شركة الساحل للتنمية والاستثمار ش.م.ك.ع

COAST INVESTMENT & DEVELOPMENT CO. K.S.C.P

# ANNUAL REPORT 2015

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شركة الساحل للتنمية والاستثمار ش.م.ك.ع

COAST INVESTMENT & DEVELOPMENT CO. K.S.C.P

His Highness Sheikh
**Sabah Al-Ahmad Al-Jaber Al-Sabah**
The Amir Of The State Of Kuwait

His Highness Sheikh
**Jaber Mubarak Al-Hamad Al-Sabah**
The Prime Minister

His Highness Sheikh
**Nawaf Al-Ahmad Al-Jaber Al-Sabah**
The Crown Prince

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COAST INVESTMENT & DEVELOPMENT CO. K.S.C.P

# Board of Directors

**Sulaiman Khaled Al-Sahli**
Chairman

**Khaled Abdulaziz Al-Usaimi**
Vice Chairman & CEO

**Anwar Jassim Al-Kharafi**
Board Member

**Bader Mohammad Al-Qattan**
Board Member

**Thamer Nabeel Al-Nesef**
Board Member

# General Management

**Khaled Abdulaziz Al-Usaimi**
Chief Executive officer

**Mohammad Rashed Al-Qaoud**
Senior Vice President- Support group

**Muneer Abdulmuhsen Al-Sharhan**
Senior Vice President- Investment group

# Message From The Chairman

**Dear Shareholders of Coast Investment and Development Company**

**Peace and blessings be upon you,**

On behalf of the board members , I have the pleasure to welcome you to the meeting of the Company's Annual General Meeting and to present to you the annual report of Coast Investment & Development Company for the year ended 31st December 2015.

The world economic activity was stagnant and slow in 2015, and the Gross Domestic Product grew at 3.1% less than year 2014 which was about 3.3%. Although the growth rate of developing countries and emerging markets economies represents 70% of the growth rate of the world economy, this average remained sluggish over the last five years particularly in China, Russia and Brazil which had a negative impact on the world economy despite of the relative improvement in USA and the Euro zone.

On the level of GCC countries, the slowing world growth and the oil oversupply have contributed to the continuous decline of oil prices in 2015. The Brent mix average rate was US$ 52 /barrel in 2015 down to US$ 36 /barrel at the end of the year despite of the continuous political unrest and tensions in the MENA region which usually raises concerns of interruptions in oil supplies. Furthermore, the increase of shale oil production in the USA and the increasing supply from outside OPEC has a clear impact on the deterioration of oil prices from the peak of US$ 115 / barrel in the mid 2014 down to 36 US$ / barrel at the end of 2015, down by 68%. Despite the decline of oil prices and the deficit of GCC countries budgets, they managed to maintain their financial positions and continued their capital expenditure and infrastructure development relying on their strong reserves.

Political tensions and decline of oil prices have shadowed the GCC stock markets. All markets ended 2015 with sharp declines , led by the Saudi index which was down by 17.8% followed by Dubai index at the rate of 16.5%.

On the domestic level, it is forecasted that the state budget at the rate of US 25/barrel would post deficit of more than KD 12 billion in the fiscal year 2016-2017 and if the Government does not initiate immediate reforms of the domestic economy in terms of diversification of revenue sources and rationalization of expenses and expenditures, the budget deficit would continue for several years, thus depleting the financial reserves and posting great challenges in the future.

Kuwait stock exchange was not secluded from the other GCC markets as all market indexes declined in the year 2015. The weighted index was down by 13% while the price index was down by 14.1%. The daily trading rate was down from KD 29 million in 2014 to KD 11 million in 2015 down by 62% and the market's capitalization lost more than KD 3.2 billion down by 11% in comparison with the year 2014.

## Dear Shareholders

The slow growth of world economy and the decline of oil prices combined with the continuous political struggles and tensions particularly in the Middle East region have increased the challenges for local companies and business Therefore, it is essential that all concerned parties should extent their best efforts and cooperation to sustain and improve the business environment in the absence of promising opportunities and low revenues.

The company faced several challenges over the last year, notably the lawsuit filed by one party in the year ended 31st December 2011 and the delivery of court judgment cassation on 17th June 2015 ruling the nullification of the sale and purchase agreement of one of the assets available for sale signed on 23rd June 2008 and obligating the company to refund an amount of KD 8,544,000 to the plaintiff purchaser and return the disputed shares to the company. In execution of this judgment, 29.7% of the company's holding in Kuwaiti German Holding Company was sold through auction to settle the stated lawsuit incurring the company's losses by KD 11,659,151. As the company had made a provision for this full amount in 2014, it has realized profit of KD 2,200,000 as a result of the disputed shares.

However, the company is now more capable of continuation and growth after settling all its debts , liabilities and reduction of its overall expenses with the improvement of the values and revenues of its overseas investments.

The company's results this year are impacted with the forcible sale of significant share of the company's main investment. The company posted losses of KD 8,739,121 in comparison with the profit of KD 9,696,924 in 2014. The total assets amounted to KD 57,298,524 in comparison with KD 193,574,226 in 2014 at a decrease of 70% due to reclassification of some subsidiaries as associates.

Finally, we extend sincere thanks to the company's shareholders and the members of board of directors and all staff.

We pray to Almighty Allah to guide us to prosperity and success.

**Sulaiman Khalid Al-Sahli**
Chairman

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COAST INVESTMENT & DEVELOPMENT CO. K.S.C.P

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COAST INVESTMENT & DEVELOPMENT CO. K.S.C.P

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

## CONSOLIDATED FINANCIAL STATEMENTS
## 31 DECEMBER 2015

Ernst & Young
Al Aiban, Al Osaimi & Partners
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Dr. Saud Hamad Al-Humaidi & Partners
Public Accountants

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## Report on the consolidated financial statements

We have audited the accompanying 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 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the consolidated financial statements*

Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the entity's management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Building a better working world

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## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

## 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, the executive regulations of Law No. 25 of 2012, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 the executive regulations of Law No. 25 of 2012 or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2015 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization 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 2015 that might have had a material effect on the business of the Parent Company or on its financial position.

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

**Dr. Saud HAMAD Al-humaidi**
License No. 51 A
Dr. Saud Hamad Al-Humaidi & Partners
Member of Baker Tilly International

30 March 2016
Kuwait

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

| | Notes | 2015 KD' 000 | 2014* KD' 000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Net investment income | 3 | **752** | 1,255 |
| Management fees | | **651** | 367 |
| Other income | 4 | **2,352** | 19 |
| Gain on extinguishment of financial liabilities | 5 | **-** | 19,832 |
| Share of results of associates | 9 | **1,075** | 394 |
| Loss on sale of associates | 9 | **-** | (1,317) |
| Gain on fair valuation of retained investment in a former subsidiary | 9 | **561** | - |
| Impairment loss on accounts receivable | | **(25)** | - |
| Impairment loss on financial assets available for sale | 10 | **(54)** | (85) |
| Provision for legal claim | 19 | **-** | (8,544) |
| General and administrative expenses | | **(1,383)** | (1,395) |
| Depreciation | 7 | **(19)** | (19) |
| Finance costs | | **(89)** | (1,576) |
| Foreign exchange gain (loss) | | **122** | (57) |
| **Profit for the year from continuing operations before taxation** | | **3,943** | 8,874 |
| Taxation | | **-** | (170) |
| **Profit for the year from continuing operations** | | **3,943** | 8,704 |
| (Loss) profit for the year from discontinued operations | 5 | **(12,674)** | 3,134 |
| **(Loss) profit for the year** | | **(8,731)** | 11,838 |
| **Attributable to:** | | | |
| Shareholders of the Parent Company | | **(8,739)** | 9,697 |
| Non-controlling interests | | **8** | 2,141 |
| | | **(8,731)** | 11,838 |
| **Basic and diluted (loss) earnings per share attributable to shareholders of the Parent Company** | 6 | **(15) fils** | 17 fils |
| **Basic and diluted earnings per share from continuing operations attributable to shareholders of the Parent Company** | 6 | **7 fils** | 15 fils |

**Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2014 and reflect adjustments made as detailed in Note 5.*

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

| | Note | *2015* *KD' 000* | *2014* *KD' 000* |
|---|---|---|---|
| **(Loss) profit for the year** | | **(8,731)** | 11,838 |
| **Other comprehensive income** | | | |
| *Other comprehensive income (loss) for the year to be reclassified to income statement in subsequent periods:* | | | |
| Net change in fair value of financial assets available for sale | | **(452)** | 585 |
| Share of other comprehensive loss of associates | | **(548)** | 43 |
| Exchange difference on translation of foreign operations Operations | | **520** | (10,398) |
| **Net other comprehensive (loss) income to be reclassified to income statement in subsequent periods** | | **(480)** | (9,770) |
| *Other comprehensive income (loss) for the year not to be reclassified to income statement in subsequent periods income statement in subsequent periods:* | | | |
| Re-measurement gains on defined benefit plans | 16 | **-** | (4,059) |
| Deferred tax gain (loss) | | **-** | 1,119 |
| **Net other comprehensive (loss) income not to be reclassified to income statement in subsequent periods** | | **-** | (2,940) |
| **Other comprehensive (loss) income for the year** | | **(480)** | (12,710) |
| **Total comprehensive (loss) income for the year** | | **(9,211)** | (872) |
| **Attributable to:** | | | |
| Shareholders of the Parent Company | | **(9,219)** | 7,133 |
| Non-controlling interests | | **8** | (8,005) |
| **Total comprehensive (loss) income for the year** | | **(9,211)** | (872) |

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

| | | 2015 | 2014* |
|---|---|---|---|
| **ASSETS** | *Notes* | ***KD' 000*** | *KD' 000* |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | **1,070** | 24,791 |
| Investment properties | | **152** | 146 |
| Intangible assets | 8 | **-** | 78,233 |
| Investment in associates | 9 | **34,965** | 2,446 |
| Financial assets available for sale | 10 | **14,657** | 13,623 |
| Accounts receivable and prepayments | 11 | **3,750** | 1,503 |
| Deferred tax assets | 12 | **-** | 3,816 |
| | | **54,594** | 124,558 |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | | **2** | 433 |
| Accounts receivable and prepayments | 11 | **636** | 15,034 |
| Inventories | 13 | **-** | 26,536 |
| Money at call and short notice | 14 | **1,677** | 26,523 |
| Cash and bank balances | 14 | **389** | 490 |
| | | **2,704** | 69,016 |
| **TOTAL ASSETS** | | **57,298** | 193,574 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 15 | **62,529** | 62,529 |
| Statutory reserve | 15 | **11,647** | 11,647 |
| Voluntary reserve | 15 | **1,991** | 1,991 |
| Treasury shares | 15 | **(5,215)** | (5,683) |
| Treasury shares reserve | | **236** | 493 |
| Other reserve | | **-** | 1,403 |
| Foreign currency translation reserve | | **(14)** | 1,322 |
| Cumulative changes in fair value | | **2,227** | 2,679 |
| Accumulated losses | | **(20,929)** | (13,369) |

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2015

| | | 2015 | 2014* |
|---|---|---|---|
| | | KD' 000 | KD' 000 |
| **Equity attributable to shareholders of the Parent Company** | | **52,472** | 63,012 |
| Non-controlling interests | | **32** | 48,982 |
| **Total equity** | | **52,504** | 111,994 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | - | 262 |
| End of service benefits | 16 | **1,224** | 22,500 |
| Accounts payable and other liabilities | 17 | - | 6,373 |
| Amount due to related parties | 18 | - | 7,937 |
| Other accruals | 19 | - | 864 |
| Deferred tax liabilities | 12 | - | 1,182 |
| | | **1,224** | 39,118 |
| **Current liabilities** | | | |
| Bank overdrafts | 14 | - | 78 |
| Borrowings | | - | 3,777 |
| Accounts payable and other liabilities | 17 | **1,900** | 20,037 |
| Amount due to a related party | 18 | **1,500** | 1,750 |
| Other accruals | 19 | **170** | 16,820 |
| | | **3,570** | 42,462 |
| **Total liabilities** | | **4,794** | 81,580 |
| **TOTAL EQUITY AND LIABILITIES** | | **57,298** | 193,574 |

**Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2014 and reflect adjustments made as detailed in Note 5.*

**Sulaiman K. Al-Sahli**
Chairman

**Khaled A. Al-Usaimi**
Vice Chairman & CEO

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

| | *Attributable to shareholders of the Parent Company* | | | | | | | | | | *Non-controlling interests* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Statutory reserve** | **Voluntary reserve** | **Treasury shares** | **Treasury shares reserve** | **Other reserve** | **Foreign currency translation reserve** | **Cumulative changes in fair values** | **Accumulated losses** | **Sub total** | | |
| | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD 000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* |
| **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 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** |
| As at 1 January 2014 | 62,529 | 11,647 | 1,991 | (7,146) | 493 | 2,579 | 3,338 | 2,051 | (23,066) | 54,416 | 89,816 | 144,232 |
| Profit for the year | - | - | - | - | - | - | - | - | 9,697 | 9,697 | 2,141 | 11,838 |
| Other comprehensive (loss) income for the year | - | - | - | - | - | (1,176) | (2,016) | 628 | - | (2,564) | (10,146) | (12,710) |
| Total comprehensive (loss) income for the year | - | - | - | - | - | (1,176) | (2,016) | 628 | 9,697 | 7,133 | (8,005) | (872) |
| Sale of treasury shares (Note 16) | - | - | - | 1,463 | - | - | - | - | - | 1,463 | - | 1,463 |
| Loss of control of a subsidiary | - | - | - | - | - | - | - | - | - | - | (32,829) | (32,829) |
| As at 31 December 2014 | 62,529 | 11,647 | 1,991 | (5,683) | 493 | 1,403 | 1,322 | 2,679 | (13,369) | 63,012 | 48,982 | 111,994 |

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

| | Notes | 2015<br>KD' 000 | 2014*<br>KD' 000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| (Loss) profit for the year from continuing operations | | **3,943** | 8,704 |
| Profit for the year from discontinued operations | | **(12,674)** | 3,134 |
| | | | 11,838 |
| Adjustments for: | | | |
| Loss (gain) on financial assets at fair value through profit or loss | 3 | **65** | (3,479) |
| Share of results of associates | 9 | **(1,075)** | (394) |
| Gain on extinguishment of financial liabilities | 5 | **-** | (19,832) |
| Loss on sale of investments in associates | | **-** | 1,317 |
| Net gain on sale of financial assets available for sale | | **(768)** | (1,136) |
| Interest income | 3 & 5 | **(277)** | (295) |
| Dividend income | 3 | **(1)** | (1,741) |
| Depreciation and amortization | 7 & 8 | **5,555** | 8,526 |
| Impairment loss on accounts receivable | | **330** | 419 |
| Impairment loss on financial assets available for sale | 10 | **54** | 85 |
| Impairment loss on intangible assets | | **-** | 188 |
| Provision for a legal dispute | 19 | **-** | 8,544 |
| Other income | | **(2,200)** | - |
| Realised loss on sale of subsidiary | 5 | **11,659** | - |
| Gain on fair valuation of retained investment in a former subsidiary | 9 | **(561)** | - |
| Finance costs | | **894** | 3,060 |
| End of service benefits | 16 | **890** | 4,333 |
| Taxation | | **1,788** | 2,591 |
| | | **7,622** | 14,024 |
| Changes in operating assets and liabilities: | | | |
| Financial assets at fair value through profit or loss | | **365** | (590) |
| Accounts receivable and prepayments | | **(1,750)** | 2,071 |
| Inventories | | **(2,607)** | 968 |
| Accounts payable and other liabilities | | **581** | (7,007) |
| Other accruals | | **(9,466)** | (1,701) |
| Amount due to related parties | | **2,790** | 842 |
| End of service benefits paid | 16 | **(1,767)** | (803) |
| | | **4,232** | 7,804 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 7 | **(1,214)** | (2,710) |

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2015

| | Notes | **2015** KD' 000 | 2014* KD' 000 |
|---|---|---|---|
| Proceeds on sale of property, plant and equipment | 7 | **330** | 2,607 |
| Purchase of intangible assets | 8 | **(1,159)** | (2,193) |
| Proceeds on sale of intangible assets | 8 | **11** | 37 |
| Dividend received from associates | 9 | **197** | 540 |
| Proceeds on sale of financial assets available for sale | | **3,544** | 2,098 |
| Dividend income received | | **-** | 1,742 |
| Interest income received | | **-** | 89 |
| Net cash outflow on loss of control of subsidiaries | 5 | **(15,593)** | (7,293) |
| **Net cash used in investing activities** | | **(13,884)** | (5,083) |
| **FINANCING ACTIVITIES** | | | |
| Sale of treasury shares | | **211** | - |
| Borrowings obtained | | **-** | 589 |
| Borrowings repaid | | **(746)** | (5,697) |
| Finance costs paid | | **-** | (1,599) |
| **Net cash from (used in) financing activities** | | **(535)** | (6,707) |
| Net foreign exchange differences | | **(6,218)** | (4,270) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(24,869)** | (8,256) |
| Cash and cash equivalents at 1 January | 14 | **26,935** | 35,191 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 14 | **2,066** | 26,935 |

* Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2014 and reflect adjustements made as detailed in note 5.

The attached notes 1 to 25 form part of these consolidated financial statements.

## 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 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 31 March 2016, 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 executive regulation of Law No. 25 of 2012 will continue until a new set of executive regulation is issued.

## 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.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

### 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 year except for the adoption of the following new and amended standards and International Financial Reporting Interpretations Committee ("IFRIC"):

***IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets***

This amendment is effective for annual periods beginning on or after 1 July 2014. The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment did not have any material impact to the revaluation adjustments recorded by the Group during the current period.

***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 January 2015.

***IAS 24 Related Party Disclosures***

The amendment is applied retrospectively for annual periods beginning on or after 1 January 2015 and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

***IAS 40 Investment Property***

This amendment is effective for annual periods beginning on or after 1 July 2014. The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

***IFRS 3 Business Combinations***

This amendment is effective for annual periods beginning on or after 1 July 2014. The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

***IFRS 13 Fair Value Measurement***

This amendment is effective for annual periods beginning on or after 1 July 2014. The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2015 did not have any material impact on the accounting policies, financial position or performance of the Group.

***Standards issued but not yet effective***

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

***IFRS 9: Financial Instruments***

The IASB issued IFRS 9 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***

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 Construction contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and Standards Interpretation Committee ("SIC"31) from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 on the Group and do not expect any significant impact on adoption of this standard.

***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

The Group intends to adopt those standards when they become effective. However, the Group expects no significant impact from the adoption of the amendments on its financial position or performance.

### 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 2015. 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:

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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.

### 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 other comprehensive income 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 profit or loss. 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 |
|---|---|---|---|---|
| | | ***2015*** | *2014* | |
| ***Directly held*** | | | | |
| Kuwaiti German Holding Company K.S.C. (Closed) ("KGH")* | Kuwait | - | 53.13% | Investing activities |
| 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%** | 51% | Management consultancy |

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

| Name of the company | Country of incorporation | Effective equity interest | | Principal activity |
|---|---|---|---|---|
| | | ***2015*** | *2014* | |
| ***Held through KGH*** | | | | |
| Weinig International A.G.("Weinig") | Germany | - | 39.9% | Manufacturing of wood processing machinery |
| JNW Middle East ("JNW ME") | Kuwait | - | 29.22% | Cleaning of heat exchangers |
| Melius GmbH ("Melius") | Germany | - | 100% | Management consultancy |
| JNW Cleaning Solutions GmbH ("JNW Cleaning") | Germany | - | 100% | Cleaning of heat exchangers |

*During the year, 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 with a non-related party. As a result, the Parent Company lost its ability to control the subsidiary and has accounted for the retained portion of the investment as an investment in associate in accordance with IAS 28: Investment in Associates and Joint Ventures (Notes 5 and 9).

### 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.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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:

- Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.
- Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably by reference to the stage of completion of the transaction at the reporting date. Where the outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.
- Revenue from production orders are recognized on a pro-rata basis at reporting date, based on the percentage of completion of the order. The percentage of completion applicable is calculated using the cost-to-cost method (costs incurred to date in relation to the expected total costs). The revenues from the order constitute the contractual price and follow-up price as agreed to in writing with the customer.
- 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

*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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

*Zakat*

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

*Taxation on overseas subsidiaries*

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognized as an expense in the year in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

### Financial Instruments

### Financial assets

*Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and financial assets available for sale. The Group determines the classification of its financial assets at initial recognition.

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

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date on which the Group makes a commitment to buy or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

The Group's financial assets include bank balances, money at call and short notice, trade and 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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Financial Instruments (continued)*

### *Financial assets (continued)*

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.

#### *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.

#### *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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Financial Instruments (continued)*

### *Financial assets (continued)*

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 EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Financial Instruments (continued)*

### *Financial assets (continued)*

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.

*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 profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at amortised cost. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables and borrowings.

*Subsequent measurement*

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

*Accounts payable*

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

*Borrowings*

After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the consolidated income statement Derecognition of Financial Liabilities.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial Liabilities (continued)***

### Derecognition of financial liablitiies

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 leader 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 amoujnts is recognized in the consolidated income statement.

### 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

The Group measures financial instruments, such as financial assets available for sale and financial assets carried at fair value through profit or loss and non-financial assets such as investment properties, at fair value 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:

(a) in the principal market for the asset or liability, or

(b) 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:

(c) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

(d) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

(e) 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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Fair Value (continued)*

prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

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

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

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

For investment properties, fair values are determined based on an annual evaluation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standard Committee.

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.

### 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.

### 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 – 70 years |
| Plant and machinery | 5 – 30 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

***Property, Plant and Equipment (continued)***

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.

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets (other than goodwill) are carried at cost less any accumulated amortization that is recognized on a straight line basis over their useful lives and any accumulated impairment losses. Internally generated intangible assets excluding capitalised developmental costs are not capitalised and expenditure is reflected in consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives (patent rights, technology and customer relationship) are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible asset. The customer relationship, technology and patent rights are amortised over a period of 10 years.

Intangible assets (trade mark) with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

***Research and development costs***

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)
### Intangible assets (continued)

- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Gains or losses arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

### 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.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined on the basis of moving average price of the goods. The cost of finished goods and work in process comprises the cost of raw materials, consumables and supplies, direct labour costs, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The amount of impairment loss is recognized in the consolidated income statement under cost of materials. Reversals of such impairments resulting from an increase in the net sales value are recorded as a reduction in the cost of materials in the period in which the reversal occurs.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 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.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

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.

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.

### 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. 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'

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

One of the subsidiaries of the Group had both defined benefit and defined contribution pension plans. The defined contribution plans are statutory pension insurance.

The defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in consolidated statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments of unrecognized actuarial gains or losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds. These are denominated in the currency in which the benefit will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Re-measurements, comprising of actuarial gains and losses, the effect of asset ceiling, excluding net interest (not applicable to the group) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to the consolidated income statement in subsequent periods.

Past service costs are recognized immediately in the consolidated income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service cost are amortised on a straight line basis over the vesting period.

The contributions for defined contribution plans are recognized as employee benefit expense (under the heading of personnel expenses) when they are due. Prepaid contribution is recognized as an asset to the extent that of cash refund or a reduction in the future payments is available.

### 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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)
### Treasury Shares (continued)

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.

### 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 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.
customers where appropriate are aggregated and reported as reportable segments.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)
### Significant accounting judgments, estimates and assumptions (continued)

***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.

***Deferred tax assets***

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

***Operating Lease Commitments – Group as lessor***

The Group has entered into commercial property leases on its investment properties. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

***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 losses of accounts receivable***

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

***Impairment of goodwill and intangible assets with indefinite life***

The Group determines whether goodwill and intangible assets with indefinite life is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and intangible assets with indefinite life is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

***Useful lives of property, plant and equipment and intangible assets***

The management determines the estimated useful lives of its property and equipment and intangible assets for calculating depreciation and amortization. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation and amortization charge would be adjusted where the management believes the useful lives differ from previous estimates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Estimation uncertainty and assumptions (continued)

***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.

***Revenue from production orders***

Revenue from production orders is recognized in accordance with the percentage-of-completion method. In other words, revenues are stated on a pro-rata basis, according to the percentage of completion achieved to date. The percentage of completion as at reporting sheet date is calculated using the cost-to-cost method.

***Development costs***

Development costs are capitalised in accordance with the accounting policies presented in these notes. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

***Pension provisions***

When calculating pension provisions, differences compared to the actual obligations incurred over time may arise from the selection of underlying assumptions such as the imputed interest rate or trends and use of demographic probabilities.

***Taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group Company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized

***Impairment of investment in associates***

***Fair value of financial instruments***

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 including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. 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 loans and receivables and financial assets available for sale.

## 3 NET INVESTMENT INCOME

| | 2015<br>KD '000 | 2014<br>KD '000 |
|---|---|---|
| Realised (loss) gain on financial assets at fair value through profit or loss | (65) | 1 |
| Unrealised gain on financial assets at fair value through profit or loss | - | 57 |
| Net gain on sale of financial assets available for sale | 768 | 843 |
| Interest income | 48 | 37 |
| Dividend income | 1 | 317 |
| | 752 | 1,255 |

## 4 OTHER INCOME

Other income includes an amount of KD 2,200 thousands which was received on settlement of a legal case with a non-related party (Note 19).

## 5 DISCONTINUED OPERATIONS

a) 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 (Note 19). 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 associate" and has been accounted for in accordance with IAS 28: Investment in Associates and Joint Ventures (Note 9). In addition, the Group classified its direct investment in "Weinig" as an "investment in associate" since it has been able to exercise significant influence over the investee company through board representation (Note 9). In accordance with IFRS 5, the disposal of KGH has been classified as a discontinued operation.

b) During the prior year ended 31 December 2014, the Parent Company signed two debt settlement agreements with certain local financial institutions (the "lenders"). Based on the terms of the settlement agreements, the Parent Company transferred certain assets with fair value of KD 40,524 thousand to its lenders on full settlement of the outstanding borrowings of KD 60,356 thousand. As a result, the Group derecognized these assets and liabilities and recognized a gain of KD 19,832 thousand in the consolidated income statement for the year ended 31 December 2014.
As a part of the settlement agreement, the Group partially transferred 28.09% of its holding in its subsidiary ("Coast Investment Fund" or "CIF") to its lenders. As a result, the Group's ownership in CIF was diluted from 33.21% to 5.12% and hence the management of the Parent Company lost its ability to control CIF and classified the retained share of the investment in CIF at its fair value under financial assets available for sale. In accordance with IFRS 5, the disposal of CIF has been classified as discontinued operations in the consolidated financial statements for the year ended 31 December 2014.

## 5 DISCONTINUED OPERATIONS (continued)

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

| | *2015* | | | *2014* | | |
|---|---|---|---|---|---|---|
| | *CIF* | *KGH* | *Total* | *CIF* | *KGH* | *Total* |
| | *KD' 000* | *KD' 000* | *KD' 000* | *KD' 000* | *KD' 000* | *KD' 000* |
| Revenues | **-** | **87,367** | **87,367** | - | 125,430 | 125,430 |
| Cost of raw materials | **-** | **(36,350)** | **(36,350)** | - | (52,077) | (52,077) |
| Interest income | **-** | **229** | **229** | 46 | 212 | 258 |
| Other income | **-** | **2,858** | **2,858** | - | 4,308 | 4,308 |
| Net investment income | **-** | **-** | **-** | 3,714 | - | 3,714 |
| Dividend income | **-** | **-** | **-** | 1,425 | - | 1,425 |
| General and administrative expenses | **-** | **(46,867)** | **(46,867)** | (156) | (67,203) | (67,359) |
| Finance costs | **-** | **(805)** | **(805)** | (49) | (1,435) | (1,484) |
| Impairment loss on accounts receivable | **-** | **(305)** | **(305)** | - | (419) | (419) |
| Impairment of goodwill | **-** | **-** | **-** | - | (188) | (188) |
| Depreciation | **-** | **(1,766)** | **(1,766)** | - | (2,695) | (2,695) |
| Amortization | **-** | **(3,770)** | **(3,770)** | - | (5,812) | (5,812) |
| Foreign exchange gain | **-** | **182** | **182** | - | 454 | 454 |
| Profit before taxation | **-** | **773** | **773** | 4,980 | 575 | 5,555 |
| Taxation | **-** | **(1,788)** | **(1,788)** | - | (2,421) | (2,421) |
| **Net (loss) income for the year from discontinued operations** | **-** | **(1,015)** | **(1,015)** | 4,980 | (1,846) | 3,134 |
| **Realised loss on sale of subsidiary (Note (a) above)** | **-** | **(11,659)** | **(11,659)** | - | - | - |
| **Profit (loss) from discontinued operation** | **-** | **(12,674)** | **(12,674)** | 4,980 | (1,846) | 3,134 |
| **Attributable to:** | | | | | | |
| Shareholders of the Parent Company | **-** | **(12,682)** | **(12,682)** | 1,653 | (588) | 1,065 |
| Non-controlling interests | **-** | **8** | **8** | 3,327 | (1,258) | 2,069 |
| | **-** | **(12,674)** | **(12,674)** | 4,980 | (1,846) | 3,134 |
| Basic and diluted (loss) earnings per share attributable to equity holders of the Parent Company from discontinued operations | **- fils** | **(22) fils** | **(22) fils** | 3 fils | (1) fils | 2 fils |

## 5 DISCONTINUED OPERATIONS (continued)

| | *2015* |
|---|---|
| | *KD '000* |
| **Assets** | |
| Property, plant and equipment (Note 7) | 21,895 |
| Intangible assets (Note 8) | 72,030 |
| Accounts receivable and prepayments | 13,847 |
| Deferred tax assets (Note 12) | 2,977 |
| Inventories | 30,269 |
| Money at call and short notice | 23,776 |
| Cash and bank balances | 361 |
| **Total assets** | 165,155 |
| **Liabilities** | |
| Borrowings | 3,434 |
| End of service benefits (Note 16) | 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 |
| **Total liabilities** | 68,009 |
| **Net assets** | 97,146 |
| Less: net assets attributable to non-controlling interests | (28,876) |
| Net assets attributable to equity holders of the Parent Company | 68,270 |
| Total consideration | 8,544 |
| **Realised loss on sale** | (11,659) |

| | *2015* |
|---|---|
| | *KD '000* |
| Cash and cash equivalents | |
| Total consideration | 8,544 |
| Less: Bank balances and cash | (24,137) |
| **Net cash outflow** | (15,593) |

## 5 DISCONTINUED OPERATIONS (continued)

The net cash flows incurred by KGH are as below:

| | 2015<br>KD '000 | 2014<br>KD '000 |
|---|---|---|
| Operating | **1,998** | 5,273 |
| Investing | **(2,013)** | (2,035) |
| Financing | **(746)** | (1,043) |
| **Net cash (outflow)/inflow** | **(761)** | 2,195 |

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.

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

Basic and diluted (loss) earnings per share is calculated by dividing the (loss) profit 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.

| | 2015<br>KD '000 | 2014<br>KD '000 |
|---|---|---|
| (Loss) profit for the year attributable to shareholders of the Parent Company | **(8,739)** | 9,697 |
| | *Shares* | *Shares* |
| Weighted average number of outstanding shares | **625,293,152** | 625,293,152 |
| Less: Weighted average number of treasury shares | **(46,485,826)** | (57,889,016) |
| Weighted average number of outstanding shares | **578,807,326** | 567,404,136 |
| Basic and diluted (loss) earnings per share attributable to the shareholders of the Parent Company | **(15) fils** | 17 fils |

| **Basic and diluted earnings per share from continuing operations** | 2015<br>KD '000 | 2014<br>KD '000 |
|---|---|---|
| Profit for the year from continuing operations attributable to shareholders of the Parent Company | **3,943** | 8,704 |
| | *Shares* | *Shares* |
| Weighted average number of outstanding shares | **625,293,152** | 625,293,152 |
| Less: Weighted average number of treasury shares | **(46,485,826)** | (57,889,016) |
| Weighted average number of shares | **578,807,326** | 567,404,136 |
| Basic and diluted earnings per share attributable to shareholders of the Parent Company | **7 fils** | 15 fils |

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

## 7 PROPERTY, PLANT AND EQUIPMENT

| | *Land* | *Buildings* | *Plant and machinery* | *Office equipment* | *Total* |
|---|---|---|---|---|---|
| | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* |
| **Cost:** | | | | | |
| 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) |
| **As at 31 December 2015** | **1,053** | **-** | **-** | **645** | **1,698** |
| **Accumulated depreciation:** | | | | | |
| 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 |
| **As at 31 December 2015** | - | - | - | **(628)** | **(628)** |
| **Net carrying amount:** | | | - | | |
| **As at 31 December 2015** | **1,053** | **-** | - | **17** | **1,070** |

## 7 PROPERTY, PLANT AND EQUIPMENT (continued)

| | *Land* *KD '000* | *Buildings* *KD '000* | *Plant and machinery* *KD '000* | *Office equipment* *KD '000* | *Total* *KD '000* |
|---|---|---|---|---|---|
| Cost: | | | | | |
| As at 1 January 2014 | 1,053 | 24,678 | 5,258 | 5,875 | 36,864 |
| Additions | - | 152 | 934 | 1,624 | 2,710 |
| Disposals | - | (2,267) | (442) | (777) | (3,486) |
| Foreign exchange adjustment | - | (1,599) | (534) | (54) | (2,187) |
| As at 31 December 2014 | 1,053 | 20,964 | 5,216 | 6,668 | 33,901 |
| Accumulated depreciation: | | | | | |
| As at 1 January 2014 | - | (2,272) | (2,152) | (3,028) | (7,452) |
| Charge for the year | - | (826) | (753) | (1,135) | (2,714) |
| Disposals | - | 321 | 165 | 393 | 879 |
| Foreign exchange adjustment | - | 24 | 10 | 143 | 177 |
| As at 31 December 2014 | - | (2,753) | (2,730) | (3,627) | (9,110) |
| Net carrying amount: | | | | | |
| As at 31 December 2014 | 1,053 | 18,211 | 2,486 | 3,041 | 24,791 |

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

| | ***2015*** ***KD'000*** | *2014* *KD'000* |
|---|---|---|
| Continuing operations | **(19)** | (19) |
| Related to discontinued operations (Note 5) | **(1,766)** | (2,695) |
| | **(1,785)** | (2,714) |

## 8 INTANGIBLE ASSETS

| | Goodwill | Other intangible assets | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | Trademark | Patent rights | Technology | Customer relationship | Subtotal | |
| | KD '000 | KD '000 | KD'000 | KD '000 | KD '000 | KD '000 | KD '000 |
| **Gross carrying amount:** | | | | | | | |
| As at 1 January 2015 | 31,332 | 9,731 | 13,835 | 24,152 | 17,314 | 65,032 | 96,364 |
| Additions | - | - | 1,159 | - | - | 1,159 | 1,159 |
| Disposals | - | - | (12) | - | - | (12) | (12) |
| Foreign exchange adjustment | (1,420) | (441) | (298) | (992) | (700) | (2,431) | (3,851) |
| Related to discontinued operations (Note 5) | (29,912) | (9,290) | (14,684) | (23,160) | (16,614) | (63,748) | (93,660) |
| **As at 31 December 2015** | - | - | - | - | - | - | - |
| **Accumulated amortization:** | | | | | | | |
| As at 1 January 2015 | - | - | (4,650) | (7,701) | (5,780) | (18,131) | (18,131) |
| Charge for the year | - | - | (918) | (1,647) | (1,205) | (3,770) | (3,770) |
| Disposals | - | - | 1 | - | - | 1 | 1 |
| Foreign exchange adjustment | - | - | (113) | 223 | 160 | 270 | 270 |
| Related to discontinued operations (Note 5) | - | - | 5,680 | 9,125 | 6,825 | 21,630 | 21,630 |
| **As at 31 December 2015** | - | - | - | - | - | - | - |
| **Net carrying amount:** | | | | | | | |
| **As at 31 December 2015** | - | - | - | - | - | - | - |

## 8 INTANGIBLE ASSETS (continued)

| | Goodwill | Other intangible assets | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | *Trademark* | *Patent rights* | *Technology* | *Customer relationship* | *Subtotal* | |
| | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* |
| Gross carrying amount: | | | | | | | |
| As at 1 January 2014 | 34,242 | 10,788 | 13,130 | 26,210 | 18,901 | 69,029 | 103,271 |
| Additions | - | - | 2,193 | - | - | 2,193 | 2,193 |
| Disposals | - | - | (135) | - | - | (135) | (135) |
| Foreign exchange adjustment | (2,910) | (1,057) | (1,353) | (2,058) | (1,587) | (6,055) | (8,965) |
| As at 31 December 2014 | 31,332 | 9,731 | 13,835 | 24,152 | 17,314 | 65,032 | 96,364 |
| Accumulated amortization: | | | | | | | |
| As at 1 January 2014 | - | - | (3,514) | (5,854) | (4,428) | (13,796) | (13,796) |
| Charge for the year | - | - | (1,515) | (2,482) | (1,815) | (5,812) | (5,812) |
| Disposals | - | - | 98 | - | - | 98 | 98 |
| Impairment | - | - | (188) | - | - | (188) | (188) |
| Foreign exchange adjustment | - | - | 469 | 635 | 463 | 1,567 | 1,567 |
| As at 31 December 2014 | - | - | (4,650) | (7,701) | (5,780) | (18,131) | (18,131) |
| Net carrying amount: | | | | | | | |
| As at 31 December 2014 | 31,332 | 9,731 | 9,185 | 16,451 | 11,534 | 46,901 | 78,233 |

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

| | **2015** | **2014** |
|---|---|---|
| | **KD'000** | **KD'000** |
| Continuing operations | **-** | **-** |
| Related to discontinued operations (Note 5) | **(3,770)** | (5,812) |
| | **(3,770)** | (5,812) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2015

### 9 INVESTMENT IN ASSOCIATES

Details of associates are set out below:

| Name | Country of incorporation | Interest in equity % | | Principal activity | Carrying value | |
|---|---|---|---|---|---|---|
| | | **2015** | 2014 | | **2015** | 2014 |
| | | | | | **KD '000** | KD '000 |
| Rico GmbH | Germany | **23.73** | 23.73 | Manufacturing | **2,309** | 2,446 |
| KGH* | Kuwait | **23.41** | - | Investing activities | **18,191** | - |
| Weinig | Germany | **12.37** | - | Manufacturing | **14,465** | - |
| | | | | | **34,965** | 2,446 |

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

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 (Note 19). 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 (a)). 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 16,155 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:

| | **2015** | 2014 |
|---|---|---|
| | **KD '000** | KD '000 |
| At 1 January | **2,446** | 12,763 |
| Derecognised under debt settlement | - | (8,897) |
| 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 | **1,075** | 394 |
| Loss on sale of associates | - | (1,317) |
| Share of other comprehensive income | **(548)** | 43 |
| Dividend received | **(197)** | (540) |
| Foreign exchange adjustment | **(169)** | - |
| At 31 December | **34,965** | 2,446 |

## 9 INVESTMENT IN ASSOCIATES (continued)

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

| | *2015* *KD '000* | *2014* *KD '000* |
|---|---|---|
| Non-current assets | **24,951** | 8,273 |
| Current assets | **24,076** | 5,808 |
| Non-current liabilities | **(13,853)** | (1,264) |
| Current liabilities | **(12,025)** | (2,509) |
| **Equity** | **23,149** | 10,308 |
| Goodwill | **11,816** | - |
| Proportion of the Group's ownership | **34,965** | 2,446 |
| **Carrying amount of the investment** | **34,965** | 2,446 |

| | *2015* *KD '000* | *2014* *KD '000* |
|---|---|---|
| Share of revenue | **45,998** | 2,936 |
| Share of other comprehensive (loss) income | **(548)** | 43 |
| Share of results | **1,075** | 394 |

Associates have contingent liabilities and capital commitments amounting to KD 826 thousand as at 31 December 2015 (2014: KD 1,104 thousand).
The material associates of the Parent Company are as following:

| | *2015* | |
|---|---|---|
| | *KGH* *KD '000* | *Weinig* *KD '000* |
| Non-current assets | **16,048** | **6,632** |
| Current assets | **15,289** | **7,147** |
| Non-current liabilities | **(8,126)** | **(5,431)** |
| Current liabilities | **(7,056)** | **(3,663)** |
| Equity | **16,155** | **4,685** |
| Goodwill | **2,036** | **9,780** |
| Proportion of the Group's ownership | **18,191** | **14,465** |

## 9 INVESTMENT IN ASSOCIATES (continued)

| | ***2015*** | |
|---|---|---|
| | ***KGH*** | ***Weinig*** |
| | ***KD '000*** | ***KD '000*** |
| Share of revenue | **28,434** | **14,880** |
| Share of other comprehensive (loss) income | **(171)** | **(377)** |
| Share of results | **481** | **364** |

## 10 FINANCIAL ASSETS AVAILABLE FOR SALE

| | ***2015*** | *2014* |
|---|---|---|
| | ***KD '000*** | *KD '000* |
| Unquoted equities | **14,657** | 13,623 |

Unquoted equities include investments in private equity funds amounting to KD 9,789 thousand (2014: KD 10,948 thousand) which are carried at net asset values as reported by the fund managers.

At 31 December 2015, certain unquoted financial assets available for sale amounting to KD 4,868 thousand (2014: KD 2,675 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 54 thousand (2014: KD 85 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 2015 in respect of these 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 23.

## 11 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2015<br>KD '000 | 2014<br>KD '000 |
|---|---|---|
| **Non-current receivables** | | |
| Trade receivable | - | 1,503 |
| Promissory note (Note 18) | 3,750 | - |
| | 3,750 | 1,503 |
| **Current receivables and prepayments** | | |
| Trade receivable | - | 12,241 |
| Advances and prepayments | 39 | 286 |
| Accrued income | 214 | 180 |
| Value Added Tax receivables | - | 917 |
| Other receivables | 383 | 1,410 |
| | 636 | 15,034 |
| | 4,386 | 16,537 |

As at 31 December 2015, trade receivables at nominal value of KD Nil thousand (2014: KD 1,445 thousand) were impaired and fully provided for. Movement in the allowance for impairment of trade accounts receivables is as follows:

| | 2015<br>KD '000 | 2014<br>KD '000 |
|---|---|---|
| As at 1 January | 1,445 | 1,729 |
| Charge for the year | - | 419 |
| Written off during the year | - | (599) |
| Foreign exchange adjustment | - | (104) |
| Related to discontinued operations (Note 5) | (1,445) | - |
| As at 31 December | - | 1,445 |

## 12 DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

| | ***2015*** ***KD '000*** | *2014* *KD '000* |
|---|---|---|
| Deferred tax assets | - | 8,822 |
| Offset with deferred tax liabilities | - | (5,006) |
| | **-** | 3,816 |
| Deferred tax liabilities | - | 6,188 |
| Offset with deferred tax assets | - | (5,006) |
| | **-** | 1,182 |
| Net deferred tax assets | **-** | 2,634 |

The movement in net deferred tax assets is as follows:

| | ***2015*** ***KD '000*** | *2014* *KD '000* |
|---|---|---|
| As at 1 January | **2,634** | 2,088 |
| Foreign exchange adjustment | **657** | 943 |
| Tax expense for the year | **(294)** | (397) |
| Related to discontinued operations (Note 5) | **(2,997)** | - |
| As at 31 December | **-** | 2,634 |

## 13 INVENTORIES

| | 2015 KD '000 | 2014 KD '000 |
|---|---|---|
| Raw materials, consumables and supplies | - | 11,033 |
| Work in progress | - | 6,898 |
| Finished goods | - | 8,605 |
| | - | 26,536 |

## 14 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:

| | 2015 KD '000 | 2014 KD '000 |
|---|---|---|
| Money at call and short notice | **1,677** | 26,523 |
| Cash and bank balances | **389** | 490 |
| Less: bank overdrafts | **-** | (78) |
| Cash and cash equivalents for the purpose of consolidated statement of cash flows | **2,066** | 26,935 |

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 0.71% per annum (2014: 0.70% per annum) and have original maturity of less than three months.

## 15 SHARE CAPITAL AND RESERVES

### a) Share capital

The authorised, issued and paid-up capital of the Parent Company consists of 625,293,152 shares (2014: 625,293,152 shares) of 100 fils per share (2014: 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 losses have been incurred during the year.

## 15 SHARE CAPITAL AND RESERVES (continued)

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 losses have been incurred during the year.

### d) Treasury shares

| | ***2015*** | *2014* |
|---|---|---|
| Number of shares | **44,570,086** | 48,570,086 |
| Percentage of issued shares | **7.13%** | 7.77% |
| Market value (KD 000) | **1,404** | 2,768 |
| Weighted average market value per share (fils) | **47** | 61 |

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 2015 (2014: Nil). This proposal is subject to approval of the Parent Company's shareholders in the annual general assembly meeting.

## 16 END OF SERVICE BENEFITS

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

| | *2015* *KD '000* | *2014* *KD '000* |
|---|---|---|
| As at 1 January | **22,500** | 20,436 |
| Provided during the year | **890** | 536 |
| Re-measurement gains on defined benefit plans | **-** | 4,059 |
| Employees' end of service benefits paid | **(1,767)** | (851) |
| Foreign exchange adjustment | **(2,109)** | (1,680) |
| Related to discontinued operations (Note 5) | **(18,290)** | - |
| **As at 31 December** | **1,224** | 22,500 |

## 17 ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | *2015* *KD '000* | *2014* *KD '000* |
|---|---|---|
| Trade payables | **-** | 4,423 |
| Advances received from customers | **-** | 8,396 |
| Promissory notes | **-** | 2,959 |
| Dividend payable | **215** | 216 |
| Commission payable | **-** | 1,142 |
| Tax payable | **1,658** | 1,842 |
| Other liabilities | **27** | 7,432 |
| | **1,900** | 26,410 |

## 18 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:

| | *Associates KD '000* | *Others KD '000* | ***2015 KD '000*** | *2014 KD '000* |
|---|---|---|---|---|
| Promissory note - non-current assets (Note 11) | 3,750 | - | **3,750** | - |
| Amount due to related parties - non-current liabilities | - | - | **-** | 7,937 |
| Amount due to a related party - current liabilities | - | 1,500 | **1,500** | 1,750 |

Promissory note bears an average interest rate of 1.51% (2014: 1.72%) per annum and is receivable on demand.

The amount due to a related party current outstanding balance at the year end carry an interest of 5% to 5.25% (2014: 5%) per annum and is repayable on demand.

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

| | *Associates KD '000* | *Others KD '000* | ***2015 KD '000*** | *2014 KD '000* |
|---|---|---|---|---|
| Management fees | - | 414 | **414** | 146 |
| Interest income | 43 | - | **43** | - |
| Finance cost | - | 79 | **79** | 112 |

### Key management compensation

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

| | ***2015 KD '000*** | *2014 KD '000* |
|---|---|---|
| Salaries and short-term benefits | **365** | 853 |
| Termination benefits | **12** | 236 |
| | **377** | 1,089 |

## 19 OTHER ACCRUALS

| | *2015* | *2014* |
|---|---|---|
| | *KD '000* | *KD '000* |
| Provision for legal claim* | - | 8,544 |
| Other personnel accruals | - | 868 |
| Warranties | - | 1,425 |
| Machine installation outstanding | - | 842 |
| Accrued expenses | **170** | 3,758 |
| Other accruals | - | 2,247 |
| | **170** | 17,684 |

* During the year ended 31 December 2011, a legal case was filed by a non-related party (the "plaintiff") against the Parent Company seeking to revoke a Sale and Purchase Agreement of certain financial assets available for sale dated 23 June 2008 and its related appendixes, and, to obligate the Parent Company to refund the received consideration of KD 8,544 thousand. On 17 June 2015, the cassation court ruling came in favour of the plaintiff supporting the supreme court's ruling. Based on which, the cassation courts' resolution came revoking the Sale and Purchase Agreement and its related appendices, obligating the Parent Company to refund the consideration amount of KD 8,544 thousand to the plaintiff, and, obligating the plaintiff to return the disputed shares to the Parent Company. The Parent Company had provided for the full amount in its consolidated financial statements for the year ended 31 December 2014. During the year ended 31 December 2015, the Parent Company settled the legal claim through partial sale of its subsidiary "KGH" (Note 5). Moreover, the Group received the disputed shares from the plaintiff and recognised a gain of KD 2,200 thousand in the consolidated income statement (Note 4).

## 20 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 460 thousand (2014: KD 294 thousand).

## 21 COMMITMENTS AND CONTINGENT LIABILITIES

At the reporting date, the Group had capital commitments of KD 940 thousand (2014: KD 1,191 thousand) towards purchase of investments. Further, the Group had commitments on machines sold to external parties aggregating to KD Nil thousand (2014: KD 682 thousand) extending beyond one accounting period. The amount of capital commitments may be reduced by participation of other investors.

As at 31 December 2015, the Group did not have any contingent liabilities in respect of warranty agreements (2014: KD 422 thousand) from which it is anticipated that no material liabilities will arise.

## 22 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.

| **Year ended 31 December 2015** | ***Manufacturing of wood processing equipment*** | ***Investments*** | ***Unallocated*** | ***Consolidated*** |
|---|---|---|---|---|
| | ***KD '000*** | ***KD '000*** | ***KD '000*** | ***KD '000*** |
| Segment revenue | 51,017 | 2,430 | - | **53,447** |
| **Result** | | | | |
| Segment profit from continuing operations | - | 2,430 | - | **2,430** |
| Interest income | 229 | 48 | - | **277** |
| Other income | 2,858 | 2,339 | 13 | **5,210** |
| Impairment loss on accounts receivable (Note 11) | (305) | (25) | - | **(330)** |
| Impairment loss on financial assets available for sale (Note 10) | - | (48) | (6) | **(54)** |
| General and administrative expenses | (46,867) | (1,380) | (3) | **(48,250)** |
| Depreciation and amortization (Notes 7 and 8) | (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)** |
| **Loss (profit) for the year** | (12,674) | 3,948 | (5) | **(8,731)** |
| **Total assets** | - | 57,067 | 231 | **57,298** |
| **Total liabilities** | - | 4,790 | 4 | **4,794** |

## 22 SEGMENT INFORMATION (continued)

| **Year ended 31 December 2015** | ***Manufacturing of wood processing equipment*** | ***Consolidated*** |
|---|---|---|
| | ***KD '000*** | ***KD '000*** |
| Other segmental information: | | |
| Investment in associates (Note 9) | 34,965 | **34,965** |
| Share of results of associates | 1,075 | **1,075** |

| Year ended 31 December 2014 | *Manufacturing of wood processing equipment* | *Investments* | *Unallocated* | *Consolidated* |
|---|---|---|---|---|
| | *KD '000* | *KD '000* | *KD '000* | *KD '000* |
| Revenue | | | | |
| Total operating revenue | 78,538 | 1,979 | - | 80,517 |
| Result | | | | |
| Segment profit from continuing operations | - | 1,979 | - | 1,979 |
| Interest income | 212 | 37 | - | 249 |
| Other income | 4,308 | 6 | 13 | 4,327 |
| Gain on extinguishment of a financial Liabilities | - | 19,832 | - | 19,832 |
| Impairment loss on accounts receivable (Note 11) | (419) | - | - | (419) |
| Impairment loss on financial assets available for sale (Note 10) | - | (85) | - | (85) |
| General and administrative expenses | (67,408) | (9,939) | - | (77,347) |
| Depreciation and amortization (Note 7 and 8) | (8,507) | (11) | (8) | (8,526) |
| Impairment loss on intangible assets (Note 8) | (188) | - | - | (188) |
| Finance costs | (1,435) | (1,576) | - | (3,011) |
| Loss on sale of associates | - | (1,317) | - | (1,317) |
| Foreign exchange gain (loss) | 454 | (57) | - | 397 |
| Profit before taxation | 5,555 | 8,869 | 5 | 14,429 |
| Taxation | (2,421) | (170) | - | (2,591) |
| Profit for the year | 3,134 | 8,699 | 5 | 11,838 |
| Total assets | 134,538 | 24,977 | 34,059 | 193,574 |
| Total liabilities | 66,637 | 14,033 | 910 | 81,580 |

## 22 SEGMENT INFORMATION (continued)

| Year ended 31 December 2014 | *Manufacturing of wood processing equipment* | *Investments* | *Consolidated* |
|---|---|---|---|
| | *KD '000* | *KD '000* | *KD '000* |
| Other segmental information: | | | |
| Goodwill (Note 8) | 31,332 | - | 31,332 |
| Other intangible assets – indefinite life (Note 8) | 9,731 | - | 9,731 |
| Other intangible assets – definite life (Note 8) | 37,170 | - | 37,170 |
| Investment in associates (Note 9) | | 2,446 | 2,446 |
| Share of results of associates | | 394 | 394 |
| Loss on sale of associate | | (1,317) | (1,317) |

### Geographic information

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

| **Total revenue** | ***2015*** ***KD '000*** | ***2014*** ***KD '000*** |
|---|---|---|
| Kuwait and Middle East | **3,983** | 1,612 |
| Europe | **-** | 125,430 |
| | **3,983** | 127,042 |

| | ***2015*** ***KD '000*** | ***2014*** ***KD '000*** |
|---|---|---|
| **Non-current assets** | | |
| Kuwait and Middle East | **54,400** | 17,138 |
| Europe | **-** | 104,676 |
| United States of America (USA) | **194** | 2,744 |
| | **54,594** | 124,558 |

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

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

## 23 FAIR VALUE MEASUREMENT

| | | *Fair value measurement using* | | |
|---|---|---|---|---|
| ***31 December 2015*** | ***Total*** | ***Quoted prices in active markets (Level 1)*** | ***Significant observable inputs (Level 2)*** | ***Significant unobservable inputs (Level 3)*** |
| | ***KD'000*** | ***KD'000*** | ***KD'000*** | ***KD'000*** |
| Investment in associates | **32,656** | **-** | **-** | **32,656** |
| Financial assets available for sale | **9,789** | **-** | **-** | **9,789** |
| Financial assets at fair value through profit or loss | **2** | **1** | **1** | **-** |
| *31 December 2014* | | | | |
| Financial assets available for sale | 10,948 | - | - | 10,948 |
| Financial assets at fair value through profit or loss | 433 | 431 | 2 | - |

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 fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

During the year ended 31 December 2015, there were no transfers between Level 1 and Level 2 financial instruments, and no transfers into and out of Level 3 financial instruments.

## 23 FAIR VALUE MEASUREMENT (continued)

Movement in the Level 3 financial instruments is as follows.

| | *As at 1 January* | *Gain recorded in income statement for the year* | *Loss recorded in other comprehensive income* | *Net purchases, sales and settlements* | *Impairment recorded during the year* | *As at 31 December* |
|---|---|---|---|---|---|---|
| | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* | *KD '000* |
| **2015** | | | | | | |
| Investment in associates | - | **846** | **(548)** | **32,358** | - | **32,656** |
| Financial assets available for sale | **10,948** | - | **(452)** | **(653)** | **(54)** | **9,789** |
| 2014 | | | | | | |
| Financial assets available for sale | 9,778 | 905 | (596) | 946 | (85) | 10,948 |

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 | 7.3% to 7.5% |
| Terminal growth rate | 1.0% to 1.2% |

Significant increases (decreases) in the above inputs would result in a significantly higher (lower) fair value.

## 24 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.

## 24 RISK MANAGEMENT (continued)

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.

### 24.1 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 and accounts receivable.

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.

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

| | ***2015 KD '000*** | *2014 KD '000* |
|---|---|---|
| Bank balances | **389** | 458 |
| Money at call and short notice | **1,677** | 26,523 |
| Accounts receivable | **4,347** | 16,251 |
| Gross maximum credit exposure | **6,413** | 43,232 |

#### 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 in the Banking and Financial sector industry.

## 24 RISK MANAGEMENT (continued)

### 24.1 Credit risk (continued)

**Collateral and other credit enhancements**
No collaterals are obtained in respect of trade accounts receivable.

### 24.2 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.

| **31 December 2015** | ***Within 3 months KD 000*** | ***3 to 12 months KD 000*** | ***Over 1 year KD 000*** | ***Total KD 000*** |
|---|---|---|---|---|
| Accounts payable and other liabilities | 2 | 1,898 | - | **1,900** |
| Amounts due to related parties | 1,500 | - | - | **1,500** |
| Other accruals | 29 | 141 | - | **170** |
| | **1,531** | **2,039** | - | **3,570** |
| Capital commitments | **114** | **317** | **509** | **940** |

| 31 December 2014 | *Within 3 months KD 000* | *3 to 12 months KD 000* | *Over 1 year KD 000* | *Total KD 000* |
|---|---|---|---|---|
| Bank overdrafts | 78 | - | - | 78 |
| Accounts payable and other liabilities | 14,402 | 5,635 | 6,373 | 26,410 |
| Borrowings | 659 | 3,335 | 282 | 4,276 |
| Deferred tax liabilities | - | - | 1,182 | 1,182 |
| Amounts due to related parties | - | 1,750 | 8,095 | 9,845 |
| Other accruals | 7,944 | 8,876 | 864 | 17,684 |
| | 23,083 | 19,596 | 16,796 | 59,475 |
| Capital commitments | 76 | 403 | 712 | 1,191 |

## 24 RISK MANAGEMENT (continued)

### 24.3 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.

#### 24.3.1 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, United States of America and China 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:

| | ***2015*** | *2014* |
|---|---|---|
| | ***KD 000*** | *KD 000* |
| Euro | **26,266** | 231,861 |
| US Dollar | **3,568** | 3,494 |

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.

| Currency | Change in currency rate in % against KD | Effect on results KD 000 | Effect on other comprehensive income KD 000 |
|---|---|---|---|
| **2015** | | | |
| **Euro** | **+5%** | **(43)** | **(1,270)** |
| **US Dollar** | **+5%** | **(21)** | **(157)** |
| 2014 | | | |
| Euro | +5% | (16) | (11,577) |
| US Dollar | +5% | (32) | (143) |

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.

## 24 Risk Management (continued)
## 24.3 Market Risk (continued)
### 24.3.2 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 exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The management has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. The Group is not exposed to interest rate risk since its exposure on interest bearing assets and liabilities is limited.

### *24.3.3 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. No impact since no investments are made in quoted equity shares.

## 24.4 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.

## 24.5 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.

## 25 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.

## 25 CAPITAL MANAGEMENT (continued)

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 2015 and 31 December 2014 except during the previous year ended 31 December 2014, the management of the Parent Company has settled its financial liabilities amounting to KD 60,356 thousand by transferring its interest in certain assets. This had significantly reduced the Group's leverage that has impacted the debt to equity ratio. Capital comprises share capital, statutory reserve, voluntary reserve and retained earnings and is measured at KD 57,378 thousands as at 31 December 2015 (2014: KD 64,938 thousands).