

Financial statements and independent auditor's report

Kuwaiti Indian Holding Company – KSC (Holding)

Kuwait

31 December 2016

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Independent auditor's report

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To the Shareholders of
Kuwaiti Indian Holding Company – KSC (Holding)
Kuwait

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kuwaiti Indian Holding Company – KSC (Holding) (“the Company”), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (IASs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the report of the Company's board of directors, other than the financial statements and our auditor's report thereon.

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

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

Independent auditor's report to the shareholders of Kuwaiti Indian Holding Company – KSC (Holding) (continued)

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

**Independent auditor's report to the shareholders of
Kuwaiti Indian Holding Company – KSC (Holding) (continued)****Report on Other Legal and Regulatory Requirements**

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



Abdullatif M. Al-Aiban (CPA)
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of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Kuwait
6 April 2017

Statement of profit or loss and other comprehensive income

	Note	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Income			
Unrealised gain/ (loss) on investments at fair value through profit or loss		31,003	(42,401)
Income from murabaha and wakala investments		76,211	124,674
Dividend income		1,627	1,305
Other income		3,182	50,000
Foreign exchange gain		-	5,408
		112,023	138,986
Expenses			
General and administrative expenses	7	(55,666)	(31,754)
Impairments in value of available for sale investment	11	(30,308)	(40,135)
		26,049	67,097
Profit before KFAS, Zakat and directors' remuneration		26,049	67,097
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(234)	(604)
Zakat provision		(255)	(666)
Directors' remuneration		-	(30,000)
		25,560	35,827
Profit for the year			
Other comprehensive income for the year			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
- Change in fair value of available for sale investment		(30,308)	(40,135)
- Impairments in value of available for sale investment		30,308	40,135
		-	-
Total other comprehensive income		-	-
		25,560	35,827
Total comprehensive income for the year		25,560	35,827

The notes set out on pages 8 to 28 form an integral part of these financial statements.

Statement of financial position

	Note	31 Dec. 2016 KD	31 Dec. 2015 KD
Assets			
Cash and cash equivalents	15	491,964	695,284
Murabaha and wakala investments	9	1,559,577	3,989,078
Investments at fair value through profit or loss	10	363,523	332,520
Accrued income and other receivables	16	4,529	96,349
Due from related party	16	700,145	633,272
Available for sale investment	11	112,960	194,867
Total assets		3,232,698	5,941,370
Liabilities and equity			
Liabilities			
Accrued expenses and other liabilities		134,203	339,501
Provision for end of service indemnity		2,495	1,429
Total liabilities		136,698	340,930
Equity			
Share capital	12	2,300,000	2,300,000
Statutory reserve	13	656,021	653,416
Voluntary reserve	13	2,605	653,416
Retained earnings		137,374	1,993,608
Total equity		3,096,000	5,600,440
Total liabilities and equity		3,232,698	5,941,370

Fahad Al-Bader
 Chairman

Abdullah Al-Ahmed
 Vice Chairman

The notes set out on pages 8 to 28 form an integral part of these financial statements.

Statement of changes in equity

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Retained Earnings KD	Total KD
Balance at 1 January 2015	6,300,000	646,706	646,706	1,971,201	9,564,613
Decrease in share capital (note 12)	(4,000,000)	-	-	-	(4,000,000)
Transaction with owners	(4,000,000)	-	-	-	(4,000,000)
Profit for the year	-	-	-	35,827	35,827
Total other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	35,827	35,827
Transfer to reserves	-	6,710	6,710	(13,420)	-
Balance as at 31 December 2015	2,300,000	653,416	653,416	1,993,608	5,600,440
Balance at 1 January 2016	2,300,000	653,416	653,416	1,993,608	5,600,440
Dividend (note 14)	-	-	(653,416)	(1,876,584)	(2,530,000)
Transaction with owners	-	-	(653,416)	(1,876,584)	(2,530,000)
Profit for the year	-	-	-	25,560	25,560
Total other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	25,560	25,560
Transfer to reserves	-	2,605	2,605	(5,210)	-
Balance as at 31 December 2016	2,300,000	656,021	2,605	137,374	3,096,000

The notes set out on pages 8 to 28 form an integral part of these financial statements.

Statement of cash flows

	Note	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
OPERATING ACTIVITIES			
Profit before KFAS, Zakat and directors' remuneration		26,049	67,097
Adjustments for:			
Income from murabaha and wakala investments		(76,211)	(124,674)
Provision for end of service indemnity		1,066	796
Dividend income		(1,627)	(1,305)
Impairment in value of available for sale investment		30,308	40,135
		(20,415)	(17,951)
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		(31,003)	42,401
Due from related party		(66,873)	(49,177)
Accrued income and other receivable		115,069	(2,531)
Accrued expenses and other liabilities		746	3,238
Net cash used in operation		(2,476)	(24,020)
Directors' remuneration paid		(30,000)	(30,000)
KFAS paid		(604)	(2,113)
Zakat paid		(666)	(6,953)
Net cash used in operating activities		(33,746)	(63,086)
INVESTING ACTIVITIES			
Net change in murabaha and wakala investments		999,111	608,943
Dividend received		1,627	1,305
Redemption of available for sale investments		51,599	-
Income received from murabaha and wakala investments		52,962	59,524
Net cash from investing activities		1,105,299	669,772
FINANCING ACTIVITIES			
Payments to the shareholders on account of decrease in share capital	12	(264,299)	(1,732,854)
Dividend payment		(1,010,574)	-
Net cash used in financing activities		(1,274,873)	(1,732,854)
Net decrease in cash and cash equivalents		(203,320)	(1,126,168)
Cash and cash equivalents at beginning of the year		695,284	1,821,452
Cash and cash equivalents at end of the year	15	491,964	695,284
Non-cash transactions			
Decrease in share capital (note 12)		-	2,261,487
Dividend payment adjusted against Murabaha investment		1,430,390	-
Decrease in murabaha investments		1,430,390	2,261,487

The notes set out on pages 8 to 28 form an integral part of these financial statements.

Notes to the financial statements

1 Incorporation and activities

Kuwaiti Indian Holding Company was incorporated as a Kuwaiti Closed Shareholding Company on 22 February 2006 and the first incorporation General Assembly of the Company was held on 28 March 2006. The Company is a subsidiary of Noor Financial Investment Company – KPSC (“the Parent Company”) which in turn is a subsidiary of National Industries Group Holding – KPSC (“the Ultimate Parent Company”). The principal objectives of the Company are as follows:

- Owning stocks and shares in Kuwaiti or non-Kuwaiti shareholding companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, lending to and managing of these companies and acting as a guarantor for these companies.
- Lending money to companies in which it owns 20% or more of the capital of the borrowing company, in addition to acting as a guarantor on behalf of these companies.
- Owning industrial intangible assets such as patents, industrial trade marks, royalties, or any other related rights, and franchising them to other companies or using them within or outside the State of Kuwait.
- Owning moveable property to conduct its operations within the limits stipulated by law.
- Employing excess funds available with the Company by investing them in investment portfolios managed by specialised companies.

The Company can perform all the activities mentioned above in or outside the State of Kuwait, either directly or through an agent. The Company has the right to participate and subscribe in any way, with other firms which operate in the same field or those which would assist in achieving its objectives in or outside Kuwait. Further, the Company can establish, fund, purchase or acquire majority interests in companies performing similar activities.

The Company shall adhere to conduct all of its activities to Islamic Sharia instructions and provisions, the foregoing objectives may not interpreted in any event to allow the Company directly or indirectly to conduct any riba activities either in the form of interest or in any specific form relating to the Company’s dealing in financing, bonds, and financial securities.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and published in the Official Gazette on 1 February 2016 in which they have cancelled Law No. 25 of 2012 and its amendments thereto, as stipulated in article (5) thereto. The new Law will be effective retrospectively from 26 November 2012. The Executive Regulations of Law No. 1 of 2016 were issued on 12 July 2016.

The address of the Company’s registered office is Noor Financial Investment Company Complex, Building 2, Block – 13, Basement Office No. 4, Qibla, Kuwait (PO Box 3311, Safat 13034, State of Kuwait).

The board of directors of the Company approved these financial statements for issuance on 6 April 2017. The General Assembly of the Company’s shareholders has the power to amend these financial statements after issuance.

2 Basis of preparation

The financial statements of the Company are prepared under historical cost convention modified to include the measurement at fair value of investments at fair value through profit or loss and available for sale financial assets.

Notes to the financial statements (continued)

2 Basis of preparation (continued)

The financial statements have been presented in Kuwaiti Dinars (“KD”).

The Company has elected to present the “statement of profit or loss and other comprehensive income” in a single statement.

3 Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB.

4 Changes to accounting policies

4.1 New and amended standards adopted by the Company

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

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IAS 1 Disclosure Initiative - Amendments	1 January 2016
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments	1 January 2016
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016

IAS 1 Disclosure Initiative – Amendments

The Amendments to IAS 1 make the following changes:

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

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Company (continued)

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

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets address the following matters:

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

Annual Improvements to IFRSs 2012–2014 Cycle

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

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

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

4.2 IASB Standards issued but not yet effective

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

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

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IAS 7 Statement of Cash Flows- Amendments	1 January 2017
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017 and 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

IAS 7 Statement of Cash Flows- Amendments

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

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.2 New and amended standards adopted by the Company (continued)

IAS 7 Statement of Cash Flows- Amendments (continued)

The Amendments:

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

These amendments are not expected to have any material impact on the Company's financial statements.

IFRS 9 Financial Instruments

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

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

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

Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice.

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

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

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- Timing – whether revenue is required to be recognized over time or at a single point in time
- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue
- Time value – when to adjust a contract price for a financing component
- Specific issues, including –
 - non-cash consideration and asset exchanges
 - contract costs
 - rights of return and other customer options
 - supplier repurchase options
 - warranties
 - principal versus agent
 - licencing
 - breakage
 - non-refundable upfront fees, and
 - consignment and bill-and-hold arrangements.

The Company’s management has yet to assess the impact of this standard on Company financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

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

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

These amendments are not expected to have any material impact on the Company’s financial statements.

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

These amendments are not expected to have any material impact on the Company's financial statements.

5 Summary of significant accounting policies

The significant accounting policies and measurements bases adopted in the preparation of the financial statements are summarised below:

5.1 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is made. The following specific recognition criteria should also be met before revenue is recognised;

5.1.1 Dividend income

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

5.1.2 Income from murabaha and wakala investments

Income from murabaha and wakala investments is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the balance outstanding.

5.2 Operating expenses

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

5.3 Financial instruments

5.3.1 Recognition, initial measurement and derecognition

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

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

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

5.3 Financial instruments (continued)

5.3.1 Recognition, initial measurement and derecognition (continued)

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company 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 Company has retained.

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 profit or loss.

5.3.2 Classification and subsequent measurement of financial assets

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

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

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

All income and expenses relating to financial assets that are recognised in profit or loss are presented under a separate headings in the profit or loss.

- **Loans and receivables**

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

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

5.3 Financial instruments (continued)

5.3.2 Classification and subsequent measurement of financial assets (continued)

- *Loans and receivables (continued)*

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The Company categorises loans and receivables into following categories:

- *Murabaha investments*

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. When the credit risk of the transaction is attributable to a financial institution, the amount due under Murabaha contracts is classified as a Murabaha investment.

Murabaha investments are carried at the principal amount less provision for credit risks to meet any decline in value. Third party expenses such as legal fees, incurred in granting a Murabaha are treated as part of the cost of the transaction.

- *Wakala investments*

Wakala is an agreement whereby the Company provides a sum of money to a financial institution under an agency arrangement, who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount in case of default, negligence or violation of any terms and conditions of the Wakala.

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

- *Due from related parties*

Amount due from transaction with related parties and cash advances to related parties are included under due from related parties.

- *Financial assets at FVTPL*

Classification of investments as financial assets at FVTPL depends on how management monitor the performance of these investments. Investments at FVTPL are either "held for trading" or "designated" as such on initial recognition.

The Company classifies investments as trading if they are acquired principally for the purpose of selling or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of statement profit or loss in the management accounts, they are as designated at FVTPL upon initial recognition.

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

5.3 Financial instruments (continued)

5.3.2 Classification and subsequent measurement of financial assets (continued)

- *Financial assets at FVTPL (continued)*

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

- *AFS financial assets*

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

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in profit or loss.

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

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

5.3.3 Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include accrued expenses and other liabilities which mainly represents amount payables to shareholders on account of capital reduction.

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

- *Financial liabilities other than at fair value through profit or loss (FVTPL)*

These are stated at amortised cost using effective interest rate method. The Company categorises financial liabilities other than at FVTPL into the following categories:

- *Accrued expenses and other financial liabilities*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not, and classified as accrued expenses. Financial liabilities other than at FVTPL which are not categorised under any of the above are classified as "Other financial liabilities"

5.3.4 Amortised cost of financial instruments

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

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

5.3 Financial instruments (continued)

5.3.5 *Offsetting of financial instruments*

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

5.3.6 *Fair value of financial instruments*

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 17.4.

5.4 Equity, reserves and dividend payments

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

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the Companies' Law and the Company's Articles of Association.

Other components of equity include the following:

- Cumulative changes in fair value reserve – comprises of gains and losses relating to available for sale financial assets

Retained earnings includes all current and prior period retained profits. All transactions with owners are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a General Assembly Meeting.

5.5 Provisions, contingent assets and contingent liabilities

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

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

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

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

5.5 Provisions, contingent assets and contingent liabilities (continued)

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

5.6 Foreign currency translation

5.6.1 Functional and presentation currency

The financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the Company.

5.6.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined. Translation differences on “available for sale” are reported as part of the cumulative change in fair value reserve within other comprehensive income.

5.7 End of service indemnity

The Company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees’ final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees’ contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

5.8 Taxation

5.8.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

5.8.2 Zakat

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

5.9 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances.

6 Significant management judgements and estimation uncertainty

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

Notes to the financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.1 Significant management judgments

In the process of applying the Company's accounting policies, management has made the following significant judgments and estimations, which have the most significant effect on the amounts recognised in the financial statements.

6.1.1 Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition. Such judgement determines whether it is subsequently measured at cost, amortised cost or at fair value and if the changes in fair value of instruments are reported in the statement of profit or loss or other comprehensive income.

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

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

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

All other financial assets are classified as available for sale.

6.2. Estimation uncertainty

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

6.2.1 Impairment of available for sale investments

The Company 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 judgement.

During the year ended 31 December 2016, impairment loss recognised for available for sale investment amounted to KD30,308 (2015: KD40,135).

6.2.2 Impairment of loans and receivables

The Company's management reviews periodically items classified as loans and receivables to assess whether a provision for impairment should be recorded in profit or loss. In particular, considerable judgement by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty. During the year ended 31 December 2016 and 2015, no impairment losses were recognised for loans and receivables.

Notes to the financial statements (continued)

7 General and administrative expenses

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Staff costs	12,178	11,032
Discount granted on early settlement of murabaha payment (Note 16)	21,000	-
Others	22,488	20,722
	55,666	31,754

8 Net gain or loss on financial assets

Net gain or loss on financial assets, analysed by category is as follows:

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Loans and receivables		
- Murabaha and wakala investments	76,211	124,674
- Cash and cash equivalents and account receivable [foreign exchange gain]	-	5,408
- Other income/expenses	(17,818)	50,000
Investments at fair value through profit or loss	32,630	(41,096)
Available for sale investment		
- recycled from equity to statement of profit or loss on impairment	(30,308)	(40,135)
Net gain recognised in profit or loss and other comprehensive income	60,715	98,851

9 Murabaha and wakala investments

Murabaha investments with Parent Company – KD548,097 (2015: KD2,989,078)

This represents the balance due of the short term murabaha investments placed with the Parent Company. The investments carry a fixed profit rate of 3% (2015: 3%) per annum upto maturity.

In February 2013 the Company had entered into an agreement with the Parent Company to settle the entire Murabaha investments through a staged capital reduction and cash settlement plan during 2013, 2014 and 2015. Accordingly, the movement in the murabaha investment balance is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
At the beginning of the year	2,989,078	6,261,155
Cash recovered	(1,010,591)	(1,010,590)
Settlement against dividend	(1,430,390)	
Settlement against amount due on capital reduction (note 12)	-	(2,261,487)
	548,097	2,989,078

Notes to the financial statements (continued)

9 Murabaha and wakala investments (continued)

The Company received an amount of KD1,010,591 in cash from the Parent company in March 2016. During the year the shareholders' approved a cash dividend of 110 fills per share amounting to KD2,530,000 (refer note 14) and the cash dividend pertaining to the Parent Company amounting to KD1,430,390 was settled against the Murabaha investments due from Parent Company. The balance Murabaha investment due from the Parent Company amounting KD548,097 will be settled on Mutual agreement with the Parent Company.

Wakala investment with bank – KD1,011,480 (2015: KD1,000,000)

This represents short term wakala investments made with a local Islamic bank which matures within one month of the reporting date. The investment carries a fixed profit rate of 1.375% (2015: 1.125%) per annum upto maturity.

10 Investment at fair value through profit or loss

	31 Dec. 2016 KD	31 Dec. 2015 KD
Held for trading:		
- Local quoted shares	56,839	51,672
Designated on initial recognition:		
- Local fund investing in listed securities (managed by Parent Company)	306,684	280,848
	363,523	332,520

Local quoted shares with a carrying value of KD56,839 at 31 December 2016 (2015: 51,672) are managed by the Parent Company.

11 Available for sale investment

	31 Dec. 2016 KD	31 Dec. 2015 KD
Funds:		
- Foreign fund	112,960	194,867
	112,960	194,867

At the end of the year 2016, the Company recognised an impairment loss of KD30,308 (2015: KD 40,135) for above foreign fund based on the estimation made by the management as per information available as of the reporting date.

12 Share capital

	31 Dec. 2016 KD	31 Dec. 2015 KD
Authorised and paid up share capital – 23,000,000 shares of 100 Fils each (2015: 23,000,000 shares of 100 Fils each)	<u>2,300,000</u>	<u>2,300,000</u>

- a) At Extra Ordinary General Meeting which was held on 5 August 2015, the shareholders of the Company have resolved that the authorised share capital of the Company be decreased from KD6,300,000 to KD2,300,000 by way of a cash payment of KD1,738,513 to the non – Parent Company shareholders and settlement of Murabaha investment due from Parent Company amounting to KD2,261,487.

On 1 September 2015 the Company's Articles of Association has been amended to incorporate the revised authorised and paid share capital of KD2,300,000 (consisting of 23,000,000 shares of 100 Fils each).

Notes to the financial statements (continued)

12 Share capital (continued)

Subject to the requisite consent from the relevant authorities and approval from General Assembly of the shareholders, board of directors recommend to decrease the company's share capital from KD2,300,000 to KD2,100,000 by way of cash payment of KD86,926 to non Parent Company shareholders and settlement of murabaha investment due from Parent Company amounting to KD113,074.

13 Statutory and voluntary reserves

In accordance with the Companies Law and the Company's Articles of Association, 10% of the profit before KFAS, Zakat and director remuneration is to be transferred to statutory reserve. No transfer is required in a year in which losses are made. The shareholders of the Company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital.

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

In accordance with the Company's Articles of Association, a certain % of the profit for the year before KFAS, Zakat and director remuneration, if any, is to be transferred to the voluntary reserve at the discretion of the board of directors which is to be approved at the General Assembly. For the year, 2016 the board of directors propose to transfer 10% of the above mentioned profit to the voluntary reserve and this is subject to approval at the General Assembly. There is no restriction on distribution of voluntary reserve.

14 Dividend distribution and director's remuneration

Board of directors proposed a cash dividend of 5 Fils per share amounting to KD115,000 by utilization of retained earnings. The cash dividend pertaining to Parent Company amounting to KD65,018 will be settled against the murabaha investment due from the Parent Company. This proposal is subject to the requisite consent from relevant authorities and approval from general assembly of shareholders.

At the general assembly held on 7 June 2016 the shareholders approved a cash dividend of 110 fils per share amounting to KD2,530,000 by utilization of the voluntary reserve of KD653,416 and the balance amount of KD1,876,584 from retained earnings. The cash dividend pertaining to the Parent Company amounting to KD1,430,390 was settled against the Murabaha investments due from Parent Company (refer note 9).

At the Annual General Assembly meeting held on 7 June 2016 the shareholders approved the financial statements for the year ended 31 December 2015 and the board of director remuneration for that year.

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the Company's Board of Directors propose to distribute a total amount of KD23,000 as remuneration to the Board of Directors for the year ended 31 December 2016.

15 Cash and cash equivalents

	31 Dec. 2016 KD	31 Dec. 2015 KD
Bank balances	489,367	694,120
Cash balance with portfolio managers: - Others (held through the Parent Company)	2,597	1,164
	491,964	695,284

Cash and cash equivalents include bank balances of KD128,007 (2015: KD303,514) which are designated for the purpose of payment on account of capital reduction.

Notes to the financial statements (continued)

16 Related party transactions

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

Details of significant related party transactions and balances are as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Balances and transactions included in statement of financial position		
Cash balances with the portfolio managers (held through Parent Company)	2,597	1,164
Local fund investing in listed securities (managed by Parent Company)	306,684	280,848
Murabaha investments with Parent Company (refer note 9)	548,097	2,989,078
Local and foreign quoted shares (managed by Parent Company)	56,839	51,672
Accrued income and receivable income – on murabaha investments placed with Parent Company	631	92,734
Due from related party – Parent Company	700,145	633,272
Due to key management personnel (included in accrued expenses and other liabilities)	2,000	32,000
Transactions included in statement of profit or loss and other comprehensive income		
Income from murabaha investments – from Parent Company	64,431	113,290
Other (expenses)/ income to/from Parent Company	(21,000)	50,000
Management fee expenses – Parent Company	257	422
Rent expenses – Parent Company	3,000	2,988
Compensation of key management personnel of the company		
Board of directors' remuneration	-	30,000

17 Summary of financial assets and liabilities by category and fair value measurement

17.1 Categories of financial assets and liabilities

The carrying amounts of the Company's financial assets and liabilities as stated in the statement of financial position may also be categorized as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Loans and receivables: (at amortised cost)		
• Cash and cash equivalents	491,964	695,284
• Murabaha and wakala investments	1,559,577	3,989,078
• Accrued income and other receivable	4,529	96,349
• Due from related parties	700,145	633,272
Investments at fair value through profit or loss	363,523	332,520
Available for sale investments		
• At fair value	112,960	194,867
	3,232,698	5,941,370
Other financial liabilities: (at amortised cost)		
• Accrued expenses and other liabilities	134,203	339,501
	134,203	339,501

Notes to the financial statements (continued)

17 Summary of financial assets and liabilities by category and fair value measurement (continued)

17.2 Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the opinion of the Company's management, the carrying value all financial assets and liabilities noted above is considered a reasonable approximation of their fair values.

17.3 Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statement are grouped into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

17.4 Fair value measurement of financial instruments

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

31 December 2016		Level 1	Level 2	Level 3	Total Balance
	Note	KD	KD	KD	KD
Assets at fair value					
Investments at fair value through profit or loss					
- Quoted shares	a	56,839	-	-	56,839
- Local funds	b	-	306,684	-	306,684
Available for sale investment					
- Foreign fund	c	-	112,960	-	112,960
Total		56,839	419,644	-	476,483

31 December 2015		Level 1	Level 2	Level 3	Total Balance
	Note	KD	KD	KD	KD
Assets at fair value					
Investments at fair value through profit or loss					
- Quoted shares	a	51,672	-	-	51,672
- Local funds	b	-	280,848	-	280,848
Available for sale investment					
- Foreign fund	c	-	194,867	-	194,867
Total		51,672	475,715	-	527,387

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

Notes to the financial statements (continued)

17 Summary of financial assets and liabilities by category and fair value measurement (continued)

17.4 Fair value measurement of financial instruments (continued)

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are as follows:

a) Quoted shares (level 1)

Quoted shares represent all listed securities which are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid price at the reporting date.

b) Local funds (level 2)

The underlying investments of local funds primarily comprises of foreign and local quoted securities. The fair values of the funds have been valued based on net asset value reported by the fund manager.

c) Foreign funds (level 2)

The underlying investments of foreign funds primarily comprise of foreign quoted and unquoted securities. Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

18 Risk management objectives and policies

The Company's principal financial liabilities comprise accrued expenses and other liabilities. The Company has various financial assets such as accrued income and other receivable, murabaha and wakala investments, cash and cash equivalents, due from related parties, and investment securities which arise directly from operations.

The Company's activities expose it to variety of financial risks: market risk, credit risk and liquidity risk.

The Company's board of directors sets out policies for reducing each of the risks discussed below.

The Company does not use derivative financial instruments.

The most significant financial risks to which the Company is exposed to are described below.

18.1 Market risk

a) Foreign currency risk

Foreign currency risk is the risk that the value of monetary financial instruments will fluctuate due to changes in foreign exchange rates. As at the reporting date the Company does not have any significant exposure to foreign currency denominated monetary assets or monetary liabilities and therefore, the Company is not exposed to any significant foreign currency risks.

b) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Company's murabaha and wakala investments are not exposed to profit rate risk as they earn profit at fixed rates until maturity.

Notes to the financial statements (continued)

18 Risk management objectives and policies (continued)

18.1 Market risk (continued)

c) Price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Company is exposed to equity price risk with respect to its listed equity investment which are primarily located in Kuwait, classified as investment at fair value through profit or loss.

The equity price risk sensitivity is determined on the exposure to equity price risks at the reporting date. If equity prices had been 10% higher/lower, the effect on the profit for the year ended 31 December 2016 would have been as follows:

A positive number below indicates an increase in the profit where the equity prices increase by 10%. All other variables are held constant.

	Effect on profit for the year ended 31 Dec. 2016 KD	Effect on profit for the year ended 31 Dec. 2015 KD
Investments at fair value through profit or loss	5,684	5,167

If there was a negative change in equity prices in accordance with the above mentioned equity price risk sensitivity assumptions (10%), there would be an equal and opposite impact on the profit for the year, and the balances shown above would be negative.

18.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company credit policy and exposure to credit risk is monitored on an ongoing basis.

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

	31 Dec. 2016 KD	31 Dec. 2015 KD
Bank balances	489,367	694,120
Cash balances with the portfolio managers	2,597	1,164
Murabaha investments with Parent Company	548,097	2,989,078
Wakala investment with bank	1,011,480	1,000,000
Accrued income and other receivable	4,529	96,349
Due from related party	700,145	633,272
Investment at fair value through profit or loss	363,523	332,520
Available for sale investment	112,960	194,867
	3,232,698	5,941,370

The credit risk for bank balances and wakala investment with banks is considered negligible, since the counterparties are reputable financial institution with high credit quality.

Notes to the financial statements (continued)

18 Risk management objectives and policies (continued)

18.3 Concentration of financial assets

As at the reporting date KD 1,614,993 (50%) [2015: KD4,048,768 (68%)] of the Company's financial assets (murabaha investments and accrued income, cash balances with portfolio managers, investment at fair value through profit or loss, available for sale investments and due from related parties) are either placed with, due from or managed by the Parent Company, a Kuwaiti listed investment company.

18.4 Liquidity risk

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

The table below summarises the maturity profile of the Company's assets and liabilities. Except for investments carried at fair value through profit or loss and available for sale investments, the maturities of assets and liabilities have been determined on the basis of the remaining period from the reporting date to the contractual maturity date.

The maturity profile for investments carried at fair value through profit or loss and available for sale investments is determined based on management's estimate of liquidation of those investments.

Maturity profile of assets and liabilities are as follows:

	Kuwaiti Dinars		
	1 year	Over 1 year	Total
	KD	KD	KD
At 31 December 2016			
ASSETS			
Cash and cash equivalents	491,964	-	491,964
Murabaha and wakala investments	1,559,577	-	1,559,577
Investment at fair value through profit or loss	363,523	-	363,523
Accrued income and other receivables	4,529	-	4,529
Due from related parties	700,145	-	700,145
Available for sale investment	-	112,960	112,960
	3,119,738	112,960	3,232,698
LIABILITIES			
Accrued expenses and other liabilities	134,203	-	134,203
Provision for end of service benefits	-	2,495	2,495
	134,203	2,495	136,698
At 31 December 2015			
ASSETS			
Cash and cash equivalents	695,284	-	695,284
Murabaha and wakala investment	3,989,078	-	3,989,078
Investment at fair value through profit or loss	332,520	-	332,520
Accrued income and other receivables	96,349	-	96,349
Due from related parties	633,272	-	633,272
Available for sale investment	-	194,867	194,867
	5,746,503	194,867	5,941,370
LIABILITIES			
Accrued expenses and other liabilities	339,501	-	339,501
Provision for end of service benefits	-	1,429	1,429
	339,501	1,429	340,930

The contractual maturity of financial liabilities based on discounted cash flows approximates the above.

Notes to the financial statements (continued)

19 Capital risk management

The Company's capital management objectives are to ensure that it will be able to continue as a going concern and to provide adequate return to its shareholders through optimisation of the capital structure.

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