

**National International Holding Company K.S.C.P.  
And its subsidiaries  
State of Kuwait**

**Consolidated Financial Statements and  
Independent Auditors' Report  
For the year ended 31 December 2016**

**National International Holding Company K.S.C.P.  
And its subsidiaries  
State of Kuwait**

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Independent Auditors' Report  
For the year ended 31 December 2016**

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**Independent Auditors' Report**

**To the Shareholders of National International Holding Company K.S.C.P  
State of Kuwait**

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

*Opinion*

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

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

*Basis for Opinion*

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

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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.

**Valuation and Impairment of Investments available for sale**

As at 31 December 2016, Investments available for sale amounting to KD 16,479,743 represent 39% of the total assets.

The valuation of investment available for sale is inherently subjective, most predominantly for the investments classified under level 3, since these are valued using inputs other than quoted prices in an active market.

In addition, the Parent Company's Management determines whether objective evidence of impairment exists for individual investments, whether it represents a significant or prolonged decline. In these cases, the difference between the carrying value and the fair value is transferred from other comprehensive income to the consolidated statement of income. Given the inherent subjectivity in the valuation of the instruments classified under level 3 and in the assessment of impairment, we determined this to be a key audit matter.

For level 3 valuations, we tested the appropriateness of the models used by the Group and the reliability of the data that was used as input to these models. Further, we selected samples and used our internal valuation specialist to assess the appropriateness of the valuation performed by the Group's management. In addition, we evaluated management's assessment of indications of impairment and challenged management's rationale for identifying significant or prolonged decline in the fair value of the security below its cost, and discussed this with the key management.

We also assessed the adequacy of the disclosures relating to investments available for sale as shown in Note 6 and 23 in the consolidated financial statements.



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## Independent Auditors' Report

To the Shareholders of National International Holding Company K.S.C.P  
State of Kuwait

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

#### *Business combination – acquisition of a subsidiary and associates*

During the current financial year, the Group entered into assets swap transactions where it acquired a subsidiary and investment in associates for a total consideration of KD 12,283,819 resulting in a bargain purchase gain of KD 2,989,721.

Refer to significant accounting policies 2.3 and Note 3 to the consolidated financial statements for the details on the transactions.

Significant judgments have been exercised by the management in establishing the initial estimates of the fair values of the identifiable assets acquired and liabilities assumed on acquisition in preparing their purchase price allocation. As the determination of fair value of the assets acquired and liabilities assumed require significant judgement and due to the complexity involved in accounting for business combination, we have considered this as a key audit matter.

As part of our audit procedures, we obtained all material acquisition agreements and we have ensured that we understood the substance of the transaction, including the consideration and the assets acquired and liabilities assumed.

Our procedures included the following:

- reviewing the appropriateness of the acquisition accounting applied, including the timing at which control and significant influence was deemed to have passed;
- reviewing and considering the appropriateness of the fair values ascribed to assets and liabilities of the acquired subsidiary and provisional fair values of the net assets acquired for the associates;

We also considered the adequacy of the related disclosures in the notes to the consolidated financial statements.

#### *Other Information included in the Group's 2016 Annual Report*

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

## Independent Auditors' Report

To the Shareholders of National International Holding Company K.S.C.P  
State of Kuwait

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

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

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

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

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

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

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

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

## Independent Auditors' Report

To the Shareholders of National International Holding Company K.S.C.P  
State of Kuwait

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

### Report on Other Legal and Regulatory Requirements

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



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**Waleed A. Al Osaimi**  
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(Al-Aiban, Al-Osaimi & Partners)

Kuwait, 19 March 2017


**National International Holding Company K.S.C.P.**  
**And its subsidiaries**  
**State of Kuwait**

**Consolidated Statement of Financial Position as of 31 December 2016**

*(All amounts are in Kuwaiti Dinars)*

|   | Notes | <u>2016</u>       | <u>2015</u>       |
|---|-------|-------------------|-------------------|
| <b>ASSETS</b>   |       |                   |                   |
| Cash and bank balances                                | 4     | 4,492,928         | 1,656,322         |
| Accounts receivable and other assets                  | 5     | 1,384,312         | 411,807           |
| Financial assets at fair value through profit or loss |       | 117,678           | 236,372           |
| Financial assets available for sale                   | 6     | 16,479,743        | 29,676,234        |
| Investment properties                                 | 7     | 2,605,819         | 2,758,415         |
| Inventories   | 8     | 1,252,304         | -                 |
| Investment in associates                              | 9     | 11,764,433        | -                 |
| Property and equipment                                | 10    | 4,047,134         | 30,618            |
| <b>Total assets</b>                                   |       | <u>42,144,351</u> | <u>34,769,768</u> |
| <b>LIABILITIES AND EQUITY</b>                         |       |                   |                   |
| <b>Liabilities</b>                                    |       |                   |                   |
| Bank overdraft  | 4     | 398,847           | 142,291           |
| Murabaha payable                                      | 11    | 1,404,239         | -                 |
| Accounts payable and other liabilities                | 12    | 3,470,106         | 407,342           |
| <b>Total liabilities</b>                              |       | <u>5,273,192</u>  | <u>549,633</u>    |
| <b>Equity</b>   |       |                   |                   |
| Share capital   | 13    | 21,687,750        | 21,687,750        |
| Share premium   |       | 2,813,184         | 2,813,184         |
| Statutory reserve                                     | 14    | 560,389           | 295,409           |
| Cumulative changes in fair values reserve             |       | 10,558,060        | 10,067,610        |
| Treasury shares                                       | 15    | (1,711,249)       | (1,357,272)       |
| Treasury shares reserve                               |       | 318,561           | 318,561           |
| Retained earnings                                     |       | 2,644,464         | 394,893           |
| <b>Total equity</b>                                   |       | <u>36,871,159</u> | <u>34,220,135</u> |
| <b>Total liabilities and equity</b>                   |       | <u>42,144,351</u> | <u>34,769,768</u> |

The accompanying notes form an integral part of these consolidated financial statements

  
 Abdulwahab Mohamed Al Wazzan  
 Chairman

  
 Mamdouh Abdul Ghani El Sherbiny  
 Chief Executive Officer

**National International Holding Company K.S.C.P.  
And its subsidiaries  
State of Kuwait**

**Consolidated Statement of Income for the year ended 31 December 2016**

*(All amounts are in Kuwaiti Dinars)*

|   | Notes | <u>2016</u>      | <u>2015</u>    |
|---|-------|------------------|----------------|
| <b>Revenues</b>                               |       |                  |                |
| Investment income                             | 16    | 3,125,541        | 660,096        |
| (Loss)/gain on sale of investment properties  |       | (31)             | 10,629         |
| Change in fair value of investment properties | 7     | 24,476           | 87,186         |
| Gross profit from operating activities        | 17    | 1,272,727        | -              |
| Share of results of associates                |       | (259,107)        | -              |
| Other income                                  |       | <u>52,877</u>    | <u>2,585</u>   |
|   |       | <u>4,216,483</u> | <u>760,496</u> |
| <b>Expenses</b>                               |       |                  |                |
| Other expenses                                | 18    | 1,495,140        | 428,856        |
| Finance costs                                 |       | <u>71,544</u>    | <u>11,957</u>  |
|   |       | <u>1,566,684</u> | <u>440,813</u> |
| Profit for the year before deductions         |       | 2,649,799        | 319,683        |
| Contribution to KFAS                          |       | (17,682)         | (2,877)        |
| National Labour Support Tax                   |       | (68,012)         | (1,588)        |
| Zakat   |       | (17,827)         | -              |
| Board of Directors' remuneration              | 13    | <u>(35,000)</u>  | <u>-</u>       |
| <b>Profit for the year</b>                    |       | <u>2,511,278</u> | <u>315,218</u> |
| Basic and diluted earnings per share (fils)   | 19    | <u>12.20</u>     | <u>1.50</u>    |

The accompanying notes form an integral part of these consolidated financial statements



**National International Holding Company K.S.C.P.  
And its subsidiaries  
State of Kuwait**

**Consolidated Statement of Comprehensive Income for the year ended 31 December 2016**

*(All amounts are in Kuwaiti Dinars)*

|  | <u>2016</u>             | <u>2015</u>               |
|--|-------------------------|---------------------------|
| <b>Profit for the year</b>   | 2,511,278               | 315,218                   |
| <b>Other comprehensive income:</b>   |                         |                           |
| <i><u>Items that are or may be reclassified subsequently to the consolidated statement of income</u></i> |                         |                           |
| <i>Financial assets available for sale:</i>  |                         |                           |
| Change in fair values  | (41,735)                | (1,600,918)               |
| Reclassified to consolidated statement of income on sale   | (19,531)                | (788,855)                 |
| Reclassified to consolidated statement of income on impairment   | <u>551,716</u>          | <u>515,608</u>            |
| Other comprehensive income/ (loss) for the year  | <u>490,450</u>          | <u>(1,874,165)</u>        |
| <b>Total comprehensive income/ (loss) for the year</b>   | <u><u>3,001,728</u></u> | <u><u>(1,558,947)</u></u> |

The accompanying notes form an integral part of these consolidated financial statements

**National International Holding Company K.S.C.P.**  
**And its subsidiaries**  
**State of Kuwait**

**Consolidated Statement of Changes in Equity for the year ended 31 December 2016**

*(All amounts are in Kuwaiti Dinars)*

|  | <u>Share capital</u> | <u>Share premium</u> | <u>Statutory reserve</u> | <u>Cumulative changes in fair values reserve</u> | <u>Treasury shares</u> | <u>Treasury shares reserve</u> | <u>Retained earnings</u> | <u>Total</u>      |
|--|----------------------|----------------------|--------------------------|--|------------------------|--------------------------------|--------------------------|-------------------|
| <b>As at 1 January 2015</b>                      | 21,262,500           | 2,813,184            | 263,441                  | 11,941,775                                       | (1,357,272)            | 318,561                        | 1,155,417                | 36,397,606        |
| Profit for the year                              | -                    | -                    | -                        | -  | -                      | -                              | 315,218                  | 315,218           |
| Other comprehensive loss for the year            | -                    | -                    | -                        | (1,874,165)                                      | -                      | -                              | -                        | (1,874,165)       |
| Total comprehensive (loss) / income for the year | -                    | -                    | -                        | (1,874,165)                                      | -                      | -                              | 315,218                  | (1,558,947)       |
| Cash dividend                                    | -                    | -                    | -                        | -  | -                      | -                              | (618,524)                | (618,524)         |
| Issuance of bonus shares                         | 425,250              | -                    | -                        | -  | -                      | -                              | (425,250)                | -                 |
| Transfer to statutory reserve                    | -                    | -                    | 31,968                   | -  | -                      | -                              | (31,968)                 | -                 |
| <b>As at 31 December 2015</b>                    | <b>21,687,750</b>    | <b>2,813,184</b>     | <b>295,409</b>           | <b>10,067,610</b>                                | <b>(1,357,272)</b>     | <b>318,561</b>                 | <b>394,893</b>           | <b>34,220,135</b> |
| <b>As at 1 January 2016</b>                      | 21,687,750           | 2,813,184            | 295,409                  | 10,067,610                                       | (1,357,272)            | 318,561                        | 394,893                  | 34,220,135        |
| Profit for the year                              | -                    | -                    | -                        | -  | -                      | -                              | 2,511,278                | 2,511,278         |
| Other comprehensive income for the year          | -                    | -                    | -                        | 490,450  | -                      | -                              | -                        | 490,450           |
| Total comprehensive income for the year          | -                    | -                    | -                        | 490,450  | -                      | -                              | 2,511,278                | 3,001,728         |
| Purchase of treasury shares                      | -                    | -                    | -                        | -  | (353,977)              | -                              | -                        | (353,977)         |
| Transfer to statutory reserve                    | -                    | -                    | 264,980                  | -  | -                      | -                              | (264,980)                | -                 |
| <b>As at 31 December 2016</b>                    | <b>21,687,750</b>    | <b>2,813,184</b>     | <b>560,389</b>           | <b>10,558,060</b>                                | <b>(1,711,249)</b>     | <b>318,561</b>                 | <b>2,641,191</b>         | <b>36,867,886</b> |

The accompanying notes form an integral part of these consolidated financial statements

National International Holding Company K.S.C.P.  
And its subsidiaries  
State of Kuwait

Consolidated Statement of Cash Flows for the year ended 31 December 2016

(All amounts are in Kuwaiti Dinars)

|   | Notes | 2016        | 2015        |
|---|-------|-------------|-------------|
| <b>Cash flow from operating activities</b>                |       |             |             |
| Profit for the year                                       |       | 2,511,278   | 315,218     |
| <i>Adjustments:</i>                                       |       |             |             |
| Investment income   | 16    | (3,125,541) | (660,096)   |
| Loss/(gain) on sale of investment properties              |       | 31          | (10,629)    |
| Change in fair value of investment properties             | 7     | (24,476)    | (87,186)    |
| Share of result of an associate                           | 9     | 259,107     | -           |
| Depreciation  | 10    | 102,966     | 1,894       |
| Gain on sale of property and equipment                    |       | (1,347)     | -           |
| Provision for employees' end of service benefits          |       | 70,120      | 34,882      |
| Provision for doubtful debts                              |       | 87,216      | -           |
| Finance costs   |       | 71,544      | 11,957      |
| Operating losses before charges in working capital        |       | (49,102)    | (393,960)   |
| Accounts receivable and other assets                      |       | 270,367     | (385,914)   |
| Financial assets at fair value through profit or loss     |       | 145,429     | 67,789      |
| Inventories   |       | (184,119)   | -           |
| Accounts payable and other liabilities                    |       | 1,600,621   | (1,354,612) |
| Cash generated from/(used in) operating activities        |       | 1,783,196   | (2,066,697) |
| End of service benefits paid                              |       | (26,409)    | (244,885)   |
| Net cash generated from/(used in) operating activities    |       | 1,756,787   | (2,311,582) |
| <b>Cash flow from investing activities</b>                |       |             |             |
| Purchase of financial assets available for sale           |       | (1,503,651) | (327,975)   |
| Proceeds from sale of financial assets available for sale |       | 2,509,905   | 2,253,490   |
| Proceeds from sale of investment properties               |       | 177,041     | 361,563     |
| Purchase of property and equipment                        |       | (227,128)   | (26,250)    |
| Proceeds from sales of property and equipment             |       | 26,398      | -           |
| Dividend income received                                  | 16    | 574,464     | 425,928     |
| Net cash generated from investing activities              |       | 1,557,029   | 2,686,756   |
| <b>Cash flow from financing activities</b>                |       |             |             |
| Dividends paid  |       | -           | (618,524)   |
| Purchase of treasury shares                               |       | (353,977)   | -           |
| Murabaha payables   |       | (308,245)   | -           |
| Finance costs paid  |       | (71,544)    | (11,957)    |
| Net cash used in financing activities                     |       | (733,766)   | (630,481)   |
| <b>Increase/(decrease) in cash and cash equivalents</b>   |       |             |             |
| Cash and cash equivalents at the beginning of the year    |       | 1,514,031   | 1,769,338   |
| Cash and cash equivalents at the end of the year          | 4     | 4,094,081   | 1,514,031   |

The accompanying notes form an integral part of these consolidated financial statements

**National International Holding Company K.S.C.P.  
And its subsidiaries  
State of Kuwait**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2016  
(All amounts are in Kuwaiti Dinars unless otherwise stated)**

**1. Corporate information**

The Parent Company is a Kuwaiti Public Shareholding Company registered and incorporated in Kuwait on 14 January 1979 whose shares are listed on the Kuwait Stock Exchange and the Dubai Financial Market. The Parent Company is engaged in investing activities in both local and international markets as set forth in Article No. 5 of the Parent Company's Articles of Association. The Parent Company is regulated by the Capital Market Authority ("CMA").

The registered office of the Parent Company is located at Al-Raya Tower 2, Floor 45, Abdulaziz Al-Saqer Street, P.O. Box 25825 Safat Kuwait.

The new Companies Law No. 1 of 2016 was published in the Official Gazette on 1 February 2016, which cancelled the Companies Law No 25 of 2012, and its amendments. According to Article No. 5, the new Law will be effective retrospectively from 26 November 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016, which cancelled the Executive Regulations of Law No. 25 of 2012. Companies should make necessary arrangement to be in compliance with provisions of the new law within six months from the executive regulation effective date.

The consolidated financial statements for the year ended 31 December 2015 were approved in the general assembly of the shareholders dated 24 April 2016 and also approved Board of Directors' recommendation not to distribute the dividends for the financial year 2015. The AGM also approved listing of the Parent Company's shares in Dubai Financial Market with a sealing up to 40% of the Parent Company shares that can be traded in Dubai Financial Market. The shares of the Parent Company were listed on the Dubai Financial Market effective 14 November 2016.

The consolidated financial statements includes the financial statements of the Parent Company and its subsidiaries that are wholly owned, together referred to as "the Group" as follows:

| Company Name   | Country of incorporation | Principal activity              | Effective interest (%) |      |
|--|--------------------------|---------------------------------|------------------------|------|
|  |                          |                                 | 2016                   | 2015 |
| Al Oula National Real Estate Company sole proprietorship | Kuwait                   | Real estate activities          | 100                    | 100  |
| Al Ghad Project Management Company sole proprietorship   | Kuwait                   | Real estate projects management | 100                    | 100  |
| Al Ghad International General Trading W.L.L.             | Kuwait                   | General Trading                 | 100                    | -    |
| Ahlia Chemicals Company K.S.C.C. *                       | Kuwait                   | Manufacturing                   | 100                    | -    |

The Group does not have any subsidiaries with non-controlling interests.

\*During the year, the Group acquired 100% equity interest in Ahlia Chemicals Company K.S.C.C. through the swap of some investments in unquoted equity securities (Note 3) and has established Al Ghad International General Trading W.L.L. Company.

The consolidated financial statements of National International Holding Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively, the "Group") for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Parent Company's Board of Directors on 19 March 2017. The General Assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after their issuance.

**2. Basis of Preparation and Significant Accounting Policies**

**2.1 Basis of Preparation**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs). These consolidated financial statements have been prepared on the historical cost basis except for financial assets at fair value through profit or loss, certain financial assets available for sale and investment properties and financial instruments that are re-measured at fair value, as explained in the accounting policies below. These accounting policies of the Group have been consistently applied to all years presented, except as stated in note 2.2 in relation to adoption of new and revised International Financial Reporting Standards.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016  
(All amounts are in Kuwaiti Dinars unless otherwise stated)

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**2.2 Application of New and Revised International Financial Reporting Standards (IFRSs)**

**2.2.1 New And Revised IFRS 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 1 January 2016, have been adopted in these consolidated 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.

- 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 amortisation
- 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

**2.2.2 New and revised IFRS in issue but not yet effective**

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

**New and revised IFRSs**

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 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Effective for annual periods beginning on or after 1 January 2017.

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. Effective for annual periods beginning on or after 1 January 2018.

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

The IFRS 9 in its final form is effective for annual periods beginning on or after 1 January 2018. IFRS 9 contains accounting requirements for financial instruments and replaces 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***

IFRS 15 was issued in May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes 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.

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.

**IFRS 16 *Leases***

IFRS 16 was issued on January 2016 with an effective date of annual periods beginning on or after 1 January 2019. 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.

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 an investor to its associate or joint venture. The effective date of these amendments are deferred indefinitely.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Parent Company in the period of initial application.

The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of revenue from contracts with customers and the Company's financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Parent Company performs a detailed review.

## **2.3 Significant accounting policies**

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises assets (including goodwill), liabilities, non-controlling interests, and other components of equity while any resultant gain or loss is recognized in the consolidated statement of income.

Consideration received and any investment retained are recognized in the consolidated statement of financial position at fair value. It also reclassifies any share of components previously recognised in OCI to the consolidated statement of comprehensive income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

### **Business combinations**

Acquisitions of businesses combination are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except deferred tax assets or liabilities, liabilities or equity instruments related to share based payment arrangements and assets that are classified as held for sale in which cases they are accounted for in accordance with the related IFRS.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed off.

Business combinations involving entities under common control are excluded from IFRS 3 (revised)'s scope, management could use predecessor accounting. Predecessor accounting may lead to differences on consolidation between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity. The differences are included in equity in retained earnings or in a separate reserve.

***Goodwill***

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Financial instruments – initial recognition, subsequent measurement and derecognition**

**(i) Financial assets**

***Initial recognition and measurement***

Financial assets within scope of IAS 39 are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity, financial assets available for sale, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets on initial recognition.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

The Group's financial assets include cash and cash equivalents, receivables, financial assets at fair value through profit or loss, receivables and financial assets available for sale.



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At the reporting date, the Group did not have any financial assets held-to-maturity or as derivatives designated as hedging instruments.

***Subsequent measurement***

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

***Cash and cash equivalents***

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand and at banks and time deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and at banks, net of outstanding bank overdraft.

***Receivables***

Receivables are shown at the balance due, net of allowance for impairment. An estimate for doubtful debts is made, when collection of full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

***Financial assets at fair value through profit or loss***

Financial assets carried at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in the consolidated statement of income. Financial assets are designated at fair value through profit or loss if they are managed, and their performance is evaluated on reliable fair value basis in accordance with a documented investment strategy. After initial recognition financial assets at fair value through profit or loss are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, financial assets available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

***Financial assets available for sale***

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

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

The Group evaluates whether the ability and intention to sell its available for sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets.

Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

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For a financial asset reclassified from the available for sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR.

Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

***Derecognition***

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**(ii) Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. 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, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

If a future write off is later recovered, the recovery is credited to the consolidated statement of income.

*Financial assets available for sale*

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as financial assets available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

**(iii) Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities comprise bank overdraft, accounts payable and other liabilities and Murabaha payable.

At the reporting date, the Group did not have any financial liabilities at fair value through profit or loss or as derivatives designated as hedging instruments.

*Subsequent measurement*

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

*Loans and borrowings*

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

*Accounts payable*

Liabilities are recognised for amounts to be paid in the future for subcontracting work and goods or services received, whether or not billed to the Group.

***Derecognition***

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

**(iv) Offsetting of financial instruments**

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

**Fair value measurement**

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

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

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

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

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

An analysis of fair value measurement of financial instruments and further details as to how they are measured are provided in Note 23.

**Investment properties**

Generally, investment properties comprise properties under development and developed properties that are held to earn rentals or for capital appreciation or both. Properties held under a lease are classified as investment properties when they are held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

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

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

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**21 Segmental information**

The Group is classified into business units based on their products and services, and has three reportable operating segments as follows:

- Financial investing activities comprise participation in financial and real estate funds and managing the Group's liquidity requirements; and
- Real estate investing activities comprise investing and trading in real estate and construction or development of real estate for the purpose of sale in the ordinary course of business and other related real estate services.
- Industrial activities comprise manufacturing and selling of chemical products.

The segment reporting information is as follows:

| <i>Year ended 31 December</i>                          | <i>Financial investing activities</i> |            | <i>Real estate investing activities</i> |           | <i>Industrial activities</i> |      | <i>Unallocated</i> |           | <i>Total</i> |            |
|--|---------------------------------------|------------|---|-----------|------------------------------|------|--------------------|-----------|--------------|------------|
|  | 2016                                  | 2015       | 2016                                    | 2015      | 2016                         | 2015 | 2016               | 2015      | 2016         | 2015       |
| <b>Segment results</b>                                 |                                       |            |   |           |                              |      |                    |           |              |            |
| Investment income                                      | 3,125,541                             | 660,096    | -                                       | -         | -                            | -    | -                  | -         | 3,125,541    | 660,096    |
| (Loss)/ Gain on sale of investment properties          | -                                     | -          | (31)                                    | 10,629    | -                            | -    | -                  | -         | (31)         | 10,629     |
| Change in fair value of investment properties          | -                                     | -          | 24,476                                  | 87,186    | -                            | -    | -                  | -         | 24,476       | 87,186     |
| Gross profit from operating activities                 | -                                     | -          | -                                       | -         | 1,272,727                    | -    | -                  | -         | 1,272,727    | -          |
| Share of results of an associate                       | (259,107)                             | -          | -                                       | -         | -                            | -    | -                  | -         | (259,107)    | -          |
| Other income   | -                                     | -          | -                                       | -         | -                            | -    | 52,877             | 2,585     | 52,877       | 2,585      |
| Total segment income                                   | 2,866,434                             | 660,096    | 24,445                                  | 97,815    | 1,272,727                    | -    | 52,877             | 2,585     | 4,216,483    | 760,496    |
| Other expenses   | -                                     | -          | (49,091)                                | (24,949)  | (751,555)                    | -    | (694,494)          | (403,907) | (1,495,140)  | (428,856)  |
| Finance costs  | -                                     | -          | -                                       | (11,957)  | (51,172)                     | -    | (20,372)           | -         | (71,544)     | (11,957)   |
| KFAS, NLST, Zakat and Board of Directors' remuneration | -                                     | -          | -                                       | -         | -                            | -    | (138,521)          | (4,465)   | (138,521)    | (4,465)    |
|  | 2,866,434                             | 660,096    | (24,646)                                | 60,909    | 470,000                      | -    | (800,510)          | (405,787) | 2,511,278    | 315,218    |
| <b>As at 31 December</b>                               |                                       |            |   |           |                              |      |                    |           |              |            |
| Segment assets   | 28,361,854                            | 29,912,606 | 2,605,819                               | 2,758,415 | 8,174,803                    | -    | 3,001,875          | 2,098,747 | 42,144,351   | 34,769,768 |
| Segment liabilities                                    | -                                     | -          | -                                       | 1,290     | 3,469,192                    | -    | 1,807,273          | 548,343   | 5,276,465    | 549,633    |

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**22 Financial risk management**

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

The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into interest rate risk, foreign currency risk and equity price risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process. The Board of Directors are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

**22.1 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Management of the Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The maximum credit risk is limited to the carrying values of financial assets as follows:

|                                      | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-------------|-------------|
| Banks balances                       | 4,490,717   | 1,650,088   |
| Accounts receivable and other assets | 1,384,312   | 411,807     |

Credit risk is highly concentrated in cash and cash equivalents and receivables. The Group keeps its cash and cash equivalents in financial institutions with high credit reputation.

The Group does not approve credit unless within the limits of requirements and normal course of business taking into consideration the financial position of clients and the previous history of transaction and reputation.

**22.2 Liquidity risk**

Liquidity risk is the risk that the Group 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. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents, and readily marketable securities.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future finance costs over the life of these financial liabilities. The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations.

|  | <i>Less<br/>than<br/>3 months</i> | <i>3 to 12<br/>months</i> | <i>Over<br/>1 year</i> | <i>Total</i>     |
|--|-----------------------------------|---------------------------|------------------------|------------------|
| <b>2016</b>                            |                                   |                           |                        |                  |
| Bank overdraft                         | 398,847                           | -                         | -                      | 398,847          |
| Murabaha payables                      | 117,325                           | 390,000                   | 896,914                | 1,404,239        |
| Accounts payable and other liabilities | -                                 | 3,081,794                 | 391,585                | 3,473,379        |
| <b>Total liabilities</b>               | <u>516,172</u>                    | <u>3,471,794</u>          | <u>1,288,499</u>       | <u>5,276,465</u> |
| <b>2015</b>                            |                                   |                           |                        |                  |
| Bank overdraft                         | 142,291                           | -                         | -                      | 142,291          |
| Accounts payable and other liabilities | -                                 | 366,987                   | 40,355                 | 407,342          |
| <b>Total liabilities</b>               | <u>142,291</u>                    | <u>366,987</u>            | <u>40,355</u>          | <u>549,633</u>   |

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**22.3 Market risk**

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

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

**22.3.1 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its bank overdrafts.

As at 31 December 2016, if the interest rate on bank facilities increase by 0.5% basis points, with all other variables held constant, the profit for the year would have been decreased by KD 3,577 (31 December 2015: KD 598).

**22.3.2 Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group manages its foreign currency risk by continuous assessment of the Group's open positions and current and expected exchange rate movements.

The Group is exposed to currency risk on purchases and sales of securities that are denominated in a currency other than the Kuwaiti Dinars mainly in US dollars and Euro. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinars.

The table below indicates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinars on profit for the year and other comprehensive income, with all other variables held constant:

|             | <i>Increase/decrease<br/>in foreign currency<br/>rate</i> | <i>Effect on<br/>profit for the<br/>year</i> | <i>Effect on other<br/>comprehensive<br/>income</i> |
|-------------|---|--|---|
| <b>2016</b> |   |  |   |
| US Dollars  | +/- 5%  | 9,970  | 33,480  |
| Euro        | +/- 5%  | 161  | 500,035   |
| <b>2015</b> |   |  |   |
| US Dollars  | +/- 5%  | 3,541  | 107,507   |
| Euro        | +/- 5%  | 3,280  | 499,969   |

**22.3.3 Equity price risk**

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of industry concentration.

The following table demonstrates the sensitivity of the quoted investments' values to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

The effect on Group's results (as a result of a change in the fair value of financial assets at fair value through profit or loss at 31 December) and other comprehensive income (as a result of a change in the fair value of financial assets available for sale at 31 December) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

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| Market indices | 2016                   |                               |                                    | 2015                   |                               |                                      |
|----------------|------------------------|-------------------------------|------------------------------------|------------------------|-------------------------------|--------------------------------------|
|                | Change in equity price | Effect on profit for the year | Effect on other comprehensive loss | Change in equity price | Effect on profit for the year | Effect on other comprehensive income |
| Kuwait         | +/- 5%                 | 5,884                         | 71,924                             | +/- 5%                 | 11,819                        | 76,950                               |

In respect of unquoted financial assets available for sale that are carried at cost (Note 6), the impact of changes in equity prices cannot be reliably determined due to unavailability of reliable fair value of these investments.

**22.4 Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

**22.5 Capital management**

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. The Group's current strategy is to rely on the self-finance for the Group's activities and to maintain the external finance at minimum.

**23 Fair values of financial instruments**

The fair values of financial assets and financial liabilities are determined as follows:

- Level one: Quoted prices in active markets for identical financial instruments.
- Level two: Quoted prices in an active market for similar instruments. Quoted prices for identical assets or liabilities in market that are not active. Inputs other than quoted prices that are observable for assets and liabilities.
- Level three: Inputs for the asset or liabilities that are not based on observable market data.

The table below gives information about how the fair values of the financial assets are determined:

**Fair value of the Group's financial assets that are measured at fair value on a recurring basis:**

| Financial assets                             | Fair value as at |            | Fair value hierarchy | Valuation technique(s) and key input(s)                                   | Significant unobservable input(s)  | Relationship of unobservable inputs to fair value                              |
|--|------------------|------------|----------------------|---|--|--|
|  | 31/12/16         | 31/12/15   |                      |   |  |  |
| <b><u>Fair value through P &amp; L</u></b>   |                  |            |                      |   |  |  |
| Local quoted equity securities               | 117,678          | 236,372    | 1                    | Bid prices  | -  | -  |
| <b><u>Available for sale investments</u></b> |                  |            |                      |   |  |  |
| Local quoted equity securities               | 1,438,473        | 1,538,998  | 1                    | Bid price   | -  | -  |
| Foreign managed funds                        | 43,151           | 401,683    | 2                    | NAV report  | -  | -  |
| Local and foreign unquoted equity securities | 12,837,089       | 19,599,208 | 3                    | Peer market price to book value of similar companies in the same industry | Peer market price to book value factor and discount for lack of market availability. | Changes in market multiple and discount rate will result change in fair values |
|  |                  |            |                      | Discounted cash flow  | Discount rate and growth rate  | The higher the discount rate, the lower the fair value                         |



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

Fair value of local and foreign unquoted equity securities carried at fair value has been determined using the market price to book value model (MPBV) and discounted cash flow Model (DCF). The valuation requires management to make certain assumptions about the model inputs, including, the discount rate and credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

Discount relating to the lack of liquidity of financial instruments has been assumed by the Parent Company's management which represents the discount that market participants would take into account when pricing similar financial instruments.

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value at 31 December:

|  | <u>At the<br/>beginning of<br/>the year</u> | <u>Net gains<br/>recorded in<br/>the<br/>consolidated<br/>statement of<br/>income</u> | <u>Net losses<br/>recorded in<br/>the<br/>consolidated<br/>statement of<br/>comprehensive<br/>income</u> | <u>Net<br/>purchases,<br/>sales and<br/>settlements</u> | <u>At the end<br/>of the year</u> |
|--|---|---|--|---|-----------------------------------|
| <b><i>Financial assets available for sale:</i></b> |   |   |  |   |                                   |
| Local and foreign unquoted equity securities       |   |   |  |   |                                   |
| 2016   | 19,599,208                                  | 1,531,402   | (163,794)  | (8,129,727)   | 12,837,089                        |
| 2015   | 22,811,707                                  | 743,148   | (2,075,301)  | (1,880,346)   | 19,599,208                        |

The fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis approximately equals their carrying values as on the date of the consolidated financial statements.

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The difference between the net disposal proceeds and the carrying amount of the investment property would result in either gains or losses on the retirement or disposal of the investment property. Any gains or losses are recognised in the consolidated statement of income in the period of derecognition.

**Investments in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" (Note 2.4).

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

**Inventories**

Finished goods are stated at the lower of weighted average cost. The cost of finished products includes direct materials, direct labour and fixed and variable manufacturing overhead and other costs incurred in bringing inventories to their present location and condition.

Spare parts are not intended for resale and are valued at cost after making allowance for any obsolete or slow moving items. Cost is determined on a weighted average basis.

All other inventory items are valued at the lower of cost and net realisable value using the weighted average method after making provision for any slow moving and obsolete stocks. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

**Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

The cost incurred by the Group for acquiring leasehold rights in lands are capitalized as intangible assets and amortized on straight-line basis over their estimated useful lives.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition are measured as the difference between the net disposal proceeds and the carrying amount of the asset and recognised in the consolidated statement of income.

#### **Property and equipment**

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable asset.

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

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

#### **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs.

Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognizing impairment loss in the consolidated statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

#### **Treasury shares**

The Parent Company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividend are distributed on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**Employees' end of service benefits**

The Group provides end of service benefits to its expatriate employees in accordance with Kuwait Labour Law. 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 in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

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

**Provisions**

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

**Foreign currencies**

Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency are translated to Kuwaiti Dinars at rates of exchange prevailing at the reporting date. Exchange differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**Contingencies**

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

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

**Segment information**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and other similar allowances.

- Revenues from sale of goods are recognized when significant risks and rewards of ownership have been transferred to the buyer. These risks and rewards are transferred generally to the buyer on delivery.
- Services revenues are recognized when the services are rendered.
- Dividend income is recognized when the Group's right to receive dividends is established.
- Interest income from deposits is recognized on time basis.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The Group as lessor**

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

Rental income from finance lease is allocated over the accounting periods to reflect a fixed return on the net value of the leased asset.

*The Group as lessee*

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

**Borrowing costs**

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

**KFAS, NLST and Zakat**

*Kuwait Foundation for the Advancement of Sciences (KFAS)*

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

*National Labour Support Tax (NLST)*

The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. Cash dividend from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

*Zakat*

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

**2.4 Significant accounting judgement, estimates and assumptions**

**Judgments**

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

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

*Classification of investments*

Management decides on acquisition of an investment whether it should be classified as "at fair value through profit or loss" or "financial assets available for sale".

Classification of investments as fair value through profit or loss depends on how management monitors the performance of these investments. When they have readily available reliable fair values and the changes in fair values are reported as part of in the management accounts, they are classified as fair value through profit or loss.

All other financial assets are classified as financial assets available for sale.

*Impairment of financial assets available for sale*

The Group treats financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

#### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### *Impairment of receivables*

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

#### *Valuation of unquoted equity investments*

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. Information about valuation techniques and input used in determining the fair value of various assets and liabilities are disclosed in Note 23.

There are a few investments where this estimation cannot be reliably determined (Note 6). As a result, these investments are carried at cost less impairment.

#### *Revaluation of investment properties*

The Group recognizes the investment properties at fair value and changes in fair value are included in the consolidated statement of income. The Group appoints independent specialized valuers to determine the fair value. Those valuers use valuation techniques to determine the fair value. The estimated fair value of investment properties may differ from the actual realizable prices in arm's length transaction as at reporting date.

#### *Impairment of inventories*

The management assesses at the date of each consolidated financial position whether inventories are impaired. On determining impairment, the management is required to make significant judgments including assessment of factors such as the nature of the industry and market conditions.

#### *Impairment of associates*

Estimation of impairment of an associate is made when there is an indicator for this impairment. The assessment is made for the entire carrying amount of the Group's investments in associate including goodwill, accordingly, impairment testing of goodwill is not tested separately. Impairment and reversal of those losses are recognized in the consolidated statement of income.

### **3 Business combination**

#### **Acquisition of a subsidiary**

On 18 April 2016, the Group acquired 100% equity interest in Ahlia Chemicals Company K.S.C.C. ("Ahlia" or "subsidiary"), through the swap of certain financial assets available for sale owned by the Parent Company.

Principal activities of Ahlia Chemical Company K.S.C.C. is manufacturing and trading of chemical supplies. As at the reporting date, 36.99% of the shares of the subsidiary were pledged to a creditor of the predecessor owner and were held by nominees who have confirmed in writing that the Parent Company has the beneficial ownership interest in the subsidiary through a letter of assignment. The management of the Parent Company has started the process of releasing the pledged shares and transfer the ownership of those shares to the Parent Company which is expected to be completed within the next year.

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The acquisition of this subsidiary has been accounted for in accordance with IFRS 3 "Business combinations" with an effective equity interest of 100%.

At the acquisition date, the fair values of assets acquired and liabilities assumed are summarised as follows:

|  | KD                 |
|--|--------------------|
| Cash and bank balances   | 285,109            |
| Accounts receivable and other assets                                   | 1,312,825          |
| Inventories  | 1,068,185          |
| Amounts due from related parties                                       | 17,263             |
| Property and equipment   | 3,917,405          |
| Assets acquired  | <u>6,600,787</u>   |
| Bank overdraft   | 216,599            |
| Murabaha payable   | 1,712,484          |
| Accounts payable and other liabilities                                 | 1,145,873          |
| Amounts due to related parties   | 77,645             |
| Employees' end of service benefits                                     | 198,186            |
| Liabilities assumed  | <u>3,350,787</u>   |
| Net acquired assets  | <u>3,250,000</u>   |
| Assets transferred   | <u>(2,710,192)</u> |
| Bargain purchase gain arising on acquisition of a subsidiary (Note 16) | <u>539,808</u>     |

The consolidated statement of income of the Group for the period includes operating results of KD 470,000 of Ahlia. Had Ahlia been consolidated from 1 January 2016, the consolidated statement of income would have been higher by KD 200,710.

**Acquisition of associates**

In April 2016, the Group acquired 40% and 22% equity interest in Dubai Wellness Center Limited (DWC) and Future Fibre Technologies (FFT) respectively through the swap of certain financial assets available for sale owned by the Parent Company. At the acquisition date, the provisional fair values of net assets acquired are summarised as follows:

|  | DWC               | FFT               | Total              |
|--|-------------------|-------------------|--------------------|
| Provisional fair values of net assets acquired               | <u>19,753,850</u> | <u>18,736,364</u> | <u>38,490,214</u>  |
| Group ownership (40% DWC, 22% FFT)                           | 7,901,540         | 4,122,000         | 12,023,540         |
| Assets transferred   |                   |                   | <u>(9,573,627)</u> |
| Bargain purchase gain on acquisition of associates (Note 16) |                   |                   | <u>2,449,913</u>   |

The above transactions have been excluded from the consolidated statement of cash flows as these are non cash.

**4 Cash and cash equivalents**

|                                 | 2016             | 2015             |
|---------------------------------|------------------|------------------|
| Cash on hand                    | 2,211            | 6,234            |
| Bank balances                   | 4,490,717        | 1,650,088        |
| Total cash and bank balances    | 4,492,928        | 1,656,322        |
| Bank overdraft                  | (398,847)        | (142,291)        |
| Total cash and cash equivalents | <u>4,094,081</u> | <u>1,514,031</u> |

Bank overdraft is payable to financial institutions in Kuwait and is denominated in Kuwaiti Dinars. Bank overdraft carries interest at an average rate of 3% (2015: 3%) per annum over the Central Bank of Kuwait discount rate.

**5 Accounts receivable and other assets**

|   | 2016             | 2015           |
|---|------------------|----------------|
| Trade receivables –net of provisions (KD 141,436)           | 1,242,090        | -              |
| Receivable from sale of financial assets available for sale | -                | 390,802        |
| Other receivables   | 142,222          | 21,005         |
|   | <u>1,384,312</u> | <u>411,807</u> |

The ageing analysis of the trade receivables is as follows:

|                   | From 0 to<br>90 days | From 91 to<br>120 days | From 121<br>to 180 days | From 181<br>to 365 days | Above 365<br>days | Total            |
|-------------------|----------------------|------------------------|-------------------------|-------------------------|-------------------|------------------|
| Trade receivables | <u>875,810</u>       | <u>99,241</u>          | <u>128,478</u>          | <u>87,280</u>           | <u>51,281</u>     | <u>1,242,090</u> |

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**6 Financial assets available for sale**

|  | <u>2016</u>       | <u>2015</u>       |
|--|-------------------|-------------------|
| Local quoted equity securities               | 1,438,473         | 1,538,998         |
| Local and foreign unquoted equity securities | 14,998,119        | 27,735,553        |
| Foreign managed funds                        | 43,151            | 401,683           |
|  | <u>16,479,743</u> | <u>29,676,234</u> |

As at 31 December 2016, local and foreign unquoted equity securities amounting to KD 2,161,030 (31 December 2015: KD 8,136,345) are carried at cost less impairment as these do not have a quoted market price and whose fair value cannot be reliably measured. The management believes that there is no indication of impairment in these investments.

Financial assets available for sale include local quoted securities with fair value of KD 323,260 as of 31 December 2016 (31 December 2015: KD 377,903) pledged with one of the local banks as collateral against credit facilities which have been granted by a local bank.

During the year, the Parent Company entered into an assets swap transaction by disposing certain unquoted financial investments available for sale and in exchange acquired a subsidiary and associates (Notes 3 and 9).

Fair value hierarchy disclosures for financial assets available for sale are provided in Note 23.

**7 Investment properties**

|                       | <u>2016</u>      | <u>2015</u>      |
|-----------------------|------------------|------------------|
| At 1 January          | 2,758,415        | 3,022,163        |
| Disposals             | (177,072)        | (350,934)        |
| Change in fair values | 24,476           | 87,186           |
| At 31 December        | <u>2,605,819</u> | <u>2,758,415</u> |

Investment properties are categorized as follows:

|                    | <u>2016</u>      | <u>2015</u>      |
|--------------------|------------------|------------------|
| Land               | 1,735,866        | 1,719,543        |
| Developed property | 869,953          | 1,038,872        |
| At 31 December     | <u>2,605,819</u> | <u>2,758,415</u> |

As at 31 December 2016, the fair value of investment properties has been determined based on valuations obtained from two independent professional real estate valuers in UAE, who are industry specialized in valuing such type of investment properties. Both valuers have valued the investment properties using the market approach (Level 2 of fair value).

Market approach is based on a comparison of active market prices for similar properties and recent arm's length market transactions, adjusted for difference in the nature, location or condition of the specific property.

**8 Inventories**

The inventories are mainly represented in finished goods and raw material which have been acquired in business combination (Note 3).

**9 Investment in associates**

| Company name                            | Place of Incorporation | Principal Activities  | Proportion of ownership interest (%) |             |
|---|------------------------|---|--------------------------------------|-------------|
|   |                        |   | <u>2016</u>                          | <u>2015</u> |
| Dubai Wellness Center Limited "DWC"     | Isle of Man            | Providing healthcare services in United Arab Emirates                         | 40                                   | -           |
| Future Fibre Technologies Limited "FFT" | Australia              | Delivery and maintenance of fibre optic perimeter intrusion detection systems | 22                                   | -           |

The fair value of investment in FFT is based on quoted market price (level 1) is KD 1,075,154 as of 31 December 2016.



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The Group's share in the associates' result is based on the latest available financial statements for the year ended 31 December 2016. The summarized financial information of the associates as of 31 December 2016 is as follows:

|                   | <u>FFT</u> | <u>DWC</u> |
|-------------------|------------|------------|
| Total assets      | 18,814,904 | 22,861,067 |
| Total liabilities | 828,540    | 3,342,409  |
| Total Equity      | 17,986,364 | 19,518,658 |
| Loss for the year | (750,000)  | (313,854)  |

**10 Property and equipment**

|   | <u>Leasehold<br/>Lands</u> | <u>Buildings</u> | <u>Machinery<br/>and<br/>equipment</u> | <u>Projects<br/>under<br/>constructions</u> | <u>Other<br/>assets</u> | <u>Total</u>     |
|---|----------------------------|------------------|--|---|-------------------------|------------------|
| <b>Cost</b>                                       |                            |                  |  |   |                         |                  |
| As at 1 January 2015                              | -                          | -                | 33,998                                 | -   | 55,779                  | 89,777           |
| Additions   | -                          | -                | 1,250                                  | -   | 25,000                  | 26,250           |
| As at 31 December 2015                            | -                          | -                | 35,248                                 | -   | 80,779                  | 116,027          |
| Additions   | -                          | 63,948           | 78,116                                 | 2,094                                       | 82,970                  | 227,128          |
| Acquisition through business combination (Note 3) | 3,360,597                  | 125,232          | 379,013                                | 3,281                                       | 49,282                  | 3,917,405        |
| Disposals   | -                          | -                | (33,998)                               | -   | (77,214)                | (111,212)        |
| Balance at 31 December 2016                       | <u>3,360,597</u>           | <u>189,180</u>   | <u>458,379</u>                         | <u>5,375</u>                                | <u>135,817</u>          | <u>4,149,348</u> |
| <b>Accumulated depreciation</b>                   |                            |                  |  |   |                         |                  |
| As at 1 January 2015                              | -                          | -                | 33,553                                 | -   | 49,962                  | 83,515           |
| Charge for the year                               | -                          | -                | 423                                    | -   | 1,471                   | 1,894            |
| As at 31 December 2015                            | -                          | -                | 33,976                                 | -   | 51,433                  | 85,409           |
| Charge for the year                               | -                          | 15,215           | 56,736                                 | -   | 31,015                  | 102,966          |
| Depreciation related to disposals                 | -                          | -                | (33,976)                               | -   | (52,185)                | (86,161)         |
| Balance at 31 December 2016                       | <u>-</u>                   | <u>15,215</u>    | <u>56,736</u>                          | <u>-</u>                                    | <u>30,263</u>           | <u>102,214</u>   |
| <b>Net book values</b>                            |                            |                  |  |   |                         |                  |
| As at 31 December 2016                            | <u>3,360,597</u>           | <u>173,965</u>   | <u>401,643</u>                         | <u>5,375</u>                                | <u>105,554</u>          | <u>4,047,134</u> |
| As at 31 December 2015                            | <u>-</u>                   | <u>-</u>         | <u>1,272</u>                           | <u>-</u>                                    | <u>29,346</u>           | <u>30,618</u>    |
| Annual depreciation rates                         | -                          | 4%-20%           | 5%-33.33%                              | -   | 33.33%                  |                  |

Buildings are constructed on land leased from the Public Authority for Industry, State of Kuwait. The Group has mortgaged five plots to local banks against credit facilities (Note 11).

**11 Murabaha payable**

These represent facilities obtained from local banks and secured against five plots (Note 10).

The Group has re-scheduled to repay murabaha payables balances over 3 years as follows:

- One instalment of KD 32,938 will be payable on 1 January 2017 and another instalment of KD 84,387 will be payable on 1 February 2017.
- Balance amounting to KD 390,000 will be payable during 2017 and the remaining balance of KD 896,914 will be payable in next two years based on an agreed scheme.

**12 Accounts payable and other liabilities**

|                                    | <u>2016</u>      | <u>2015</u>    |
|------------------------------------|------------------|----------------|
| Trade payables                     | 1,471,935        | -              |
| Advances received                  | 750,000          | -              |
| Accrued expenses                   | 640,032          | 26,959         |
| Dividends payables                 | 173,382          | 211,086        |
| Employees' end of service benefits | 391,585          | 40,355         |
| Other liabilities                  | 46,445           | 128,942        |
|                                    | <u>3,473,379</u> | <u>407,342</u> |

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**13 Share capital and dividends**

The authorized, issued, and fully paid up share capital of the Parent Company is KD 21,687,750 distributed over 216,877,500 shares with a nominal value of 100 fils each, and all shares are in cash.

On 19 March 2017, the Board of Directors of the Parent Company proposed no dividends for the year ended 31 December 2016 (2015: Nil).

In addition proposed Board of Directors' remuneration amounting to KD 35,000 for the year ended 31 December 2016 (2015: Nil).

**14 Reserves**

**Statutory reserve**

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

**General reserve**

As required by the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is required to be transferred to general reserve based on recommendation of the Board of Directors and subject to the approval of the General Assembly of the Parent Company's shareholders. Such annual transfer may be increased or discontinued by a resolution of the General Assembly of the Parent Company's shareholders upon recommendation from the Parent Company's Board of Directors.

For the years ended 31 December 2016 and 31 December 2015, no transfer was made to general reserve based on the recommendation by the Parent Company's Board of Directors. This proposal is subject to the approval of the Annual Ordinary General Assembly Meeting of the Parent Company's shareholders.

**15 Treasury shares**

|                             | <u>2016</u> | <u>2015</u> |
|-----------------------------|-------------|-------------|
| Number of shares            | 13,316,772  | 6,579,357   |
| Percentage of issued shares | 6%          | 3%          |
| Market value (KD)           | 812,323     | 388,182     |

The Parent Company is committed to retain reserves and retained earnings equivalent to the treasury shares throughout the year, in which they are held by the Parent Company, pursuant to the instructions of the relevant regulatory authorities. These shares are not pledged.

**16 Investment income**

|   | <u>2016</u>      | <u>2015</u>    |
|---|------------------|----------------|
| <i><u>Financial assets at fair value through profit or loss</u></i> |                  |                |
| Realised gain   | 29,373           | 52,745         |
| Change in fair value  | (2,638)          | (49,578)       |
|   | <u>26,735</u>    | <u>3,167</u>   |
| <i><u>Financial assets available for sale</u></i>                   |                  |                |
| Realised gain on sale   | 86,337           | 746,609        |
| Impairment losses   | (551,716)        | (515,608)      |
|   | <u>(465,379)</u> | <u>231,001</u> |
| Bargain purchase gain (Note 3)                                      | 2,989,721        | -              |
| Dividends income  | 574,464          | 425,928        |
|   | <u>3,125,541</u> | <u>660,096</u> |

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**17 Gross profit from operating activities**

|               | <u>2016</u>        | <u>2015</u> |
|---------------|--------------------|-------------|
| Revenues      | 3,951,212          | -           |
| Cost of sales | <u>(2,678,485)</u> | <u>-</u>    |
|               | <u>1,272,727</u>   | <u>-</u>    |

The breakdown of cost of sales is as follows:

|                | <u>2016</u>      | <u>2015</u> |
|----------------|------------------|-------------|
| Material costs | 2,291,288        | -           |
| Staff costs    | 256,597          | -           |
| Depreciation   | 66,111           | -           |
| Others         | 64,489           | -           |
|                | <u>2,678,485</u> | <u>-</u>    |

**18 Other expenses**

|            | <u>2016</u>      | <u>2015</u>    |
|------------|------------------|----------------|
| Staff cost | 623,350          | 274,751        |
| Others     | 871,790          | 154,105        |
|            | <u>1,495,140</u> | <u>428,856</u> |

**19 Basic and diluted earnings per share**

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares). Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As at 31 December, the Parent Company had no outstanding dilutive potential shares.

The basic earnings per share is calculated based on the profit for the year divided by the weighted average number of shares outstanding, less treasury shares, during the year is as follows:

|  | <u>2016</u>        | <u>2015</u>        |
|--|--------------------|--------------------|
| Profit for the year (KD)   | 2,511,278          | 315,218            |
| Weighted average number of ordinary shares outstanding during the year (excluding treasury shares) | <u>205,900,400</u> | <u>210,298,143</u> |
| Basic and diluted earnings per share (fils)  | <u>12.20</u>       | <u>1.50</u>        |

**20 Related party transactions**

These represent transactions with related parties, i.e. major shareholders, directors, executive officers and key management personnel of the Group, close members of their families and companies of which they are principal owners or over which they are able to exercise control or significant influence entered into by the Group in the ordinary course of business. The Parent Company's management approves pricing policies and terms of these transactions.

Balances and transactions with related parties included in the consolidated financial statements are as follows:

|  | <u>2016</u>    | <u>2015</u>    |
|--|----------------|----------------|
| <b>Transactions: (Key Management Compensation)</b> |                |                |
| Salaries and short-term benefits                   | 181,800        | 97,461         |
| Employees' end of service benefits                 | 26,317         | 13,210         |
| Board of Directors' remuneration                   | 35,000         | -              |
| Executive committee remuneration                   | 10,500         | -              |
|  | <u>253,617</u> | <u>110,671</u> |