (US\$8.3million during the year ended December 31, 2015) (Note 25).
- (a.6) During 2016, a sale entered into in 2014 was derecognized and as a result the cost of land amounting US\$ 5,283,000 was recorded under inventory of land and land development .

(b) Real estate development projects include the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Construction and rehabilitation of buildings	759,626,950	762,552,783
Cost of land (Note 10 (a))	<u>176,019,718</u>	<u>153,580,873</u>
Cumulative costs	935,646,668	916,133,656
<u>Less: Cost transferred to investment properties, net</u>	(754,965,156)	(723,504,422)
Cost transferred to fixed assets (Note 13)	(30,237,375)	(29,815,565)
Cost of real estate sold	<u>(44,164,255)</u>	<u>(44,164,255)</u>
	<u>106,279,882</u>	<u>118,649,414</u>

During 2016, the Group transferred a net aggregate amount of US\$31,460,734 (US\$38,718,504 during 2015) to investment properties representing cost of land and buildings of various completed projects (Note 11).

During 2016, the Group allocated interest expense to real estate development projects in the amount of US\$129,589 (US\$734,537 during 2015) (Note 29).

11. INVESTMENT PROPERTIES, NET

	<u>Balance as at</u>	<u>Additions</u>	<u>Transfers</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance as at</u>
	<u>December 31,</u>					<u>fixed assets</u>
	2015	US\$	US\$	US\$	US\$	2016
	US\$	US\$	US\$	US\$	US\$	US\$
Cost:						
Land	115,724,562	-	-	-	(545,112)	115,179,450
Buildings	523,529,395	785,287	(15,050)	31,850,897	(1,975,658)	554,174,871
Other assets	<u>36,384,717</u>	<u>206,762</u>	<u>(9,761)</u>	<u>(390,163)</u>	<u>-</u>	<u>36,191,555</u>
	<u>675,638,674</u>	<u>992,049</u>	<u>(24,811)</u>	<u>31,460,734</u>	<u>(2,520,770)</u>	<u>705,545,876</u>
Accumulated Depreciation:						
Buildings	66,967,180	14,671,553	-	-	(244,773)	81,393,960
Other assets	<u>15,234,719</u>	<u>2,495,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,730,179</u>
	<u>82,201,899</u>	<u>17,167,013</u>	<u>-</u>	<u>-</u>	<u>(244,773)</u>	<u>99,124,139</u>
Net Book Value	<u>593,436,775</u>					<u>606,421,737</u>
	<u>Balance as at</u>	<u>Additions</u>	<u>Transfers</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance as at</u>
	<u>December 31,</u>					<u>fixed assets</u>
	2014	US\$	US\$	US\$	US\$	2015
	US\$	US\$	US\$	US\$	US\$	US\$
Cost:						
Land	115,201,952	-	-	1,074,796	(552,186)	115,724,562
Buildings	497,868,486	107,896	(9,924,472)	37,643,708	(2,166,223)	523,529,395
Other assets	<u>36,588,661</u>	<u>283,980</u>	<u>(487,924)</u>	<u>-</u>	<u>-</u>	<u>36,384,717</u>
	<u>649,659,099</u>	<u>391,876</u>	<u>(10,412,396)</u>	<u>38,718,504</u>	<u>(2,718,409)</u>	<u>675,638,674</u>
Accumulated Depreciation:						
Buildings	57,912,702	10,541,905	(1,182,397)	-	(305,030)	66,967,180
Other assets	<u>12,885,494</u>	<u>2,349,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,234,719</u>
	<u>70,798,196</u>	<u>12,891,130</u>	<u>(1,182,397)</u>	<u>-</u>	<u>(305,030)</u>	<u>82,201,899</u>
Net Book Value	<u>578,860,903</u>					<u>593,436,775</u>

Investment properties include rented and available for rent properties. These represent “Beirut Souks”, “BCD Cinemas”, a property leased out to the Ministry of Foreign Affairs and Emigrants for use by an international agency, residential complexes, an embassy complex, and other restored buildings.

Disposals of land, building and other assets resulted in a gain of US\$ 2,154,937 recorded under “Gain on sale and disposal of investment properties” in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2016 (US\$3,177,153 for the year ended December 31, 2015).

Depreciation for investment properties in the amount of US\$17,167,013 for the year 2016 (US\$12,891,130 for the year 2015) is recorded under “Charges on rented properties” in the consolidated statement of profit or loss and other comprehensive income (Note 23).

The fair value of the investment properties based on a valuation by an independent expert is approximately US\$1.33 billion as of December 31, 2016 (US\$1.37billion as of December 31, 2015) based on a market capital approach estimated by the management.

The Group classifies investment properties within level 2 in the hierarchy of fair value measurement (Note 37).

12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>
Investment in Solidere International Limited (Associate) (a)	381,961,406	367,081,992
Investment in BCD Cinemas S.A.L. (Associate)	778,172	145,084
Investment in Beirut Waterfront Development S.A.L. (Joint Venture) (b)	(1,388,511)	3,822,172
Investment in Beirut Real Estate Management and Services S.A.L. (Joint Venture)	15,325	38,192
Investment in ASB - Downtown S.A.L. (Associate)	123,197	4,877
	<u>381,489,589</u>	<u>371,092,317</u>
Long term loan to Beirut Waterfront Development S.A.L. (Joint Venture)	36,540,000	36,540,000
	<u>418,029,589</u>	<u>407,632,317</u>

	<u>2016</u>	<u>2015</u>
	US\$	US\$
Balance at the beginning of the year	407,632,317	374,900,423
Share of capital increase	714,271	4,975,125
Share of the results of associates and joint ventures	9,614,979	27,879,222
Foreign currency translation reserve	<u>68,022</u>	<u>(122,453)</u>
Balance at the end of the year	<u>418,029,589</u>	<u>407,632,317</u>

Details of the Group's investment in associates and joint ventures are as follows:

	Country of Incorporation	Ownership Interest %	December 31,			
			2016		2015	
			At Cost US\$	Group's Share of Equity US\$	At Cost US\$	Group's Share of Equity US\$
Solidere International Limited (a) (Associate)	UAE	39.11	238,530,173	381,961,406	237,789,902	367,081,992
BCD Cinemas S.A.L. Sal (Associate)	Lebanon	40.00	8,000	778,172	8,000	145,084
Beirut Waterfront Development S.A.L. (b) (Joint Venture)	Lebanon	50.00	11,385,075	(1,388,511)	11,385,075	3,822,172
Beirut Real Estate Management and Services (Joint Venture)	Lebanon	45.00	9,000	15,325	9,000	38,192
ASB - Downtown S.A.L. (Associate)	Lebanon	24.50	<u>4,877</u>	<u>123,197</u>	<u>4,877</u>	<u>4,877</u>
			<u>249,937,125</u>	<u>381,489,589</u>	<u>249,196,854</u>	<u>371,092,317</u>

- (a) On June 7, 2007, the Group directly subscribed into the capital of Solidere International Limited for an amount of US\$3,000,060 representing a 0.4286% equity stake. The main activity of the Group is to promote, invest in, develop, market and manage, as well as provide consulting services with respect to real estate projects outside the Beirut Central District area of Lebanon.

During 2008 and 2009, the Group increased its direct and indirect ownership in Solidere International Limited to 38.98% by acquiring 153,749 shares for an amount of US\$17,781,850. During 2012, the Group acquired 7,786 additional shares of Solidere International Limited for an amount of US\$580,322. During 2016, the Group acquired 7,142 additional shares of Solidere International Limited for an amount of US\$714,271.

- (b) The Group entered into a joint venture agreement on February 11, 2004, with Stow Waterfront S.A.L. (Holding) to establish Beirut Waterfront Development S.A.L. with a 50% stake in the joint venture's total capital amounting to US\$19,900. During the year 2006, the capital of the joint venture was increased to US\$12,819,900 without changing the Group's share in the capital. The main activity of the joint venture is to develop, operate, manage, exploit and sell real estate properties in the Marina area in Beirut Central District.

As per the terms of the agreement, on December 31, 2005, the Group sold properties with an aggregate cost of US\$10,100,000 from inventory of land and projects in progress, to the joint venture for a total consideration of US\$31,600,000. As a result of the sale transaction, the Group realized 50% of the gain on the sale in the amount of US\$10,750,000 in profit or loss in 2005 and deferred the unrealized gain on sales in the amount of US\$10,750,000, recorded under “deferred revenues and other credit balances” in the consolidated statement of financial position, to be realized after realization of the sale of the properties to third parties (Note 17).

During 2015, the general assembly of shareholders of the joint venture approved a capital increase. The Group subscribed, in cash, in the capital increase for an amount of US\$4,975,125 representing its share in the increase.

On June 27, 2006, the Group granted Beirut Waterfront Development S.A.L. a long term loan against issuance of bonds for a total amount of US\$25.2million. This loan is subject to an annual interest of Libor + 2% but not less than 9%, payable on June 30 of each year. The total amount of this loan was due on June 30, 2011. During 2011, the maturity of the above loan was extended to June 30, 2016 with the same terms and conditions of the previous agreement and the accumulated interest up to June 30, 2011 in the amount of US\$11,340,000 was capitalized with the original principal. Interest in the amount of US\$29,427,300 as of December 31, 2016 (US\$26,138,700 as of December 31, 2015) is deferred under “Deferred revenues and other credit balances” in the statement of financial position (Note 17) of which US\$18,087,300 is accrued under “Prepayments and other debit balance” caption (US\$14,854,599 as of December 31, 2015) (Note 7(a)). The deferred interest will be realized when income from the principal activity of the joint venture is realized (Note 17). As of the date of issuance of the financial statements, a new agreement to extend the maturity of the bonds was not signed yet.

Summarized financial information in respect of the Group's associates and joint ventures is set out below:

	2016			Total US\$
	Solidere International Limited US\$	Beirut Waterfront Development SAL US\$	Other associates and joint ventures US\$	
Total Assets	1,086,381,233	191,086,604	8,709,196	1,286,177,033
Total Liabilities	46,998,009	193,863,626	6,729,709	247,591,344
Non-Controlling Interest	62,825,202	-	-	62,825,202
Net Assets	976,558,022	(2,777,022)	1,979,487	975,760,487
Group's share of net assets	381,961,406	(1,388,511)	916,694	381,489,589
Total Revenue	8,243,913	13,817,579	10,234,260	32,295,752
Total Cost of Revenue	(5,184,212)	(12,250,542)	(8,603,983)	(26,038,737)
Profit/(loss) for the year	35,789,955	(10,421,365)	2,014,843	27,383,433
Group's share of result-Gain/(loss)	14,097,121	(5,210,683)	728,541	9,614,979

	Solidere International Limited	Beirut Waterfront Development SAL	Other associates and joint ventures	Total
	US\$	US\$	US\$	US\$
Total Assets	1,049,547,675	197,465,224	9,836,471	1,256,849,370
Total Liabilities	47,008,418	189,820,881	9,387,958	246,217,257
Non-Controlling Interest	62,462,808	-	-	62,462,808
Net Assets	940,076,449	7,644,343	448,513	948,169,305
Group's share of net assets	367,081,992	3,822,172	188,154	371,092,318
Total Revenue	9,461,114	44,094,990	9,144,712	62,700,816
Total Cost of Revenue	(5,132,904)	(23,076,250)	(8,277,521)	(36,486,675)
Profit/(loss) for the year	62,181,987	7,260,783	866,089	70,308,859
Group's share of results	23,653,913	3,630,391	594,918	27,879,222

13. FIXED ASSETS, NET

	Balance as at December 31, 2015	Additions	Transfers	Disposals/ Write Off	Impairment	Balance as at December 31, 2016
	USD	US\$	US\$	US\$	US\$	US\$
Cost:						
Land	6,172,238	-	-	-	-	6,172,238
Buildings	36,891,354	83,024	122,570	(904,789)	169,739	36,361,898
Marina	7,866,624	-	-	-	-	7,866,624
Furniture and fixtures	10,088,808	8,139	-	(174,562)	-	9,922,385
Freehold improvements	25,079,723	432,919	107,840	(1,447,284)	-	24,173,198
Machines and equipment	37,465,259	727,269	216,211	(861,551)	15,681	37,562,869
Advances on fixed assets	(554,678)	1,800	-	-	-	(552,878)
	<u>123,009,328</u>	<u>1,253,151</u>	<u>446,621</u>	<u>(3,388,186)</u>	<u>185,420</u>	<u>121,506,334</u>
Accumulated Depreciation:						
Buildings	10,823,857	965,417	-	(432,275)	-	11,356,999
Marina	1,494,239	158,125	-	-	-	1,652,364
Furniture	5,052,191	555,870	-	(109,154)	-	5,498,907
Freehold improvements	10,361,182	1,531,842	-	(1,409,522)	-	10,483,502
Machines and equipment	36,715,733	885,298	-	(390,061)	-	37,210,970
	<u>64,447,202</u>	<u>4,096,552</u>	<u>-</u>	<u>(2,341,012)</u>	<u>-</u>	<u>66,202,742</u>
Net Book Value	<u>58,562,126</u>					<u>55,303,592</u>
	Balance as at December 31, 2014	Additions	Transfers	Disposals/ Write Off	Impairment	Balance as at December 31, 2015
	USD	US\$	US\$	US\$	US\$	US\$
Cost:						
Land	6,172,238	-	-	-	-	6,172,238
Buildings	29,135,253	15,612	10,081,019	(1,112,231)	(1,228,299)	36,891,354
Marina	7,866,624	-	-	-	-	7,866,624
Furniture and fixtures	10,307,269	39,496	-	(258,094)	137	10,088,808
Freehold improvements	24,315,737	332,000	450,763	(14,519)	(4,258)	25,079,723
Machines and equipment	37,059,663	483,396	37,161	(114,961)	-	37,465,259
Advances on fixed assets	-	-	-	(637,421)	82,743	(554,678)
	<u>114,856,784</u>	<u>870,504</u>	<u>10,568,943</u>	<u>(2,137,226)</u>	<u>(1,149,677)</u>	<u>123,009,328</u>
Accumulated Depreciation:						
Buildings	9,068,219	1,070,182	1,182,397	(496,941)	-	10,823,857
Marina	1,336,782	157,457	-	-	-	1,494,239
Furniture	4,753,252	455,971	-	(157,032)	-	5,052,191
Freehold improvements	9,022,376	1,344,818	-	(6,012)	-	10,361,182
Machines and equipment	35,653,423	1,453,838	-	(391,528)	-	36,715,733
	<u>59,834,052</u>	<u>4,482,266</u>	<u>1,182,397</u>	<u>(1,051,513)</u>	<u>-</u>	<u>64,447,202</u>
Net Book Value	<u>55,022,732</u>					<u>58,562,126</u>

Transfers during 2016 in the aggregate amount of US\$446,621 consist of an amount of US\$24,811 transferred from “Investment properties” (Note 11), and an amount of US\$421,810 transferred from “Inventory of land and projects in progress” (Note 10 (b)).

During 2016, a write-back for impairment of fixed assets used in the hospitality industry amounted to US\$185,420 (Provision set up in the amount of US\$1,149,677 during 2015) was recorded in the consolidated statement of profit or loss and other comprehensive income under “Write-back/(provision) for impairment of fixed assets”.

The depreciation for the year ended December 31, 2016 and 2015 is included under “Depreciation of fixed assets” in the consolidated statement of profit or loss.

14. BANK OVERDRAFTS AND SHORT TERM FACILITIES

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Bank overdrafts	62,762,330	245,045,868
Short term facilities	<u>247,000,000</u>	<u>310,997,094</u>
	<u>309,762,330</u>	<u>556,042,962</u>

As of December 31, 2016 and 2015, the Group has fully utilized its bank overdrafts’ limits.

Short term facilities mature within a period of one year and it consists of the following:

<u>Facility Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Covenants</u>	<u>Outstanding Balance</u>	
				<u>December 31,</u>	
				<u>2016</u>	<u>2015</u>
US\$		%		US\$	US\$
40,000,000	4 Aug-16	4.97%	(a)	-	40,000,000
24,000,000	4 Aug-16	4.75%	(a)	-	24,000,000
25,000,000	1 Nov-16	5.50%	(a)	-	25,000,000
75,000,000	3-Feb-17	5.00%	(b)	75,000,000	75,000,000
35,000,000	3-Feb-17	5.00%	(b)	35,000,000	35,000,000
75,000,000	31-Jul-17	5.75%	(c)	75,000,000	99,998,150
50,000,000	21-Nov-17	6.00%	(c)	50,000,000	-
12,000,000	28-Dec-17	5.50%	(d)	<u>12,000,000</u>	<u>11,998,944</u>
				<u>247,000,000</u>	<u>310,997,094</u>

- (a) During 2016, the Group signed new agreements for these short term facilities which were transferred to term loans (Note 18).
- (b) The covenants of the agreements stipulate that the Group maintains a maximum debt to equity ratio of 1:2 and a minimum equity balance of US\$1billion.
- (c) The covenants of the facility stipulate that the Group maintains a minimum equity balance of US\$1billion, a minimum equity to assets ratio of 40% and a maximum debt to equity ratio of 50%.
- (d) The covenants of the facility stipulate that the Group maintains a minimum equity balance of US\$1billion, a minimum equity to assets ratio of 40% and a maximum debt to equity ratio of 1.2:1.

Interest expense on bank overdrafts for the year ended December 31, 2016 amounted to US\$15,426,375 and is recorded under "Interest expense" in the consolidated statement of profit or loss and other comprehensive income (US\$14,153,021 for the year ended December 31, 2015) (Note 29).

Interest expense on short term facilities for the year ended December 31, 2016 amounted to US\$11,124,650 (US\$16,257,889 for the year ended December 31, 2015) and is recorded under "Interest expense" in the consolidated statement of profit or loss and other comprehensive income (Note 29).

15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Accounts payable (a)	34,757,265	42,603,553
Accrued charges and other credit balances (b)	17,580,850	18,199,224
Taxes payable (c)	35,326,226	21,303,393
Provision for end of service indemnity and other charges (d)	13,722,190	13,983,613
Provision for contingencies (e)	26,093,149	13,727,234
Due to a joint venture (f)	182,892	8,473
Loan to a joint venture	94,164	94,164
Accrued interest payable	1,381,974	1,702,048
	<u>129,138,710</u>	<u>111,621,702</u>

- (a) Accounts payable as of December 31, 2016 and 2015 include balances in the aggregate amount of US\$13.8million due to the Lebanese Government in consideration of the exchange of assets agreement explained in Note 33(f).

(b) Accrued charges and other credit balances consists of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Deposits from Tenants	3,006,000	2,821,214
Accrued Municipality expenses	1,000,000	1,502,334
Accruals for project cost	2,166,455	4,982,243
Accruals for management benefits	2,952,770	1,911,946
Accruals for utility cost	2,803,170	1,785,279
Accruals for invoices not received	-	416,678
Other	5,652,455	4,779,530
	<u>17,580,850</u>	<u>18,199,224</u>

(c) Taxes payable consist of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Accrued income tax	16,423,097	-
Additional tax assessment	5,821,392	8,400,000
Value added tax (VAT) payable	4,597,710	4,106,920
Taxes withheld	624,250	693,230
Built property tax payable	7,859,777	8,103,243
	<u>35,326,226</u>	<u>21,303,393</u>

Rental income is subject to the built property tax in accordance with the Lebanese tax law.

Value Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of VAT recoverable from, or payable to the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Income tax

The applicable tax rate in Lebanon is 15% according to the Lebanese tax laws.

The accrued income tax for the years 2016 and 2015 was estimated as follows:

	<u>2016</u> US\$	<u>2015</u> US\$
Profit/(loss) before tax	93,443,425	(88,495,922)
Add: Loss of subsidiaries	2,081,447	5,398,594
Add: Non-deductible provisions and charges	46,174,282	96,861,075
Less: Brought forward deductible losses	(349,221)	-
(Less): Rent revenue from built up property (Net)	(20,096,768)	(24,674,721)
Taxable income/(loss)	121,253,165	(10,910,974)
Applicable tax rate	15%	15%
Accrued income tax	18,187,975	-
Less: Tax on interest previously settled	(264,878)	(216,833)
Less: Reversal deferred tax assets – (Note 7(b))	(1,500,000)	-
Accrued income tax payable	<u>16,423,097</u>	<u>-</u>
Total accrued income tax	16,423,097	-
Add: Tax on interest previously settled	264,878	216,833
Add/(less): reversal (benefit) deferred tax asset – Note 7(b)	<u>1,500,000</u>	<u>(1,500,000)</u>
Income tax expense/(benefit)	<u>18,187,975</u>	<u>(1,283,167)</u>

Additional tax assessment

During 2012, the Company's accounts for the years 2007 to 2010 were reviewed by the tax authorities. The review for the year 2007 resulted in an additional tax liability in the amount of US\$2.5million which was provided for in previous years. During 2013, and following the objection filed by the Company, a revision of the initial tax review was issued decreasing the tax liability by an amount of US\$853 thousands resulting in a net tax liability in the amount of US\$1.65million. Moreover, the outcome of the tax review of the Company's accounts for the years 2008 to 2010 was issued during 2013 and resulted in an additional tax liability in the amount of US\$7.1million of which an amount of US\$5.9million was provided for in previous years. As a result of the above, the Company settled during 2016 an amount of US\$1.8million (LBP2.8billion). Penalties exceeding LBP1billion (US\$663thousand) imposed as a result of any tax assessment are subject to deductions based on a ministerial approval after a recommendation from the Minister of Finance.

Moreover, the Company's accounts and income tax returns for the years 2011 and 2012 were reviewed by the tax authorities during 2016. The final outcome of the examination was not issued yet and the Company's accounts and income tax returns for the years 2013 until 2016 are still subject to examination and final assessment by the tax authorities.

The subsidiaries accounts and income tax returns for the years 2012 till 2016 are still subject to examination and final assessment by the tax authorities.

The VAT declarations for the years 2012 until 2016 are still subject to examination and final tax assessment by the VAT department. Any additional tax liability is pending the results of this review.

(d) The movement of provision for end-of-service indemnity is as follows:

	<u>2016</u>	<u>2015</u>
	US\$	US\$
Balance at the beginning of the year	13,983,614	12,118,288
Additions	3,040,240	3,130,563
Settlements	(930,675)	(1,265,238)
Write-back	(1,949,023)	-
Transfer to provision contingencies (Note 15 (e))	(421,966)	-
Balance at the end of the year	<u>13,722,190</u>	<u>13,983,613</u>

(e) The movement of provision for contingencies is as follows:

	<u>2016</u>	<u>2015</u>
	US\$	US\$
Balance at the beginning of the year	13,727,234	7,086,410
Additions	17,613,949	7,562,022
Transfer from provision for end-of-service indemnity (Note 15(d))	421,966	-
Settlements	-	(921,198)
Transfers to provision for problematic receivables	(5,670,000)	-
Balance at the end of the year	<u>26,093,149</u>	<u>13,727,234</u>

(f) Due to a joint venture consists of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Beirut Waterfront Development S.A.L.	<u>182,892</u>	<u>8,473</u>
	<u>182,892</u>	<u>8,473</u>

The above balance is interest free and is of a current nature.

16. DIVIDENDS PAYABLE

<u>General Assembly Date</u>	<u>Dividend per Share US\$</u>	<u>Declared US\$</u>	<u>Settled/ Distributed up to December 31, 2016 US\$</u>	<u>December 31,</u>	
				<u>2016 Payable US\$</u>	<u>2015 Payable US\$</u>
June 29, 1996	0.20	30,918,413	29,476,338	1,442,075	1,455,077
June 30, 1997	0.25	40,367,172	37,723,479	2,643,693	2,669,295
June 29, 1998	0.25	39,351,753	36,137,414	3,214,339	3,236,637
June 23, 2003	Stock dividends	19,625,550	19,606,235	19,315	19,315
June 12, 2006	0.60	94,831,106	90,739,061	4,092,045	4,186,944
June 22, 2007	1.00	155,093,702	148,422,330	6,671,372	6,827,169
July 15, 2008	1.00	155,090,832	145,763,977	9,326,855	9,509,662
July 13, 2009	1.15	176,479,957	165,955,789	10,524,168	10,792,440
July 13, 2010	1.15	175,228,434	163,294,392	11,934,042	12,227,052
August 1, 2011	0.40	60,912,291	57,574,059	3,338,232	3,504,712
August 1, 2011	Stock dividends	85,987,850	85,987,850	-	-
July 30, 2012	0.25	39,316,239	36,068,312	3,247,927	3,458,204
July 30, 2012	Stock dividends	42,744,616	42,744,616	-	-
July 13, 2015	0.10	16,015,415	13,803,351	2,212,064	3,358,600
July 13, 2015	Stock dividends	36,859,996	36,859,996	-	-
June 27, 2016	0.10	16,302,491	10,510,470	5,792,021	-
June 27, 2016	Stock dividends	19,070,313	19,070,313	-	-
		<u>1,204,196,130</u>	<u>1,139,737,982</u>	<u>64,458,148</u>	<u>61,245,107</u>

The General Assembly held on June 27, 2016 decided to distribute dividends on the basis of US\$ 0.1 per share and to distribute Class (A) and Class (B) shares from its treasury shares on the basis of 1 share for every 80 shares for a total consideration of US\$35 million and issued the related share certificates. As a result, the Group recorded cash dividends payable in the amount of US\$16.3million. Stock dividends with an aggregate weighted average cost of US\$33 million were distributed at an average market price of US\$9.35 resulting in a loss of US\$14 million recorded under "Deficit on treasury shares' activity" under equity. The total distribution tax amounted to US\$1.7 million. An amount of approximately US\$10.5 million was settled up to December 31,2016.

The General Assembly held on July 13, 2015 decided to distribute dividends on the basis of US\$0.1 per share totaling to USD16million and to distribute class (A) and (B) shares from its treasury shares on the basis of 1 share for every 50 shares for a total of approximately US\$37million and issued the related share certificates. The total distribution tax amounted to US\$3million. An amount of approximately US\$13million was settled up to December 31, 2015.

The outstanding balance of unpaid dividends relates mostly to unclaimed dividends and dividends pertaining to undelivered class (A) shares.

17. DEFERRED REVENUES AND OTHER CREDIT BALANCES

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Cash down payments and commitments on sale contracts	3,024,028	42,714,603
Deferred rental revenue and related deposits	17,101,336	19,124,700
Unrealized gain on sale of properties to a joint venture (Note 12 (b))	10,750,000	10,750,000
Deferred interest revenue on a loan to a joint venture (Note 12 (b))	<u>29,427,300</u>	<u>26,138,700</u>
	<u>60,302,664</u>	<u>98,728,003</u>

Cash down payments and commitments on sale contracts include as of December 31, 2015 balances aggregating to approximately US\$31million that relate to eight sales contracts with an aggregate potential gross sales value of US\$125million. These were recognized in 2016.

Deferred rental revenue and related deposits represent down payments on lease and rental agreements and reservation deposits for the rental of real estate properties.

18. TERM BANK LOANS

<u>Loan Amount</u>		<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Loan Repayment and Covenants</u>	<u>Outstanding Balance December 31,</u>	
<u>2016</u>	<u>2015</u>				<u>2016</u>	<u>2015</u>
US\$	US\$				US\$	US\$
75,000,000	75,000,000	30-Jun-19	5.50%	(a)	49,999,236	49,999,236
35,000,000	35,000,000	5-Oct-17	5.50%	(b)	15,000,004	25,000,000
3,255,000	3,255,000	31-Dec-18	6.50%	(c)	1,300,071	1,952,038
50,000,000	50,000,000	31-Dec-19	5.50 %	(d)	37,499,166	49,999,900
24,596,798	-	1-Feb-18	6.25%	(e)	24,486,779	-
15,000,000	-	1-Feb-18	5.75%	(f)	15,000,000	-
100,000,000	-	25-Jun-22	6.25%	(g)	100,000,000	-
24,000,000	-	4-Aug-19	4.85%	(h)	18,000,000	-
40,000,000	-	31-Dec-21	4.85%	(i)	35,000,000	-
4,756,000	4,756,000	30-Sep-17	6.50%	(j)	1,426,800	3,329,200
2,988,000	2,988,000	30-Sep-17	6.50%	(k)	896,400	2,091,600
					<u>298,608,456</u>	<u>132,371,974</u>

- (a) During 2016, the loan was restructured and the repayment will be through 4 equal semi-annual installments of US\$5,000,000 each, starting June 30, 2017, with the final remaining balance to be settled on June 30, 2019. The covenants of the loan stipulate that the Group should maintain a maximum debt to equity ratio of 1:1 and a minimum current ratio of 1.2:1.

- (b) The repayment of the loan will be through 3 payments of US\$10million during 2016, US\$5million and a final payment of US\$10million on October 5, 2017. The covenants of the loan stipulate that the Group should maintain a maximum gearing ratio of 1:1, debt to equity ratio of 2:1, current ratio of 1:1 and maintain a minimum built-up area of 750,000 Sqm. An amount of US\$10million was settled during 2016 (US\$10million was settled during 2015 prior to due date).
- (c) The purpose of the loan is the purchase of an apartment, plot 1456 of Mina el Hosn. Accordingly, the Group granted the bank a first degree mortgage over the above mentioned apartment. The repayment of the loan will be through 5 annual payments of US\$651,000 each, starting December 1, 2014. An amount of US\$651,000 was settled during 2016 (US\$651,000 was settled during 2015).
- (d) The repayment of the loan will be through 4 equal annual installments of US\$12,500,000 each, starting after the end of the grace period on December 31, 2016. An amount of US\$12,500,000 was settled during 2016.
- (e) The repayment of the loan will be through 4 equal quarterly installments of US\$5,000,000 each, starting February 1, 2017, with the final remaining balance to be settled on February 1, 2018.
- (f) The repayment of the loan will be through 3 equal installments of US\$5,000,000 each, on February 1, 2017, May 1, 2017 and the final settlements on February 1, 2018. The covenants of the loan stipulate that the Group should maintain a minimum equity balance of US\$1billion, a minimum equity to assets ratio of 40% and a maximum debt equity ratio of 50%.
- (g) The repayment of the loan will be through 10 semi-annually installments of US\$10million each, starting December 25, 2017 with the final settlements on June 25, 2022. The covenants of the loan stipulate that the Group should maintain a minimum equity balance of US\$1billion, a minimum equity to assets ratio of 40% and a maximum debt equity ratio of 50%.
- (h) The repayment of the loan will be through 4 equal annual installments of US\$6million each, starting August 4, 2016 with the final settlements on August 4, 2019. An amount of US\$6million settled during 2016. The covenants of the loan stipulate that the Company should maintain a maximum equity balance of 1:2 and net banks debt to equity of 1:3. Also, the covenants of the loan stipulate that the Company should maintain a minimum of 750,000 square meters of built properties and US\$1billion in net tangible assets free from any liens.
- (i) The repayment of the loan will be through 6 annual installments, starting with US\$5million on December 31, 2016, and a remaining 5 equal installments of US\$7million with the final settlement on December 30, 2021. An amount of US\$5million was settled during 2016. The covenants of the loan stipulate that the Company should maintain a maximum equity balance of 1:2 and net banks debt to equity of 1:3. Also, the covenants of the loan stipulate that the Company should maintain a minimum of 750,000 square meters of built properties and US\$1billion in net tangible assets free from any liens.

- (j) This loan was used to settle the outstanding balance of an original loan in the amount of US\$9,500,000 from the same bank. The repayment of the loan will be through 10 equal quarterly installments of US\$475,600 each. An amount of US\$1,902,400 was settled during 2016 (US\$1,426,800 was settled during 2015).
- (k) This loan was used to settle outstanding balance of an original loan in the amount of US\$6,000,000 and an overdraft balance outstanding from the same bank. The repayment of the loan will be through 10 equal quarterly installments of US\$298,800 each. An amount of US\$1,195,200 was settled during 2016 (US\$896,400 was settled in 2015).

Term bank loans carry the following maturities:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
2016	-	76,246,774
2017	93,474,203	30,474,200
2018	65,635,849	13,151,000
2019	75,498,404	12,500,000
2020	27,000,000	-
2021	27,000,000	-
2022	10,000,000	-
	<u>298,608,456</u>	<u>132,371,974</u>

Early redemption of term bank loans is not subject to penalty provided the redemption is in accordance with the terms and conditions stated in the loans agreements

Interest expense on term bank loans for the year 2016 amounted to US\$9,886,164 (US\$6,007,306 for the year 2015) and is recorded under "Interest expense" in the consolidated statement of profit or loss (Note 29).

19. CAPITAL

Capital as at December 31, 2016 and 2015 consists of 165,000,000 shares of US\$10 par value, authorized and fully paid and divided in accordance with Law 117/91 into the following:

- Class "A", amounting to 100,000,000 shares represented contribution in kind of properties in the BCD, based on the resolutions of the High Appraisal Committee. All Class A shares were deemed to have been issued and outstanding since the establishment of the Group.
- Class "B", amounting to 65,000,000 shares represented capital subscription in cash and are all issued and fully paid at the establishment of the Group.

Class "A" and Class "B" shares have the same rights and obligations.

As of December 31, 2016, the Group had 12,161,627 Class A shares listed on the London Stock Exchange in the form of Global Depository Receipts (GDR) (12,681,100 Class A shares as of December 31, 2015).

20. LEGAL RESERVE

In conformity with the Group's articles of incorporation and the Lebanese Code of Commerce, 10 % of the annual net income is required to be transferred to legal reserve until this reserve equals one third of capital. This reserve is not available for dividend distribution.

21. TREASURY SHARES

Treasury shares as at December 31, 2015 represent 1,975,093 class (A) and (B) treasury shares of which 396,344 shares represent Global Depository Receipts (GDR). During 2016, treasury shares were distributed as stock dividends to shareholders in full. Treasury shares are stated at the weighted average cost.

According to its articles of incorporation, the Group may purchase up to 10% of its share capital without the existence of free reserves, provided that it shall resell these shares within a period not exceeding eighteen months.

22. REVENUES FROM RENDERED SERVICES

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>
Services rendered to related parties, an associate and a joint venture (Note 32)	-	914,480
Services rendered to clients	1,931,000	2,155,636
Broadband network revenues	<u>4,589,544</u>	<u>3,916,663</u>
	<u>6,520,544</u>	<u>6,986,779</u>

23. DEPRECIATION OF AND CHARGES ON RENTED PROPERTIES

	<u>Year Ended</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>
Depreciation expense (Note 11)	17,167,013	12,891,130
Property taxes	6,532,111	7,588,870
Manpower	8,368,397	7,853,982
Advertising	106,658	178,950
Electricity, maintenance and other related charges	8,109,359	7,540,952
Recoveries from tenants	<u>(8,805,737)</u>	<u>(10,355,833)</u>
	<u>31,477,801</u>	<u>25,698,051</u>

Manpower includes reallocated salaries, benefits and related charges in the aggregate amount of US\$5,887,222 during the year ended December 31, 2016 (US\$6,342,172 during the year ended December 31, 2015) (Note 25).

24. COST OF RENDERED SERVICES

	Year Ended	
	December 31,	
	2016	2015
	US\$	US\$
Cost of services rendered to a related party, an associate and a joint venture (Note 25)	-	914,480
Cost of services rendered to clients	624,469	1,576,816
Broadband network cost of services rendered	<u>3,038,673</u>	<u>3,099,322</u>
	<u>3,663,142</u>	<u>5,590,618</u>

25. GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended	
	December 31,	
	2016	2015
	US\$	US\$
Salaries, benefits and related charges	21,819,447	24,007,598
Termination indemnities	5,222,708	1,570,532
Board of directors' remunerations	300,000	300,000
Professional services	2,303,781	2,389,403
Promotion and advertising	790,132	888,235
Utilities, office, maintenance and other similar expenses	2,712,489	3,497,691
Travel and accommodation	477,741	585,063
Other expenses	<u>1,202,180</u>	<u>1,235,785</u>
	<u>34,828,478</u>	<u>34,474,307</u>

The Group reallocated salaries, benefits and related charges and administrative expenses amounting to US\$7,594,496 to construction cost during the year ended December 31, 2016 (US\$8,284,866 during the year ended December 31, 2015) (Note 10 (a.5)).

The Group reallocated salaries, benefits and related charges amounting to US\$5,887,222 to charges on rented property during the year ended December 31, 2016 (US\$6,342,172 during the year ended December 31, 2015) (Note 23).

The Group reallocated salaries, benefits and related charges of a Nil balance to cost of rendered services during the year ended December 31, 2016 (US\$914,480 during the year ended December 31, 2015) (Note 24).

26. INTEREST INCOME

	Year Ended December 31,	
	2016	2015
	US\$	US\$
Interest income from notes and accounts receivable	12,976,406	12,721,760
Interest income from banks	4,702,652	4,634,341
Interest income from asset-backed securities (Note 9)	<u>1,198,028</u>	<u>1,990,605</u>
	<u>18,877,086</u>	<u>19,346,706</u>

27. OTHER EXPENSES

	Year Ended December 31,	
	2016	2015
	US\$	US\$
Loss on sale of fixed assets, net	394,129	370,178
Other expenses	<u>37,796</u>	<u>401,480</u>
	<u>431,925</u>	<u>771,658</u>

28. OTHER INCOME

	Year Ended December 31,	
	2016	2015
	US\$	US\$
Income from events and activities	378,990	89,014
Other	<u>51,852</u>	<u>4,574,226</u>
	<u>430,842</u>	<u>4,663,240</u>

“Other” represents fees charged by the Group to one of its customers for the change in use of a plot of land sold in prior years.

29. INTEREST EXPENSE

	Year Ended	
	December 31,	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Interest expense on short term facilities (Note 14)	11,124,650	16,257,889
Interest expense on bank overdrafts (Note 14)	15,426,375	14,153,021
Interest expense on term bank loans (Note 18)	9,886,164	6,007,306
Interest expense allocated to infrastructure costs (Note 10 (a.3))	(260,397)	(1,026,826)
Interest expense allocated to real estate development projects (Note 10 (b))	(129,589)	(734,537)
Bank and commission charges	<u>155,994</u>	<u>183,885</u>
	<u>36,203,197</u>	<u>34,840,738</u>

30. BASIC/DILUTED EARNINGS PER SHARE

The computation of earnings per share is based on net income for the period and the weighted average number of outstanding class (A) and (B) shares during each period net of treasury shares held by the Group.

The weighted average number of shares to compute basic and diluted earnings/(loss) per share is 165,000,000 shares for the year 2016 (163,363,878 shares for the year 2015).

31. NOTES TO THE CASH FLOW STATEMENT

(a) Depreciation was applied as follows:

	Year Ended	
	December 31,	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Depreciation of fixed assets (Note 13)	4,096,552	4,482,266
Depreciation of investment properties (Note 11&23)	<u>17,167,013</u>	<u>12,891,130</u>
Depreciation charge for the year	<u>21,263,565</u>	<u>17,373,396</u>

(b) Interest expense consists of the following:

	Year Ended	
	December 31,	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Interest charged as period cost (Note 29)	36,203,197	34,840,738
Interest expense allocated to inventory of land and projects in progress (Note 10 (a.3) and Note 10 (b))	<u>389,986</u>	<u>1,761,363</u>
Total interest expense	<u>36,593,183</u>	<u>36,602,101</u>

(c) Non-cash transactions in operating and investing activities include transfers from inventory of land and projects in progress to investment properties in the amount of US\$31,460,734 for the year ended December 31, 2016 (US\$38,718,504 for the year ended December 31, 2015) (Note 11).

(d) Non-cash transactions in investing activities include cumulative foreign currency translation reserve in the amount of US\$68,022 which was excluded from investment in associates and joint ventures against cumulative foreign currency translation reserve under equity (US\$122,394 for the year ended December 31, 2015).

(e) Non-cash transactions in operating activities include accrued interest income on long term loan to a joint venture in the amount of US\$3,251,973 for the year ended December 31, 2016 (US\$3,231,619 For the year ended December 31, 2015) which was excluded from prepayments and other debit balances against deferred revenues and other credit balances.

(f) Cash and cash equivalents comprise the following:

	Year Ended	
	December 31,	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Cash on hand (Note 6)	64,467	54,098
Checks under collection (Note 6)	7,622,104	6,197,926
Current accounts (Note 6)	11,197,032	11,896,267
Short term deposits (Note 6)	92,922,914	118,061,067
Bank overdrafts (Note 14)	<u>(62,762,330)</u>	<u>(245,045,868)</u>
	<u>49,044,187</u>	<u>(108,836,510)</u>

32. RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. significant shareholders, directors and senior management of the Group, and companies of which they are principal owners and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Cash and bank balances include US\$70,586,587 as of December 31, 2016 (US\$86,390,528 as of December 31, 2015) representing current bank accounts with a local bank who is a significant but minority shareholder of the Group.

Bank overdrafts and short term facilities include US\$110,729,713 as of December 31, 2016 (US\$121,586,842 as of December 31, 2015) representing short term facilities with a local bank who is a significant but minority shareholder of the Group.

Included under "Interest expense" in the consolidated statement of profit or loss an amount of US\$6,199,830 for the year ended December 31, 2016 (US\$2,941,556 for the year ended December 31, 2015) representing interest expense on short term facilities with a local bank who is a significant but minority shareholder of the Group.

Certain directors are members of the boards of directors of banks with whom the Group has various banking activities.

During 2013, Beirut Waterfront Development S.A.L., (joint venture), granted the Group a loan in the amount of US\$100,000. This loan bears interest at an annual rate of 8%. The principal of the loan shall be paid through monthly payments representing 2% of Grid Resto restaurant gross sales located in "Zaitounay Bay". No payments were made and no interest was charged during the year 2016 and 2015 as Grid Resto restaurant closed during 2014. The loan was fully settled during 2017.

The Group incurred various expenses on behalf of its related parties whose total net debit balances due amounted to US\$2,046,483 as of December 31, 2016 (US\$3,962,716 as of December 31, 2015) (Note 7 and 15).

Accrued interest income on a long term loan of US\$36.54million granted by the Group to Beirut Waterfront Development S.A.L., a joint venture, amounted to US\$18,087,300 as of December 31, 2016 (US\$14,854,599 as of December 31, 2015), Note 7 (a) and 12 (b).

During 2016, the Group charged Solidere International Limited, an associate, administrative expenses of a Nil amount (US\$824,919 for the year 2015) (Note 22), in addition to an amount of US\$2,750 (US\$7,100 for the year 2015) representing payments on its behalf.

During 2016, the Group rendered services to City Makers S.A.R.L., a related party, for an aggregate Nil amount (US\$89,561 for the year 2015) (Note 22).

Total benefits paid to executives and members of the Board of Directors (including salary, bonus and others), included within "General and administrative expenses", for the year ended December 31, 2016 amounted to US\$4,146,843 (US\$3,896,842 for the year ended December 31, 2015) and a Nil debit balance is outstanding as at December 31, 2016.

Income arising and expenses incurred from the Group's transactions with other related parties, other than those disclosed in the financial statements, do not form a significant portion of the Group's operations.

33. COMMITMENTS AND CONTINGENCIES

- (a) An agreement between the Group and the Council for Development and Reconstruction ("CDR") was promulgated through Decree No. 5665 dated September 21, 1994, duly approved by the Council of Ministers. By virtue of this agreement, the Group was granted 291,800sqm of the reclaimed land surface (totaling 608,000 sqm) against the execution by the Group of the sea landfill and infrastructure works.
- (b) The total projected cost for completion of the BCD project has been estimated by management to be approximately US\$2billion. This amount is used as a base for the determination of cost of sales.
- (c) Commitments for contracted works not executed as of December 31, 2016 amounted to approximately US\$100 million (US\$74million as of December 31, 2015).
- (d) The Group has submitted to the "CDR" claims aggregating to US\$13.6million representing mainly change orders to infrastructure works in the traditional BCD which were incurred by the Group on behalf of the Government. These claims were neither approved nor confirmed by the concerned party nor recorded as receivables in the accompanying financial statements.
- (e) The Group is a defendant in various legal proceedings and has litigations pending before the courts and faces several claims raised by contractors. On the basis of advice received from the external legal counsel and the Group's technical department, the directors are of the opinion that any negative outcome thereof, if any, would not have a material adverse effect on the financial position of the Group.
- (f) On June 7, 1997, the Group signed an exchange agreement with the Lebanese Government. By virtue of this agreement, the Group acquired additional built up area of approximately 58,000sqm and 556,340 Class A shares in exchange for approximately 15,000sqm and the payment of US\$38.7million to restore governmental buildings. US\$25million have already been paid and accounted for and the balance of US\$13.8million continues to be included under accounts payable. According to the terms of the agreement, the Group undertook to build a governmental building and to conclude ten finance leases over seven years for certain buildings belonging to the Lebanese Government. In 1999, the government canceled the exchange and finance lease agreement. The implementation and the effect of cancellation is not yet determined and has not been reflected in the accompanying financial statements.

- (g) In prior periods, the Group submitted to the Ministry of Culture and Higher Education claims totaling US\$17.7million representing compensation for delays that resulted from excavation works. These claims were not yet approved nor confirmed by the concerned authorities nor recorded as receivables in the accompanying financial statements.
- (h) For the purpose of enhancing and improving land value in Zokak Al Blat area and to settle the recuperation of a lot in that area, the Group signed in 2002 an agreement with the Armenian Orthodox prelacy to demolish the building on the recuperated lot and to transfer corresponding building rights to another adjacent lot with minimum building rights of 4,900sqm against ceding of owners' shares from both lots. Additionally, a built up area of 5,335sqm (US\$2,700,000) remains as a contingent loss to the Group in case the prelacy decides to build this area within the next 10 years following this agreement. During November 2010, an agreement was signed by both parties in which it was agreed that November 2010 would be the start date for the 10 years period as it represents the date of finalization of parcellation and massing of plots number 1137 and 1138 of Zokak Al Blat area subject to the said agreements.
- (i) The Group is defendant in a lawsuit raised by a Group of jewelers and the jewelers syndicate. The Group appealed the court's decision in which the Group was required to register certain commercial shops in Beirut Souks. The case was deferred until April 4, 2016 and then deferred to June 13, 2016. On October 25, 2016, the Group lost the appeal. The court's decision was to force the Group to register specific commercial shops and offices in Beirut Souks against a consideration to be paid by the plaintiffs. The Group has filed a repeal in 2016 before the Cassation Court. The final outcome cannot be presently determined.
- (j) The Group is a party in a claim of a delay penalty estimated at around US\$300,000 for not executing a judgement. The Group has appealed the case in front of the civil court to cancel this judgement. On February 12, 2016, the court ruled against the Group and the plaintiff was awarded LBP150million. The Group challenged this judgment before the court of appeal on February 19, 2016 and obtained from the latter a stay of execution on March 10, 2016 which shall remain in force until the case is determined by the court of appeal. The case is currently pending before this court and no hearing date has been fixed yet.
- (k) The Group has commitments and contingencies in the form of letters of guarantee in the amount of US\$10,536,966 as at December 31, 2016 (as at December 31, 2015 commitments and contingencies in the form of letters of guarantee in the amount of US\$11,783,633).

34. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2015.

The capital structure of the Group consists of debt and equity. Debt consists of total liabilities less cash and bank balances. Equity comprises capital, reserves, retained earnings, cumulative foreign currency transactions, cumulative change in fair value and deficit on treasury shares' activity less treasury shares.

The Group monitors capital on the basis of the debt-to-capital ratio (gearing ratio). The gearing ratio as at December 31, 2016 and 2015 was as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	US\$	US\$
Total liabilities	862,270,308	960,009,748
Less: Cash and bank balances	(111,806,517)	(136,209,358)
Total debt	<u>750,463,791</u>	<u>823,800,390</u>
Total equity attributable to the owners of the parent	<u>2,015,933,403</u>	<u>1,957,490,360</u>
Gearing ratio	<u>0.37</u>	<u>0.42</u>

35. RISK MANAGEMENT

The Group's principal financial liabilities, comprise bank loans, bank overdrafts and short term facilities, deferred revenues and other credit balances, dividends payable and accounts payable and other liabilities. The main purpose of these financial liabilities is to raise funds for the Group's operations. The Group has various financial assets such as accounts and notes receivable and cash and bank balances, which arise directly from its operations. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and approves policies for managing each of these risks which are summarized below:

(a) Interest Rate Risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other conditions held constant, of the Group's profit before tax.

	<u>Increase/ decrease in basis points</u>	<u>Effect on profit before tax</u> USD
2016:		
US Dollars	+50	1,092,566
US Dollars	-25	(546,283)
2015:		
US Dollars	+50	513,792
US Dollars	-25	(256,896)

(b) Foreign Currency Risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not materially exposed to currency risk since the majority of its financial assets and liabilities are denominated in U.S. Dollar.

(c) Credit Risk:

The Group's credit risk is primarily attributable to its liquid funds, receivables, and other debit balances. The amounts presented in the consolidated statement of financial position are stated at net realizable value, estimated by the Group's management based on prior experience and the current economic conditions.

The Group's liquid funds are placed with prime banks.

The Group trades mostly with recognized, credit worthy third parties and monitors receivable balances and collection on an ongoing basis.

The Group's credit risk exposure with respect to accounts and notes receivable is disclosed under Note 8.

The Group's maximum exposure to credit risk is the carrying amount as disclosed in Notes 6, 7, 8 and 9.

The Group's financial assets are segregated by geographical area as follows:

	December 31, 2016		
	Lebanon	Europe	Total
	US\$	US\$	US\$
Cash and bank balances	111,548,752	257,765	111,806,517
Other debit balances	31,250,270	-	31,250,270
Accounts and notes receivable, net	509,328,764	-	509,328,764
Investment in asset-backed securities	<u>45,363,975</u>	-	<u>45,363,975</u>
Total financial assets	<u>697,491,761</u>	<u>257,765</u>	<u>697,749,526</u>

	December 31, 2015		
	Lebanon	Europe	Total
	US\$	US\$	US\$
Cash and bank balances	135,849,422	359,936	136,209,358
Other debit balances	41,503,059	-	41,503,059
Accounts and notes receivable, net	466,209,794	-	466,209,794
Investment in asset-backed securities	<u>69,481,753</u>	-	<u>69,481,753</u>
Total financial assets	<u>713,044,028</u>	<u>359,936</u>	<u>713,403,964</u>

(d) Liquidity Risk:

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

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

The table below summarizes the maturity profile of the Group's liabilities as of December 31, based on contractual undiscounted liabilities:

	December 31, 2016				
	No Maturity USD	Less than 3 Months USD	3-12 Months USD	1 to 5 Years USD	Total USD
Bank overdrafts and short term facilities	62,762,330	110,060,123	137,141,072	-	309,963,525
Accounts payable and other liabilities	24,523,581	11,340,121	-	94,164	35,957,866
Dividends payable	64,458,148	-	-	-	64,458,148
Deferred revenues and other credit balances	60,302,664	-	-	-	60,302,664
Term bank loans	-	8,559,221	85,656,140	242,898,953	337,114,314
Financial liabilities	<u>212,046,723</u>	<u>129,959,465</u>	<u>222,797,212</u>	<u>242,993,117</u>	<u>807,796,517</u>
Non-financial liabilities	<u>93,139,091</u>	-	-	-	<u>93,139,091</u>
	<u>305,185,814</u>	<u>129,959,465</u>	<u>222,797,212</u>	<u>242,993,117</u>	<u>900,935,608</u>

	December 31, 2015				
	No Maturity USD	Less than 3 Months USD	3-12 Months USD	1 to 5 Years USD	Total USD
Bank overdrafts and short term facilities	245,045,868	110,497,260	207,864,167	-	563,407,295
Accounts payable and other liabilities	27,219,008	17,202,769	-	94,164	44,515,941
Dividends payable	61,245,107	-	-	-	61,245,107
Deferred revenues and other credit balances	87,978,003	-	-	-	87,978,003
Term bank loans	-	1,843,925	80,905,348	60,461,927	143,211,200
Financial liabilities	<u>421,487,986</u>	<u>129,543,954</u>	<u>288,769,515</u>	<u>60,556,091</u>	<u>900,357,546</u>
Non-financial liabilities	<u>77,855,762</u>	-	-	-	<u>77,855,762</u>
	<u>499,343,748</u>	<u>129,543,954</u>	<u>288,769,515</u>	<u>60,556,091</u>	<u>978,213,308</u>

36. CLASSIFICATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

<u>ASSETS</u>	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>
<u>Current Assets</u>		
Cash and banks balances	111,806,517	136,209,358
Prepayments and other debit balances - Current portion	36,138,106	46,175,284
Accounts and notes receivables, net - Current portion	186,831,642	171,564,236
Investment in assets-backed securities - Current portion	12,790,114	9,007,237
Total Current Assets	<u>347,566,379</u>	<u>362,956,115</u>
<u>Non Current Assets</u>		
Prepayments and other debit balances - Non-current portion	3,936,039	5,677,853
Accounts and notes receivables, net - Non-current portion	322,497,122	294,645,558
Investments in assets-backed securities - Non-current portion	32,573,861	60,474,516
Inventory of land and projects in progress	1,091,875,392	1,134,114,848
Investment properties, net	606,421,737	593,436,775
Investment in joint ventures and associates	418,029,589	407,632,317
Fixed assets, net	55,303,592	58,562,126
Total Non-Current Assets	<u>2,530,637,332</u>	<u>2,554,543,993</u>
TOTAL ASSETS	<u>2,878,203,711</u>	<u>2,917,500,108</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Bank overdrafts and short term facilities	309,762,330	556,042,962
Accounts payable and other liabilities - Current portion	89,229,207	89,816,690
Dividends payable	64,458,148	61,245,107
Deferred revenue and other credit balances - Current portion	20,125,364	61,839,303
Term bank loans - Current portion	93,474,203	76,246,774
Total Current Liabilities	<u>577,049,252</u>	<u>845,190,836</u>
<u>Non Current Liabilities</u>		
Accounts payable and other liabilities – Non-current portion	39,909,503	21,805,012
Deferred revenue and other credit balances - Non current portion	40,177,300	36,888,700
Term bank loans – Non-current portion	205,134,253	56,125,200
Total Non-Current Liabilities	<u>285,221,056</u>	<u>114,818,912</u>
TOTAL LIABILITIES	<u>862,270,308</u>	<u>960,009,748</u>
<u>EQUITY</u>		
Issued capital at par value US\$10 per share:		
100,000,000 class (A) shares	1,000,000,000	1,000,000,000
65,000,000 class (B) shares	650,000,000	650,000,000
	<u>1,650,000,000</u>	<u>1,650,000,000</u>
Legal reserve	170,435,346	164,070,347
Retained earnings	230,926,613	197,408,966
Cumulative foreign translation reserve	(372,709)	(440,731)
Deficit on treasury shares' activity	(35,055,847)	(21,382,494)
Less: Treasury shares	-	(32,165,728)
Total Equity	<u>2,015,933,403</u>	<u>1,957,490,360</u>
TOTAL LIABILITIES AND EQUITY	<u>2,878,203,711</u>	<u>2,917,500,108</u>

37. FAIR VALUE MEASUREMENT

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (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 in Note 3.

The summary of the Group's classification of each class of assets and liabilities and their fair values are as follows:

		December 31, 2016				
Notes	Carrying Amount US\$	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$	
Financial Assets measured at: amortized cost						
Cash and bank balances	6	111,806,517	7,686,571	104,119,946	-	111,806,517
Other debit balances	7	31,250,270	-	31,250,270	-	31,250,270
Accounts and notes receivable	8	509,328,764	-	509,328,764	-	509,328,764
Investment in asset-backed securities	9	45,363,975	-	59,172,459	-	59,172,459
		<u>697,749,526</u>	<u>7,686,571</u>	<u>703,871,439</u>	<u>-</u>	<u>711,558,010</u>
Financial Liabilities measured at: amortized cost						
Bank overdrafts, and short term facilities	14	309,762,330	-	309,762,330	-	309,762,330
Accounts payable and other liabilities	15	35,957,866	-	35,957,866	-	35,957,866
Dividends payable	16	64,458,148	-	64,458,148	-	64,458,148
Deferred revenues and other credit balances	17	49,552,664	-	49,552,664	-	49,552,664
Term bank loans		298,608,456	-	299,475,161	-	299,475,161
		<u>758,339,464</u>	<u>-</u>	<u>759,206,169</u>	<u>-</u>	<u>759,206,169</u>
Non-financial Assets measured at: cost						
Investment properties	11	606,421,737	-	1,334,877,006	-	1,334,877,006
		<u>606,421,737</u>	<u>-</u>	<u>1,334,877,006</u>	<u>-</u>	<u>1,334,877,006</u>

December 31, 2015						
Notes	Carrying Amount US\$	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$	
Financial Assets measured at:						
amortized cost						
Cash and bank balances	6	136,209,358	6,252,024	129,957,334	-	136,209,358
Other debit balances	7	41,503,059	-	41,503,059	-	41,503,059
Accounts and notes receivable	8	466,209,794	-	466,209,794	-	466,209,794
Investment in asset-backed securities	9	69,481,753	-	89,249,759	-	89,249,759
		<u>713,403,964</u>	<u>6,252,024</u>	<u>726,919,946</u>	<u>-</u>	<u>733,171,970</u>
Financial Liabilities measured at:						
amortized cost						
Bank overdrafts and short term facilities	14	556,042,962	-	556,516,917	-	556,516,917
Accounts payable and other liabilities	15	44,515,941	-	44,515,941	-	44,515,941
Dividends payable	16	61,245,107	-	61,245,107	-	61,245,107
Deferred revenues and other credit balances	17	87,978,003	-	87,978,003	-	87,978,003
Term bank loans		<u>132,371,974</u>	<u>-</u>	<u>133,646,740</u>	<u>-</u>	<u>133,646,740</u>
		<u>882,153,987</u>	<u>-</u>	<u>883,902,708</u>	<u>-</u>	<u>883,902,708</u>
Non-financial Assets measured at:						
cost						
Investment properties	11	<u>593,436,775</u>	<u>-</u>	<u>1,368,520,209</u>	<u>-</u>	<u>1,368,520,209</u>
		<u>593,436,775</u>	<u>-</u>	<u>1,368,520,209</u>	<u>-</u>	<u>1,368,520,209</u>

The fair value of financial assets and financial liabilities was determined using the discounted cash flow method based on a discount rate equivalent to the market interest rate.

The fair value of the investment properties was estimated by an independent expert based on the three evaluation approaches, two market based approaches and a cost based approach.

There have been no transfers between Level 1 and Level 2 during the period.

38. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2016, on April 21, 2017.