Gulf Investment House K.S.C.P. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

EY
Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF INVESTMENT HOUSE K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Gulf Investment House 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 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matters described in the "*Basis for Disclaimer of Opinion*" section of our report, we have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

As disclosed in Note 2.1 to the consolidated financial statements, the Group has incurred a loss of KD 1,273,147 (2016: KD 1,682,014) during the year ended 31 December 2017. As of that date, the Group's accumulated losses were KD 10,667,601 (2016: KD 9,402,195) which is in excess of 50% of the paid up share capital. Further, as disclosed in Note 10 to the consolidated financial statements, the Group has significant debt exposure and was unable to meet the repayment terms at the maturity date and accordingly the lender has initiated legal proceedings for the recovery of the outstanding murabaha payables. On 1 November 2017, the regulatory authorities in the State of Kuwait requested the management of the Parent Company to provide a plan detailing how the Parent Company would fulfil its obligations that are due. The management of the Parent Company provided the plan to the regulatory authorities, which has been rejected by the authorities subsequent to the reporting date. Further, the Parent Company's license for carrying out security activities has been revoked and the Parent Company has been removed from the regulatory authority's register of licensed companies. Accordingly, we are unable to obtain sufficient appropriate evidence to determine whether the Group would continue as a going concern in the near future. Consequently, we are unable to determine whether any adjustments are necessary to the carrying value of the Group's assets and liabilities as at 31 December 2017.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF INVESTMENT HOUSE K.S.C.P. (CONTINUED)

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

Basis for Disclaimer of Opinion (continued)

Further, the Group has accounted for the share of results from one of the associates based on the draft audited financial information for which the component auditor has not provided their clearance to us by way of responding to the group audit instructions that was circulated to them. The share of results from this associate amounted to KD 662,706 and the carrying value of the associate amounted to KD 5,988,750 as at 31 December 2017. Accordingly, we were unable to carry out any audit procedures to satisfy ourselves as to the completeness and accuracy of share of results and the carrying value of the associate included in the Group's consolidated financial statements. As a result, we were unable to determine whether any adjustment to the Group's share of results and carrying value of the associate, were necessary.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the "*Basis for Disclaimer of Opinion*" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA code.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF INVESTMENT HOUSE K.S.C.P. (CONTINUED)

Report on Other Legal and Regulatory Requirements

Furthermore, based on our audit, due to the matters described in the "*Basis for Disclaimer of Opinion*" section of our report, we were unable to conclude that proper books of account have been kept by the Parent Company and the consolidated financial statements are in accordance therewith. We further report that, because of the significance of the matters described in the "*Basis for Disclaimer of Opinion*" section of our report, we were unable to obtain all the information and explanations that we required for the purpose of our audit and we were also unable to determine whether the consolidated financial statements incorporate all the information that is required by the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Company's Memorandum of Incorporation and Articles of Association, and whether any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report, we were unable to determine whether there were any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.

BADER A. AL-ABDULJADER	MOHAMMED HAMED AL SULTAN
LICENCE NO. 207 A	LICENSE NO. 100 A
EY	AL SULTAN AND PARTNERS
AL AIBAN AL OSAIMI & PARTNERS	MEMBER OF BAKER TILLY INTERNATIONAL

29 March 2018
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
INCOME			
Realised loss on sale of financial assets at fair value through profit or loss		**-**	(5,176)
Unrealised loss on financial assets at fair value through profit or loss	6	**(32,624)**	(75,373)
Realised gain on sale of financial assets available for sale		**40,136**	-
Share of results of associates	8	**1,291,175**	1,664,180
Change in fair value of investment properties	9	**(172,656)**	(64,671)
Dividend income		**-**	6,023
Other income		**25,236**	94,383
TOTAL INCOME		**1,151,267**	1,619,366
EXPENSES			
Administrative expenses		**(165,861)**	(232,632)
Staff cost		**(533,406)**	(457,296)
Foreign exchange (loss) gain		**(10,701)**	3,041
Impairment loss on financial assets available for sale	7	**(310,187)**	(1,212,147)
Murabaha charges	10	**(1,297,001)**	(1,292,348)
Investment expenses		**(107,258)**	(109,998)
TOTAL EXPENSES		**(2,424,414)**	(3,301,380)
LOSS FOR THE YEAR		**(1,273,147)**	(1,682,014)
Attributable to:			
Equity holders of the Parent Company		**(1,265,406)**	(1,687,800)
Non-controlling interests		**(7,741)**	5,786
		(1,273,147)	(1,682,014)
Basic and diluted loss per share attributable to equity holders of the Parent Company (fils)	4	**(7.71)**	(10.28)

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	***2017*** ***KD***	*2016* *KD*
Loss for the year		**(1,273,147)**	(1,682,014)
Other comprehensive (loss) income:			
Items that are or may be reclassified to consolidated statement of income in subsequent periods			
Transfer to consolidated statement of income on impairment of financial assets available for sale	7	**310,187**	1,212,147
Net change in fair value of financial assets available for sale		**(1,141,651)**	(88,394)
Share of other comprehensive income (loss) of associates	8	**168,678**	(29,915)
Foreign currency translation adjustments		**37,577**	17,070
Other comprehensive (loss) income for the year		**(625,209)**	1,110,908
Total comprehensive loss for the year		**(1,898,356)**	(571,106)
Attributable to:			
Equity holders of the Parent Company		**(1,897,189)**	(578,072)
Non-controlling interests		**(1,167)**	6,966
		(1,898,356)	(571,106)

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	***2017 KD***	*2016 KD*
ASSETS			
Bank balances and short-term deposits	5	**1,742,360**	1,869,820
Financial assets at fair value through profit or loss	6	**209,832**	249,740
Financial assets available for sale	7	**5,002,273**	6,397,915
Investment in associates	8	**34,183,165**	33,696,232
Investment properties	9	**3,271,289**	3,406,368
Other assets		**40,319**	39,465
TOTAL ASSETS		**44,449,238**	45,659,540
LIABILITIES AND EQUITY			
Liabilities			
Murabaha payables	10	**35,644,764**	35,124,158
Other liabilities	11	**1,116,308**	948,860
TOTAL LIABILITIES		**36,761,072**	36,073,018
Equity			
Share capital	12	**16,420,244**	16,420,244
Statutory reserve	12	**343,089**	343,089
Cumulative changes in fair values		**1,486,635**	2,149,421
Foreign currency translation reserve		**(41,144)**	(72,147)
Accumulated losses		**(10,667,601)**	(9,402,195)
Equity attributable to equity holders of the Parent Company		**7,541,223**	9,438,412
Non-controlling interests		**146,943**	148,110
TOTAL EQUITY		**7,688,166**	9,586,522
TOTAL LIABILITIES AND EQUITY		**44,449,238**	45,659,540

Khaled Suhail Al Ajlan
Chairman

Bashar N. Al-Tuwaijri
Chief Executive Officer

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
OPERATING ACTIVITIES			
Loss for the year		**(1,273,147)**	(1,682,014)
Adjustment to reconcile loss for the year to net cash flows:			
Depreciation		**1,098**	1,098
Realised gain on sale of financial assets available for sale		**(40,136)**	-
Share of results of associates	8	**(1,291,175)**	(1,664,180)
Dividend income		-	(6,023)
Change in fair value of investment properties	9	**172,656**	64,671
Impairment loss on financial assets available for sale	7	**310,187**	1,212,147
Murabaha charges	10	**1,297,001**	1,292,348
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		**39,908**	362,392
Other assets		**(1,953)**	80,674
Other liabilities		**171,019**	(137,405)
Net cash flows used in operating activities		**(614,542)**	(476,292)
INVESTING ACTIVITIES			
Capital redemption of financial assets available for sale		**122,807**	106,199
Additions to financial assets available for sale		-	(1,004,683)
Proceeds from sale of financial assets available for sale		**171,321**	-
Capital redemption from investment in an associate		-	10,079
Dividends received from associates	8	**972,920**	802,890
Dividend received from others		-	6,023
Net cash flows from (used in) investing activities		**1,267,048**	(79,492)
FINANCING ACTIVITIES			
Dividends paid	5 & 11	**(3,571)**	(10,206)
Repayment of murabaha payables		**(459,929)**	(1,925,461)
Murabaha charges paid		**(316,466)**	(633,629)
Movement in restricted bank accounts	5 & 11	**(554,791)**	10,206
Net cash flows used in financing activities		**(1,334,757)**	(2,559,090)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(682,251)**	(3,114,874)
Cash and cash equivalents at 1 January		**1,724,477**	4,839,351
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	**1,042,226**	1,724,477

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Attributable to equity holders of the Parent Company							
	Share capital KD	*Statutory reserve KD*	*Cumulative changes in fair values KD*	*Foreign currency translation reserve KD*	*Accumulated losses KD*	*Sub-total KD*	*Non-controlling interests KD*	*Total equity KD*
As at 1 January 2017	16,420,244	343,089	2,149,421	(72,147)	(9,402,195)	9,438,412	148,110	9,586,522
Loss for the year	-	-	-	-	(1,265,406)	(1,265,406)	(7,741)	(1,273,147)
Other comprehensive (loss) income	-	-	(662,786)	31,003	-	(631,783)	6,574	(625,209)
Total comprehensive (loss) income for the year	-	-	(662,786)	31,003	(1,265,406)	(1,897,189)	(1,167)	(1,898,356)
As at 31 December 2017	**16,420,244**	**343,089**	**1,486,635**	**(41,144)**	**(10,667,601)**	**7,541,223**	**146,943**	**7,688,166**
As at 1 January 2016	16,420,244	343,089	1,055,583	(88,037)	(7,714,395)	10,016,484	141,144	10,157,628
(Loss) profit for the year	-	-	-	-	(1,687,800)	(1,687,800)	5,786	(1,682,014)
Other comprehensive income	-	-	1,093,838	15,890	-	1,109,728	1,180	1,110,908
Total comprehensive income (loss) for the year	-	-	1,093,838	15,890	(1,687,800)	(578,072)	6,966	(571,106)
As at 31 December 2016	16,420,244	343,089	2,149,421	(72,147)	(9,402,195)	9,438,412	148,110	9,586,522

The attached notes 1 to 23 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of Gulf Investment House K.S.C.P. (the "Parent Company") and subsidiaries (the "Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 28 March 2018. The shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance. The Parent Company's registered head office is at Dar Al-Awadi Tower, Sharq, Kuwait City, P.O. Box 28808, 13149 Safat, Kuwait.

Major shareholder of the Parent Company is Kuwait Finance House K.S.C.P. ("major shareholder") which is listed on the Kuwait Stock Exchange.

The Parent Company is a closed shareholding company registered and incorporated in Kuwait on 8 September 1998. The Parent Company is registered with the Central Bank of Kuwait ("CBK") as a financing company and is listed on the Kuwait Stock Exchange. The Company was registered with the Capital Markets Authority ("CMA") as an investment company, but was removed from the regulatory authority's register of licensed companies, subsequent to the reporting date, due to violations of Law No 7 of 2010 concerning CMA. Details of subsidiary companies are set out in Note 3.

The Group is primarily engaged in investment activities and related financial and advisory services. All activities of the Group are carried out in compliance with the Noble Islamic Sharee'a, as approved by the Parent Company's Fatwa and Sharee'a Supervisory Board.

The Parent Company's Fatwa and Sharee'a Supervisory Board consist of three eminent Islamic scholars who review the Parent Company's compliance with general Sharee'a principles and specific Fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Parent Company to ensure that its activities are conducted in accordance with Islamic Sharee'a principles.

Under the guidance of its Fatwa and Sharee'a Supervisory Board, the Parent Company does not recognise any income generated from non-Islamic sources. Accordingly, all non-Islamic income is distributed to charity.

2.1 FUNDAMENTAL ACCOUNTING CONCEPT

During the year, the Group incurred a loss of KD 1,273,147 (31 December 2016:1,682,014) and the accumulated losses as at 31 December 2017 were KD 10,667,601 (31 December 2016: KD 9,402,195) which is in excess of 50% of the paid up share capital. Further, the Parent Company could not honour the principal payment of murabaha payable amounting to KD 1,099,502 out of KD 3,000,000 that was due on 31 December 2016 and was under discussions with the lender (the "Bank"), who is also a main shareholder of the Parent Company, for the renewal of the facility. However, during the year, the lender has initiated legal proceedings for the recovery of the entire outstanding murabaha payable. In addition, the regulatory authorities in the State of Kuwait suspended the trading of Parent Company's shares on Kuwait Stock Exchange and requested the management of the Parent Company to provide a detailed plan showing how the Parent Company would fulfil its obligations that are due. Subsequent to the reporting date, the management submitted a restructuring plan (the "Plan") to Capital Market Authority ("CMA") to demonstrate how the Group would continue as a going concern, which was rejected by CMA on 1 March 2018. In addition, the Parent Company's license for carrying out security activities has been revoked and the Parent Company has been removed from the regulatory authority's register of licensed companies, due to violations of Law No 7 of 2010 concerning CMA. However, CMA has removed the suspension of trading of the Parent Company's shares on the Kuwait Stock Exchange, provided that the Parent Company's shares are not suspended for any other reason.

If the Group is unable to continue in operational existence for the foreseeable future, it may be unable to discharge its liabilities in the normal course of business. Accordingly, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the interim condensed consolidated statement of financial position. In addition, the Group may have to reclassify non-current assets and liabilities as current, and certain commitments and contingent liabilities may crystallize. No such adjustments have been made to these consolidated financial statements and accordingly these consolidated financial statements has been prepared on a going concern assumption.

2.2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, financial assets at fair value through profit or loss and certain financial assets available for sale which have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional and presentational currency of the Parent Company.

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by CBK. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following amended IASB Standards that is relevant to the Group:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 10.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that 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*
In July 2014, the IASB issued the final version of IFRS 9 *'Financial Instruments'* that replaces IAS 39 *'Financial Instruments: Recognition and Measurement'* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in the financial year 2018, when the Group will adopt IFRS 9. In addition, the Group will implement changes in classification of certain financial instruments.

(a) Classification and measurement
The Group will reclassify financial assets available for sale amounting to KD 686,854 to financial assets carried at fair value through statement of income. This reclassification will result in an increase in retained earnings and decrease of cumulative changes in fair value reserve by approximately KD 14,629 as on 1 January 2018.

(b) Impairment
IFRS 9 requires the Group to record expected credit losses on all its investments, loans and receivables, either on a 12 month or lifetime basis. The Group will apply a simplified approach and record lifetime expected losses on all trade receivables and other receivables which management has assessed will not have a material impact on the consolidated financial statements of the Group.

(c) Hedge Accounting
The management does not expect any impact on the consolidated financial statements of the Group resulting from hedge accounting under IFRS 9 as currently, the Group has not entered into any such instruments.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

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

The Group is currently in the process of determining the impact of this standard on its consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

IFRS 16 *Leases*
IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Transfers of Investment Property — Amendments to IAS 40
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. The Group does not expect any effect on its consolidated financial statements.

2.5 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (investees which are controlled by the Parent Company) including special purpose entities as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

Management fees
Management fees are recognised when earned upon performance of services envisaged under the service agreements.

Dividend income
Dividend income is recognised when the right to receive payment is established.

Financial assets and financial liabilities

Initial recognition and subsequent measurement
The Group classifies its financial assets as "Bank balances and short term deposits", "financial assets at fair value through profit or loss", "financial assets available for sale" and certain "other assets" whereas the financial liabilities are classified as "murabaha payables" and "other liabilities".

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A 'regular way' purchase of financial assets is recognised using the trade date accounting. Regular way purchases are purchases of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract.

Financial assets and financial liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through profit or loss, directly attributable transaction costs.

Financial assets
Financial assets include the following items:

- *Bank balances and short term deposits*
  Bank balances and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

  For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and short term deposits net of balances in restricted bank accounts.

- *Financial assets at fair value through profit or loss*
  A financial asset at fair value through profit or loss includes 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 in the near term. Gains or losses on financial assets held for trading are recognised in the consolidated statement of income. Financial assets are designated at fair value through profit or loss if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Profit earned is accrued in profit income, while dividend income is recorded in 'dividend income' when the right to the payment has been established.

  After initial recognition, financial assets at fair value through profit or loss are re-measured at fair value with all changes in fair value recognised in the consolidated statement of income.

- *Financial assets available for sale*
  Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets carried at fair value through profit or loss, held to maturity investments or loans and receivables.

  After initial recognition financial assets available for sale are measured at fair value with gains and losses being recognised through OCI until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in other comprehensive income is included in the consolidated statement of income. Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)
Financial liabilities
Financial liabilities include the following items:

- *Murabaha payables*
  Murabaha payables represent the amount payable on a deferred settlement basis for assets purchased under murabaha agreements. Murabaha payables are stated at gross amount of payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

- *Other liabilities*
  Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not.

Derecognition of financial assets and financial liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of an entity of similar financial assets) is derecognised when:
- the contractual rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its contractual rights to receive cash flows from the asset and either:
  (a) has transferred substantially all the risks and rewards of the asset, or
  (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

An assessment is made at each reporting date to determine, in case of financial asset, whether there is objective evidence that a specific financial asset may be impaired and, in case of other assets, whether there is an indication that a specific asset may be impaired. A financial asset or a group of financial assets are impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence or indication exists, any impairment loss is recognised in the consolidated statement of income.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities (continued)

Impairment is determined as follows:

a) for assets at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income.
b) for assets at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
c) for assets at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

In addition, in accordance with CBK instructions, a minimum general provision of 1% on all finance facilities net of certain categories of collateral, to which Central Bank of Kuwait instructions are applicable and not subject to specific provision, is made.

For non-equity financial assets the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. For available for sale equity financial assets, the asset is written down and subsequent increases are reflected in the consolidated statement of comprehensive income.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Reversal of impairment losses is recorded when there is an indication that the impairment losses recognised for the asset no longer exists or has decreased. The reversal of impairment losses are recognised in the consolidated statement of income except for available for sale equity financial assets which are recognised in the consolidated statement of comprehensive income.

Financial assets are written off when there is no realistic prospect of recovery.

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

Investment in associates
The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in the associate's equity that have not been recognised in the associate's income statement. The Group's share of those changes is recognised in other comprehensive income.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever impairment requirements of IAS 39 indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value.

Unrealised gains on transactions with an associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)
The reporting dates of the associates and the Group are identical and in case of different reporting date of an associate, which are not more than three months, from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investment properties
Investment properties comprise completed properties held to earn rentals or for capital appreciation or both. Investment properties are initially recorded at cost being the fair value of the consideration given and including acquisition charges associated with the investment property. After initial recognition, the properties are re-measured to fair value on an individual basis with any gain or loss arising from a change in fair value being included in the consolidated statement of income in the period in which it arises.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the period of retirement or disposal.

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

Foreign currencies
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at reporting date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Assets and liabilities, both monetary and non-monetary, of foreign operations are translated at the Parent Company's presentation currency (KD) at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average rates of exchange for the foreign operation's period of operations. The resulting exchange differences are accumulated in a separate section of equity (foreign currency translation reserve) until the disposal of the foreign operation. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

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

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

Contingent liabilities are disclosed as part of notes unless the possibility of an outflow of resources embodying economic benefits is remote.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

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

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

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

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

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

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

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

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

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

2.7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS

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

The Group has used judgments and estimates principally in, but not limited to the classification of investments, the determination of impairment provisions, valuation of unquoted investments and valuation of investment properties.

2.7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

Classification of financial assets and liabilities
Management decides on acquisition of financial assets whether they should be classified as financial assets carried at fair value through profit or loss or available for sale investments. The Group classifies financial assets as carried at fair value through profit or loss if they are acquired primarily for the purpose of short term profit making.

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

Classification of real estate
Management decides on acquisition of a real estate whether it should be classified as trading or investment property. The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business. The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

Impairment of investments
The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Valuation of investment properties
The Group estimates the fair value of investment properties using two independent third party valuations who make certain judgment and assumptions to reflect the market conditions at the reporting date.

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

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- Earnings multiples;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- Underlying net asset base of the investment; or
- Other valuation models

The determination of the cash flows, earnings multiples and discount factors for unquoted equity securities requires significant estimation.

Impairment of non-financial assets
An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each statement of financial position date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

3 GROUP INFORMATION

The subsidiaries of the Group are as follows:

Name of company	*Country of incorporation*	*Ownership interest as at 31 December*		*Principal activities*
		2017	*2016*	
Bait Al-Amar Al-Khaleeji General Trading and Contracting Company W.L.L.	Kuwait	**99%**	99%	Real Estate
Extended Hotel Equity Co.	Cayman Island	**100%**	100%	Undertaking Islamic investments
Commercial Equity Co.	Cayman Island	**100%**	100%	Undertaking Islamic investments
India Diversified Co.	Cayman Island	**90%**	90%	Undertaking Islamic investments
Gateway Acquisition, LLC ("GA")	U.S.A.	**100%**	100%	Undertaking Islamic investments

Material partly owned subsidiary:
India Diversified Co. is the only material subsidiary with non-controlling interests.

	2017 KD	*2016 KD*
Accumulated balance of non-controlling interests	**146,943**	148,110
(Loss) profit attributable to non-controlling interests	**(7,741)**	5,786

Summarised financial information of India Diversified Co. is provided below:

	2017 KD	*2016 KD*
Statement of income		
Income	**-**	57,860
(Loss) profit for the year	**(77,410)**	57,860
Total comprehensive (loss) income	**(85,151)**	69,671
Statement of financial position		
Total assets	**1,713,802**	1,578,369
Total liabilities	**(244,362)**	(97,268)
Total equity	**1,469,440**	1,481,101
Cash flows from (used in) operating activities	**145,007**	(61,871)
Net increase (decrease) in cash and cash equivalents	**145,007**	(61,871)

4 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share is computed by dividing the loss for the year attributable to the equity holders of the Parent Company by the weighted average number of shares of the Parent Company.

The following reflects the loss and share data used in the basic and diluted loss per share computations:

	2017	*2016*
	KD	*KD*
Loss for the year attributable to the equity holders of the Parent Company	**(1,265,406)**	(1,687,800)
	Shares	*Shares*
Weighted average number of shares for basic and diluted loss per share	**164,202,440**	164,202,440
	Fils	*Fils*
Basic and diluted loss per share attributable to equity holders of the Parent Company	**(7.71)**	(10.28)

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

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following amounts:

	2017	*2016*
	KD	*KD*
Bank balances and short-term deposits	**1,742,360**	1,869,820
Less: restricted bank balances held by the Ministry of Justice *	**(558,362)**	-
Less: restricted bank accounts **	**(141,772)**	(145,343)
	1,042,226	1,724,477

The short terms deposits have original maturity of three months or less and carry profit in the range of 0.5% to 2.5% (2016: 0.5% to 2.5%) per annum.

* Restricted bank balances held by the Ministry of Justice relate to a legal case filed by a lender for the recovery of outstanding murabaha payable.

** The balance in the restricted bank accounts relate to amount set apart to meet unclaimed dividend balances, as and when they are claimed by the shareholders. An amount of KD 3,571 (2016: KD 10,206) was paid during the current year, out of dividend payable which relates to dividend for prior years (Note 11).

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	*2016*
	KD	*KD*
Designated at fair value through profit or loss:		
Unquoted securities	**192,897**	224,988
Unquoted funds managed by external fund managers	**16,935**	24,752
	209,832	249,740

Fair values of unquoted securities are determined using valuation techniques that are not based on observable market prices or rates, for which a net unrealised loss of KD 32,624 (2016: KD 75,373) was recognised during the year.

Certain financial assets at fair value through profit or loss amounting to KD 192,897 (31 December 2016: KD 224,988) are pledged as collateral against murabaha payables obtained from a related party bank (Note 10).

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Unrealised loss is analysed as follows:

	2017 *KD*	*2016* *KD*
Designated at fair value through profit or loss:		
- Unquoted securities	**(24,808)**	(75,373)
- Unquoted funds managed by external fund managers	**(7,816)**	-
	(32,624)	(75,373)

Fair value hierarchy disclosures for financial assets at fair value through profit or loss are presented in Note 23.

7 FINANCIAL ASSETS AVAILABLE FOR SALE

	2017 *KD*	*2016* *KD*
Quoted securities	**808,575**	1,778,864
Unquoted equity securities	**3,506,844**	3,826,013
Unquoted funds managed by external fund managers	**686,854**	793,038
	5,002,273	6,397,915

Certain unquoted managed funds amounting to KD 497,616 (2016: KD 503,313) are carried at cost, less impairment, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. There is no active market for these financial assets and the Group intends to hold them for the long term.

Management has performed a review of its financial assets available for sale to assess whether impairment has occurred in the value of these investments and recorded an impairment loss of KD 310,187 (2016: KD 1,212,147) in the consolidated statement of income. Management is of the view that no further impairment provision is required as at 31 December 2017 in respect of these investments.

Certain financial assets available for sale amounting to KD 3,142,201 (2016: KD 4,269,555) are pledged as collateral against murabaha payables obtained from a related party bank (Note 10).

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

8 INVESTMENT IN ASSOCIATES

Name of company	*Country of registration*	*Percentage of ownership*		*Carrying value*	
		2017	*2016*	*2017 KD*	*2016 KD*
Quoted associates:					
Innovest B.S.C. (Closed) ("Innovest") *	Bahrain	**13.60%**	13.60%	**4,486,924**	4,592,643
Arkan Al-Kuwait Real Estate Company K.S.C.P. ("Arkan")	Kuwait	**22.52%**	22.52%	**8,870,009**	8,510,122
Amar Finance and Leasing Company K.S.C.P. ("Amar") *	Kuwait	**13.82%**	13.82%	**2,626,508**	2,944,219
				15,983,441	16,046,984
Unquoted associates:					
Afkar Holding Company K.S.C. (Holding) and subsidiaries ("Afkar")	Kuwait	**34.94%**	34.94%	**7,275,281**	7,085,646
Gulf Real Estate Co. S.S.C. (Closed) ("GREC") *	Saudi Arabia	**11.84%**	11.84%	**5,988,750**	5,326,045
Mada'in Properties P.J.S.C. ("Mada'in") *	UAE	**12.16%**	12.16%	**2,138,878**	2,158,901
Navimar Marine Projects Company B.S.C. ("Navimar")	Bahrain	**22.30%**	22.30%	**164,524**	494,966
Majan Development Company Joint Stock (Closed) ("Majan")	Oman	**21.33%**	21.33%	**2,632,291**	2,583,690
				18,199,724	17,649,248
				34,183,165	33,696,232
Market value of quoted associates **				**9,047,372**	9,041,907

* Classification of associates where the Group holds less than 20 per cent of the voting power of the investee is based on the existence of significant influence exercised by the Group. This is evidenced by the Group's representation on the board of directors and participation in policy and decision making process of the investee with sufficient degree for the Group to demonstrate that it has significant influence over the respective associates.

** The market value of the quoted associates is determined based on the bid price of the investment on the relevant stock exchange, as at the reporting date, and is accordingly classified under Level 1 hierarchy.

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

	2017 KD	*2016 KD*
As at 1 January	**33,696,232**	32,874,936
Capital redemption	-	(10,079)
Share of results	**1,291,175**	1,664,180
Share of other comprehensive income (loss)	**168,678**	(29,915)
Dividends received	**(972,920)**	(802,890)
As at 31 December	**34,183,165**	33,696,232

8 **INVESTMENT IN ASSOCIATES (continued)**

Summarised financial information of associates is as follows:

31 December 2017	*Innovest* KD	*Arkan* KD	*Amar* KD	*Afkar* KD	*GREC* KD	*Mada'in* KD	*Navimar* KD	*Majan* KD	*Total* KD
Non-current assets	72,284,485	54,453,261	20,918,366	19,164,830	56,118,132	53,859,405	695,183	7,251,980	284,745,642
Current assets	7,773,847	1,331,312	2,020,338	2,234,429	8,012,968	14,046,733	566,275	10,632,857	46,618,759
Non-current liabilities	(12,573,893)	(5,123,847)	(2,937,553)	(660,866)	(5,356,547)	(34,309,968)	-	(3,725,757)	(64,688,431)
Current liabilities	(34,492,351)	(16,734,936)	(996,004)	(257,514)	(8,193,890)	(16,006,710)	(523,688)	(1,818,299)	(79,023,392)
Equity	32,992,088	33,925,790	19,005,147	20,480,879	50,580,663	17,589,460	737,770	12,340,781	**187,652,578**
Proportion of the Group's ownership	**13.60%**	**22.52%**	**13.82%**	**34.94%**	**11.84%**	**12.16%**	**22.30%**	**21.33%**	
Group's share in the equity	4,486,924	7,640,088	2,626,508	7,156,020	5,988,750	2,138,878	164,524	2,632,291	**32,833,983**
Goodwill	-	1,229,921	-	119,261	-	-	-	-	**1,349,182**
Total carrying value	4,486,924	8,870,009	2,626,508	7,275,281	5,988,750	2,138,878	164,524	2,632,291	**34,183,165**
Dividends received during the year	331,005	452,390	-	189,525	-	-	-	-	**972,920**
Income (loss)	6,415,363	5,786,836	85,604	172,106	8,999,225	1,378,420	(529,332)	988,003	**23,296,225**
Group's share of income	872,177	1,302,963	11,830	60,126	1,065,508	167,616	(118,041)	210,761	**3,572,941**
Profit (loss) for the year	1,656,515	3,606,918	(2,005,897)	486,508	5,597,179	(164,663)	(1,481,807)	227,853	**13,857,816**
Group's share in profit (loss) for the year	225,286	812,278	(277,215)	169,986	662,706	(20,023)	(330,443)	48,600	**1,291,175**

8 INVESTMENT IN ASSOCIATES (continued)

Summarised financial information of associates is as follows: (continued)

31 December 2016	*Innovest* *KD*	*Arkan* *KD*	*Amar* *KD*	*Afkar* *KD*	*GREC* *KD*	*Mada'in* *KD*	*Navimar* *KD*	*Majan* *KD*	*Total* *KD*
Non-current assets	53,606,549	43,204,815	22,475,333	19,242,035	50,677,619	59,895,827	2,381,560	7,263,004	258,746,742
Current assets	27,719,790	3,668,022	3,202,129	1,760,550	7,482,431	3,547,320	188,683	9,762,484	57,331,409
Non-current liabilities	(5,268,057)	(258,987)	(2,037,702)	(285,954)	(7,974,182)	(30,800,847)	-	2,972,977	(43,652,752)
Current liabilities	(42,288,848)	(14,286,137)	(2,335,715)	(778,491)	(5,202,380)	(14,888,188)	(350,665)	(7,885,525)	(88,015,949)
Equity	33,769,434	32,327,713	21,304,045	19,938,140	44,983,488	17,754,112	2,219,578	12,112,940	184,409,450
Proportion of the Group's ownership	13.60%	22.52%	13.82%	34.94%	11.84%	12.16%	22.30%	21.33%	
Group's share in the equity	4,592,643	7,280,201	2,944,219	6,966,386	5,326,045	2,158,900	494,966	2,583,690	32,347,050
Goodwill	-	1,229,921	-	119,261	-	-	-	-	1,349,182
Total carrying value	4,592,643	8,510,122	2,944,219	7,085,647	5,326,045	2,158,900	494,966	2,583,690	33,696,232
Dividends received during the year	-	377,843	-	189,525	235,522	-	-	-	802,890
Income	6,104,407	4,291,859	1,333,595	1,311,561	9,508,046	11,075	279,907	810,102	23,650,552
Group's share of income	830,199	966,527	184,303	458,259	1,125,753	1,347	62,419	172,795	3,801,602
Profit (loss) for the year	4,139,831	2,434,373	(144,553)	720,592	3,519,369	(503,676)	(256,818)	109,221	10,018,339
Group's share in profit (loss) for the year	562,817	548,123	(19,977)	251,742	416,693	(61,247)	(57,270)	23,299	1,664,180

Shares of certain associates amounting to KD 32,775,399 (31 December 2016: KD 30,944,252) are pledged as collateral against murabaha payables obtained from a related party bank (Note 10).

8 INVESTMENT IN ASSOCIATES (continued)

The carrying value of investment in associates is tested for impairment by estimating the recoverable amount using fair value approach. The fair value calculation uses market observable data which includes price to book value multiples and price to earnings multiples of comparable companies. The Parent Company is of the view that no impairment is required for investment in associates.

9 INVESTMENT PROPERTIES

	2017 *KD*	*2016* *KD*
As at 1 January	**3,406,368**	3,453,969
Change in fair value	**(172,656)**	(64,671)
Foreign currency translation adjustments	**37,577**	17,070
As at 31 December	**3,271,289**	3,406,368

Investment properties comprise of commercial and retail properties.

The fair value of investment properties as at 31 December 2017 is based on the lower of the two valuations determined by independent valuers who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were determined based on market approach that reflects recent transaction prices for similar properties. In estimating the fair values of the properties, the highest and the best use of the properties is their current use. There has been no change to the valuation techniques during the year. The fair value of investment properties is measured under the Level 2 fair value hierarchy.

10 MURABAHA PAYABLES

	2017 *KD*	*2016* *KD*
Gross amount	**35,644,764**	35,435,252
Less: deferred cost	-	(311,094)
	35,644,764	35,124,158

During the previous year, the Group was able to successfully reschedule its murabaha facility with a financial institution (the "Bank") which is also a related party. Under the rescheduled agreement, the terms of repayment were extended over a period of 5 years up to 2021 and the entire amount was renewable every six months after settling the profit.

The Parent Company could not honor the principal payment of the murabaha payable amounting to KD 1,099,502 that was due on 31 December 2016, under the rescheduled agreement, and was in negotiation with the Bank to renew the entire murabaha facility. However, during the year, the Bank initiated legal proceedings against the Parent Company for the recovery of the murabha payable. On 25 September 2017, the Kuwaiti Court ("the Court") ruled in favor of the Bank by giving the Bank the execution right to the assets pledged as collateral for the murabaha facility. The Parent Company filed a counter claim against the Bank stating that the amount claimed by the Bank is in excess of the actual due amount and requested the Court to reverse the previous ruling and to involve a specialist to determine the actual amount that is payable to the Bank. The Court has accepted the claim filed by the Parent Company by issuing an injunction order.

The regulatory authorities in the State of Kuwait suspended the trading of Parent Company's shares on Kuwait Stock Exchange and requested the management of the Parent Company to provide a detailed plan showing how the Parent Company would fulfil its obligations that are due. Subsequent to the reporting date, the Group submitted a plan to the CMA for the settlement of the murabaha payable (Note 2.1), which has been rejected by CMA on 1 March 2018.

The Group has recorded murabaha charges amounting to KD 1,297,001 for the year ended 31 December 2017 (2016: KD 1,292,348) at a profit rate of 1% above the CBK discount rate. The average effective profit rate attributable to murabaha payables is 3.75% (2016: 3.25%) per annum. Subsequent to the legal action initiated by the Bank, the Parent Company has discontinued the recognition of murabaha charges pursuant to the provisions of the Islamic financing contract.

Murabaha payables are secured by certain financial assets at fair value through profit or loss (Note 6), financial assets available for sale (Note 7) and investment in associates (Note 8).

10 MURABAHA PAYABLES (continued)

Changes in liabilities arising from financing activities:

	1 January 2017 **KD**	*Cash flows* **KD**	*Accrued profit* **KD**	*31 December 2017* **KD**
Murabaha payables	**35,435,252**	**(776,395)**	**985,907**	**35,644,764**

	1 January 2016	*Cash flows*	*Accrued profit KD*	*31 December 2016 KD*
Murabaha payables	37,101,994	(2,559,090)	892,348	35,435,252

11 OTHER LIABILITIES

	2017 **KD**	*2016 KD*
Dividend payable*	**141,772**	145,343
Employees' end of service benefits	**376,705**	258,883
Other payables and accrued expenses	**597,831**	544,634
	1,116,308	948,860

*An amount of KD 3,571 (2016: KD 10,206) was paid during the current year, out of dividend payable which relates to dividend for prior years (Note 5).

12 SHARE CAPITAL, RESERVES AND DIVIDEND

a) Share capital

Authorised, issued and paid-up capital consists of 164,202,440 shares (2016: 164,202,440 shares) of 100 fils per share (2016: 100 fils per share). These shares have been fully paid up in cash.

b) Statutory reserve

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year shall be transferred to the statutory reserve. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. No transfer has been made to statutory reserve since losses have been incurred for the year ended 31 December 2017.

12 SHARE CAPITAL, RESERVES AND DIVIDEND (continued)

c) Other comprehensive income

The disaggregation of changes in other comprehensive income by each type of reserve in equity is shown below:

	Cumulative changes in fair values KD	*Foreign currency translation reserve KD*	*Non-controlling interests KD*	*Total KD*
2017:				
Change in fair value of financial assets available for sale	(1,141,651)	-	-	(1,141,651)
Transfer to consolidated statement of income on impairment of financial assets available for sale	310,187	-	-	310,187
Share of other comprehensive income of associates	168,678	-	-	168,678
Foreign currency translation adjustments		31,003	6,574	37,577
	(662,786)	**31,003**	**6,574**	**(625,209)**

	Cumulative changes in fair values KD	*Foreign currency translation reserve KD*	*Non-controlling interests KD*	*Total KD*
2016:				
Change in fair value of financial assets available for sale	(88,394)	-	-	(88,394)
Transfer to consolidated statement of income on impairment of financial assets available for sale	1,212,147	-	-	1,212,147
Share of other comprehensive loss of associates	(29,915)	-	-	(29,915)
Foreign currency translation adjustments	-	15,890	1,180	17,070
	1,093,838	15,890	1,180	1,110,908

d) Dividends

During the Board of Directors meeting held on 13 March 2017, the Board of Directors of the Parent Company recommended that no cash dividends or bonus shares (2015: Nil) should be distributed for the year ended 31 December 2016, which was approved by the shareholders at the Annual General Meeting ("AGM") held on 30 May 2017.

13 RELATED PARTY TRANSACTIONS

These represent transactions with certain parties (associates, major shareholder, directors and executive officers of the Group) and entities controlled, jointly controlled or significantly influenced by such parties. The Group's management approves pricing policies and terms of these transactions. Significant transactions with Group's related parties included are as follows:

Balances with related parties included in the consolidated statement of financial position are as follows:

	Major shareholder KD	***Total 2017 KD***	*Total 2016 KD*
Bank balances	**12,950**	**12,950**	89,977
Murabaha payables	**35,644,764**	**35,644,764**	35,124,158

Transactions with related parties included in the consolidated statement of income are as follows:

	Major shareholder KD	***Total 2017 KD***	*Total 2016 KD*
Murabaha charges	**1,297,001**	**1,297,001**	1,292,348
Administrative expenses	-	-	26,500

Related party balances have arisen as a result of transactions made in the ordinary course of the business.

	2017 KD	*2016 KD*
Key management compensation:		
Salaries and other short term benefits	**111,078**	111,078
Terminal benefits	**4,037**	4,040
	115,115	115,118

14 OPERATING SEGMENT INFORMATION

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

Investment : Managing direct investments and investments in subsidiaries and associates; and
Real estate : Managing trading and investment properties

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

	Investment *KD*	*Real estate* *KD*	*Unallocated* *KD*	*Total* *KD*
2017				
Segment income	**1,298,687**	**(172,656)**	**25,236**	**1,151,267**
Segment result	**(415,759)**	**(172,656)**	**(684,732)**	**(1,273,147)**
Segment assets	**41,177,704**	**3,271,289**	**245**	**44,449,238**
Segment liabilities	**35,644,764**	**-**	**1,116,308**	**36,761,072**
Other disclosures				
Investment in associates	**34,183,165**	**-**	**-**	**34,183,165**
Share of results of associates	**1,291,175**	**-**	**-**	**1,291,175**
Impairment loss on financial assets available for sale	**(310,187)**	**-**	**-**	**(310,187)**
Murabaha charges	**(1,297,001)**	**-**	**-**	**(1,297,001)**
Unrealised loss on financial assets at fair value through profit or loss	**(32,624)**	**-**	**-**	**(32,624)**
Change in fair value of investment properties	**-**	**(172,656)**	**-**	**(172,656)**
Depreciation	**-**	**-**	**(1,098)**	**(1,098)**

14 OPERATING SEGMENT INFORMATION (continued)

	Investment KD	*Real estate KD*	*Unallocated KD*	*Total KD*
2016				
Segment income	1,589,653	(64,671)	94,384	1,619,366
Segment result	(1,024,840)	(64,671)	(592,503)	(1,682,014)
Segment assets	42,251,828	3,406,368	1,344	45,659,540
Segment liabilities	35,124,158	-	948,860	36,073,018
Other disclosures				
Investment in associates	33,696,232	-	-	33,696,232
Share of results of associates	1,664,180	-	-	1,664,180
Impairment loss on financial assets available for sale	(1,212,147)	-	-	(1,212,147)
Murabaha charges	(1,292,348)	-	-	(1,292,348)
Unrealised loss on financial assets at fair value through profit or loss	(75,373)	-	-	(75,373)
Change in fair value of investment properties	-	(64,671)	-	(64,671)
Depreciation	-	-	(1,098)	(1,098)

Geographic information

	***2017* KD**	*2016 KD*
Total income from external sources		
Kuwait	**712,231**	786,555
Gulf and rest of Middle East	**571,837**	839,459
International	**(132,801)**	(6,648)
	1,151,267	1,619,366

The income information above is based on the location of the customers.

	***2017* KD**	*2016 KD*
Non-current assets		
Kuwait	**19,809,376**	20,614,130
Gulf and rest of Middle East	**18,749,179**	18,818,167
International	**3,898,172**	4,068,220
	42,456,727	43,500,517

Non-current assets for this purpose consist of financial assets available for sale, investment properties and investment in associates.

15 RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. It is managed through a process of ongoing identification, assessment, measurement and monitoring of the business activities, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, investment risk and market risk. Market risk is subdivided into profit rate risk, foreign currency risk and equity price risk. The Group is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored and managed through the Group's Strategic Risk Management Framework.

Risk management structure
The Board of Directors is ultimately responsible for the overall risk management process and for approving the risk strategies and principles.

Board of Directors
The Board of Directors provides risk oversight and has the overall responsibility for determining the strategic direction of the organisation and for creating the environment and the framework for risk management to operate effectively.

Asset liability committee
The Asset Liability Committee (the "ALCO") has been established to assist the members of Board of Directors in fulfilling their responsibilities with regard to asset and liability management and liquidity adequacy. Its objectives are to:

- Propose asset and liability management policies that are compatible with the Group's risk philosophy and risk preferences;
- Determine the strategy for the Group in terms of mix of assets and liabilities given its expectations of future events;
- Regularly monitor and assess the financing cost risk to earnings and capital under different financing cost environments;
- Manage liquidity to ensure obligations are met on an ongoing basis;
- Support the maintenance of the Group's desired risk preferences and statement of financial position profile;
- Create and build a group-wide resource base for asset and liability management.

Investment committee
The Investment Committee is responsible of reviewing and recommending strategies, policies and limits for the management of investment risk and market risk.

For the investment risk, the committee reviews and recommends limits, or changes to established limits, related to investment activity, monitoring of exposures against limits and approval of excess above those limits.

For the market risk, the committee reviews and recommends limits, or changes to established limits, related to investment activity in terms of equity trading.

Credit committee
The Credit Committee is responsible for credit risk management. The committee ensures adequate risk capital against credit exposures, identifies external factors that may have an impact on equity and determines appropriate strategies.

Audit committee
The risk management responsibility for the Audit Committee is mainly towards Operational Risk. The committee identifies and presents operational risks in the course of regular internal audits with recommendations for corrective actions. It also focuses the internal audit work on significant risks and auditing the risk management processes across the Group.

16 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks

Gross maximum exposure to credit risk
The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements (if any).

	Gross maximum exposure 2017 KD	*Gross maximum exposure 2016 KD*
Bank balances and short-term deposits	**1,742,360**	1,869,820
Other assets	**40,073**	38,122
Total credit risk exposure	**1,782,433**	1,907,942

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Collateral
The Group did not hold any collateral as at 31 December 2017 and 2016.

Risk concentrations of the maximum exposure to credit risk
The Group's financial assets, before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions and industrial sectors:

	Banking and financial services KD	***Others KD***	***Total KD***
2017			
Kuwait	**1,148,331**	**38,085**	**1,186,416**
Others	**594,029**	**1,988**	**596,017**
	1,742,360	**40,073**	**1,782,433**
2016			
Kuwait	1,665,871	36,384	1,702,255
Others	203,949	1.738	205,687
	1,869,820	38,122	1,907,942

16 CREDIT RISK (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for related consolidated statement of financial position lines, based on the Group's internal credit rating system.

	Neither past due nor impaired		
	High grade KD	*Standard grade KD*	*Total KD*
2017:			
Bank balances and short-term deposits	**1,742,360**	**-**	**1,742,360**
Other assets	**-**	**40,073**	**40,073**
	1,742,360	**40,073**	**1,782,433**
2016:			
Bank balances and short-term deposits	1,869,820	-	1,869,820
Other assets	-	38,122	38,122
	1,869,820	38,122	1,907,942

17 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Liquidity risk and funding management

As mentioned in Note 10 of the consolidated financial statements, the lender has obtained an execution right on the assets of the Group that are pledged as collateral for the Murabaha payables. This event has impacted the management's ability to manage the liquidity risk. However, the Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important of these is to maintain limits on the ratio of net liquid assets to liabilities, set to reflect market conditions. Net liquid assets consist of bank balances (excluding restricted bank balances), short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month.

Analysis of financial liabilities by remaining contractual maturities

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the financial liabilities at the year end is based on contractual undiscounted repayment arrangement.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations:

Financial liabilities	*Within 3 months KD*	*3 to 12 months KD*	*1 to 2 years KD*	*Over 2 years KD*	*Total KD*
2017					
Murabaha payables	35,644,764	-	-	-	**35,644,764**
Other liabilities	654,806	-	84,799	376,703	**1,116,308**
Total financial liabilities	**36,299,570**	-	**84,799**	**376,703**	**36,761,072**

17 LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities	*Within 3 months KD*	*3 to 12 months KD*	*1 to 2 years KD*	*Over 2 years KD*	*Total KD*
2016					
Murabaha payables	1,673,158	8,000,000	2,400,000	23,051,000	35,124,158
Other liabilities	603,956	-	86,021	258,883	948,860
Total financial liabilities	2,277,114	8,000,000	2,486,021	23,309,883	36,073,018

18 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at fair value through profit or loss, financial assets available for sale, investment properties and investment in associates is based on management's estimate of liquidation of those financial assets.

The maturity profile of assets and liabilities is as follows:

2017	***Within 3 months KD***	***3 to 12 months KD***	***1 to 2 years KD***	***Undated/ Over 2 years KD***	***Total KD***
ASSETS					
Bank balances and short-term deposits	**1,742,360**	-	-	-	**1,742,360**
Financial assets at fair value through profit or loss	-	**209,832**	-	-	**209,832**
Financial assets available for sale	-	-	-	**5,002,273**	**5,002,273**
Investment in associates	-	-	-	**34,183,165**	**34,183,165**
Investment properties	-	-	-	**3,271,289**	**3,271,289**
Other assets	-	-	-	**40,319**	**40,319**
TOTAL ASSETS	**1,742,360**	**209,832**	-	**42,497,046**	**44,449,238**
LIABILITIES					
Murabaha payables	**35,644,764**	-	-	-	**35,644,764**
Other liabilities	-	**739,603**	-	**376,705**	**1,116,308**
TOTAL LIABILITIES	**35,644,764**	**739,603**	-	**376,705**	**36,761,072**

18 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

2016	*Within 3 months KD*	*3 to 12 months KD*	*1 to 2 years KD*	*Undated/ Over 2 years KD*	*Total KD*
ASSETS					
Bank balances and short-term deposits	1,869,820	-	-	-	1,869,820
Financial assets at fair value through profit or loss	-	249,740	-	-	249,740
Financial assets available for sale	-	-	-	6,397,915	6,397,915
Investment in associates	-	-	-	33,696,232	33,696,232
Investment properties	-	-	-	3,406,368	3,406,368
Other assets	-	-	-	39,465	39,465
TOTAL ASSETS	1,869,820	249,740	-	43,539,980	45,659,540
LIABILITIES					
Murabaha payables	1,673,158	8,000,000	2,400,000	23,051,000	35,124,158
Other liabilities	603,956	-	86,021	258,883	948,860
TOTAL LIABILITIES	2,277,114	8,000,000	2,486,021	23,309,883	36,073,018

19 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 profit rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

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

19.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Group is not exposed to profit rate risk on its profit bearing assets and liabilities (short-term deposits and murabaha payables) as a result of reasonably possible changes in profit rates since the Group is not exposed to any floating rate profit bearing assets and liabilities.

19.2 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.

Foreign currency risk is managed by the treasury department of the Parent Company on the basis of limits determined by the Group's Board of Directors and a continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

19 MARKET RISK (continued)

19.2 Foreign currency risk (continued)

The effect on loss for the year (due to change in the fair value of monetary assets and liabilities), as a result of change in currency rate, with all other variables held constant is shown below:

	2017		2016	
Currency	***Change in currency rate in %***	***Effect on loss for the year KD***	*Change in currency rate in %*	*Effect on loss for the year KD*
USD	*+3.5*	**18,239**	*+3.5*	46,051

The effect of decrease in foreign currency exchange rate is expected to be equal and opposite to the effect of the increases shown.

19.3 Equity price risk

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

Quoted securities:
The effect on total comprehensive loss (as a result of a change in the fair value of financial assets available for sale) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2017		2016	
Market indices	***Change in equity price %***	***Effect on total comprehensive income for the year KD***	*Change in equity price %*	*Effect on total comprehensive income for the year KD*
Kuwait	***+10***	**80,858**	*+10*	177,886

Unquoted securities:
Sensitivity analysis relating to Group's unquoted securities (financial assets available for sale and financial assets at fair value through profit or loss) is included in Note 23.

20 OPERATIONAL RISK

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

21 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may adjust 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 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, Islamic borrowings less bank balances and short-term deposits excluding restricted bank balances. Capital represents total equity.

	2017 ***KD***	*2016* *KD*
Islamic borrowings	**35,644,764**	35,124,158
Less: Bank balances and short-term deposits (excluding restricted balances)	**(1,042,226)**	(1,724,477)
Net debt	**34,602,538**	33,399,711
Total equity	**7,688,166**	9,586,522
Capital and net debt	**42,290,704**	42,986,233
Gearing ratio	**81.82%**	77.70%

22 FIDUCIARY ASSETS

The aggregate value of the assets held in a fiduciary capacity by the Group at 31 December 2017 amounted to KD 18,836,656 (2016: KD 19,284,613) against which the Parent Company doesn't charge management fees.

23 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (Note 7) are not materially different from their carrying values.

The management has used to following methods and assumptions to estimate the fair values of financial assets:

- Quoted equity securities have been fair valued based on their latest price quotations on the respective stock exchange at the reporting date.
- Fair values of unquoted equity securities are derived through a market approach which utilises price multiples of comparable quoted companies. A lack of marketability discount is applied on the fair values derived through this approach which ranges from 10% to 15% (2016: 10% to 15%) and is based on the management's judgment. A 5% increase in the lack of marketability discount will result in a decrease in fair values of these securities by KD 147,646 (2016: KD 157,654).
- Fair values of unquoted funds are measured based on their latest net asset values provided by the respective fund manager.

23 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy:
The Group uses the hierarchy disclosed in Note 2 for determining and disclosing the fair values of financial instruments. The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2017	*Level: 1* *KD*	*Level: 3* *KD*	*Total fair value* *KD*
Financial assets at fair value			
Financial assets at fair value through profit or loss			
- Unquoted equity securities	-	**192,897**	**192,897**
- Unquoted funds	-	**16,935**	**16,935**
Financial assets available for sale:			
- Quoted equity securities	**808,575**	-	**808,575**
- Unquoted equity securities	-	**3,506,845**	**3,506,845**
- Unquoted funds	-	**189,238**	**189,238**
	808,575	**3,905,915**	**4,714,490**

2016	*Level: 1* *KD*	*Level: 3* *KD*	*Total fair value* *KD*
Financial assets at fair value			
Financial assets at fair value through profit or loss			
- Unquoted equity securities	-	224,988	224,988
- Unquoted funds	-	24,752	24,752
Financial assets available for sale:			
- Quoted equity securities	1,778,864	-	1,778,864
- Unquoted equity securities	-	3,826,013	3,826,013
- Unquoted funds	-	289,725	289,725
	1,778,864	4,365,478	6,144,342

There have been no transfers between the hierarchies during the year.

23 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The movement in Level 3 fair value hierarchy during the year is given below:

	As at 1 January 2017 KD	*Unrealised loss recorded in the consolidated statement of income KD*	*Unrealised gain recorded in consolidated statement of comprehensive income KD*	*Impairment recorded in consolidated statement of comprehensive income KD*	*Capital redemptions/ net sales KD*	*As at 31 December 2017 KD*
Assets measured at fair value						
Financial assets at fair value through profit or loss:						
- Unquoted equity securities	224,988	(24,807)	-	-	(7,284)	192,897
- Unquoted funds	24,752	(7,817)	-	-	-	16,935
Financial assets available for sale:						
- Unquoted equity securities	3,826,013	-	125,051	(310,187)	(134,032)	3,506,845
- Unquoted funds	289,725	-	19,473	-	(119,960)	189,238
	4,365,478	**(32,624)**	**144,524**	**(310,187)**	**(261,276)**	**3,905,915**

23 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	As at 1 January 2016 KD	*Transferred from carried at cost KD*	*Unrealised loss recorded in the consolidated statement of income KD*	*Unrealised loss recorded in consolidated statement of comprehensive income KD*	*Impairment recorded in consolidated statement of comprehensive income KD*	*Capital redemption/ Net sales KD*	*As at 31 December 2016 KD*
Assets measured at fair value							
Financial assets at fair value through profit or loss:							
- Unquoted equity securities	300,361	-	(75,373)	-	-	-	224,988
- Unquoted funds	24,752	-	-	-	-	-	24,752
Financial assets available for sale:							
- Unquoted equity securities	4,563,962	-	-	(20,899)	(717,050)	-	3,826,013
- Unquoted funds	496,899	62,183	-	(7,403)	(155,755)	(106,199)	289,725
	5,385,974	62,183	(75,373)	(28,302)	(872,805)	(106,199)	4,365,478