شركة الصناعات الوطنية

NATIONAL INDUSTRIES COMPANY

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Annual Report

2016

شركة الصناعات الوطنية ش.م.ك

NATIONAL INDUSTRIES COMPANY KPSC

Annual Report

2016

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H.H.Sheikh

Sabah Al-Ahmad Al-Jaber Al-Sabah

The Amir of the State of Kuwait

H.H.Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince

H.H.Sheikh
Jaber Al-Mubarak Al-Hamad Al-Sabah
The Prime Minister

LED Lights

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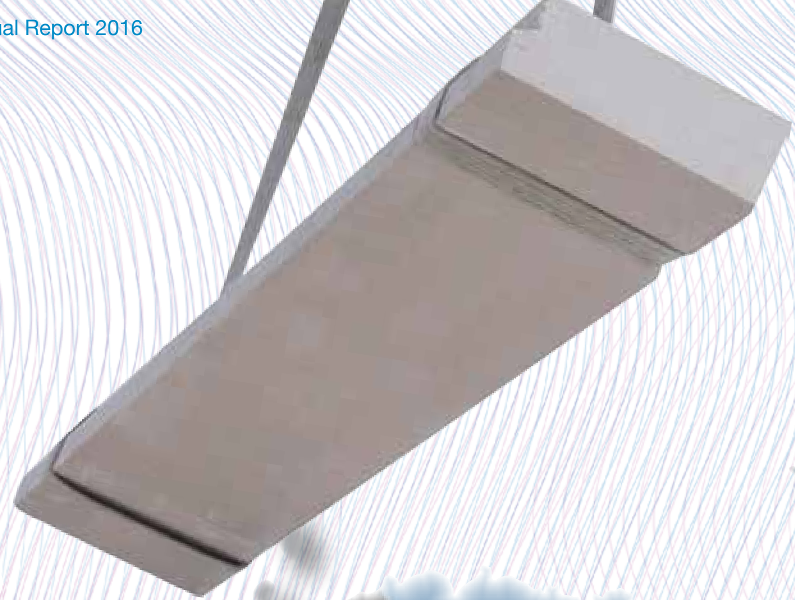


White Blocks and Lintels

Members of the Board of Directors

Mr. Abdulaziz Ibrahim Al-Rabiah	Chairman
Dr. Adel Khaled Al-Sabeeh	Vice Chairman and Executive President
Mr. Hamad Mohammed Abdullah Al-Saad	Director
Mr. Abdulrahman Shaikhan Al-Farisi	Director
Mr. Ahmad Mohammad Hassan	Director

General Manager

Eng. Lafi A. Al-Muhaini

Cement Cladding Stone

Chairman's Message

Dear shareholders,

On behalf of the Board of Directors, it would be our pleasure to welcome you and to present herein the Annual Report of the company and its performance, and what was achieved during the fiscal year ended 31/12/2016.

Sales and services revenues have decreased by 14.2% in 2016, mainly due to a drop in the sales of subsidiaries (Saudi Brick Insulation Company 24% and N. I. Ceramics 12%), there was an increment in the revenues of services by 10%, and an increment in the sales of Concrete pipes by 140% and Paints by 78%, compared to decrease in the sales of Limestone Bricks by 12%, White Blocks by 40%, Interlock by 2%, Quarry by 11% and HDPE by 43%.

During 2016, the Company achieved operating profits of KD 9 million with a decrease of 31.8% over the previous year. A financial provision of KD 4.8 million was recorded, resulting in a net profit of KD 773 thousand with a decrease of 90% over the last year, and shareholders' equity have decreased by 5% to KD 81.4 million.

Construction sector is still suffering stagnation and slowdown due to the lack of government projects. Hoping in the upcoming year the government will propose new projects. As we aspire that the competent authorities perform harder work to protect the national product, particularly in the field of building materials, from dumping operations.

Accordingly, in the meeting held on Thursday 16/3/2017 of the General Assembly, the Board of Directors has recommended cash dividend of 10%, ie 10 fils (in cash) per share for the financial year ended 31/12/2016.

In conclusion, I would like to extend my sincere thanks and appreciation to all members of the Board of Directors, the Executive Management and all the employees for their efforts in developing the company, raising up its performance and achieving returns for the general interest of the company and its shareholders.

Abdulaziz Ibrahim Al-Rabiah

Chairman

Ready Mix

Board of Directors Report - 2016

The operational performance of the Company was declined in 2016, with a shrink in the operational profit by 31.8% comparing with the previous year to become K.D. 9 million, due to the slump in sales by 14.5% to become KD 40.5 million for a drop in the sale costs by 7% to become K.D. 31.5 million, beside the slump in the sales of the affiliated companies (N I Ceramics and Saudi Insulation Bricks) by 14% for a drop in their sales by 6%.

Shareholders equities have reached K.D. 81.4 million with a carrying amount of 233 fils per share.

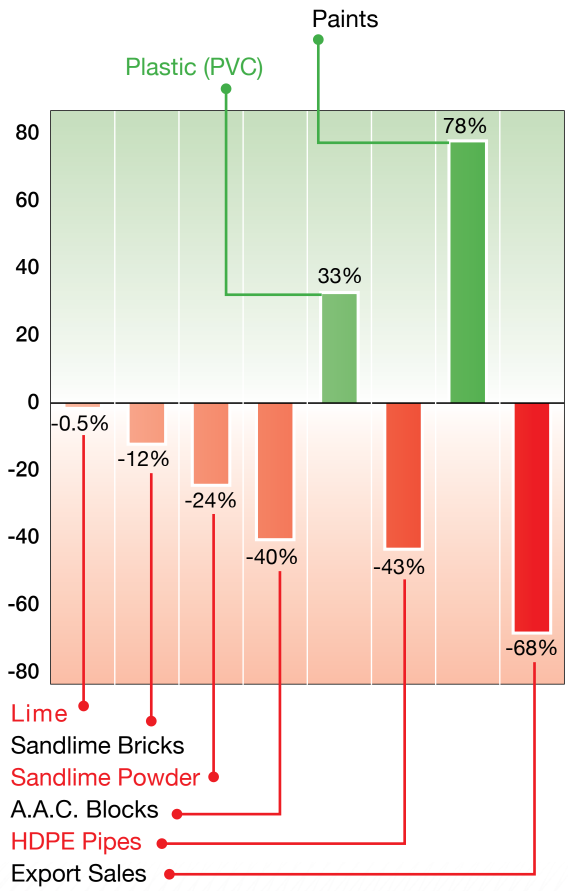
The following is a review of the Company's operational activity and the implemented and underway projects in 2016:

FIRST: MINA ABDULLAH FACTORIES GROUP

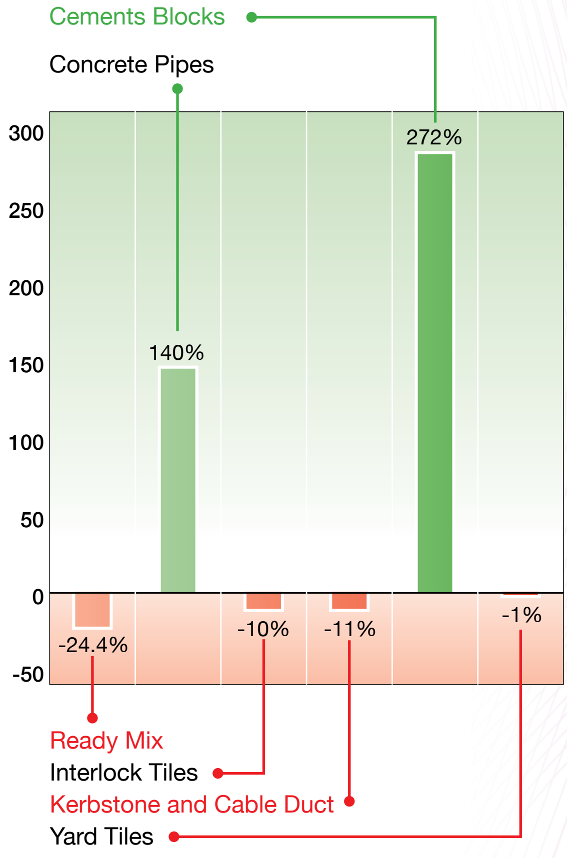
Total sales in 2016 reached KD 16.8 million compared with KD 19.8 million in the past year, with a drop by 12% compared with the actual sales of 2015 and 21.3% below the estimated sales in 2016.

SECOND: SULAIBIA FACTORIES GROUP

Total sales reached KD 15 million compared with KD 17.5 million in 2015.



Sales Comparison (2015-2016)
in Mina Abdullah Factories Group



Sales Comparison (2015-2016)
in Sulaibiya Factories Group

THIRD: MOST SIGNIFICANT PROJECTS COMPLETED IN 2016

1. Development of the new ready mix factory -in the South- was achieved.
2. Raising up the electricity power in Sulaibiya Factory.
3. Major developments were accomplished on “Fielding” production pistons in the tiles and kerbstone factory - Sulaibiyah.
4. A renovation of the ready mix fleet was implemented.
5. Production of reinforced concrete pipes to supply Mina Al-Zor refinery.
6. Employing a new piston for bricks production for ready-made walls.
7. Manufacturing new moulds and new window products in various forms of decorative pistons.
8. Running a new plant for manufacturing Polyurethane panels and new internal cladding means.
9. Creating the Sandwich Wall Panels from two cement panels surrounding autoclaved aerated concrete in between.
10. Installment and operating AAC packaging machines.
11. Adding up a production line of manhole covers.
12. Finishing the expansion of the paints factory and the installment of the coloring machines.
13. Increasing the production capacity of Fortex production line.
14. Installing the Decoration piston no.7.
15. Opening a new showroom in Industrial Shuwaikh area.

FOURTH: MOST SIGNIFICANT PROJECTS UNDERWAY IN 2017

1. Running on creating local ready mix stations for Al-Zor project.
2. Purchasing an integrated line for regular and smoothed tiles, and for cladding panels.
3. Installing a system for cutting the interlocked bricks, in order to increase the productive power.
4. Supplying Al-Mitla’a town project with infrastructure pipes, the project is ongoing for 3 years.
5. Purchasing a new production line for manufacturing drainage pipes to fulfill the requirements of the new projects.
6. Creating a new production line for manufacturing cable ducts from polyethylene.

FIFTH: AFFILIATED & SISTER COMPANIES

A. Affiliated Companies

1. Building system Industries Co.

Kuwait - NIC Ownership 100%

- The Building Systems Industries Company was incorporated in 2004 to to be the executive arm of the company for construction projects.
- The company suffered a loss of 27,328 dinars for the fiscal year 2016 compared to a profit of 948 dinars for the year 2015, noting that the total shareholders equity of the company amounted to 1.02 million dinars and the value of the paid up capital of 100 thousand dinars was increased to 500 thousand dinars of retained earnings.
- A number of government and private projects have been awarded by the company.

2. N.I.Ceramics.

Kuwait - NIC Ownership 86.4%

- The paid up capital was increased to KD 15 Million.
- The company sustained losses of KD 35 thousands in 2016 for a profit of KD 994 thousands in 2015.
- A new selling port was opened in Hafr Al-Batin in KSA.
- Company’s products were endorsed by all ministries in Kuwait.
- The company’s products were included among the promoted constructive materials for housing subscribers.

3. Saudi Insulation Bricks Co.

A.A.C. Factory - Al-Riyadh, Jeddah,
KSA (NIC Ownership 50%)

- Profits of SAR 3.7 millions were achieved in 2016 for SAR 9.3 millions in 2015.
- Sales SAR 37.5 millions were achieved in 2016 for SAR 49.7 millions in 2015, and its predicted that the company will keep on achieving upward earnings.
- Shareholders equities were decreased to SAR 92.9 million in 2016 for SAR 97 million in the previous year.
- The company’s products have been endorsed as the insulating products required in all buildings in the Kingdom by implementing the compulsory buildings insulation decree.
- A new furnace was added for production increment in Riyadh.

B. Sister Companies

1. Insulated Building Systems Factory

A.A.C Blocks Factory - Kingdom of Bahrain
NIC Ownership 50%

- The paid up capital was increased to BHD 4 million after it was BHD 300 thousand with the same ratio for the shareholders.
- The company achieved profits of BHD 250 thousand, as per the submitted unaudited financial statements in 2016.

2. Omani German Company for Building materials & Industrial Construction Co

A.A.C. Factory – Sohar, Sultanate Of Oman
(NIC Ownership 32.5%)

- The company sustained losses of OMR 727 thousands in 2016 for a loss of OMR 496 thousand in 2015, accumulated losses in 2016 reached OMR 2.47 millions.

3. United Gulf Pipe Manufacturing Co.

HDPE Pipes Factory - Muscat,

Sultanate of Oman - NIC Ownership 45%

- Increment of the paid up capital was completed to become OMR 4.5 millions after it was OMR 3 millions, and NIC shares were increased from 30% to 45%.
- All production lines were operated.
- The company is working on marketing its products in all GCC states.
- A profit of OMG 857 thousand was achieved in 2016.
- Currently, the company has acquired contracts covering its productive capacity for 2017, which promise with a good upcoming year.

5. Al-Raya Global Real Estate Co.

Kuwait - NIC Ownership 22.4%

- NIC Share was increased from 20% to 22.4% in 2016.
- The company sustained a loss of KD 1,047 millions in the end of 2016, according to the financial statements presented by the its management, the loss was due to the low valuation of its real estates belongings.

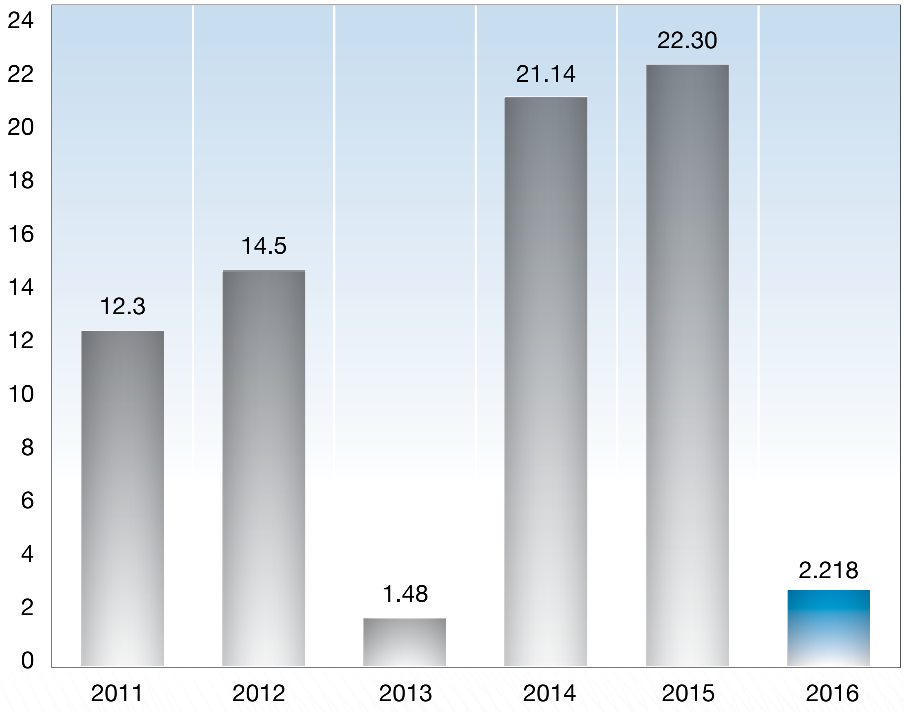
6. Saudi Sand Lime Bricks & Building Materials Co.

Al-Riyadh, KSA - NIC Ownership 10%

- The company achieved a net profit of SAR 20 million in 2016.
- The company completed the programs of production expansion, and all its furnaces are running in high efficiency.
- The company aims to get listed in the Stock Market within the next three years.

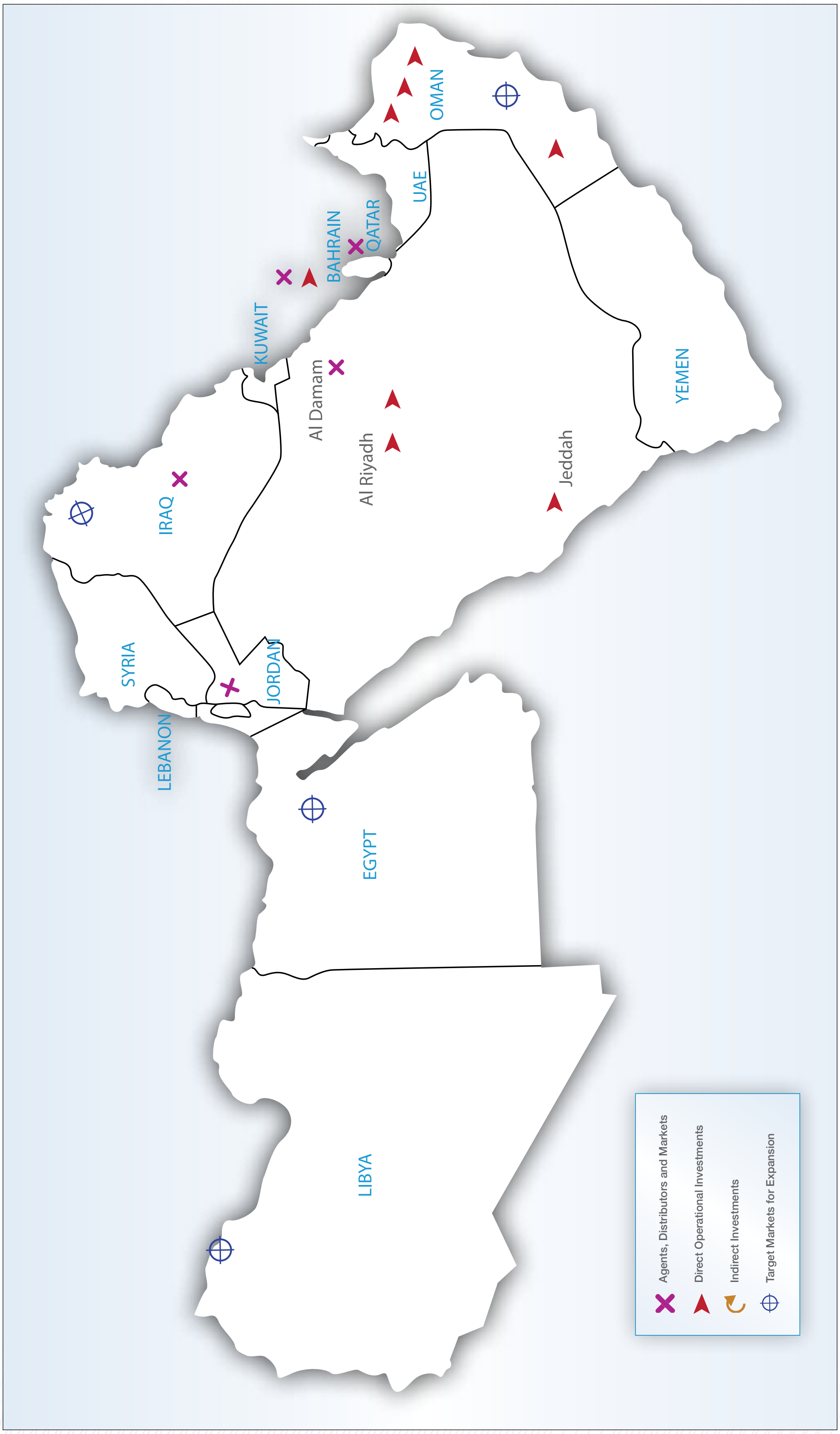
NIC Financial Performance (2011 – 2016)

Item	2016	2015	2014	2013	2012	2011
Capital	34,924,656	34,793,545	34,675,783	34,650,792	34,620,187	34,620,187
Sales	40,491,327	47,189,831	46,670,326	42,771,211	40,909,348	40,319,712
Invested Assets	112,912,802	113,762,317	110,948,379	107,031,522	114,175,581	109,218,261
Shareholders’ Equity	81,427,340	89,813,657	89,345,010	80,337,826	81,113,465	78,126,686
Net Profit	773,926	7,787,570	7,359,730	512,572	5,025,725	4,236,418
Dividend	2.218	22.30	21.14	1.48	14.5	12.3
Book Value	233	258	258	232	234	226
Return on Equity	1%	8.7 %	8.24 %	0.64 %	6.2%	5.4%
Dist. Profit Cash		20	15	-	12	10
Dist. Profit Bonus		-	-	-	-	-



Dividends (Fils)

Company's Regional Investments & Distributors



Internal Audit Committee's Report 2016

Head of the committee's message

As the National Industries Company (K.P.S.C) is abided to the law No. 7/2010 of establishing the Capital Market Authority and abided to its executive regulation and amendments, and to what is stated in chapter 15 of the Capital Market Authority Executive Regulation (companies governing), the National Industries Company has developed an internal audit and risk management committee as one of the committees emerging from the board of directors of which its role is basically to help board of directors; perform its responsibilities related to the safety of the interim and the annual financial statement, follow up the performance of the external auditors, control the professional performance of the internal audit and check whether the moral standards followed by the company are applicable according to the monitoring requirements in this respect.

Forming a Committee for Internal Auditing and Risk Management

By virtue of decree No. 13/2016 issued by board of directors, the board formed a committee for the internal audit and risk management as per the following.

Mr. Ahmad Mohammed Hassan	Committee Head
Mr. Abdullrahman Shaikhan Al-Farisi	Member
Mr. Hamad Mohammad Al-Saad	Member

The committee conducted 4 meetings during 2016 as shown hereunder:

Name of member	Meeting (1) held in 3/3/2016	Meeting (2) held in 15/5/2016	Meeting (3) held in 14/11/2016	Meeting (4) held in 1/12/2016	Number of meetings
Mr. Ahmad Mohammed Hassan Committee Head	✓	✓	✓	✓	4
Mr. Abdul Rahman Shikhan El Farisi Member	✓	✓	✓	✓	4
Mr. Hammad Mohammed El Saad Member	✓	✓	✓	✓	4

It is of our pleasure to present herein the report that states the achievements of the committee during the financial year ended in 31/12/2016 detailed as the following:

Tasks and specialties of the internal audit and risk management committee:

1. Review the periodic financial statements before being presented to board of directors.
2. Recommend appointing / re-appointing or changing the external auditors, fix their law fees and then follow up their works and study their notes on the company's financial lists.
3. Study the company's accounting policies
4. Assess the efficiency of the internal controlling systems applied in the company
5. Supervise technically on the internal audit management and recommend assigning/ isolating the auditing manager
6. Review and acknowledge the proposed auditing plans and review the outcomes of the internal auditing reports
7. Check the company commitment to the regulations, policies and systems.
8. Develop and review the risk management strategies and policies
9. Assure the availability of the risk management resources and systems
10. Assess the systems and mechanism that defines, measures and track the risks that the company could be exposed to.
11. Assist board of directors in defining and assessing the acceptable level of risks in the company.
12. Review the organizational chart of the risk management
13. Check the independency of the risk management staff and make sure that they are fully familiar with the risks surrounded by the company
14. Prepare periodical reports about the nature of the risks that the company could be exposed to.

Achievements of the Internal Audit and Risk Management Committee

1. Reviewing and approving the interim and annual financial statements:

   The committee reviewed the interim and annual financial statements of the company as well as the reports done by the auditors before being submitted to board of directors.

2. Recommendation of appointing an external auditor:

   The internal audit and risk management committee recommended to board of directors reassigning Mr. Anwar Yousef Issa Al Katami from (Grant Thornton – Al Katami-Al Abaan & partners as the company auditor for the year 2017

3. Recommendation of assigning an external independent party for the internal controlling report services:

   The internal audit and risk management committee recommended to board of directors choosing the office of Messrs Mr. Kais Al Nusuf & partners as an independent auditing office to asses and review the internal control systems of the company, and the recommendation was approved by the board.

   Kais Al Nusuf & partners office submitted the report of the internal control to the capital market authority. The notes submitted while examining and assessing the internal control do not affect substantially the financial statements for the financial year ended in 31/12/2016.

Head of the Committee
Ahmad M. Hassan

Governance 2016

National Industries Company (K.P.S.C) believes in the role of governance to achieve development and enhance transparency, supervision and economic growth in the company, beside ensuring integrity, impartiality and integrity, to all its employees ranging from the Board of Directors and executive managers to the employees with lowest levels, thereby, the company has adopted the “Governance Guide” in order to be followed, and to comply with what was stated therein, and to be the basis of responsibility and accountability.

Board of Directors Structure

Member	Position	Qualifications and Experience	Date of election / appointment of the Secretary
Mr. Abdulaziz Ibrahim Al-Rabiah	Chairman (Non-Executive)	Bachelors Degree	21/4/2016
Dr. Adel Khaled Al Subeih	Deputy Chairman and Managing Director (Executive)	Ph.D.	21/4/2016
Mr. Ahmad Mohammad Hassan	Director (Non-Executive)	Bachelors Degree	21/4/2016
Mr. Hamad Mohammed Al-Saad	Director (Non-Executive)	Bachelors Degree	21/4/2016
Mr. Abdullrahman Shaikhan Al-Farisi	Director (Independent)	Bachelors Degree	21/4/2016
Mr. Hani M. El-Sherbini	Board Secretary	Bachelors Degree	21/4/2016

Board of Directors meetings in 2016:

Member	Meeting 1 dated in 3/3/2016	Meeting 2 dated in 21/4/2016	Meeting 3 dated in 15/5/2016	Meeting 4 dated in 4/8/2016	Meeting 5 dated in 14/11/2016	Meeting 6 dated in 1/12/2016	Number of meetings held
Mr. Abdulaziz Ibrahim Al-Rabiah (Chairman)	✓	✓	✓	✓	✓	✓	6
Dr. Adel Khaled Al Subeih (Deputy Chairman)	✓	✓	✓	✓	✓	✓	6
Mr. Abdullrahman Shaikhan Al-Farisi (Independent Director)	✓	✓	✓	-	✓	✓	5
Mr. Ahmad Mohammad Hassan (Director)	✓	✓	✓	✓	✓	✓	6
Mr. Hamad Mohammed Al-Saad (Director)	✓	✓	✓	-	✓	✓	5
Mr. Hani M. El-Sherbini (Board Secretary)	✓	✓	✓	-	✓	✓	5

Recording, coordination and conserving the minutes of meetings of the Board of Directors

- The Board Secretary works on recording, coordinating and conserving the minutes of meetings, records and reports submitted by and to the board.
- Records are arranged sequentially specifying the place and date of the meeting.
- The Board Secretary confirms that himself and the attended board members have signed in the minutes of meetings.
- Minutes of meetings have to be achieved as a hard copy and a soft copy.

Board of Directors Duties and Achievements:

- Board of Directors takes full responsibility for the company, including the Strategic plans, the progressive objectives, and supervising the implementing and following-up.
- Discussing and approving the estimated budget, the interim and annual financial statements of the company.
- Develop and approve the annual business plan.
- The Board of Directors oversees the Executive Management of the Company, including the Chief Executive Officer.
- The Board of Directors has appointed an Executive Chairman with technical competence and expertise.
- The Board of Directors has clearly separated the duties of the Chairman and the Chief Executive Officer, so as not to affect the independence of the decisions taken by either of them.
- The Board of Directors oversees and supervises the executive management of the Company, and ensures that it performs the tasks and duties entrusted to it, in accordance with the policies approved by the Board of Directors, in order to achieve the purposes and objectives of the Company.
- Forming committees emerged from the Board of Directors and determining the duration, powers and responsibilities of these committees.
- Following up the progress of the work of the company periodically through the regular meetings held with the executive management.
- Adopting the Corporate Governance Guide abiding with applying the ideal governance rules.
- Adopting a manual of policy and conflict of interest in the company and working in accordance.
- Supervising the implementation of administrative and financial regulations and ensuring proper application thereof

Internal Audit and Risk Management Committee

- Committee members:

Mr. Ahmad Mohammed Hassan	Committee Head
Mr. Abdullrahman Shaikhan Al-Farisi	Member
Mr. Hamad Mohammad Al-Saad	Member

- The committee has held 4 meetings in 2016
- Quorum is completed by the attendance of two members.
- Membership in the committee is valid either for 3 years, or until the entitlement of the board elections, which is first.

Tasks and achievements of the Internal Audit and Risk Management Committee:

1. Reviewing the financial statements before having them submitted to the Board of Directors.
2. Recommendation for appointing and reappointing or changing the external auditors, determining their fees and following up on their work and discussing their observations on the company's financial statements.
3. Discussing the accounting policy of the company.
4. Assessing the adequacy of the Company's Internal Control systems.
5. Supervising the internal audit department and recommending the appointment or isolation of the audit manager
6. Reviewing and confirming the proposed audit plans, and review the results of the internal audit reports.
7. Ensuring that the company complies with laws, policies and regulations.
8. Preparing and reviewing the Risk Management strategies and policies.
9. Ensuring the availability of resources and systems for Risk Management
10. Evaluation of the systems and mechanisms for identifying, measuring and monitoring risks to which the Company may be exposed.
11. Assisting the Board of Directors in identifying and evaluating the level of acceptable risk in the Company.
12. Reviewing the organizational structure of Risk Management
13. To ensure the independence of the Risk Management personnel and that they have a full understanding of the risks the company may encounter.
14. Preparing periodic reports on the nature of the risks that may face the company.

The rights of board members to access information

All available information to be discussed at any meeting of the Board of Directors shall be delivered within 3 business days of the meeting.

The Board member shall have sufficient time to study and discuss the topics on the agenda of the meeting.

The board member is entitled to access the relevant and reliable information, and to obtain such information from the company, including dealing directly with the personnel concerned.

Tasks and achievements of the Nomination and Remuneration Committee

- Recommending acceptance of nomination and re-nomination for membership of the Board of Directors + Committees emanating from the Board + Executive Management.
- Performing the annual review of the appropriate skills requirements for Board membership.
- Attracting applicants to hold executive positions in the company.
- Developing a functional description of the executive members, the non-executive members, and the independent members.
- Proposing the nomination of independent members and re-nominating them for election by the General Assembly and ensuring that the independent member is still independent.
- Arranging the policy of the remuneration of the Board of Directors and the Senior Executives.
- Defining the bonus segments for the company's employees.
- Performing an Annual review of the award policy.
- Preparing an annual report on the remuneration of the directors and executive management, and presenting the report to the general assembly of the company.

Report of the remuneration granted to the members of the Board of Directors and Executive Management

- The total remuneration of directors achieved KD 150,000 for the fiscal year ended 31/12/2016 and subject to the approval of the General Assembly of the company.
- During 2016, the company distributed 1,311,114 shares to the executive management of the company as bonuses according to the rules of the employee share program by granting the shares of the headquarters from the general assembly of the company.

Ensuring the integrity of the Financial Reports

The Board of Directors ensures the integrity of the financial reports by ensuring the independence and integrity of the external auditor, and the presence of an internal audit unit that prepares and reports to the Board through the Risk and Audit Committee, as well as sound and effective Risk Management and control systems.

Risk Management and Internal Control

- The Board of Directors works on strengthening the Internal Control of the company in order to provide the necessary protection against any internal or external risks.
- The Risk Unit of the Company, in coordination with the Internal Audit and Risk Management Committee of the Board, verifies the adequacy and effectiveness of the Company's Internal Control systems.
- The Company has commissioned an independent auditing company in accordance with the requirements of the Capital Market Authority, The observations accomplished in the Internal Control examination and evaluation do not materially affect the financial statements of the year ended 31/12/2016.

Professional Behavior and Ethical Values

- The company is committed to establishing the standards of professional conducts that all employees have to be committed with in all transactions and in every location where they perform their work. In case of any suspicion of non-compliance with the Code of Ethics, the Company shall encourage and create a culture of immediate reporting to the Competent Authority. The Company shall ensure that no action of any kind is taken against any person as a result of his or her concerns about legal irregularities or Regular in the company.
- The Board of Directors has approved (The policies and procedures of interest conflicts guide) to avoid any kind of interest conflicts, the Board of Directors and Executive Management with all the employees have to be committed to adopt all the guides staff sufficiently.
- Board of Directors members have to disclose any conflict of interest occurs.
- Board of Directors members must obtain the approval of the General Assembly of the Company prior to having a direct or indirect interest in the contracts and acts concluded with or for the company in accordance with the laws and regulations.

Disclosure and Transparency

- The Company is committed to accurate disclosure at the specified times in order to protect investors and increase their trust in it.
- Disclosure should be announced through the website of KSE and the one of the company.
- The company confirms the right of stakeholders to the information available and issued by the company through the printed annual reports distributed to the shareholders before the General Assembly, as well as posted on the company's website.
- Members of the Board of Directors and the Executive Management of the company are fully committed to all the company's activities and activities.
- The company's investor affairs unit, in turn, serves as a main contact point with existing shareholders and potential investors and provides the necessary data and information to them.

Respect for Shareholders' Rights

- The Board of Directors keens to maintain the rights of the shareholders to participate actively in the decisions taken by the company, such as their right of attending the General Assemblies, the right to discuss matters before the Assembly, the right to vote on General Assembly resolutions, the right to elect or abstain members of the Board of Directors, The right to accept or refuse resolutions of the General Assembly as well as the right of supervision on the management of the company, such as the right of discussing subjects on the agenda, and enquiries to the Board of Director members and to the auditor.
- The company keens to distribute the return on the shares during the legal period for distribution in coordination with the Kuwait Clearing Company.
- The company initiated the establishment of a database for shareholders, and annually sends invitation cards to attend the General Assembly meetings through the e-mail of its registered shareholders, encouraging shareholders to participate and vote in the meetings of the General Assembly.

Rights of Stakeholders

- The protection of stakeholders rights is being performed under laws provide them with the opportunity to obtain actual compensation in case of any violation occurs.
- The company is committed to respect and protect the rights of stakeholders according to the laws in force in the State of Kuwait, such as labor law and corporate law and its executive regulations, as well as the contracts between the parties.

Enhancement and Improvement in Performance

- The Board of Directors, through the guidance of the executive management, worked on enhancing and improving the company's performance, and was mandated to form an executive committee to hold weekly meetings attended by the Chief Executive Officer and the executive managers in order to improve the operational processes and to raise the production rates. In addition, the Innovation Committee, which includes factory managers and engineers in the company, was formed to develop new innovations, ideas and products in the company. The committee meets weekly, and the attendance is available to the committee members and the employees who wish to benefit from the information and discussions.

Social Responsibility

- National Industries Company (KSC) has initiated a national initiative to support and encourage the use of LED energy-saving lighting systems that deliver savings to citizens and the state at the same time.
- In order to achieve this, it has introduced LED bulbs for sale to the public in the three sales centers of the company at nominal prices below market prices in order to reduce market prices.
- The company provides specific support to government schools, kindergartens and charities.
- Facilitate educational school trips where the company receives students who want to visit the company's various facilities.
- The company received students from the Public Authority for Applied Education and Training, where they underwent training in the company's factories and various management. The company also seeks to attract outstanding students to join the company after their studies.
- The company supports graduation projects related to its field of work, and receives students to conduct studies and master's thesis on the company's activities and various activities.


أصباغ الصناعات
NIC PAINTS
فورتكس
FORTEX
For Exterior Use
Product you trust

NIC Paints

Consolidated Financial Statements and Independent Auditors' Report

National Industries Company - KPSC and Subsidiaries - KUWAIT

31 December 2016

Contents

Independent Auditors' Report

To the Shareholders of National Industries Company KPSC Kuwait,

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National Industries Company KPSC (“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 profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 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 ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below as the key audit matters.

Revenue recognition

The Group recognizes revenue to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is made. This is an area of audit focus as management assumptions are required to apply the revenue recognition criteria to each separately identifiable component of revenue. This can result in circumstances which require careful consideration to determine how revenue should be recognised.

Our audit procedures included testing the operating effectiveness of associated internal controls and performing substantive audit procedures.

We performed analytical reviews and reviewed management accounts to identify any material new revenue streams. Our testing procedures included reviewing customer contracts, checking delivery records and price lists, and checking that the recognition criteria of IFRS were met. We also assessed the adequacy of the Group’s disclosures of its revenue recognition policy, the judgements involved and other related disclosures.

The Group’s disclosures about revenue recognition are included in Note 8.

Revenue by segment is disclosed in Note 25.

Accounts receivable and other assets

The group has significant trade receivables with customers and given the nature of the Group's customers, the risk of customer insolvency remains significant.

Our audit procedures included testing the Group's controls over the receivables' collection processes; considering the receipt of cash after the year end; and testing the adequacy of the Group's provisions against trade receivables by challenging the relevant assumptions, taking account of our own knowledge of recent collections experience in this industry and also historical data from the Group's previous collections experience. We have also considered the adequacy of the Group's disclosures in this area.

The Group's disclosures about its accounts receivable and other assets are included in Note 17.

Valuation of Unquoted Available for Sale Financial Assets

The Group's investments in unquoted available for sale financial assets represent 23% of the total assets. Due to their unique structure and terms, the valuation of these instruments is based either on external independent valuations or on entity-developed internal models and not on quoted prices in active markets. Therefore, there is significant measurement uncertainty involved in this valuation. As a result, the valuation of these instruments was significant to our audit. We have, therefore, spent significant audit efforts in assessing the appropriateness of the valuations and underlying assumptions. The Group's disclosures about its available for sale financial assets are included in Note 14.

Our audit procedures included agreeing carrying value of the unquoted investments to the Group's internal or external valuations prepared using valuation techniques, assessing and challenging the appropriateness of estimates, assumptions and valuation methodology and obtained supporting documentation and explanations to corroborate the valuations.

Other information included in the Group's 2016 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, 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, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business or financial position of the Parent Company.

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton
Al-Qatami, Al-Aiban & Partners

Abdullatif A.H. Al-Majid
(Licence No. 70-A)
of Parker Randall
(Allied Accountants)

Kuwait

16 March 2017

Consolidated Statement of Profit or Loss

	Notes	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
Revenue			
Revenue from sales and services	8	40,997,520	48,215,733
Cost of sales and services		(32,084,655)	(35,057,001)
Gross profit		8,912,865	13,158,732
Other operating income		512,293	230,238
Investment income	9	869,709	1,353,635
Share of results of associates	13	348,667	(53,394)
Bargain purchase on acquisition of additional shares of an associate	13	163,053	-
Foreign exchange gain		3,244	155,476
Expenses and other changes		10,809,831	14,844,687
Distribution expenses			
General, administrative and other expenses		(2,225,411)	(2,296,774)
Finance costs	10	(5,860,049)	(3,311,655)
Impairment of available for sale investments		(2,320)	(4,530)
Provision for slow moving inventories	14	(1,530,259)	(715,321)
Provision for doubtful debts	15	(127,605)	-
Profit before contribution to KFAS, NLST, Zakat and Directors' remuneration	17	(426,500)	-
Provision for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		637,687	8,516,407
Provision for National Labour Support Tax (NLST)		(7,495)	(73,781)
Provision for Zakat		(37,473)	(192,945)
Provision for Directors' remuneration		(13,841)	(75,414)
Profit for the year		-	(150,000)
		578,878	8,024,267
Attributable to:			
Owners of the parent company		773,927	7,787,570
Non-controlling interests		(195,049)	236,697
Profit for the year		578,878	8,024,267
Basic earnings per share attributable to the owners of the parent company	11	2.226 Fils	22.395 Fils
Diluted earnings per share attributable to the owners of the parent company	11	2.218 Fils	22.298 Fils

The notes set out on pages 12 to 55 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and other Comprehensive Income

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
Profit for the year	578,878	8,024,267
Other comprehensive (loss) / income:		
Items that will be reclassified subsequently to the consolidated statement of profit or loss:		
Available for sale investments:		
- Net change in fair value arising during the year	(150,649)	(2,498,922)
- Transferred to consolidated statement of profit or loss on impairment	1,530,259	715,321
- Transferred to consolidated statement of profit or loss on sale	(63,663)	(261,408)
Exchange differences from translation of foreign operations	115,706	188,518
Share of other comprehensive income of associates	14,837	13,270
Total other comprehensive income/(loss)	1,446,490	(1,843,221)
Total comprehensive income for the year	2,025,368	6,181,046
Total comprehensive income attributable to:		
Owners of the parent company	2,185,477	5,876,983
Non-controlling interests	(160,109)	304,063
	2,025,368	6,181,046

The notes set out on pages 12 to 55 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
Assets			
Non-current assets			
Property, plant and equipment	12	28,006,931	27,068,220
Investment in associates	13	5,656,599	5,185,237
Available for sale investments	14	36,405,595	36,952,921
		70,069,125	69,206,378
Current assets			
Inventories and spare parts	15	19,611,392	18,675,127
Investments at fair value through profit or loss	16	1,885,967	1,961,526
Accounts receivable and other assets	17	15,725,835	12,898,091
Fixed deposits	18	1,502,500	7,225,000
Cash and bank balances		4,117,983	3,796,195
		42,843,677	44,555,939
Total assets		112,912,802	113,762,317
Equity and liabilities			
Equity			
Share capital	19	34,924,657	34,793,545
Share premium	19	32,364,839	32,202,714
Treasury shares	20	(57,110)	(34,236)
Legal reserve	21	4,737,173	4,653,899
Voluntary reserve	21	2,826,381	2,743,107
Staff bonus shares reserve		142,183	250,002
Other components of equity	22	9,488,772	8,077,222
Retained earnings		764,594	7,127,404
Total equity attributable to the owners of the parent company		85,191,489	89,813,657
Non-controlling interests		5,466,435	5,626,544
Total equity		90,657,924	95,440,201
Liabilities			
Non-current liabilities			
Provision for land-fill expenses		767,015	741,570
Provision for employees’ end of service benefits		5,171,107	4,900,778
		5,938,122	5,642,348
Current liabilities			
Murabaha payable	23	530,450	635,973
Accounts payable and other liabilities	24	15,786,306	12,043,795
		16,316,756	12,679,768
Total liabilities		22,254,878	18,322,116
Total equity and liabilities		112,912,802	113,762,317

Abdul Aziz Ibrahim Al-Rabia
Chairman

Dr. Adel Khaled Al Sbaeh
Vice-chairman and Chief Executive Officer

The notes set out on pages 12 to 55 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Equity attributable to the owners of the parent company										
	Share capital KD	Share premium KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Staff bonus shares reserve KD	Other components of equity (note 22) KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total KD
Balance at 1 January 2016	34,793,545	32,202,714	(34,236)	4,653,899	2,743,107	250,002	8,077,222	7,127,404	89,813,657	5,626,544	95,440,201
Dividend paid (note 26)	-	-	-	-	-	-	-	(6,970,189)	(6,970,189)	-	(6,970,189)
Purchase of treasury shares	-	-	(22,874)	-	-	-	-	-	(22,874)	-	(22,874)
Cost of share based payments (note 19)	-	-	-	-	-	185,418	-	-	185,418	-	185,418
Issue of staff bonus shares (note 19)	131,112	162,125	-	-	-	(293,237)	-	-	-	-	-
Transactions with owners	131,112	162,125	(22,874)	-	-	(107,819)	-	(6,970,189)	(6,807,645)	-	(6,807,645)
Profit/(loss) for the year	-	-	-	-	-	-	-	773,927	773,927	(195,049)	578,878
Other comprehensive income for the year	-	-	-	-	-	-	1,411,550	-	1,411,550	34,940	1,446,490
Total comprehensive income for the year	-	-	-	-	-	-	1,411,550	773,927	2,185,477	(160,109)	2,025,368
Transfer to reserves	-	-	-	83,274	83,274	-	-	(166,548)	-	-	-
Balance at 31 December 2016	34,924,657	32,364,839	(57,110)	4,737,173	2,826,381	142,183	9,488,772	764,594	85,191,489	5,466,435	90,657,924
Balance at 1 January 2015	34,675,783	32,020,653	(6,440)	3,825,928	2,243,107	296,482	9,987,809	6,301,688	89,345,010	2,853,111	92,198,121
Dividend paid	-	-	-	-	-	-	-	(5,216,650)	(5,216,650)	-	(5,216,650)
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	2,052,250	2,052,250
Effect of change in ownership percentage of subsidiary	-	-	-	-	-	-	-	(417,120)	(417,120)	417,120	-
Purchase of treasury shares	-	-	(28,119)	-	-	-	-	-	(28,119)	-	(28,119)
Sale of treasury shares	-	-	323	-	-	-	-	(113)	210	-	210
Cost of share based payments (note 19)	-	-	-	-	-	253,343	-	-	253,343	-	253,343
Issue of staff bonus shares (note 19)	117,762	182,061	-	-	-	(299,823)	-	-	-	-	-
Transactions with owners	117,762	182,061	(27,796)	-	-	(46,480)	-	(5,633,883)	(5,408,336)	2,469,370	(2,938,966)
Profit for the year	-	-	-	-	-	-	-	7,787,570	7,787,570	236,697	8,024,267
Other comprehensive income for the year	-	-	-	-	-	-	(1,910,587)	-	(1,910,587)	67,366	(1,843,221)
Total comprehensive income for the year	-	-	-	-	-	-	(1,910,587)	7,787,570	5,876,983	304,063	6,181,046
Transfer to reserves	-	-	-	827,971	500,000	-	-	(1,327,971)	-	-	-
Balance at 31 December 2015	34,793,545	32,202,714	(34,236)	4,653,899	2,743,107	250,002	8,077,222	7,127,404	89,813,657	5,626,544	95,440,201

The notes set out on pages 12 to 55 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
OPERATING ACTIVITIES		
Profit for the year	578,878	8,024,267
Adjustments:		
Depreciation of property, plant and equipment	3,661,524	3,242,983
(Gain)/loss on write off of property, plant and equipment	(167,411)	33,284
Gain on sale of available for sale investments	(79,670)	(291,182)
Share of results of associates	(348,667)	53,394
Bargain purchase on acquisition of additional shares of an associate	(163,053)	-
Impairment of available for sale investments	1,530,259	715,321
Dividend income from available for sale investments	(343,963)	(930,137)
Dividend income from investments at fair value through profit or loss	28,817	-
Income from short term murabaha	(238,964)	(234,690)
Cost of share based payment	185,418	299,823
Interest income	(5,986)	(31,976)
Finance costs	2,320	4,530
Foreign exchange loss on non operating assets and liabilities	(369,796)	(211,362)
Provision for land-fill expenses	25,445	17,422
Provision for slow moving inventory	127,605	-
Provision for doubtful debts	426,500	-
Provision for employees' end of service benefit	718,235	721,722
	5,567,491	11,413,399
Changes in operating assets and liabilities:		
Inventories and spare parts	(936,265)	(2,294,314)
Investments at fair value through profit or loss	75,559	427,850
Accounts receivable and other assets	(2,827,744)	(1,927,742)
Accounts payable and other liabilities	3,742,511	(408,337)
Cash from operations	5,621,552	7,210,856
Employees' end of service benefit paid	(447,906)	(548,096)
Net cash from operating activities	5,173,646	6,662,760

The notes set out on pages 12 to 55 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows (continued)

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,538,284)	(2,145,717)
Investment in associates – net	101,023	(2,297,650)
Purchase of available for sale investments	-	(2,015,714)
Proceeds on redemption/sale of available for sale investments	346,079	658,604
Dividend income received from available for sale investments	343,963	930,137
Dividend income received from investments at fair value through profit or loss	28,817	-
Fixed deposits	5,722,500	(3,500,000)
Income received from short term murabaha	238,964	234,690
Interest income received	5,986	31,976
Dividend income from investment in associates	-	107,571
Net cash from/(used in) investing activities	2,249,048	(7,996,103)
FINANCING ACTIVITIES		
Repayment of murabaha payable	(105,523)	(638,092)
Proceeds from murabaha payables	-	644,685
Addition by non-controlling interest	-	2,052,250
Purchase of treasury shares	(22,874)	(28,119)
Sales of treasury shares	-	323
Repayment of term loans	-	(102,446)
Finance costs paid	(2,320)	(4,530)
Dividends paid	(6,970,189)	(5,216,650)
Net cash used in financing activities	(7,100,906)	(3,292,579)
Net increase/(decrease) in cash and cash equivalents	321,788	(4,625,922)
Cash and cash equivalents at beginning of the year	3,796,195	8,422,117
Cash and cash equivalents at end of the year	4,117,983	3,796,195

The notes set out on pages 12 to 55 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. INCORPORATION AND ACTIVITIES

National Industries Company – KPSC (the parent company) was incorporated on 1 February 1997 as a Kuwaiti Public Shareholding Company and its shares are listed on the Kuwait Stock Exchange. The parent company is a subsidiary of National Industries Group Holding – KPSC (ultimate parent company).

The main objectives of the parent company are as follows:

- Manufacturing and marketing building materials and infrastructure products.
- Practicing all industrial activities, re-manufacturing and related activities and implementing same directly or through a third party to the account of the company or the third party after obtaining the necessary industrial licenses from the competent authorities.
- Implementing studies, researches and development and providing consultations in all kinds of industrial fields.
- Practicing trade of the materials related to the activities of import, export and marketing of products.
- Transportation, clearance, storage and packaging of raw materials and products and acquisition of the necessary means of transportation and storage.
- Quarry works and extraction, trading, formation and manufacturing of sands and rocks and import of the necessary equipment.
- Acquisition and rental of the movables and real estate properties necessary to carry out the company's activity and market its products.
- Establishing companies or participating therein with other parties to carry out the company's activities.
- Investing surplus funds in financial portfolios managed by specialized companies.
- The company may carry out the above activities inside and outside Kuwait.

The group comprises the parent company and its subsidiaries (note 7).

The address of the parent company's registered office is PO Box 3314, Safat 13034, State of Kuwait.

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

The parent company's board of directors approved these consolidated financial statements for issuance on 16 March 2017. The General Assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

2. BASIS OF PREPARATION

The consolidated financial statements of the group have been prepared under historical cost convention except for financial assets at fair value through profit or loss and financial assets available for sale that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the parent company.

3. STATEMENT OF COMPLIANCE

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

4. CHANGES IN ACCOUNTING POLICIES

4.1 New and amended standards adopted by the group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2016 which have been adopted by the group but did not have any significant impact on the financial position or the results for the year. Information on these new standards is presented below:

Standard or Interpretation	Effective for annual periods beginning
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments	1 January 2016
IAS 1 'Disclosure Initiative - Amendments	1 January 2016
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments	1 January 2016
IAS 27 Equity Method in Separate Financial Statements - Amendments	1 January 2016
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments	1 January 2016
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments

Amendments to IFRS 11 Joint Arrangements require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. It also requires disclosure of the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). The amendments apply prospectively to acquisitions of interests in joint operations.

IAS 1 Disclosure Initiative – Amendments

The Amendments to IAS 1 make the following changes:

- Materiality: The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
- Statement of financial position and statement of profit or loss and other comprehensive income: The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
- **Notes**: The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments

- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets address the following matters:
- a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
- an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is generally inappropriate except for limited circumstances
- expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Notes to the Consolidated Financial Statements *(continued)*

4 Changes in accounting policies (continued)
4.1 New and amended standards adopted by the group (continued)

IAS 27 Equity Method in Separate Financial Statements - Amendments

The Amendments to IAS 27 Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exception - Amendments

The Amendments are aimed at clarifying the following aspects:

- **Exemption from preparing consolidated financial statements.** The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- **A subsidiary providing services that relate to the parent's investment activities.** A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- **Application of the equity method by a non-investment entity investor to an investment entity investee.** When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- **Disclosures required.** An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

Annual Improvements to IFRSs 2012–2014 Cycle

i. Amendments to IFRS 5 - Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued

ii. Amendments to IFRS 7 - Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements

iii. Amendments to IAS 19 - Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid

iv. Amendments to IAS 34 - Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's consolidated financial statements.

Standard or Interpretation	Effective for annual periods beginning
IAS 7 Statement of Cash Flows- Amendments	1 January 2017
IAS 12 Income Taxes - Amendments	1 January 2017
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 2 Share-based Payment- Amendments	1 January 2018
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IAS 40 Investment Property - Amendments	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017 and 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

IAS 7 Statement of Cash Flows- Amendments

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes)

The Amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
  - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
  - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses - Amendments

The Amendments to IAS 12 make the following changes:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type

IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution

Notes to the Consolidated Financial Statements *(continued)*

4 Changes in accounting policies (continued)
4.2 IASB Standards issued but not yet effective (continued)

of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed.

IFRS 2 Share-Based Payment- Classification and Measurement

The amendments relate to clarification on the following:

- IFRS does not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The Amendments address this lack of guidance by clarifying that accounting for these conditions should be accounted for consistently with equity-settled share-based payments in IFRS 2
- The amendment adds guidance to IFRS 2 to the effect that a scheme with compulsory net-settlement feature would be classified as equity-settled in its entirety (assuming it would be so classified without the net settlement feature); and
- The amendment addresses the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

IFRS 9 Financial Instruments

The IASB published IFRS 9 ‘Financial Instruments’ (2014), representing the completion of its project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new ‘expected credit loss’ model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the financial assets will need to be reviewed based on the new criteria that considers the assets’ contractual cash flows and the business model in which they are managed.
- an expected credit loss-based impairment will need to be recognised on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 “Revenues”, IAS 11 “Construction Contract” and several revenue – related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- Timing – whether revenue is required to be recognized over time or at a single point in time
- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing

an overall constraint on revenue

- Time value – when to adjust a contract price for a financing component
- Specific issues, including –
  - non-cash consideration and asset exchanges
  - contract costs
  - rights of return and other customer options
  - supplier repurchase options
  - warranties
  - principal versus agent
  - licencing
  - breakage
  - non-refundable upfront fees, and
  - consignment and bill-and-hold arrangements.

IFRS 16 Leases

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- assessing the additional disclosures that will be required.

IFRS 40 Investment Property - Amendments

The Amendments to IAS 40 clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

Annual Improvements to IFRSs 2014-2016 Cycle

i. Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B17) apply to an entity's interests irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5. Amendment is effective for annual periods beginning on or after 1 January 2017.

ii. Amendments to IAS 28 - Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Amendment is effective for annual periods beginning on or after 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of consolidated financial statements are set out below:

5.1 Basis of consolidation

The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the parent company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the parent company's financial statements.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed off, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated statement of profit or loss.

Changes in the group's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent company.

5.2 Business combinations

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of profit or loss.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately. Goodwill is carried at cost less accumulated impairment losses.

5.3 Segment reporting

The group has two operating segments: the building materials and contracting services and investments segments. In identifying these operating segments, management generally follows the group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the group uses the same measurement policies as those used in its consolidated financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

5.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.

Revenue arises from the sale of goods and rendering of services and is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

The group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

5.4.1 Sale of goods

Sale of goods is recognised when the group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods.

5.4.2 Construction contracts

When the outcome can be assessed reliably, contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the group cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised in the period in which they are incurred.

In either situation, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in consolidated statement of profit or loss.

A construction contract's stage of completion is assessed by management based on milestones (usually defined in the contract) for the activities to be carried out under the contract and other available relevant information at the reporting date. The maximum amount of revenue recognised for each milestone is determined by estimating relative contract fair values of each contract phase, i.e. by comparing the group's overall contract revenue with the expected profit for each corresponding milestone. Progress and related contract revenue in-between milestones is determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone (a procedure sometimes referred to as the cost-to-cost method).

The gross amount due from customers for contract work is presented within trade and other receivables for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented within other liabilities for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

5.4.3 Interest and similar income

Interest income and expenses are reported on an accrual basis using the effective interest method.

Murabaha income is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the balance outstanding.

5.4.4 Dividend income

Dividend income, other than those from investments in associates, are recognised at the time the right to receive payment is established.

5.5 Operating expenses

Operating expenses are recognised upon utilisation of the service or at the date of their origin.

5.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are

Notes to the Consolidated Financial Statements *(continued)*

5. Significant accounting policies (continued)
5.6 Borrowing costs (continued)

expensed in the period in which they are incurred and reported in finance costs.

5.7 Taxation

5.7.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the group attributable to the owners of the parent company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

5.7.2 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the group attributable to the owners of the parent company. As per law, income from associates and subsidiaries, cash dividends from listed companies subjected to NLST are deducted from the profit for the year.

5.7.3 Zakat

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

Under the NLST and Zakat regulations, no carry forward of losses to the future years or any carry back to prior years is permited.

5.8 Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the group's management.

Property, plant and equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property, plant and equipment. The following useful lives are applied:

• Buildings:	4 - 20 years
• Plant and equipment:	1 – 10 years
• Motor vehicles	2 – 10 years
• Furniture and equipment:	4 - 10 years.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

5.9 Investment in associates

Associates are those entities over which the group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the group.

Unrealised gains and losses on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

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

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

5.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Cost of finished goods is calculated using first-in first-out method. For other items of inventory, cost is calculated using the weighted average cost method.

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

5.11 Financial instruments

5.11.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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

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

Where the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group’s continuing involvement in the asset.

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 consolidated statement of profit or loss.

5.11.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss(FVTPL)
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

• Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty

Notes to the Consolidated Financial Statements *(continued)*

5. Significant accounting policies (continued)
5.11 Financial instruments (continued)

and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The group categorises loans and receivables into following categories:

• Trade receivables

Trade receivables are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred

• Fixed deposits

Fixed deposits are stated at the balance invested and do not include related accrual of profit.

• Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank balances that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

• Financial assets at FVTPL

Classification of investments as financial assets at FVTPL depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are as designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

• AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

The group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. ‘Significant’ is evaluated against the original cost of 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 is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.11.3 Classification and subsequent measurement of financial liabilities

The group’s financial liabilities include trade and other payables and murabaha payables.

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

• Financial liabilities other than at fair value through statement of profit or loss

These are stated using effective interest rate method. Trade payables and murabaha payables are classified as financial liabilities other than at FVTSI.

• Trade payables

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

• Murabaha payables

Murabaha payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

5.11.4 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.11.5 Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

5.11.6 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.

5.11.7 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

5.12 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Legal and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the companies' law and the parent company's memorandum of incorporation and articles of association.

Other components of equity include the following:

- Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign entities into Kuwaiti Dinar ("KD")
- Fair value reserve – comprises gains and losses relating to available for sale financial assets
- Treasury shares reserve – comprises gains and losses arising from sale of treasury shares

Retained earnings include all current and prior period retained profits. All transactions with owners of the parent company are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.

5.13 Treasury shares

Treasury shares consist of the parent company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity.

When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Notes to the Consolidated Financial Statements *(continued)*

5. Significant accounting policies (continued)

5.14 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

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 statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

5.15 Foreign currency translation

5.15.1 Functional and presentation currency

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

5.15.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

5.15.3 Foreign operations

In the group's financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

5.16 End of service benefits

The group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period 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 Kuwaiti 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.

5.17 Related party transactions

Related parties consist of directors, executive officers, their close family members and companies which they are principal owners. All related party transactions are approved by management.

5.18 Share based payments

Certain senior management employees are granted share options of parent company as part of their remunerations package.

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised, together with a corresponding increase in staff share bonus reserve in equity, over the period in which vesting conditions are fulfilled (note 27). The cumulative expenses recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of profit or loss or credit for a period represents the movement in cumulative expenses recognised as at the beginning and end of that period and is recognised in employee benefits expenses.

When the terms of an equity-settled award are modified, the minimum expenses recognised is the expenses had the terms had not been modified, if the original terms of the awards are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transactions, or is otherwise beneficial to the employees as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computations of diluted earnings per share.

6. SIGNIFICANT MANAGEMENT JUDGEMENTS AND ESTIMATION UNCERTAINTY

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

6.1 Significant management judgments

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

6.1.1 Classification of financial instruments

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

The group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as at fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as at fair value through profit or loss.

Classification of assets as loans and receivables depends on the nature of the asset. If the group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

6.1.2 Control assessment

When determining control, management considers whether the group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different

6.2.1 Impairment of associates

After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment

Notes to the Consolidated Financial Statements *(continued)*

6. Significant management judgements and estimation uncertainty (continued)
6.2 Estimates uncertainty (continued)

as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of profit or loss.

6.2.2 Impairment of available for sale equity investments

The group treats available for sale equity investments 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.

6.2.3 Impairment of trade receivables

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

6.2.4 Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

6.2.5 Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

6.2.6 Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

7. SUBSIDIARIES

The details of the subsidiaries are as follows:

Composition of the group

		Percentage of ownership		
	Country of incorporation	31 Dec. 2016 %	31 Dec. 2015 %	Purpose
Building Systems Industries Company – WLL (7.1.1)	Kuwait	98	98	Construction and contracting
National Industries Company for Ceramic - KSCC	Kuwait	86.427	86.427	Manufacturing
Saudi Insulation Bricks Company –WLL	Saudi Arabia	50	50	Manufacturing

7.1.1 The group has consolidated Building Systems Industries Company – WLL using fiscal year ended 30 November 2016 management accounts.

Subsidiaries with material non-controlling interests

The group includes the following subsidiaries with material non-controlling interests (NCI):

	Proportion of ownership interests and voting rights held by the NCI		Profit/(loss) allocated to NCI		Accumulated NCI	
Name	31 Dec. 2016 %	31 Dec. 2015 %	31 Dec. 2016 KD	31 Dec. 2015 KD	31 Dec. 2016 KD	31 Dec. 2015 KD
Saudi Insulation Bricks Company - WLL	50%	50%	(168,861)	17,376	3,779,639	3,913,560
National Industries Company for Ceramic - KSCC	13.573%	13.573%	(26,188)	219,321	1,686,796	1,712,984

No dividends were paid to the NCI during the years 2016 and 2015.

Notes to the Consolidated Financial Statements *(continued)*

7. Subsidiaries (continued)

Saudi Insulation Bricks Company - WLL

Summarised financial information for Saudi Insulation Bricks Company –WLL, before intragroup eliminations is set out below:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	7,729,570	7,567,967
Current assets	2,107,735	2,188,259
Total assets	9,837,305	9,756,226
	41,711	71,066
Non-current liabilities	2,236,316	1,858,040
Current liabilities	2,278,027	1,929,106
Total liabilities	3,779,639	3,913,560
	3,779,639	3,913,560
Equity attributable to the owners of the parent company	7,559,278	7,827,120
Non-controlling interests	3,779,639	3,913,560
Total equity	7,559,278	7,827,120

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	3,052,304	4,007,944
(Loss)/profit for the year attributable to the owners of the parent company	(168,861)	17,376
(Loss)/profit for the year attributable to NCI	(168,861)	17,376
(Loss)/profit for the year	(337,722)	34,752
Other comprehensive income for the year attributable to the owners of the parent company	34,940	67,362
Other comprehensive income for the year attributable to NCI	34,940	67,366
Total other comprehensive income for the year	69,880	134,728
Total comprehensive (loss)/income for the year attributable to the owners of the parent company	(133,921)	84,740
Total comprehensive (loss)/income for the year attributable to NCI	(133,921)	84,740
Total comprehensive (loss)/income for the year	(267,842)	169,480
Net cash flow from operating activities	424,005	69,155
Net cash flow used in investing activities	(405,022)	(194,423)
Net cash inflow/(outflow)	18,983	(125,268)

National Industries Company for Ceramic -KSCC

Summarised financial information for National Industries Company for Ceramic – KSCC, before intragroup eliminations is set out below:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	16,115,767	16,623,938
Current assets	7,957,342	8,368,645
Total assets	24,073,109	24,992,583
Non-current liabilities	225,043	159,774
Current liabilities	14,270,264	14,418,314
Total liabilities	14,495,307	14,578,088
Equity attributable to the owners of the parent company	8,277,808	9,000,936
Non-controlling interests	1,299,994	1,413,559
Total equity	9,577,802	10,414,495

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	5,783,418	6,590,655
(Loss)/profit for the year attributable to the owners of the parent company	(723,129)	1,645
Loss for the year attributable to NCI	(113,565)	(42,613)
Loss for the year	(836,694)	(40,968)
Total comprehensive (loss)/income for the year attributable to the owners of the parent company	(723,129)	1,645
Total comprehensive loss for the year attributable to NCI	(113,565)	(42,613)
Total comprehensive loss for the year	(836,694)	(40,968)
Net cash flow from/(used in) operating activities	1,164,617	(1,181,414)
Net cash flow used in investing activities	(1,521,395)	(1,842,635)
Net cash flow (used in)/from financing activities	(109,630)	1,640,614
Net cash outflow	(466,408)	(1,383,435)

Interests in unconsolidated structured entities

The group has no interests in unconsolidated structured entities.

8. REVENUE FROM SALES AND SERVICES

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Sale of building and infrastructure materials	40,491,327	47,189,831
Contracting revenue	506,193	1,025,902
	40,997,520	48,215,733

Notes to the Consolidated Financial Statements *(continued)*

9. INVESTMENT INCOME

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Gain on sale of available for sale investments	79,670	291,182
Dividend income from available for sale investments	343,963	930,137
Dividend income from investments at fair value through profit or loss	28,817	34,581
Gain/(loss) from investments at fair value through profit or loss	172,309	(168,931)
Income from short term murabaha	238,964	234,690
Interest and other income	5,986	31,976
	869,709	1,353,635

10. GENERAL, ADMINISTRATIVE AND OTHER EXPENSES

This includes cost of provision for gas usage for previous years amounting to KD2.7 Million. During the last year, the parent company received a letter from one of the government owned entities which supplies gas to one of the factories of the group demanding payment for usage of gas for 2004 till 2011. The group rejected this claim on several grounds, inter alia, there has never been agreement to pay for gas usage for that period because the factory was relocated at that place on the government's request wherein the government had promised provision of land, electricity and gas. Further, no invoice was ever issued to the group in that period. The supplier filed a legal case against the parent company claiming its right to recover the amount for the gas usage. The court in its first hearing transferred the case to the Expert's department. Subsequent to the reporting date, the court issued a ruling ordering the parent company to pay an amount of USD9.3 Million to the plaintiff. The parent company is considering legal options of appealing this decision.

11. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to the owners of the parent company by the weighted average number of shares outstanding during the year as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Profit for the year attributable to the owners of the parent company (KD)	773,927	7,787,570
Weighted average number of shares outstanding during the year to be used for basic earnings per share (excluding treasury shares)	347,735,350	347,734,557
Shares to be issued for no consideration under share based payments	1,213,206	1,508,186
Weighted average number of shares outstanding during the year to be used for diluted earnings per share (excluding treasury shares)	348,948,556	349,242,743
Basic earnings per share attributable to the owners of parent company	2.226 Fils	22.395 Fils
Diluted earnings per share attributable to the owners of parent company	2.218 Fils	22.298 Fils

12. PROPERTY, PLANT AND EQUIPMENT

31 December 2016	Land KD	Buildings KD	Plant and equipment KD	Motor vehicles KD	Furniture and equipment KD	Assets under construction KD	Total KD
Cost							
At 1 January	1,469,677	33,799,223	51,151,349	11,381,633	5,032,341	2,627,230	105,461,453
Additions/transfers	-	334,918	3,491,010	1,522,700	513,570	(1,323,914)	4,538,284
Write-off/disposals	-	-	(11,322)	(417,691)	(1,123,796)	-	(1,552,809)
Foreign currency adjustments	13,121	21,779	81,678	1,322	714	718	119,332
At 31 December	1,482,798	34,155,920	54,712,715	12,487,964	4,422,829	1,304,034	108,566,260
Accumulated depreciation							
At 1 January	-	23,772,967	39,839,334	10,286,746	4,494,186	-	78,393,233
Charge for the year	-	717,109	2,166,485	590,393	187,537	-	3,661,524
Relating to write-off/disposals	-	-	(72,279)	(411,884)	(1,045,561)	-	(1,529,724)
Foreign currency adjustments	-	5,084	27,680	1,238	294	-	34,296
At 31 December	-	24,495,160	41,961,220	10,466,493	3,636,456	-	80,559,329
Net book value							
At 31 December	1,482,798	9,660,760	12,751,495	2,021,471	786,373	1,304,034	28,006,931

31 December 2015	Land KD	Buildings KD	Plant and equipment KD	Motor vehicles KD	Furniture and equipment KD	Assets under construction KD	Total KD
Cost							
At 1 January	1,417,013	34,365,648	50,551,542	11,003,032	4,919,725	2,147,616	104,404,576
Additions/transfers	-	263,514	755,550	399,503	247,862	479,288	2,145,717
Write-off/disposals	-	(916,354)	(396,242)	(26,207)	(137,784)	-	(1,476,587)
Foreign currency adjustments	52,664	86,415	240,499	5,305	2,538	326	387,747
At 31 December	1,469,677	33,799,223	51,151,349	11,381,633	5,032,341	2,627,230	105,461,453
Accumulated depreciation							
At 1 January	-	23,979,629	38,337,338	9,692,213	4,461,805	-	76,470,985
Charge for the year	-	691,597	1,768,730	616,904	165,752	-	3,242,983
Relating to write-off/disposals	-	(916,341)	(366,397)	(26,204)	(134,361)	-	(1,443,303)
Foreign currency adjustments	-	18,082	99,663	3,833	990	-	122,568
At 31 December	-	23,772,967	39,839,334	10,286,746	4,494,186	-	78,393,233
Net book value							
At 31 December	1,469,677	10,026,256	11,312,015	1,094,887	538,155	2,627,230	27,068,220

The parent company's buildings have been constructed on plots of land which have been leased from the government through renewable lease contracts.

Assets under construction represent the cost incurred on the expansion of the group's existing factories and the construction of manufacturing lines by a subsidiary. During the prior years, portions of the manufacturing lines which were completed and ready for intended use were capitalised in the appropriate categories. The costs relating to the remaining manufacturing lines and facilities will be transferred to the appropriate asset categories when the assets are ready for their intended use.

13. INVESTMENT IN ASSOCIATES

Details of the group's investment in associates are given below:

		Percentage of ownership		
	Country of incorporation	31 Dec. 2016	31 Dec. 2015	Purpose
Kuwait Rocks Company – KSC (Closed)	Kuwait	38%	38%	Building materials
Al-Raya Global Real Estate Co. – KSCC	Kuwait	22.39%	20%	Real estate
Insulated Building Systems Factory – WLL	Bahrain	50%	50%	Contracting
United Gulf Pipes Factory – LLC	Oman	45%	45%	Manufacturing
Omani German Company for Building Materials – LLC	Oman	32.5%	32.5%	Manufacturing

All of the above associates are unquoted.

The movement of investment in associates during the year is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Balance at beginning of the year	5,185,237	3,062,174
Share of results of associates	348,667	(53,394)
Bargain purchase (see below)	163,053	-
Losses adjusted to due from associate	-	(80,682)
Additions	130,394	2,297,650
Capital reduction	(231,415)	-
Dividend received	-	(107,571)
Share of other comprehensive income	14,837	13,270
Foreign exchange translation	45,826	53,790
	5,656,599	5,185,237

13.1.1 During the year the group acquired an additional 2.39% interest in Al Raya Global Real Estate Company-KSCC, increasing its ownership interests in the associate to 22.39% for a total cash consideration of KD130,392. A bargain purchase of KD 163,053 has been recognised as a result of this additional acquisition.

13.2 Summarised financial information of group's material associates are set out below:

a) Al-Raya Global Real Estate Co. – KSCC:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	8,409,311	13,786,994
Current assets	4,739,238	1,449,357
Total assets	13,148,549	15,236,351
Non-current liabilities	134,307	126,381
Current liabilities	1,494,228	1,723,065
Total liabilities	1,628,535	1,849,446
Net assets	11,520,014	13,386,905

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	(846,852)	640,466
(Loss)/profit for the year	(1,088,649)	882,125
Other comprehensive income for the year	41,607	66,350
Total comprehensive (loss)/income for the year	(1,047,042)	948,475

Reconciliation of the above summarised financial information of the associate with the carrying amount in the consolidated statement of financial position is given below:

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Group's ownership interest	22.39%	20%
Net assets of the associate (KD)	11,520,014	13,386,905
Group's share of net assets (KD)	2,579,331	2,677,381
Carrying amount (KD)	2,579,331	2,677,381

The group has accounted for its share of results of the associate using 31 December 2016 draft audited financial statements.

Notes to the Consolidated Financial Statements *(continued)*

13. Investment in associates (continued)

b) Insulated Building Systems Factory - WLL:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	1,863,113	1,517,902
Current assets	1,649,683	1,979,358
Total assets	3,512,796	3,497,260
Non-current liabilities	26,238	5,247
Current liabilities	287,053	528,401
Total liabilities	313,291	533,648
Net assets	3,199,505	2,963,612

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	1,768,689	1,427,959
Profit for the year	203,069	159,454
Other comprehensive income for the year	-	99,166
Total comprehensive income for the year	203,069	258,620

Reconciliation of the above summarised financial information of the associate with the carrying amount in the consolidated statement of financial position is given below:

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Group's ownership interest	50%	50%
Net assets of the associate (KD)	3,199,505	2,963,612
Group's share of net assets (KD)	1,599,753	1,481,806
Carrying amount (KD)	1,599,753	1,481,806

The group has accounted for its share of results of the associate using 31 December 2016 draft audited financial statements.

Notes to the Consolidated Financial Statements *(continued)*

13. Investment in associates (continued)

c) United Gulf Pipes Factory – LLC:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	5,885,604	6,020,918
Current assets	5,987,320	5,807,592
Total assets	11,872,924	11,828,510
Non-current liabilities	4,012,254	4,914,813
Current liabilities	5,580,823	6,052,211
Total liabilities	9,593,077	10,967,024
Net assets	2,279,847	861,486

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	8,751,694	4,509,047
Profit/(loss) for the year	679,769	(425,880)
Other comprehensive loss for the year	-	(24,549)
Total comprehensive income/(loss) for the year	679,769	(450,429)

Reconciliation of the above summarised financial information of the associate with the carrying amount in the consolidated statement of financial position is given below:

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Group's ownership interest	45%	45%
Net assets of the associate (KD)	2,279,847	861,486
Group's share of net assets (KD)	1,025,931	387,669
Embedded Goodwill	317,439	317,439
Carrying amount (KD)	1,343,370	705,108

The group has accounted for its share of results of the associate using 31 December 2016 management accounts.

Notes to the Consolidated Financial Statements *(continued)*

13. Investment in associates (continued)

13.3 Set out below is the aggregate information for the individually immaterial associates, based on audited financial statements at 31 December 2016 and 2015.

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Group's share of profits and losses	(187,278)	(117,900)
Group's share of other comprehensive income	2,702	15,254
Group's share of total comprehensive loss	(184,576)	(102,646)
Aggregate carrying amount of group's interest in these associates	134,145	320,942

14. AVAILABLE FOR SALE INVESTMENTS

	31 Dec. 2016 KD	31 Dec. 2015 KD
Local quoted securities	3,698,440	8,730,428
Local unquoted securities	12,185,982	6,268,232
Foreign quoted securities	1,656,190	1,692,691
Foreign unquoted securities	13,879,688	15,264,511
Murabaha investment	4,985,295	4,997,059
	36,405,595	36,952,921

During the year, the group recognised an impairment loss of KD1,530,259 (2015: KD715,321) against certain investments. Management has performed an analysis of the underlying investments which indicates that there is no further impairment.

Murabaha investment is placed with local Islamic financial institution and carries effective profit rate of 2% (2015: 2%) above CBK rate and matures in August 2018 and is carried at cost. This investment represents the parent company's participation in a syndicated arrangement of murabaha provided to the ultimate parent company by a local Islamic financial institution.

15. INVENTORIES AND SPARE PARTS

	31 Dec. 2016 KD	31 Dec. 2015 KD
Raw materials	8,770,828	8,751,224
Finished goods and work-in-progress	6,975,608	6,033,076
Spare parts	3,601,338	3,626,201
Goods in transit	1,134,012	1,032,497
	20,481,786	19,442,998
Provision for obsolete and slow moving items	(870,394)	(767,871)
	19,611,392	18,675,127

16. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec. 2016 KD	31 Dec. 2015 KD
Designated on initial recognition:		
Managed funds and portfolios	1,534,397	1,609,956
Quoted equity securities	351,570	351,570
	1,885,967	1,961,526

17. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	31 Dec. 2016 KD	31 Dec. 2015 KD
Trade receivables	12,707,472	11,152,065
Provision for doubtful debts	(1,449,423)	(1,022,923)
	11,258,049	10,129,142
Due from ultimate parent company	1,508,179	448,139
Due from associates	574,403	231,640
Due from related companies	9,023	9,023
Staff receivables	229,361	213,885
Prepayments	430,751	455,551
Advances to contractors	98,668	95,413
Retentions	754,760	754,759
Accrued income and other assets	862,641	560,539
	15,725,835	12,898,091

17.1 The carrying values of the financial assets included above approximate their fair values and are due within one year.

17.2 Trade receivables are non-interest bearing and generally on 30 – 90 days credit terms.

As at 31 December the aging analysis of trade receivables is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Neither past due nor impaired	7,572,883	6,927,942
Past due but not impaired		
- 3 – 6 months	3,685,166	3,201,200
Impaired		
- over 6 months	1,449,423	1,022,923
Total trade receivables	12,707,472	11,152,065

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2016, trade receivables of KD3,685,166 (2015: KD3,201,200) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

18. FIXED DEPOSITS

Fixed deposits carry average interest rate of 1.6% (2015: 1.6%) per annum and mature within one year from financial position date.

19. SHARE CAPITAL AND SHARE PREMIUM

	31 Dec. 2016 KD	31 Dec. 2015 KD
Shares of KD0.100 each		
- Authorised	35,320,187	35,320,187
- Issued and fully paid	34,924,657	34,793,545

During the year, the parent company issued 1,311,114 shares (2015: 1,177,629 shares) under the staff share based payment scheme (note 27) at price ranging from KD0.200 to KD0.335 per share. The amount in excess of nominal amount of KD0.100 was credited to the share premium account.

20. TREASURY SHARES

	31 Dec. 2016 KD	31 Dec. 2015 KD
Number of shares	284,930	140,872
Percentage of issued shares	0.08%	0.04%
Cost of treasury shares (KD)	57,110	34,236
Market value (KD)	59,835	31,837

Reserves of the parent company equivalent to the cost of treasury shares have been earmarked as non-distributable.

21. LEGAL AND VOLUNTARY RESERVES

In accordance with the Companies Law and the parent company's memorandum of incorporation and articles of association, 10% of the profit for the year attributable to the owners of the parent company before KFAS, NLST, Zakat and directors' remuneration is transferred to legal reserve. The parent company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital.

Distribution of the legal 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 distribution of a dividend of that amount.

In accordance with the Companies Law and the parent company's articles of association, upto 10% of the profit for the year attributable to the owners of the parent company before KFAS, NLST, Zakat and directors' remuneration is transferred to the voluntary reserve. There are no restrictions on distribution of voluntary reserve.

22. OTHER COMPONENTS OF EQUITY

	Fair value reserve KD	Foreign currency translation reserve KD	Total KD
Balance at 1 January 2016	7,902,268	174,954	8,077,222
Exchange differences on translation of foreign operations	-	80,766	80,766
Share of other comprehensive income of associates	12,366	2,471	14,837
Available for sale investments:			
- Net change in fair value arising during the year	(150,649)	-	(150,649)
- Transferred to consolidated statement of profit or loss on impairment	1,530,259	-	1,530,259
- Transferred to consolidated statement of profit or loss on sale	(63,663)	-	(63,663)
Total other comprehensive income for the year	1,328,313	83,237	1,411,550
Balance at 31 December 2016	9,230,581	258,191	9,488,772
Balance at 1 January 2015	9,951,418	36,391	9,987,809
Exchange differences on translation of foreign operations	-	121,152	121,152
Share of other comprehensive income of associates	(4,141)	17,411	13,270
Available for sale investments:			
- Net change in fair value arising during the year	(2,498,922)	-	(2,498,922)
- Transferred to consolidated statement of profit or loss on impairment	715,321	-	715,321
- Transferred to consolidated statement of profit or loss on sale	(261,408)	-	(261,408)
Total other comprehensive (loss)/income for the year	(2,049,150)	138,563	(1,910,587)
Balance at 31 December 2015	7,902,268	174,954	8,077,222

23. MURABAHA PAYABLE

These represent murabaha facilities obtained from local financial institutions carrying an average effective profit rate of 4.00% (2015: 4.00%) per annum.

24. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	31 Dec. 2016 KD	31 Dec. 2015 KD
Trade payables	9,301,721	7,690,677
Due to other related companies (non-controlling interest)	446,994	443,039
Staff payables	150,492	139,058
Provision for staff leave	890,961	859,492
Accrued expenses	1,425,410	1,606,919
Due to customers for contract works	460,855	454,879
Other liabilities	3,109,873	849,731
	15,786,306	12,043,795

Notes to the Consolidated Financial Statements *(continued)*

25. OPERATING SEGMENTS

The group's format for reporting segment information is business segments and the group primarily operates in two business segments: Building materials and Contracting services, and Investments. The segment information is as follows:

	Building materials and contracting services		Investments		Total	
	31 Dec. 2016 KD	31 Dec. 2015 KD	31 Dec. 2016 KD	31 Dec. 2015 KD	31 Dec. 2016 KD	31 Dec. 2015 KD
Segment revenue	40,997,520	48,215,733	869,709	1,353,635	41,867,229	49,569,368
Share of results of associates	-	-	348,667	(53,394)	348,667	(53,394)
Bargain purchase on acquisition of additional shares of an associate	-	-	163,053	-	163,053	-
					42,378,949	49,515,974
Segment results	786,517	7,780,541	(148,830)	584,920	637,687	8,365,461
Unallocated expenses					(58,809)	(341,194)
Profit for the year, per consolidated statement of profit or loss					578,878	8,024,267
Depreciation	3,661,524	3,242,983	-	-	3,661,524	3,242,983
Impairment of available for sale investments	-	-	(1,530,259)	715,321	(1,530,259)	715,321
Assets	61,261,576	57,961,659	51,651,226	55,800,658	112,912,802	113,762,317
Liabilities	(22,254,878)	(18,322,116)	-	-	(22,254,878)	(18,322,116)
	39,006,698	39,639,543	51,651,226	55,800,658	90,657,924	95,440,201

26. PROPOSED DIVIDENDS AND GENERAL ASSEMBLY OF THE SHAREHOLDERS

Subject to the requisite consent of the relevant authorities and approval of the general assembly, the directors propose for the year ended 31 December 2016 a cash dividend of 10 Fils (2015: 20 Fils) per share of paid up share capital to be distributed to the shareholders of record as of the date of the general assembly.

The annual general assembly of the shareholders held on 23 April 2016, approved the consolidated financial statements for the year ended 31 December 2015 and cash dividend of 20 Fils (2015: 20 Fils) per share amounting to KD6,970,189 (2015: KD5,216,650) for the year ended 31 December 2015 which was paid following that approval.

27. SHARE BASED PAYMENT

Under the senior executive plan, share options of the parent company are granted to certain senior executives of the parent company.

The scheme is part of the remuneration package of the group's senior management. The scheme continues for a five year period under which a maximum of 7,000,000 shares will be granted to the participants over that period. Options under the scheme will vest if certain conditions, as defined in the scheme, are met. It is based on the performance of the scheme participants and the options vests at the end of each fiscal year based on a pre-determined formula. Participants have to be employed until the end of each of the five year vesting period. Upon vesting, each option allows the holder to receive one share at no cost. There are no cash settlement alternatives.

The expense recognised for employees services under the senior executive plan amounted to KD185,418 (2015: KD253,343) during the year. The carrying amount of the liability relating to the plan at 31 December 2016 was KD142,183 (2015: KD250,002) shown under staff bonus reserve in equity.

The following table illustrates the number and weighed average exercise prices (WAEP) and movement in share option during the year.

	31 Dec. 2016 Share options Number	31 Dec. 2016 WAEP KD	31 Dec. 2015 Share options Number	31 Dec. 2015 WAEP KD
Opening balance	1,508,186	0.238	1,459,457	0.268
Granted during the year	1,013,114	0.230	1,226,358	0.208
Exercised during the year	(1,311,114)	0.224	(1,177,629)	0.248
Outstanding at 31 December	1,210,186	0.230	1,508,186	0.238
Exercisable at 31 December	755,578	0.234	959,217	0.238

28. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the group, and companies of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the group's management.

Details of significant related party transactions are as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Amounts included in the consolidated financial position:		
Due from ultimate parent company (note 17)	1,508,179	448,139
Due from associates (note 17)	574,403	231,640
Due from other related companies (note 17)	9,023	9,023
Due to other related companies (non-controlling interests) (note 24)	446,994	443,039

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Transactions included in the consolidated statement of profit or loss:		
Interest income	5,952	11,952
Compensation of key management personnel of the parent company		
Directors' fees	-	150,000
Short term benefits	243,904	234,465
End of service benefits	53,081	16,147
Cost of share based payments	185,418	253,343
	482,403	653,955

29. COMMITMENTS AND CONTINGENT LIABILITIES

	31 Dec. 2016 KD	31 Dec. 2015 KD
Letters of guarantee	2,454,159	4,637,523
Letters of guarantee from ultimate parent company	200,000	200,000
	2,654,159	4,837,523

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

The recognition and management of risk is an essential element of group's risk strategy. The Board is ultimately responsible for the management of risks associated with group's activities. It has established a framework of policies and controls to identify, assess, monitor and manage risk.

Group's risk policies and processes aim to protect the asset values and income streams such that the interests of shareholders and external fund providers are protected and shareholders' return is optimised.

30.1 Market risk

a. Foreign currency risk

The group is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, Pound Sterling and currencies of other Middle Eastern countries. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward foreign contracts may be entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

The group had the following net significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

	31 Dec. 2016 KD	31 Dec. 2015 KD
US Dollar	13,299,015	14,308,448
UAE Dirhams	973,063	893,146
Jordanian Dinar	238,472	236,481
Saudi Riyal	6,363,342	6,359,388
Bahraini Dinar	1,766,170	1,753,429
Omani Riyal	2,487,367	1,695,610
Pound Sterling	595,832	599,242

Notes to the Consolidated Financial Statements *(continued)*

30. Risk management objectives and policies (continued)
30.1 Market risk (continued)

The foreign currency sensitivity is determined assuming 5% (2015: 5%) reasonably possible increase or decrease in exchange rates for monetary financial assets and liabilities.

If the Kuwaiti Dinar had strengthened/weakened assuming the above sensitivity, then this would have the following impact on the profit for the year and equity:

	Profit for the year		Equity	
	31 Dec. 2016 KD	31 Dec. 2015 KD	31 Dec. 2016 KD	31 Dec. 2015 KD
US Dollar	±31,986	±35,851	±659,631	±681,222
Other currencies	±280,450	±255,679	±299,573	±321,883

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the group's exposure to the foreign currency risk. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk with respect to fixed deposits, murabaha investment and murabaha payables.

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in interest rates of +100 bps (1%) and –100 bps (1%) (2015: +100 bps (1%) and –100bps (1%)) with effect from the beginning of the year. The calculations are based on the group's financial instruments held at each financial position date. All other variables are held constant. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

	31 Dec. 2016		31 Dec. 2015	
	+ 1 %	-1 %	+ 1 %	-1 %
	KD	KD	KD	KD
Profit for the year	59,573	(59,573)	115,861	(115,861)

c) Price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified as investments at fair value through profit or loss and available-for-sale investments.

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The equity price risk sensitivity is determined on the following assumptions:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Kuwait market	5%	5%
Other international markets	10%	10%

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The analysis reflects the impact of positive changes to equity prices in accordance with the above-mentioned equity price risk sensitivity assumptions. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

	Profit for the year		Equity	
	31 Dec. 2016 KD	31 Dec. 2015 KD	31 Dec. 2016 KD	31 Dec. 2015 KD
Financial assets at fair value through profit or loss	94,298	98,076	-	-
Available-for-sale investments	-	-	350,541	605,791
Total	94,298	98,076	350,541	605,791

30.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the financial position date, as summarized below:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Bank balances	4,026,354	3,727,771
Fixed deposits	1,502,500	7,225,000
Accounts receivable and other assets	15,725,835	12,898,091
Murabaha investment	4,985,295	4,997,059
Available for sale investments	31,420,300	31,955,862
Investments at fair value through profit or loss	1,885,967	1,961,526
	59,546,251	62,765,309

Bank balances, fixed deposit and Murabaha investment are maintained with high credit quality financial institutions. Accounts receivable and other assets are neither past due nor impaired.

The company's largest customer accounted for 15% (2015: 23%) of the total trade receivables.

Notes to the Consolidated Financial Statements *(continued)*

30. Risk management objectives and policies (continued)

30.3 Liquidity risk

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

The group's maturity profile of financial liabilities is as follows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Over 1 year KD	Total KD
As at 31 December 2016					
Murabaha payables	-	298,713	231,737	-	530,450
Accounts payable and other liabilities	3,200,414	4,397,674	8,188,218	-	15,786,306
	3,200,414	4,696,387	8,419,955	-	16,316,756
As at 31 December 2015					
Murabaha payables	97,952	172,875	365,146	-	635,973
Accounts payable and other liabilities	2,440,430	4,138,600	5,464,765	-	12,043,795
	2,538,382	4,311,475	5,829,911	-	12,679,768

The undiscounted cash flows for financial liabilities are not materially different from those presented above.

31. FAIR VALUE MEASUREMENT

31.1 Fair value hierarchy

Fair value represents 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.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31.2 Fair value measurement of financial instruments

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position are as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Financial assets:		
Loans and receivables at amortised cost:		
Cash and bank balances	4,117,983	3,796,195
Fixed deposits	1,502,500	7,225,000
Accounts receivable and other assets	15,725,835	12,898,091
Investments at fair value through profit or loss:		
Investments at fair value through profit or loss – at fair value	1,885,967	1,961,526
Available for sale investments:		
Available for sale investments - at fair value	30,789,961	31,325,523
Available for sale investments - at cost	630,339	630,339
Murabaha investment	4,985,295	4,997,059
	59,637,880	62,833,733
Financial liabilities:		
Financial liabilities at amortised cost:		
Accounts payable and other liabilities	15,786,306	12,043,795
Murabaha payables	530,450	635,973
	16,316,756	12,679,768

Management considers that the carrying amounts of loans and receivable and all financial liabilities, which are stated at amortised cost, approximate their fair values.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Notes to the Consolidated Financial Statements *(continued)*

31. Fair value measurement (continued)
31.2 Fair value measurement of financial instruments (continued)

The financial assets and liabilities measured at fair value on a recurring basis in the statement of consolidated financial position are grouped into the fair value hierarchy as follows:

31 December 2016		Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investments at fair value through profit or loss					
Financial assets designated at fair value through profit or loss					
Quoted securities	a	351,570	-	-	351,570
Managed funds and portfolios	b	-	1,534,397	-	1,534,397
Available for sale investments					
Local quoted securities	b	3,698,440	-	-	3,698,440
Local unquoted securities	c	-	-	12,185,982	12,185,982
Foreign quoted securities	b	1,656,190	-	-	1,656,190
Foreign unquoted securities	c	-	9,096,880	4,152,469	13,249,349
		5,706,200	10,631,277	16,338,451	32,675,928

31 December 2015		Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investments at fair value through profit or loss					
Financial assets designated at fair value through profit or loss					
Quoted securities	a	351,570	-	-	351,570
Managed funds and portfolios	b	-	1,609,956	-	1,609,956
Available for sale investments					
Local quoted securities	b	8,730,428	-	-	8,730,428
Local unquoted securities	c	-	-	6,268,232	6,268,232
Foreign quoted securities	b	1,692,691	-	-	1,692,691
Foreign unquoted securities	c	-	-	14,634,172	14,634,172
		10,774,689	1,609,956	20,902,404	33,287,049

There have been no significant transfers between levels 1 and 2 during the reporting period.

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a. Managed funds and portfolios

   The underlying investments of managed funds and portfolios primarily comprise of local quoted securities whose fair values have been determined by reference to their quoted bid prices at the reporting date.

b. Quoted securities

   All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

c. Unquoted securities

   The consolidated financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using a discounted cash flow model or other valuation techniques which include some assumptions that are not supportable by observable market prices or rates.

d. Financial liabilities

   The group does not have any financial liabilities at fair value.

Level 3 fair value measurements

The group's financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	Available for sale investments	
	Unquoted securities 31 Dec. 2016 KD	Unquoted securities 31 Dec. 2015 KD
Opening balance	20,902,404	20,094,419
Transfer from level 1	6,113,158	-
Transfer to level 2	(10,463,893)	-
Gains or losses recognised in:		
Consolidated statement of profit or loss	(9,913)	(102,228)
Other comprehensive income	82,945	1,563,022
Sales	(286,250)	(652,809)
Closing balance	16,338,451	20,902,404

The group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Notes to the Consolidated Financial Statements *(continued)*

31. Fair value measurement (continued)
31.2 Fair value measurement of financial instruments (continued)

The valuation techniques used for instruments categorised in Levels 2 and 3 are described below:

Available for sale investments and investment at fair value through profit or loss:

The fair value of financial instruments that are not traded in an active market (e.g local unquoted securities) is determined by using valuation techniques. Fair value for the underlying unquoted securities investments are approximately the summation of the estimated value of underlying investments as if realised on the statement of financial position date.

The investment managers in determining the fair value of these investments use a variety of methods and make assumptions that are based on market conditions existing at each financial position date. Investment managers use techniques such as discounted cash flow analysis, recent transactions prices and market multiples to determine fair value.

Gains or losses recognized in the consolidated statement of profit or loss for the year are included in gain from investments at fair value through profit or loss and gain on sale of available for sale investments.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the consolidated statement of profit or loss, total assets, total liabilities or total equity.

The impact on consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income would be immaterial if the relevant risk variable used to fair value the level 3 investments were changed by 5%.

32. CAPITAL MANAGEMENT OBJECTIVES

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The capital of the group consists of total equity. The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The group monitors capital on the basis of the return on equity and is calculated as profit for the year divided by total equity as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Profit for the year attributable to the owners of the parent company	773,927	7,787,570
Total equity	85,191,489	89,813,657
Return on equity	0.91%	8.67%