

**COAST INVESTMENT & DEVELOPMENT COMPANY  
K.S.C.P. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2016**



Building a better  
working world

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P.

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

#### Opinion

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

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

#### Basis for Opinion

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

#### Key Audit Matters

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P. (continued)**

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

**Key Audit Matters (continued)**

We identified the following as the key audit matters:

- *Impairment testing of investment in associates*

The Group's investment in associates is significant to the Group's consolidated financial statements as at 31 December 2016. The determination whether the investment in these associates are carried at less than their recoverable amount is subject to significant management judgement. Management estimates the recoverable amount under the value-in-use basis using future cash flows that are based on management's forecast, variables such as discount rate, terminal growth rate and other economic conditions such as the economic growth and expected inflation rates. Therefore, we identified the impairment testing of investment in associates as a key audit matter. The accounting policy relating to investment in associate is given in note 2 to the consolidated financial statements.

Our audit procedures included, amongst others, involving our valuation experts to assist us in assessing the key assumptions forming the Group's value-in-use calculation including terminal growth rate and discount rate. We have also assessed cash flow projections including the historical accuracy of management's estimates, evaluation and testing of the assumptions, methodologies, and the data used by the Group by comparing them to internal and external data. We have also assessed the appropriateness of the valuation model used. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions on the available headroom. The Group's disclosure relating to investment in associates is given in Note 8 to the consolidated financial statements.

**Other information in the Group's 2016 Annual Report**

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



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P. (continued)**

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

**Other information in the Group's 2016 Annual Report (continued)**

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 auditor's 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 as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance is 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.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P. (continued)**

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

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

- 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.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P. (continued)**

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016 and its executive regulations and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016 and its executive regulations nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations and Law No.7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2016 that might have had a material effect on the business of the Parent Company or on its financial position.



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WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
EY  
AL AIBAN, AL OSAIMI & PARTNERS



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

3 April 2017  
Kuwait

Coast Investment & Development Company K.S.C.P. and Subsidiaries

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 KD'000	2015 KD'000
<b>Continuing operations</b>			
Net investment income	3	1,176	752
Management fees		390	651
Other income	4	18	2,352
Share of results of associates	8	1,878	1,075
Gain on fair valuation of retained investment in a former subsidiary	8	-	561
Loss on liquidation of a subsidiary		(2)	-
Impairment loss on other receivable		(4)	(25)
Impairment loss on financial assets available for sale	9	(92)	(54)
Staff cost		(848)	(1,091)
General and administrative expenses		(291)	(292)
Depreciation	7	(9)	(19)
Finance costs		(15)	(89)
Foreign exchange (loss) gain		(95)	122
		<hr/>	<hr/>
<b>Profit for the year from continuing operations before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat Tax</b>		<b>2,106</b>	<b>3,943</b>
Contribution to KFAS		-	-
NLST		(27)	-
Zakat tax		(10)	-
		<hr/>	<hr/>
<b>Profit for the year from continuing operations</b>		<b>2,069</b>	<b>3,943</b>
Loss for the year from discontinued operations	5	-	(12,674)
		<hr/>	<hr/>
<b>Profit (loss) for the year</b>		<b>2,069</b>	<b>(8,731)</b>
		<hr/>	<hr/>
<b>Attributable to:</b>			
Shareholders of the Parent Company		2,069	(8,739)
Non-controlling interests	5	-	8
		<hr/>	<hr/>
		<b>2,069</b>	<b>(8,731)</b>
		<hr/>	<hr/>
<b>Basic and diluted earnings (loss) per share attributable to shareholders of the Parent Company</b>		<b>4 fils</b>	<b>(15) fils</b>
		<hr/>	<hr/>
<b>Basic and diluted earnings per share from continuing operations attributable to shareholders of the Parent Company</b>		<b>4 fils</b>	<b>7 fils</b>
		<hr/>	<hr/>

The attached notes 1 to 21 form part of these consolidated financial statements.

Coast Investment & Development Company K.S.C.P. and Subsidiaries  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2016

	<i>Notes</i>	<b>2016</b> <b>KD' 000</b>	<b>2015</b> <b>KD' 000</b>
<b>Profit (loss) for the year</b>		<b>2,069</b>	<b>(8,731)</b>
<b>Other comprehensive (loss) income:</b>			
<i>Items that are or may be reclassified to consolidated income statement in subsequent periods:</i>			
Change in fair value of financial assets available for sale		(936)	(452)
Share of other comprehensive profit of associates	8	34	(548)
Exchange difference on translation of foreign operations		(650)	520
<b>Net other comprehensive loss that are or may be reclassified to consolidated income statement in subsequent periods</b>		<b>(1,552)</b>	<b>(480)</b>
<i>Items that will not be reclassified to consolidated income statement:</i>			
Share of other comprehensive loss of associates	8	(604)	-
<b>Net other comprehensive loss that will not to be reclassified to consolidated income statement</b>		<b>(604)</b>	<b>-</b>
<b>Other comprehensive loss for the year</b>		<b>(2,156)</b>	<b>(480)</b>
<b>Total comprehensive loss for the year</b>		<b>(87)</b>	<b>(9,211)</b>
<b>Attributable to:</b>			
Shareholders of the Parent Company		(87)	(9,219)
Non-controlling interests		-	8
<b>Total comprehensive loss for the year</b>		<b>(87)</b>	<b>(9,211)</b>

The attached notes 1 to 21 form part of these consolidated financial statements.



Coast Investment & Development Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 KD' 000	2015 KD' 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	1,070	1,070
Investment property		153	152
Investment in associates	8	34,067	34,965
Financial assets available for sale	9	13,891	14,657
Prepayments and other receivables	10	3,178	3,750
		<u>52,359</u>	<u>54,594</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss		2	2
Prepayments and other receivables	10	373	636
Money at call and short notice	11	1,264	1,677
Cash and bank balances	11	281	389
		<u>1,920</u>	<u>2,704</u>
<b>TOTAL ASSETS</b>		<u><b>54,279</b></u>	<u><b>57,298</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	62,529	62,529
Statutory reserve	12	11,647	11,647
Voluntary reserve	12	1,991	1,991
Treasury shares	12	(5,215)	(5,215)
Treasury shares reserve		236	236
Other reserve		(604)	-
Foreign currency translation reserve		(630)	(14)
Cumulative changes in fair value		1,291	2,227
Accumulated losses		(18,860)	(20,929)
<b>Equity attributable to shareholders of the Parent Company</b>		<u>52,385</u>	<u>52,472</u>
Non-controlling interests		32	32
<b>Total equity</b>		<u>52,417</u>	<u>52,504</u>
<b>Liabilities</b>			
<b>Non-current liability</b>			
End of service benefits	13	184	1,224
<b>Current liabilities</b>			
Other liabilities	14	1,678	2,070
Amount due to a related party	15	-	1,500
		<u>1,678</u>	<u>3,570</u>
<b>Total liabilities</b>		<u>1,862</u>	<u>4,794</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>54,279</b></u>	<u><b>57,298</b></u>



Anwar Jassim Al-Kharafi  
Chairman



Thamer Nabeel Al Neseef  
Acting CEO

The attached notes 1 to 21 form part of these consolidated financial statements.

Coast Investment & Development Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to shareholders of the Parent Company										Total KD '000	
	Share capital KD '000	Statutory reserve KD '000	Voluntary reserve KD '000	Treasury shares KD '000	Treasury shares reserve KD '000	Other reserve KD '000	Foreign currency translation reserve KD '000	Cumulative changes in fair values KD '000	Accumulated losses KD '000	Sub-total KD '000		Non- controlling interests KD '000
As at 1 January 2016	62,529	11,647	1,991	(5,215)	236	-	(14)	2,227	(20,929)	52,472	32	52,504
Profit for the year	-	-	-	-	-	-	-	-	2,069	2,069	-	2,069
Other comprehensive (loss) income for the year	-	-	-	-	-	(604)	(616)	(936)	-	(2,156)	-	(2,156)
Total comprehensive (loss) income for the year	-	-	-	-	-	(604)	(616)	(936)	2,069	(87)	-	(87)
As at 31 December 2016	62,529	11,647	1,991	(5,215)	236	(604)	(630)	1,291	(18,860)	52,385	32	52,417
As at 1 January 2015	62,529	11,647	1,991	(5,683)	493	1,403	1,322	2,679	(13,369)	63,012	48,982	111,994
(Loss) profit for the year	-	-	-	-	-	-	-	-	(8,739)	(8,739)	8	(8,731)
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(28)	(452)	-	(480)	-	(480)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	(28)	(452)	(8,739)	(9,219)	8	(9,211)
Reclassification of remeasurement on defined benefit plan	-	-	-	-	-	(1,179)	-	-	1,179	-	-	-
Sale of treasury shares	-	-	-	468	(257)	-	-	-	-	211	-	211
Loss of control of a subsidiary (Note 5)	-	-	-	-	-	(224)	(1,308)	-	-	(1,532)	(48,958)	(50,490)
As at 31 December 2015	62,529	11,647	1,991	(5,215)	236	-	(14)	2,227	(20,929)	52,472	32	52,504

The attached notes 1 to 21 form part of these consolidated financial statements.



Coast Investment & Development Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

As at 31 December 2016

	Notes	2016 KD' 000	2015 KD' 000
<b>OPERATING ACTIVITIES</b>			
Profit for the year from continuing operations		2,069	3,943
(Loss) profit for the year from discontinued operations		-	(12,674)
		<u>2,069</u>	<u>(8,731)</u>
Adjustments for:			
Loss on financial assets at fair value through profit or loss		-	65
Share of results of associates	8	(1,878)	(1,075)
Loss on liquidation of a subsidiary		2	-
Net investment income	3	(1,176)	(1,046)
Depreciation and amortization	7	9	5,555
Impairment loss on accounts receivable		4	330
Impairment loss on financial assets available for sale	9	92	54
Other income	4	(18)	(2,200)
Realised loss on sale of subsidiary	5	-	11,659
Gain on fair valuation of retained investment in a former subsidiary	8	-	(561)
Finance costs		15	894
End of service benefits	13	66	890
Taxation		37	1,788
		<u>(778)</u>	<u>7,622</u>
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		-	365
Accounts receivable and prepayments		1,977	(1,750)
Inventories		-	(2,607)
Accounts payable and other liabilities		(431)	(8,885)
Amount due to related parties		-	2,790
		<u>768</u>	<u>(2,465)</u>
Cash from (used in) operations		768	(2,465)
End of service benefits paid	13	(1,106)	(1,767)
<b>Net cash (used in) from operating activities</b>		<u>(338)</u>	<u>(4,232)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	7	(9)	(1,214)
Proceeds on sale of property, plant and equipment		-	330
Purchase of intangible assets		-	(1,159)
Proceeds on sale of intangible assets		-	11
Dividend received from associates		-	197
Proceeds on capital redemption of financial assets available for sale		306	3,544
Purchase of financial available for sale		(568)	-
Proceeds from capital redemption from an associate	8	1,559	-
Interest income received		48	-
Net cash outflow on loss of control of subsidiaries	5	-	(15,593)
<b>Net cash from (used in) investing activities</b>		<u>1,336</u>	<u>(13,884)</u>
<b>FINANCING ACTIVITIES</b>			
Sale of treasury shares		-	211
Borrowings repaid		(1,500)	(746)
Finance cost paid		(15)	-
<b>Net cash used in financing activities</b>		<u>(1,515)</u>	<u>(535)</u>
Net foreign exchange differences		(4)	(6,218)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(521)</u>	<u>(24,869)</u>
Cash and cash equivalents at 1 January	11	2,066	26,935
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	11	<u>1,545</u>	<u>2,066</u>

The attached notes 1 to 21 form part of these consolidated financial statements.

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 1 INCORPORATION AND ACTIVITIES

Coast Investment & Development Company K.S.C.P. (the "Parent Company") is a public shareholding company incorporated on 29 July 1975. The Parent Company is engaged in various types of investment management activities such as private equity, asset management and real estate investments in local and international markets. The Parent Company's registered office is at P.O. Box 26755, Safat 13128, State of Kuwait.

The Parent Company's shares are listed on the Kuwait Stock Exchange and regulated by Capital Markets Authority ("CMA").

The consolidated financial statements of the Parent Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 3 April 2017, and are issued subject to the approval of the annual general assembly of the shareholders' of the Parent Company. The annual general assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

The activities of the Parent Company are carried out in accordance with Articles of Association. The principal activities of the Parent Company are:-

- a) To carry out all operations relating to securities, including sale and purchase of shares and bonds of companies, governmental and semi-governmental corporations, for its own account or for the account of others.
- b) Management of financial portfolios and investment and development of its customers' funds by deployment of their funds in investment fields locally and internationally.
- c) To carry out all financial transactions including borrowing and lending, guarantees and issuing bonds of all types with or without security in the local and international markets.
- d) To establish and manage investment funds for its own account and for the account of others, offering its units for subscription and undertaking the functions of the investment custodian or investment manager for investment funds inside and outside the country in accordance with the laws and resolutions applicable in the state.
- e) To carry out the duties related to the functions of lead managers and investment custodians of bonds issued by companies or authorities.

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

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use by State of Kuwait except for the IAS 39 requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

The consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of financial assets at fair value through profit or loss, financial assets available for sale and investment properties.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the functional and presentational currency of the Parent Company and all values are rounded to the nearest thousand except where otherwise indicated.



# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of the amendments to the existing standards relevant to the Group, effective as of 1 January 2016, which did not result in any material impact on the accounting policies, financial position or performance of the Group:

#### *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

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

#### *Annual Improvements 2012-2014 Cycle*

#### *IFRS 7 Financial Instruments: Disclosures* *Servicing contracts*

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

#### *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statement of income.

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

#### Standards issued but not yet effective

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

#### *IFRS 9 Financial Instruments*

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

#### *IFRS 15 Revenue from Contracts with Customers*

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

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *IFRS 15 Revenue from Contracts with Customers (continued)*

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

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

#### *IFRS 16 Leases*

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

#### *Amendments to IAS 12 Income Taxes*

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

#### *Amendments to IAS 7 Statement of Cash Flows*

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions.

Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

#### **Basis of consolidation**

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

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

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

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



# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basis of consolidation (continued)

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

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

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

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

The subsidiaries of the Group are as follows:

Name of the company	Country of incorporation	Effective equity interest		Principal activity
		2016	2015	
<i>Directly held</i>				
Coast Investments Limited ("CIL")	British Virgin Islands	100%	100%	Investment services
Coast Holding Corporation ("CHC")	United States of America	100%	100%	Investment services
Lujain Group of Economic & Management Consultancy W.L.L. ("Lujain")*	Kuwait	-	51%	Management consultancy

\* During the year, the management of the Parent Company liquidated its subsidiary Lujain Group of Economic and Management Consultancy W.L.L. ("Lujain") after obtaining all regulatory approvals and incurred a loss of KD 2 thousand.

#### Business combinations and goodwill

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

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in consolidated income statement.

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Business combinations and goodwill (continued)**

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

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

#### **Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable taking into account the contractually defined terms of payment and excluding discounts. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in most of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

- Management fees, relating to fiduciary client portfolios, fund management and custody services, are recognized over the period of time when these services are rendered.
- Interest income is recognized using the effective yield method taking into account the principal outstanding and the rate applicable.
- Dividend income is recognized when the right to receive payment is established.

#### **Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") and taxation**

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

The Parent Company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the certain 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.

#### **Taxation**

##### *a. National Labour Support Tax ('NLST')*

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

##### *b. Zakat*

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



# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### **Financial assets**

##### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or financial assets available for sale, or as derivatives designated as hedging instrument in an effective hedge as appropriate. All financial assets are recognised initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include bank balances, money at call and short notice, other receivables, financial assets at fair value through profit or loss and financial assets available for sale.

##### *Subsequent measurement*

The subsequent measurement of financial assets depend on their classification as described below:

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated income statement.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

##### *Financial assets available for sale*

Financial assets available for sale include equity securities and unquoted managed funds. Equity investments and unquoted managed funds classified as available for sale are those, which are neither classified as loans and receivables nor at fair value through profit or loss.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognized as other comprehensive income until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated income statement, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated income statement. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate (EIR) method.

##### *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 measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement.

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial Instruments (continued)

##### *Subsequent measurement (continued)*

##### *Cash and cash equivalents*

For purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand and at banks, money at call and short notice with maturities upto three months from the date of placement, net of outstanding overdraft, if any.

##### *Derecognition of financial assets*

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

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

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

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

##### *Impairment of financial assets*

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate ("EIR"). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial Instruments (continued)

##### Financial assets (continued)

###### *Financial assets carried at amortised cost (continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income is continued to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the consolidated income statement.

In addition, in accordance with CBK instructions, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities is made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically

###### *Financial assets available for sale*

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments is impaired.

In the case of equity investments classified as financial asset available for sale, objective evidence would include a significant or prolonged decline in the fair value of the 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. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement - is removed from other comprehensive income and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through consolidated income statement; increases in their fair value after impairment are recognized directly in other comprehensive income.

#### Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, borrowings and payables, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in case of loans, borrowings and payables, net of directly attributable transactions costs.

The Group's financial liabilities include payables and borrowings.

##### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

###### *Liabilities*

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

##### *Derecognition of financial liabilities*

A financial liability is derecognized 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated income statement.



# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial Instruments (continued)

#### Financial liabilities (continued)

##### Offsetting

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 recognized amounts; and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

##### Fair value of financial instruments

The Group measures financial instruments, such as financial assets available for sale and financial assets carried at fair value through profit or loss at each reporting date.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

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

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

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial Instruments (continued)

##### Financial liabilities (continued)

##### Fair value of financial instruments (continued)

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

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

##### Property, plant and equipment

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

Freehold land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property, plant and equipment to their residual values as follows :

Buildings	20 years
Office equipment	3 -- 21 years

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.

Leasehold improvements and fittings in rented property are depreciated over the duration term of the corresponding rent contracts or the period of useful life, if shorter.

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

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

##### Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The consideration made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor separately tested for impairment.

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

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment in associates (continued)

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

The financial statements of the associate are prepared for the same reporting period as the Group using consistent accounting policies. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

#### Leases

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

##### *Group as lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of profit on the remaining balance of the liability. Finance charges are recognized in the consolidated income statement.

A leased asset is depreciated on a straight line basis over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated income statement on a straight line basis over the lease term.

##### *Group as lessor*

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

#### Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.



# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment of non-financial assets (continued)**

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated income statement in expense categories consistent with the function of the impaired asset. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income.

#### **Provisions**

##### *General*

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

##### *Contingent liabilities recognized in a business combination*

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of; the amount that would be recognized in accordance with the general guidance for provisions above in accordance with 'IAS 37: Provisions, Contingent Liabilities and Contingent Assets', or the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the guidance for revenue recognition in accordance with 'IAS 18: Revenue'

#### **Employees' end of service benefits**

Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment. The Group also contributes to the government defined contribution plan for its Kuwaiti employees in accordance with the legal requirements in Kuwait.

#### **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. Gains realised subsequently on the sale of treasury shares are first used to offset any provisional recorded losses in order of reserves, retained earnings and treasury share reserve account. 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.

#### **Other reserve**

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control and the re-measurements comprising of actuarial gains and losses and return on plan assets for defined benefit plans.

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currency translation

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

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the respective entity's functional currency spot rate of exchange ruling at the reporting date. Any resultant gains or losses are recognized in the consolidated income statement.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to respective entity's functional currency at the foreign exchange rates ruling on the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognized directly in other comprehensive income, foreign exchange differences are recognized directly in other comprehensive income and for non-monetary assets whose change in fair value are recognized directly in the consolidated income statement, foreign exchange differences are recognized in the consolidated income statement.

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Parent Company's presentation currency KD at the rate of exchange ruling on the reporting date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognized in other comprehensive income relating to that particular subsidiary is recognized in the consolidated income statement.

Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the respective subsidiaries and translated at the rate of exchange ruling on the reporting date.

#### Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in the consolidated statement of financial position.

#### Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Parent Company to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

#### Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Parent Company's shareholders.

Dividends for the year that are approved after the consolidated statement of financial position date are disclosed as an event after the reporting date.

#### Contingencies

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

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

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Non-current assets held for sale and discontinued operations**

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

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated income statement.

#### **Significant accounting judgments, estimates and assumptions**

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

#### ***Judgments***

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

#### ***Impairment of financial assets available for sale***

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

#### ***Classification of investments***

Judgments are made in the classification of financial instruments based on management's intention at acquisition as described in the respective accounting policies.

#### ***Estimation uncertainty and assumptions***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### ***Impairment of investment in 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 as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

#### ***Valuation of unquoted investments***

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions may have an impact on carrying amounts of financial assets available for sale.

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3 NET INVESTMENT INCOME

	2016 KD' 000	2015 KD' 000
Realised loss on financial assets at fair value through profit or loss	-	(65)
Net gain on sale/redemption of financial assets available for sale <sup>2</sup>	1,129	768
Interest income	46	48
Dividend income	1	1
	<u>1,176</u>	<u>752</u>

### 4 OTHER INCOME

In the prior year, an amount of KD 2,200 thousands which was received on settlement of a legal case with a non-related party.

### 5 DISCONTINUED OPERATIONS

During the previous year, on 25 October 2015, the Parent Company sold 29.7% of its holding in its subsidiary company ("KGH") to a related party through an auction on settlement of a legal case filed against the Parent Company. The Group's equity interest in KGH has decreased from 53.13% to 23.41% and consequently, the Group lost its ability to control KGH. At the date of loss of control, the Group derecognised KGH and its subsidiaries "Weinig", "JNW ME", "Melius" and "JNW Cleaning".

The retained portion of the investment in KGH has been reclassified to an "investment in associates" and has been accounted for in accordance with IAS 28: Investment in Associates and Joint Ventures (Note 8). In addition, the Group classified its direct investment in "Weinig" as an "investment in associates" since it has been able to exercise significant influence over the investee company through board representation (Note 8). In accordance with IFRS 5, the disposal of KGH has been classified as a discontinued operation.

The results of the discontinued operations until the date of disposal are presented below:

	2015 KD '000
Revenues	87,367
Cost of raw materials	(36,350)
Interest income	229
Other income	2,858
General and administrative expenses	(46,867)
Finance costs	(805)
Impairment loss on accounts receivable	(305)
Depreciation	(1,766)
Amortization	(3,770)
Foreign exchange gain	182
Profit before taxation	773
Taxation	(1,788)
<b>Net loss for the year from discontinued operations</b>	<u>(1,015)</u>
<b>Realised loss on sale of subsidiary</b>	<u>(11,659)</u>
<b>Loss from discontinued operation</b>	<u>(12,674)</u>
<b>Attributable to:</b>	
Shareholders of the Parent Company	(12,682)
Non-controlling interests	8
	<u>(12,674)</u>
Basic and diluted (loss) earnings per share attributable to equity holders of the Parent Company from discontinued operations	<u>(22) fils</u>



Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

**5 DISCONTINUED OPERATIONS (continued)**

The net assets at the disposal date were as follows:

	<i>2015</i> <i>KD '000</i>
<b>Assets</b>	
Property, plant and equipment (Note 7)	21,895
Intangible assets	72,030
Accounts receivable and prepayments	13,847
Deferred tax assets	2,977
Inventories	30,269
Money at call and short notice	23,776
Cash and bank balances	361
<b>Total assets</b>	<u>165,155</u>
<b>Liabilities</b>	
Borrowings	3,434
End of service benefits (Note 13)	18,290
Accounts payable and other liabilities	26,021
Amount due to related parties	10,977
Other accruals	8,048
Deferred tax liabilities	1,239
<b>Total liabilities</b>	<u>68,009</u>
<b>Net assets</b>	97,146
Less: net assets attributable to non-controlling interests	(28,876)
<b>Net assets attributable to equity holders of the Parent Company</b>	<u>68,270</u>
<b>Total consideration</b>	<u>8,544</u>
<b>Realised loss on sale</b>	<u>(11,659)</u>

	<i>2015</i> <i>KD '000</i>
Cash and cash equivalents	
Total consideration	8,544
Less: Bank balances and cash	(24,137)
<b>Net cash outflow</b>	<u>(15,593)</u>

The net cash flows incurred by KGH are as below:

	<i>2015</i> <i>KD '000</i>
Operating	1,998
Investing	(2,013)
Financing	(746)
<b>Net cash outflow</b>	<u>(761)</u>

As a result of above loss of control, other reserve, foreign currency translation reserve and non-controlling interest relating to disposal amounted to KD 224 thousand, KD 1,308 thousand and KD 48,958 was recycled to the consolidated income statement in the previous year. For further information, refer to previous year issued consolidated financial statements.

Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

**6 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE**

Basic and diluted earnings (loss) per share is calculated by dividing the profit (loss) for the year attributable to the shareholders of the Parent Company by the weighted average number of shares outstanding during the year less treasury shares.

	<i>2016</i> <i>KD '000</i>	<i>2015</i> <i>KD '000</i>
Profit (loss) for the year attributable to shareholders of the Parent Company	<u>2,069</u>	<u>(8,739)</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares	<u>625,293,152</u>	<u>625,293,152</u>
Less: Weighted average number of treasury shares	<u>(44,570,086)</u>	<u>(46,485,826)</u>
Weighted average number of outstanding shares	<u>580,723,066</u>	<u>578,807,326</u>
Basic and diluted earnings (loss) per share attributable to the shareholders of the Parent Company	<u>4 fils</u>	<u>(15) fils</u>
<b>Basic and diluted earnings per share from continuing operations</b>	<i>2016</i> <i>KD '000</i>	<i>2015</i> <i>KD '000</i>
Profit for the year from continuing operations attributable to shareholders of the Parent Company	<u>2,069</u>	<u>3,943</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares	<u>625,293,152</u>	<u>625,293,152</u>
Less: Weighted average number of treasury shares	<u>(44,570,086)</u>	<u>(46,485,826)</u>
Weighted average number of shares	<u>580,723,066</u>	<u>578,807,326</u>
Basic and diluted earnings per share attributable to shareholders of the Parent Company	<u>4 fils</u>	<u>7 fils</u>

As there are no dilutive instruments outstanding, basic and dilutive earnings (loss) per share are identical.

Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

7 PROPERTY, PLANT AND EQUIPMENT

	<i>Land</i> <i>KD '000</i>	<i>Office</i> <i>equipment</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<b>Cost:</b>			
As at 1 January 2016	1,053	645	1,698
Additions	-	9	9
Disposals	-	(233)	(233)
<b>As at 31 December 2016</b>	<b>1,053</b>	<b>421</b>	<b>1,474</b>
<b>Accumulated depreciation:</b>			
As at 1 January 2016	-	(628)	(628)
Charge for the year	-	(9)	(9)
Relating to disposals	-	233	233
<b>As at 31 December 2016</b>	<b>-</b>	<b>(404)</b>	<b>(404)</b>
<b>Net carrying amount:</b>			
<b>As at 31 December 2016</b>	<b>1,053</b>	<b>17</b>	<b>1,070</b>

	<i>Land</i> <i>KD '000</i>	<i>Buildings</i> <i>KD '000</i>	<i>Plant and</i> <i>machinery</i> <i>KD '000</i>	<i>Office</i> <i>equipment</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<b>Cost:</b>					
As at 1 January 2015	1,053	20,964	5,216	6,668	33,901
Additions	-	47	311	856	1,214
Disposals	-	-	(114)	(545)	(659)
Foreign exchange adjustment	-	(1,164)	(21)	(318)	(1,503)
Related to discontinued operations (Note 5)	-	(19,847)	(5,392)	(6,016)	(31,255)
<b>As at 31 December 2015</b>	<b>1,053</b>	<b>-</b>	<b>-</b>	<b>645</b>	<b>1,698</b>
<b>Accumulated depreciation:</b>					
As at 1 January 2015	-	(2,753)	(2,730)	(3,627)	(9,110)
Charge for the year	-	(548)	(480)	(757)	(1,785)
Disposals	-	-	61	268	329
Foreign exchange adjustment	-	445	(52)	185	578
Related to discontinued operations (Note 5)	-	2,856	3,201	3,303	9,360
<b>As at 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(628)</b>	<b>(628)</b>
<b>Net carrying amount:</b>					
<b>As at 31 December 2015</b>	<b>1,053</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>1,070</b>

The depreciation charge for the year is included in the consolidated income statement as follows:

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Continuing operations	(9)	(19)
Related to discontinued operations (Note 5)	-	(1,766)
	<b>(9)</b>	<b>(1,785)</b>

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 8 INVESTMENT IN ASSOCIATES

Details of associates are set out below:

Name	Country of incorporation	Interest in equity		Principal activity	Carrying value	
		2016	2015		2016	2015
		%			KD '000	
Rico GmbH	Germany	23.73	23.73	Manufacturing	2,412	2,309
KGH*	Kuwait	23.41	23.41	Investing activities	16,884	18,191
Weinig	Germany	12.37	12.37	Manufacturing	14,771	14,465
					<u>34,067</u>	<u>34,965</u>

\* KGH has a direct ownership of 52% in Weinig.

During the prior year, on 25 October 2015, the Parent Company sold equity interest of 29.7% of its subsidiary company "KGH" in a public auction to settle a legal case filed against the Parent Company. As a result of this sale, the Group lost its ability to control KGH. From the date of loss of control, KGH has been accounted for as an associate in accordance with IAS 28: *Investments in Associates and Joint Ventures* ("IAS 28") (Note 5). In accordance with IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), the fair value of the retained portion of the investment in KGH was determined to be KD 16,165 thousand.

In addition, the Group has accounted for Weinig as an associate in accordance with IAS 28. The management of the Group has been able to exercise significant influence over Weinig through board representation. The fair value of the investment in Weinig was determined to be KD 16,193 thousand.

As a result of the above, the Group recognised a fair valuation gain of KD 561 thousand in the consolidated income statement for the year ended 31 December 2015 on fair valuation of the investment in KGH and Weinig.

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

	2016	2015
	KD '000	KD '000
At 1 January	34,965	2,446
Transfer from investment in subsidiaries on loss of control	-	31,797
Gain on fair valuation of investment retained in a former subsidiary	-	561
Share of results	1,878	1,075
Net share of other comprehensive income	(570)	(548)
Dividend received	-	(197)
Capital redemption	(1,559)	-
Foreign exchange adjustment	(647)	(169)
At 31 December	<u>34,067</u>	<u>34,965</u>



Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

8 INVESTMENT IN ASSOCIATES (continued)

The following summarised financial information of the Group's investment in associates has been disclosed at aggregate level.

	2016 KD '000	2015 KD '000
Non-current assets	23,536	24,951
Current assets	25,329	24,076
Non-current liabilities	(13,258)	(13,853)
Current liabilities	(13,015)	(12,025)
<b>Equity</b>	<b>22,592</b>	<b>23,149</b>
Goodwill	11,475	11,816
Proportion of the Group's ownership	34,067	34,965
<b>Carrying amount of the investment</b>	<b>34,067</b>	<b>34,965</b>
	2016 KD '000	2015 KD '000
Share of revenue	50,060	45,998
Share of other comprehensive loss	(570)	(548)
Share of results	1,878	1,075

Associates have contingent liabilities and capital commitments amounting to KD 103 thousand as at 31 December 2016 (2015: KD 826 thousand).

The material associates of the Parent Company are as following:

	2016		2015	
	KGH KD '000	Weinig KD '000	KGH KD '000	Weinig KD '000
Non-current assets	17,525	6,567	16,048	6,632
Current assets	13,274	7,929	15,289	7,147
Non-current liabilities	(7,937)	(5,063)	(8,126)	(5,431)
Current liabilities	(8,015)	(4,101)	(7,056)	(3,663)
<b>Equity</b>	<b>14,847</b>	<b>5,332</b>	<b>16,155</b>	<b>4,685</b>
Goodwill	2,036	9,439	2,036	9,780
Proportion of the Group's ownership	16,883	14,771	18,191	14,465
	2016	2015	2016	2015
	KGH KD '000	Weinig KD '000	KGH KD '000	Weinig KD '000
Share of revenue	31,215	16,342	28,434	14,880
Share of other comprehensive (loss) income	(343)	(416)	(171)	(377)
Share of results	594	1,063	481	364

Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

8 INVESTMENT IN ASSOCIATES (continued)

Investments in associates have been valued based on the expected cash flows discounted at Group's expected rate of return applicable for items with similar terms and risk characteristics. The following significant unobservable valuation inputs have been used for the determination of fair value:

Significant unobservable valuation input:	Range
Discount factor for lack of marketability	6.02% to 7.39%
Terminal growth rate	1.0% to 1.2%

*"Sensitivity to changes in assumptions"*

With regard to the assessment of value in use of the investment in associates, a 1% change in either of the discount rate or terminal growth rate would not cause the carrying value of the unit to materially exceed its recoverable amount."

9 FINANCIAL ASSETS AVAILABLE FOR SALE

	2016 KD '000	2015 KD '000
Unquoted equities	11,320	12,739
Quoted equities	568	-
Funds	2,003	1,918
	<u>13,891</u>	<u>14,657</u>

Unquoted equities include investments in private equity funds amounting to KD 8,582 thousand (2015: KD 9,789 thousand) which are carried at net asset values as reported by the fund managers.

At 31 December 2016, certain unquoted financial assets available for sale amounting to KD 4,741 thousand (2015: KD 4,868 thousand) are carried at cost due to the unavailability of reliable measures of their fair values.

Management has performed a review of financial assets to assess whether impairment has occurred in the value of these financial assets. Based on specific information, management has recorded an impairment loss of KD 92 thousand (2015: KD 54 thousand) in the consolidated income statement for the year in respect of financial assets available for sale. Based on the latest available financial information, management is of the view that no further impairment is required as at 31 December 2016 in respect of these financial assets available for sale.

During the year, the Group earned dividend income of KD 1 thousand (2015: KD 1 thousand) on its financial assets available for sale.

Fair value hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 19.

10 PREPAYMENTS AND OTHER RECEIVABLES

	2016 KD '000	2015 KD '000
<b>Non-current receivables</b>		
Promissory note (Note 15)	3,178	3,750
<b>Current receivables and prepayments</b>		
Advances and prepayments	30	39
Accrued income	143	214
Other receivables	200	383
	<u>373</u>	<u>636</u>
	<u>3,551</u>	<u>4,386</u>

Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

**11 CASH AND CASH EQUIVALENTS**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances in the consolidated statement of financial position:

	2016 KD '000	2015 KD '000
Money at call and short notice	1,264	1,677
Cash and bank balances	281	389
	<u>          </u>	<u>          </u>
Cash and cash equivalents for the purpose of consolidated statement of cash flows	<u>1,545</u>	<u>2,066</u>

The money at call and short notice represents deposits placed with reputable financial institutions and banks. These deposits yield interest at an average rate of 0.95 % per annum (2015: 0.71% per annum) and have original maturity of less than three months from reporting date.

**12 SHARE CAPITAL AND RESERVES**

**a) Share capital**

As at 31 December 2016, The authorised, issued and paid-up capital of the Parent Company consists of 625,293,152 shares (2015: 625,293,152 shares) of 100 fils per share (2015: 100 fils per share), which are fully paid up in cash.

**b) Statutory reserve**

In accordance with the Companies' Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before KFAS, NLST and Zakat is required to be transferred to statutory reserve. Such annual transfers may be discontinued by a resolution of the Parent Company's annual general meeting upon a recommendation by the Board of Directors. No transfer has been made to the statutory reserve, since accumulated losses exist at year end.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of this amount.

**c) Voluntary reserve**

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before KFAS, NLST and Zakat is required to be transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the Parent Company's annual general meeting upon a recommendation by the Board of Directors. No transfer has been made to the voluntary reserve since accumulated losses exist at year end.

**d) Treasury shares**

	2016	2015
Number of shares	44,570,086	44,570,086
Percentage of issued shares	7.13%	7.13%
Market value (KD '000)	1,694	1,404
Weighted average market value per share (fils)	39	47

An amount equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from the voluntary reserve and a portion of the statutory reserve throughout the holding period of treasury shares.

**e) Dividend**

The Board of Directors has proposed not to distribute cash dividend nor bonus shares for the year ended 31 December 2016 (2015: Nil). This proposal is subject to approval of the Parent Company's shareholders in the annual general assembly meeting.

Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

**13 END OF SERVICE BENEFITS**

Movement in the provision recognized in the consolidated statement of financial position is as follows:

	<i>2016</i> <i>KD '000</i>	<i>2015</i> <i>KD '000</i>
As at 1 January	1,224	22,500
Provided during the year	66	890
Employees' end of service benefits paid	(1,106)	(1,767)
Foreign exchange adjustment	-	(2,109)
Related to discontinued operations (Note 5)	-	(18,290)
<b>As at 31 December</b>	<b>184</b>	<b>1,224</b>

**14 OTHER LIABILITIES**

	<i>2016</i> <i>KD '000</i>	<i>2015</i> <i>KD '000</i>
Dividend payable	211	215
Tax payable	1,392	1,658
Other liabilities	75	197
	<b>1,678</b>	<b>2,070</b>

**15 RELATED PARTY TRANSACTIONS**

These represent transactions with related parties, i.e. major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions are carried out on terms approved by the Parent Company's management.

Related party balances included in the consolidated financial statements are as follows:

	<i>Associates</i> <i>KD '000</i>	<i>Others</i> <i>KD '000</i>	<i>2016</i> <i>KD '000</i>	<i>2015</i> <i>KD '000</i>
Promissory note - non-current assets (Note 10)	3,178	-	3,178	3,750
Amount due to a related party - current liabilities	-	-	-	1,500

Promissory note bears an average interest rate of 1.26% (2015: 1.51%) per annum and is receivable after one year from the reporting date.

Related party transactions included in the consolidated income statement are as follows:

	<i>Associates</i> <i>KD '000</i>	<i>Others</i> <i>KD '000</i>	<i>2016</i> <i>KD '000</i>	<i>2015</i> <i>KD '000</i>
Management fees	13	289	302	414
Interest income	36	-	36	43
Finance cost	-	5	5	79

Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15 RELATED PARTY TRANSACTIONS (continued)

**Key management compensation**

The remuneration of key management personnel of the Group during the year was as follows:

	2016 KD '000	2015 KD '000
Salaries and short-term benefits	153	365
Termination benefits	9	12
	<u>162</u>	<u>377</u>

16 FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the Group on behalf of the clients. Total income earned by the Group from the fiduciary activities amounted to KD 55 thousand (2015: KD 72 thousand).

17 COMMITMENTS

At the reporting date, the Group had capital commitments of KD 700 thousand (2015: KD 940 thousand) towards purchase of investments.

18 SEGMENT INFORMATION

For management purposes, the Group is organised into three main business segments based on internal reporting provided to the chief operating decision maker:

Manufacturing wood processing equipment - represents Group's activities in manufacturing equipment's for wood processing and other related services. During the year ended 31 December 2015, this segment was discontinued (Note 5).

Investments - represents Group's investment activities and other related services.

Others - represents other activities undertaken by the Group which includes management consultancy services and cleaning of heat exchangers.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss for wood processing and others segments and return on investment for investment segment.



Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

18 SEGMENT INFORMATION (continued)

Year ended 31 December 2016		<i>Investments</i> KD '000	<i>Unallocated</i> KD '000	<i>Consolidated</i> KD '000	
Segment revenue		3,398	-	3,398	
Interest income		46	-	46	
Other income		16	2	18	
Impairment loss on accounts receivable		(4)	-	(4)	
Impairment loss on financial assets available for sale (Note 9)		(92)	-	(92)	
General and administrative expenses		(1,137)	(2)	(1,139)	
Depreciation		(9)	-	(9)	
Finance costs		(15)	-	(15)	
Foreign exchange loss		(95)	-	(95)	
Loss on liquidation of subsidiary		(2)	-	(2)	
Profit before taxation		2,106	-	2,106	
Taxation		(37)	-	(37)	
<b>Profit for the year</b>		<b>2,069</b>	<b>-</b>	<b>2,069</b>	
<b>Total assets</b>		<b>54,061</b>	<b>218</b>	<b>54,279</b>	
<b>Total liabilities</b>		<b>1,858</b>	<b>4</b>	<b>1,862</b>	
Year ended 31 December 2015		<i>Manufacturing of wood processing equipment</i> KD '000	<i>Investments</i> KD '000	<i>Unallocated</i> KD '000	<i>Consolidated</i> KD '000
Segment revenue		51,017	2,430	-	53,447
Interest income		229	48	-	277
Other income		2,858	2,339	13	5,210
Impairment loss on accounts receivable		(305)	(25)	-	(330)
Impairment loss on financial assets available for sale (Note 9)		-	(48)	(6)	(54)
General and administrative expenses		(46,867)	(1,380)	(3)	(48,250)
Depreciation and amortization		(5,536)	(10)	(9)	(5,555)
Gain on fair valuation of investment retained in a former subsidiary		-	561	-	561
Finance costs		(805)	(89)	-	(894)
Foreign exchange gain		182	122	-	304
Realised loss on sale of subsidiary (Note 5)		(11,659)	-	-	(11,659)
(Loss) profit before taxation		(10,886)	3,948	(5)	(6,943)
Taxation		(1,788)	-	-	(1,788)
<b>(Loss) profit for the year</b>		<b>(12,674)</b>	<b>3,948</b>	<b>(5)</b>	<b>(8,731)</b>
<b>Total assets</b>		<b>-</b>	<b>57,067</b>	<b>231</b>	<b>57,298</b>
<b>Total liabilities</b>		<b>-</b>	<b>4,790</b>	<b>4</b>	<b>4,794</b>

Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

18 SEGMENT INFORMATION (continued)

**Geographic information**

The following tables present information regarding the Group's geographical segments:

<b>Total revenue</b>	<i>2016</i> <i>KD '000</i>	<i>2015</i> <i>KD '000</i>
Kuwait	993	1,067
Europe	1,793	1,254
United States of America (USA)	611	108
	<u>3,397</u>	<u>2,429</u>
	<u><u>3,397</u></u>	<u><u>2,429</u></u>
<b>Non-current assets</b>	<i>2016</i> <i>KD '000</i>	<i>2015</i> <i>KD '000</i>
Kuwait	28,433	29,839
Europe	20,648	21,656
United States of America (USA)	3,268	3,099
	<u>52,349</u>	<u>54,594</u>
	<u><u>52,349</u></u>	<u><u>54,594</u></u>

During the previous year ended 31 December 2015 the Group has discontinued its operations in Europe (Note 5).

19 FAIR VALUE MEASUREMENT

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

	<i>Fair value measurement using</i>			
	<i>Total</i>	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
<i>31 December 2016</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Financial assets available for sale	9,150	568	-	8,582
Financial assets at fair value through profit or loss	2	1	1	-
<i>31 December 2015</i>				
Financial assets available for sale	9,789	-	-	9,789
Financial assets at fair value through profit or loss	2	1	1	-

The management assessed that financial assets and financial liabilities other than those disclosed above approximate their carrying amounts largely due to the short-term maturities of those instruments.

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

# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 19 FAIR VALUE MEASUREMENT (continued)

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 financial instruments, and no transfers into and out of Level 3 financial instruments.

Movement in the Level 3 financial instruments is as follows.

	<i>As at 1 January</i>	<i>Gain recorded in income statement for the year</i>	<i>Loss recorded in other comprehensive income</i>	<i>Net purchases, sales and settlements</i>	<i>Impairment recorded during the year</i>	<i>As at 31 December</i>
	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>
<b>2016</b>						
Financial assets available for sale	9,789	-	(931)	(276)	-	8,582
<b>2015</b>						
Financial assets available for sale	10,948	-	(452)	(707)	-	9,789

### 20 RISK MANAGEMENT

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

The Group's risk management is carried out by investment and management committee and focuses on actively securing the Group's short to medium term cash flows by minimising the potential adverse effects on the Group's financial performance through internal risk reports. The Parent Company's board of directors are ultimately responsible for the overall risk management and for approving risk strategies and principles.

The Group is exposed to credit risk, liquidity risk, market risk, prepayment risk and operational risk. Market risk is subdivided into interest rate risk, foreign currency risk and equity price risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process. There is no change in the risk management objectives and policies as compared to previous year.

#### 20.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group'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 Group of customers in specific locations or business through diversification of operating activities.

#### Maximum exposure to credit risk

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The Group bears credit risk on money at call and short notice and bank balances, other receivable and promissory note.

The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks, and with respect to customers by monitoring outstanding receivables on an on-going basis.

Coast Investment & Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

20 RISK MANAGEMENT (continued)

20.1 Credit risk (continued)

Maximum exposure to credit risk (continued)

The Group's exposure to credit risk is limited to the carrying amounts of the following financial assets at the reporting date:

	2016 KD '000	2015 KD '000
Bank balances	281	389
Money at call and short notice	1,264	1,677
Other receivable	343	597
Promissory note	3,178	3,750
	<u>5,066</u>	<u>6,413</u>
Gross maximum credit exposure	<u>5,066</u>	<u>6,413</u>

**Risk concentration of maximum exposure to credit risk**

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

**Collateral and other credit enhancements**

No collaterals are obtained in respect of other receivable.

20.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the Parent Company's management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents, and readily marketable securities.

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

	<i>Within 3 months KD '000</i>	<i>3 to 12 months KD '000</i>	<i>Over 1 year KD '000</i>	<i>Total KD '000</i>
<b>31 December 2016</b>				
Accounts payable and other liabilities	2	1,676	-	1,678
	<u>2</u>	<u>1,676</u>	<u>-</u>	<u>1,678</u>
Capital commitments	<u>133</u>	<u>302</u>	<u>265</u>	<u>700</u>
	<u>135</u>	<u>1,978</u>	<u>265</u>	<u>2,378</u>
<b>31 December 2015</b>				
Accounts payable and other liabilities	2	2,039	-	2,041
Amounts due to related parties	1,529	-	-	1,500
	<u>1,531</u>	<u>2,039</u>	<u>-</u>	<u>3,570</u>
Capital commitments	<u>114</u>	<u>317</u>	<u>509</u>	<u>940</u>
	<u>1,645</u>	<u>2,356</u>	<u>509</u>	<u>4,510</u>

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As at 31 December 2016

**20 RISK MANAGEMENT (continued)**

**20.3 Market risk**

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

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

**20.3.1 Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group operates in the Kuwait and other Middle Eastern countries, Europe and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to Euro and US Dollar.

To mitigate the Group's exposure to foreign currency risk, management works on maintaining a balanced exposure of assets and liabilities by currency to minimize fluctuations in accordance with the Group's risks management policies.

As at the reporting date, the Group had the following significant net asset exposures denominated in foreign currencies:

	2016 '000	2015 '000
Euro	24,269	26,266
US Dollar	3,818	3,568

The Group's exposure to other foreign currencies is not material to the consolidated financial statements.

The foreign currency risk sensitivity analysis below calculates the effect of a reasonably possible movement of the currency exchange rate against the KD, with all other variables held constant, on the results and other comprehensive income of the Group.

**2016**

Currency	Change in currency rate in % against KD	Effect on results '000	Effect on other comprehensive income '000
Euro	+5%	(22)	(1,191)
US Dollar	+5%	(27)	(163)
<b>2015</b>			
Euro	+5%	(43)	(1,270)
US Dollar	+5%	(21)	(157)

If the KD weakens against the foreign currencies with all other variables being constant then this would have the opposite impact on the results for the year and other comprehensive income.

**20.3.2 Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect the value of the underlying financial instruments. The Group is not exposed to interest rate risk since its exposure on interest bearing assets and liabilities is limited.



# Coast Investment & Development Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 20 RISK MANAGEMENT (continued)

#### 20.3 Market risk (continued)

##### 20.3.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the Parent Company. The unquoted equity price risk exposure arises from the Group's investment portfolio. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration.

The effect on other comprehensive income as a result of a change in the fair value of equity instruments held as available for sale financial assets at 31 December 2016 and 31 December 2015 due to 5% increase in the following market indices with all other variables held constant is as follows:

Market indices	<i>Effect on other comprehensive income</i>	
	<i>2016</i>	<i>2015</i>
	<i>KD '000</i>	<i>KD '000</i>
Kuwait	28	-

#### 20.4 Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The Group is not significantly exposed to prepayment risk.

#### 20.5 Operational risk

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

### 21 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may review the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015. The Group's leverage that has impacted the debt to equity ratio. Capital comprises share capital, statutory reserve, voluntary reserve and accumulated losses and is measured at KD 57,307 thousands as at 31 December 2016 (2015: KD 55,238 thousands).