# SULTAN CENTER FOOD PRODUCTS COMPANY - K.S.C. (PUBLIC)
# AND ITS SUBSIDIARIES
# STATE OF KUWAIT

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 2016
## WITH
## INDEPENDENT AUDITORS' REPORT

SULTAN CENTER FOOD PRODUCTS COMPANY - K.S.C. (PUBLIC)
AND ITS SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH
INDEPENDENT AUDITORS' REPORT

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Independent auditors' report

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# INDEPENDENT AUDITORS' REPORT

The Shareholders
Sultan Center Food Products Company - K.S.C. (Public)
And Its Subsidiaries
State of Kuwait

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Sultan Center Food Products - K.S.C. (Public) ("the Parent Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to Note 29 to the consolidated financial statements which indicates that as at year ended December 31,2016, the Group's accumulated losses amounted to KD 34,455,690 and, as of that date, the Group's current liabilities exceeds its current assets by KD 125,064,758. These conditions along with other matters as set forth in Note 29, indicate the existence of material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our report is not modified with respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to matters discussed in Basis for our Opinion section of our report, we identified the following key audit matter:

Impairment of goodwill and other provisions:

During the year, the Group has provided impairment loss of KD 7,574,973 relating to Goodwill of a subsidiary and other impairment losses and provisions of KD 17,905,503, mainly relating to inventories, doubtful debts, litigations, financial assets available for sale and other provisions. These impairment losses and provisions are provided for based on management's judgments and estimates. Accordingly, we found that these impairment losses and provisions as key audit matters. We have reviewed reasonableness of impairment losses and provisions based on management estimates. We have assessed the adequacy of disclosure provided in Notes 3, 6, 7, 11 and 14 to the consolidated financial statements.

**Other Information**

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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, we conclude that there is a material misstatement of this other information; we are required to report that fact.

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

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

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

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

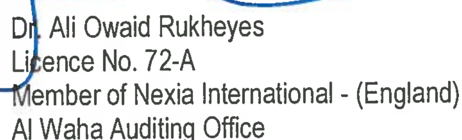
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

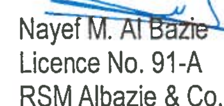
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

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





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State of Kuwait
March 29, 2017

**SULTAN CENTER FOOD PRODUCTS COMPANY - K.S.C. (PUBLIC) AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT DECEMBER 31, 2016**
(All amounts are in Kuwaiti Dinars)

| ASSETS | Note | 2016 | 2015 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash on hand and at banks | | **4,332,433** | 4,529,451 |
| Accounts receivable and other debit balances | 3 | **21,880,424** | 23,350,758 |
| Due from related parties | 4 | **1,693,932** | 1,592,436 |
| Gross amount due from customers for contract work | 5 | **4,521,287** | 3,642,730 |
| Inventories | 6 | **21,804,844** | 26,224,279 |
| **Total current assets** | | **54,232,920** | 59,339,654 |
| **Non-current assets:** | | | |
| Financial assets available for sale | 7 | **5,798,397** | 8,646,413 |
| Investment in associates | 8 | **107,907,781** | 108,361,925 |
| Investment properties | 9 | **13,791,007** | 14,439,847 |
| Property, plant and equipment | 10 | **78,167,121** | 84,263,921 |
| Goodwill | 11 | **3,163,618** | 10,738,591 |
| Other assets | 12 | **3,622,770** | 2,309,569 |
| **Total non-current assets** | | **212,450,694** | 228,760,266 |
| **Total assets** | | **266,683,614** | 288,099,920 |
| LIABILITIES AND EQUITY | | | |
| **Current liabilities:** | | | |
| Bank borrowings - current portion | 13 | **47,561,207** | 47,719,353 |
| Accounts payable and other credit balances | 14 | **121,599,521** | 109,856,517 |
| Due to related parties | 4 | **207,450** | 211,954 |
| Murabaha payable - current portion | 15 | **9,929,500** | 9,379,500 |
| Gross amount due to customers for contract work | 5 | **-** | 18,487 |
| **Total current liabilities** | | **179,297,678** | 167,185,811 |
| **Non-current liabilities:** | | | |
| Bank borrowings – non-current portion | 13 | **53,545,250** | 54,906,000 |
| Murabaha payable – non-current portion | 15 | **17,354,962** | 18,334,641 |
| Provision for end of service indemnity | 16 | **6,590,387** | 6,389,594 |
| **Total non-current liabilities** | | **77,490,599** | 79,630,235 |
| **Total liabilities** | | **256,788,277** | 246,816,046 |
| **Equity:** | | | |
| Share capital | 17 | **57,882,877** | 57,882,877 |
| Treasury shares | 18 | **(2,593,571)** | (2,593,571) |
| Revaluation surplus | | **1,072,655** | 1,072,655 |
| Effect of change in other comprehensive loss of associates | | **(10,025,722)** | (3,010,474) |
| Cumulative changes in fair value | | **162,253** | 162,253 |
| Foreign currency translation adjustments | | **(2,726,890)** | (2,403,283) |
| Accumulated losses | | **(34,455,690)** | (10,342,345) |
| **Equity attributable to Parent Company's shareholders** | | **9,315,912** | 40,768,112 |
| Non-controlling interests | | **579,425** | 515,762 |
| **Total equity** | | **9,895,337** | 41,283,874 |
| **Total liabilities and equity** | | **266,683,614** | 288,099,920 |

The accompanying notes (1) to (36) form an integral part of the consolidated financial statements.

Essam Al Refaie
Vice Chairman

**SULTAN CENTER FOOD PRODUCTS COMPANY - K.S.C. (PUBLIC) AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
(All amounts are in Kuwaiti Dinars)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Operating income** | | | |
| Sales | | 251,422,238 | 266,415,070 |
| Contract revenue | | 12,585,231 | 8,343,845 |
| Service contract revenue | | 11,518,357 | 9,645,603 |
| | | 275,525,826 | 284,404,518 |
| **Operating cost** | | | |
| Cost of sales | 21 | 207,723,949 | 219,159,476 |
| Contract cost | 22 | 10,133,250 | 5,675,390 |
| Service contract cost | 23 | 9,241,271 | 7,371,172 |
| | | 227,098,470 | 232,206,038 |
| **Gross profit** | | 48,427,356 | 52,198,480 |
| Other operating income | | 6,990,424 | 7,834,694 |
| General, administrative and selling expenses | 24 | (48,425,876) | (53,093,758) |
| Depreciation and amortization | 10,12 | (5,929,977) | (6,830,429) |
| Provisions for doubtful debts | 3 – b | (2,650,486) | (63,985) |
| Provisions for slow moving Inventories | 6 – a | (1,996,319) | (250,301) |
| Other provisions | 14 | (10,410,682) | - |
| Provisions no longer required | 25 | 1,223,769 | 2,217,656 |
| **(Loss) profit from operations** | | (12,771,791) | 2,012,357 |
| Group's share of results from associates | 8 | 6,561,104 | 6,288,725 |
| Gain on sale of an associate | 8 - a | - | 183,251 |
| Changes in fair value of investment properties | 9 | (812,901) | 594,000 |
| Loss on sale of property, plant and equipment | | (313,121) | (1,902,381) |
| Loss on sale of other assets | | (402,266) | - |
| Impairment loss | 26 | (10,422,989) | - |
| Finance charges | | (5,884,435) | (5,955,507) |
| **(Loss) profit for the year before Board of Directors' remuneration** | | (24,046,399) | 1,220,445 |
| Board of Directors' remuneration | 27 | - | (60,000) |
| **(Loss) profit for the year** | | (24,046,399) | 1,160,445 |
| Attributable to : | | | |
| Parent company's shareholders | | (24,113,345) | 1,003,130 |
| Non-controlling interests | | 66,946 | 157,315 |
| **(Loss) profit for the year** | | (24,046,399) | 1,160,445 |
| | | Fils | Fils |
| (Loss) earnings per share attributable to Shareholders of the Parent Company | 28 | (42.71) | 1.78 |

The accompanying notes (1) to (36) form an integral part of the consolidated financial statements.

SULTAN CENTER FOOD PRODUCTS COMPANY - K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(All amounts are in Kuwaiti Dinars)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **(Loss) profit for the year** | | **(24,046,399)** | 1,160,445 |
| **Other comprehensive loss:** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences on translating foreign operations | | **(326,890)** | (836,612) |
| Share from other comprehensive (loss) income of associates | 8 | **(7,015,248)** | 103,244 |
| **Other comprehensive loss for the year** | | **(7,342,138)** | (733,368) |
| Total comprehensive (loss) income for the year | | **(31,388,537)** | 427,077 |
| Attributable to: | | | |
| Parent company's shareholders | | **(31,452,200)** | 531,555 |
| Non-controlling interests | | **63,663** | (104,478) |
| Total comprehensive (loss) income for the year | | **(31,388,537)** | 427,077 |

The accompanying notes (1) to (36) form an integral part of the consolidated financial statements.

**SULTAN CENTER FOOD PRODUCTS COMPANY - K.S.C. (PUBLIC) AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
(All amounts are in Kuwaiti Dinars)

| | Equity attributable to Parent Company's shareholders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Treasury shares | Revaluation surplus | Effect of change in other comprehensive loss of associates | Cumulative changes in fair value | Foreign currency translation adjustments | Accumulated losses | Subtotal | Non-controlling interests | Total equity |
| Balance at January 1, 2015 | 57,882,877 | (2,593,571) | 1,072,655 | (3,113,718) | 162,253 | (1,828,464) | (11,345,475) | 40,236,557 | 620,240 | 40,856,797 |
| Total comprehensive income (loss) for the year | - | - | - | 103,244 | - | (574,819) | 1,003,130 | 531,555 | (104,478) | 427,077 |
| Balance at December 31, 2015 | 57,882,877 | (2,593,571) | 1,072,655 | (3,010,474) | 162,253 | (2,403,283) | (10,342,345) | 40,768,112 | 515,762 | 41,283,874 |
| Total comprehensive income (loss) for the year | - | - | - | (7,015,248) | - | (323,607) | (24,113,345) | (31,452,200) | 63,663 | (31,388,537) |
| **Balance at December 31, 2016** | **57,882,877** | **(2,593,571)** | **1,072,655** | **(10,025,722)** | **162,253** | **(2,726,890)** | **(34,455,690)** | **9,315,912** | **579,425** | **9,895,337** |

The accompanying notes (1) to (36) form an integral part of the consolidated financial statements.

SULTAN CENTER FOOD PRODUCTS COMPANY - K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(All amounts are in Kuwaiti Dinars)

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| (Loss) profit for the year before Board of Directors' remuneration | (24,046,399) | 1,220,445 |
| Adjustments: | | |
| Depreciation and amortization | 5,929,977 | 6,830,429 |
| Provision for doubtful debts | 2,650,486 | 63,985 |
| Provision for slow moving inventories | 1,996,319 | 250,301 |
| Provision no longer required | (1,223,769) | (2,217,656) |
| Group's share of results from associates | (6,561,104) | (6,288,725) |
| Gain on sale of an associate | - | (183,251) |
| Changes in fair value of investment properties | 812,901 | (594,000) |
| Loss on sale of property, plant and equipment | 313,121 | 1,902,381 |
| Loss on sale of other assets | 402,266 | - |
| Other provisions | 10,410,682 | - |
| Impairment loss | 10,422,989 | - |
| Finance charges | 5,884,435 | 5,955,507 |
| Provision for end of service indemnity | 1,280,161 | 938,703 |
| | 8,272,065 | 7,878,119 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and other debit balances | 45,746 | (6,429,863) |
| Due from related parties | (101,496) | 131,142 |
| Gross amount due from customers for contract work | (878,557) | (1,755,008) |
| Inventories | 2,423,116 | 1,521,158 |
| Accounts payable and other credit balances | 2,332,322 | 9,358,450 |
| Due to related parties | (4,504) | (15,769) |
| Gross amount due to customers for contract work | (18,487) | (19,890) |
| Cash flows generated from operations | 12,070,205 | 10,668,339 |
| Payment for end of service indemnity | (1,079,368) | (818,576) |
| **Net cash flows generated from operating activities** | 10,990,837 | 9,849,763 |
| **Cash flows from investing activities:** | | |
| Paid for purchase of property, plant and equipment | (4,912,732) | (4,403,112) |
| Proceeds from sale of property, plant and equipment | 3,184,809 | 1,356,913 |
| Paid for purchase of other assets | (241,485) | (230,000) |
| Paid for purchase of financial assets available for sale | - | (1,063,207) |
| Proceeds from sale of associate | - | 4,289,661 |
| **Net cash flows used in investing activities** | (1,969,408) | (49,745) |
| **Cash flows from financing activities:** | | |
| Net movement in bank borrowings | (1,518,896) | (3,095,089) |
| Net movement in murabaha payable | (429,679) | (3,301,859) |
| Finance charges paid | (5,884,435) | (5,955,507) |
| **Net cash flows used in financing activities** | (7,833,010) | (12,352,455) |
| Net increase (decrease) in cash on hand and at banks | 1,188,419 | (2,552,437) |
| Foreign currency translation reserve | (1,385,437) | - |
| Cash on hand and at banks at the beginning of the year | 4,529,451 | 7,081,888 |
| Cash on hand and at banks at the end of the year | 4,332,433 | 4,529,451 |

The accompanying notes (1) to (36) form an integral part of the consolidated financial statements.

1. Incorporation and activities

Sultan Center Food Products Company - K.S.C. (Public) (the "Parent Company") is a Kuwaiti shareholding company (Public) registered in Kuwait, and was incorporated based on Articles of Incorporation Ref No. 1450 / Vol. 4 dated September 22, 1980 its subsequent amendments, the latest of which was notarized in the commercial register under Ref. No 30225 dated February 15 ,2015.

The Parent Company is also listed on the Kuwait Stock Exchange.

The main objectives for which the Parent Company was incorporated are as follows:

1. Construction of central markets and associated rest areas and restaurants.
2. Import, export and marketing of consumer goods.
3. Manufacturing of food products.
4. Investment in trade marks.
5. The operation of retail supermarkets, restaurants, catering services, trading and the installation of telecommunication equipment.
6. Trade in readymade garments and shoes, bags, accessories and gifts.
7. To carry out the following in Kuwait or abroad:
    a. Investment in various industries through incorporation of companies or investing in existing companies, and dealing in securities of local and foreign companies
    b. Providing consulting and training services
    c. Managing the financial administrative and operational segments of companies
    d. Investing in real estate
    e. Investing the excess funds in portfolios managed by specialized financial institutions.

The registered address of the Parent Company is P.O. Box 26567 Safat, 13126 – State of Kuwait.

As of December 31, 2016, the Group has 12,302 employees (2015:10,504 employees).

The new Companies Law No. 1 of 2016 was issued on January 24, 2016 and it was published in the Official Gazette on February 1, 2016, which replaced the Companies Law No 25 of 2012 and its amendments. According to Article No. 5, the new Law will be effective retrospectively from November 26, 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on July 12, 2016 and was published in the Official Gazette on July 17, 2016 which cancelled the Executive Regulations of Law No. 25 of 2012. The adoption of the new Companies Law and its executive regulations is not expected to have any effect on the reporting entity.

The consolidated financial statements were authorized for issue by the Parent Company's Board of Directors on March 29, 2017. The Shareholders' annual General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Parent Company and are prepared under the historical cost convention, except for certain financial assets available for sale and, investment properties which are stated at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. 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 preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(z).

**Standards and Interpretations issued and effective**

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of January 1, 2016:

Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization

The amendments, effective prospectively for annual periods beginning on or after January 1, 2016, clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

Amendments to IAS 1 – Disclosure Initiative

The amendments to this standard which are effective for annual periods beginning on or after 1 January 2016 clarify some judgments used in the presentation of financial reports. The amendments make changes about:

- Materiality, where it clarifies that, (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to 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, where they (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant. They introduce additional guidance on subtotals in these statements as well, and (2) clarify that an entity's share of other comprehensive income 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, where they 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.

**Annual Improvements to IFRS – 2012 – 2014 Cycle:**

Amendments to IFRS 7 – Financial Instruments: Disclosures

The amendments to this standard are effective for annual periods beginning on or after 1 January 2016. They clarify that for servicing agreements, if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. IFRS 7 provides guidance on what is meant by continuing involvement in this context, and adds specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. A consequential amendment to IFRS 1 is included to give the same relief to first-time adopters. Another amendment to IFRS 7 clarifies that the additional disclosure required by the amendments to IFRS 7 is not specifically required for all interim periods, unless required by IAS 34.

These amendments are not expected to have any material impact on the consolidated financial statements.

**Standards and Interpretations issued but not effective**

The following new and amended IASB Standards and Interpretations have been issued but are not yet effective, and have not yet been adopted by the Group:

Amendment to IAS 7 – Disclosure Initiative

The amendment to this standard which is effective prospectively for annual periods beginning on or after 1 January 2017 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liability arising from financing activities, including both changes arising from cash flows and non-cash changes, early application of this amendment is permitted.

IFRS 9 - Financial Instruments

The standard, effective for annual periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 specifies how an entity should classify and measure its financial instruments and includes a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 15 - Revenue from contracts with customers

The standard, effective for annual periods beginning on or after January 1, 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the following existing standards and interpretations upon its effective date:

- IAS 18 – Revenue.
- IAS 11 – Construction Contracts.
- IFRIC 13 – Customer Loyalty Programs.
- IFRIC 15 – Agreements for the Construction of Real Estate.
- IFRIC 18 – Transfers of Assets from Customers.
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services.

This standard applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

IFRS 16 - Leases

This standard will be effective for annual periods beginning on or after January 1, 2019. This standard will be replacing IAS 17 "Leases" and will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term.

These amendments and standards are not expected to have any material impact on the consolidated financial statements.

b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Sultan Center Food Products Company – K.S.C. (Public) and the following subsidiaries (together the "Group"):

| Name Of Subsidiary | Country of incorporation | Principal Activities | Percentage of holding % | |
|---|---|---|---|---|
| | | | **2016** | 2015 |
| Brothers Holding Company – K.S.C. (Holding) and its subsidiaries (a) | State of Kuwait | Holding | **99** | 99 |
| Sultan Center Trading and General Contracting Company – W.L.L. - and its subsidiaries (a) | State of Kuwait | Hypermarkets | **99** | 99 |
| United Capital Group – K.S.C. (Closed) - and its subsidiary (a) | State of Kuwait | Investment | **99** | 99 |
| Gulf United Real Estate and Tourism Investment Company – K.S.C. (Closed) - and its subsidiaries (a) | State of Kuwait | Investment property | **99** | 99 |
| National Energy Company - K.S.C. (Closed) (a) | State of Kuwait | Contracting | **99** | 99 |
| Dalya Al-Wataniyah General Trading & Contracting Company – W.L.L. (a) | State of Kuwait | General trading & Contracting | **99** | 99 |
| Style Kuwait International Readymade Garments B & S Company – L.L.C. (a) | U.A.E | General trading & Contracting | **99** | 99 |
| Retail Detail General Trading & Contracting Company - W.L.L. (a) | State of Kuwait | General trading & Contracting | **99** | 99 |
| Al-Mataba Al-Khalijia General Trading & Contracting Company – W.L.L. (a) | State of Kuwait | General trading & Contracting | **99** | 99 |
| Al-Noukhaza National General Trading & Contracting Company – W.L.L. (a) | State of Kuwait | General trading & Contracting | **99** | 99 |
| TS Kuwait General Trading & Contracting Company – W.L.L. (a) | State of Kuwait | General trading & Contracting | **99** | 99 |
| American Economics General Trading & Contracting Company – W.L.L. (a) | State of Kuwait | General trading & Contracting | **99** | 99 |
| Al-Thanaa Industrial Company – W.L.L.(Jordanian Company) (a) | The Hashemite Kingdom of Jordan | General trading & Contracting | **99** | 99 |
| TSC Discount General Trading & Contracting Company – W.L.L. (a) | State of Kuwait | General trading & Contracting | **99** | 99 |
| C - Store General Trading & Contracting Company – W.L.L. (a) | State of Kuwait | General trading & Contracting | **99** | 99 |
| Specialty Fashion Group – E.S.C. – Egypt (a) | Arab Republic of Egypt | General trading & Contracting | **99** | 99 |

a) The remaining 1% is owned by a related party. The Parent Company is only the beneficial owner of the same.

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company:

- has power over the investee.
- is exposed, or has rights to variable returns from its involvement with the investee;
- has the ability to use its power to affect its returns.

The Parent Company reassess 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 listed above.

When the Group has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the parent company, other vote holders or other parties;
- rights arising from other contractual arrangements;
- any additional facts and circumstances that indicate that the Parent Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the Non-controlling shareholder's share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Parent Company. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings as appropriate.

c) Financial Instruments:

The Group classifies its financial instruments as "financial assets" and "financial liabilities. Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provision of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash on hand and at banks, receivables, due from / to related parties, financial assets available for sale, bank borrowings, murabaha payable and payables.

- **Financial assets:**

1) Accounts receivable

Receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business and are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of profit or loss.

2) Financial investments:

Initial recognition and measurement

The Group classifies financial investments that fall within the scope of IAS 39 as a financial assets available for sale. The classification depends on the purpose for which those assets were acquired and is determined at initial recognition by the management.

- Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the end of the reporting period.

Purchases and sales of financial asset are recognized on trade date – the date on which an asset is delivered to or by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent measurement

After initial recognition financial assets available for sale are subsequently carried at fair value. The fair values of quoted financial asset are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Realized and unrealized gains and losses from financial assets at fair value through profit or loss are included in the consolidated statement of profit or loss. Unrealized gains and losses arising from changes in the fair value of financial assets available for sale are recognized in cumulative changes in fair value in other comprehensive income

Where financial assets available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When a financial assets available for sale is disposed off or impaired, any prior fair value earlier reported in other comprehensive income is transferred to the consolidated statement of profit or loss.

Derecognition

A financial asset (in whole or in part) is derecognized either when:

(a) the contractual rights to receive the cash flows from the financial asset have expired; or
(b) the Group has transferred its rights to receive cash flows from the financial asset and either;
   1- has transferred substantially all the risks and rewards of ownership of the financial asset.
   2- has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset. Where the Group has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. Significant decline is evaluated against the original cost of the financial asset and prolonged against the period in which fair value has been below its original cost. If any such evidence exists for financial assets available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other comprehensive income and recognized in the consolidated statement of profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on available for sale equity instruments are not reversed through the consolidated statement of profit or loss. Impairment losses recognized for available for sale debt instruments are reversed through the consolidated statement of profit or loss if the increase in fair value can be objectively related to an event occurring after the impairment loss was previously recognized.

- **Financial liabilities:**

1) Accounts payable:

Accounts payable include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non - current liabilities.

2) Borrowings:

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

3) Murabaha payable:
Murabaha payable represents the amounts due to pay for purchased assets for others on deferred basis as per Murabaha facility agreements. Murabaha balances are reported with full credit balances after deducting finance charges pertaining to future periods. Those finance charges are amortized on a time apportionment basis using effective interest method.

d) Gross amount due from (to) customers for contract work:
Gross amount due from (to) customers for contract work represents the net amount of costs incurred plus recognized profits, less the sum of recognized losses and progress billings for all contracts in progress. Cost comprises direct materials, direct labor and an appropriate allocation of overheads. For contracts where progress billings exceed costs incurred plus recognized profit (less recognized losses), the excess is included under liabilities.

e) Inventories:
Inventories are valued at the lower of average cost or net realizable value after providing allowance for any obsolete or slow moving items. Cost comprises direct materials, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined using the first-in first-out or weighted average method for inventories at the warehouses based on the nature of the inventory. Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Write-down is made for obsolete and slow-moving items based on their expected future use and net realizable value.

f) Investment in associates:
Associates are those entities in which the Group has significant influence which is the power to participate in the financial and operating policy decisions of the associate. Under the equity method, investment in associates are carried in the consolidated statement of financial position at cost as adjusted for changes in the Group's share of the net assets of the associate from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted as per IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The Group recognizes in its consolidated statement of profit or loss for its share of results of operations of the associate and in its other comprehensive income for its share of changes in other comprehensive income of associate.

Losses of an associate in excess of the Group interest in that associate (which includes any long-term interests that, in substance, form part of the Group net investment in the associate) are not recognized except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group interest in the associate.

Any excess of the cost of acquisition over the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. If the cost of acquisition is lower than the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized immediately in the consolidated statement of profit or loss.

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

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

g) Investment properties:
Investment properties comprise completed property, property under construction or re-development held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost including purchase price and transactions costs. Subsequent to the initial recognition, investment properties are stated at their fair value at the end of the reporting period. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated statement of profit or loss for the period in which they arise.

Investment properties are derecognized 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. Gains or losses arising on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

In case of changing the property from the owner use to investment property, the Group treated the property in the same accounting policy used for property, plant and equipments till the date of changing the use.

h) Property, plant and equipment:
The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified in the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property, plant and equipment as follows:

| | Years |
|---|---|
| Buildings | 40 |
| Office equipment and computer | 3 – 5 |
| Furniture and fixtures | 5 |
| Vehicles | 2 – 3 |
| Plant and machinery | 15 |

Certain property, plant and equipment used in certain projects are depreciated over the period of the respective contracts.

Capital work in progress is stated at cost. Following completion, capital work in progress is transferred into the relevant class of property, plant and equipment.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

i) Other assets:

This item represents key money resulting from exploitation of locations is carried at cost less accumulated amortization and any impairment losses. Amortization is calculated using the straight-line method to allocate the cost of key money over their estimated useful lives ranging from 3 to 20 years.

j) Business combination and goodwill:

- Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39: Financial Instruments: Recognition and Measurement. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting in incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

- Goodwill:

Goodwill represents the excess of the consideration transferred and the amount recognized for non-controlling interest over the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Where there is an excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, the Group is required to reassess the identification and measurement of the net identifiable assets and measurement of the cost of the acquisition and recognize immediately in the consolidated statement of profit or loss any excess remaining after that remeasurement.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent periods.

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

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investment in associates' in note 2(f).

k) Impairment of assets:

At the end of each reporting period, the Group reviews the carrying amounts to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

l) End of service indemnity:

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts and the applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the reporting period and approximates the present value of the final obligation.

m) Dividend distribution to shareholders:

The Group recognizes a liability to make cash and non-cash distributions to shareholders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders of the Parent company at the Annual General Meeting. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of profit or loss.

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

n) Share capital:

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

o) Treasury shares:

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves, and then share premium.

Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of share premium, reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Where any Group's company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Parent Company's shareholders.

p) Revenue recognition:

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods

Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when significant risks and rewards of ownership of goods are transferred to the buyer. The Group does not operate any loyalty programs.

Construction contracts

Revenue from construction contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. Profit is only recognized when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments are included in the determination of contract profit when approved by contract owners. Anticipated losses on contracts are recognized in full as soon as they become apparent.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

Rendering of services

Revenue from service contracts is recognized when the service is rendered.

Interest income

Interest income is recognized on a time apportionment basis using the effective interest method.

Dividend income

Dividend income is recognized when the Group's right to receive payment is established.

Rent

Rental income is recognized, when earned, on a time apportionment basis.

Gain on sale of financial assets

Gain on sale of financial assets is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

Other income

Other income are recognized on accrual basis.

q) Leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease – The Group as a lessor:
Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Finance Lease – The Group as a lessee:
Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated statement of profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

r) Provisions:
A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each financial year and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

s) Borrowing costs:
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

t) Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS):
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) is calculated at 1% of the consolidated profit of the Group before contribution to KFAS, National Labor Support Tax, Zakat, and Board of Directors' remuneration, and after deducting the Group's share of income from shareholding subsidiaries and associates, transfer to statutory reserve, and any accumulated losses.

As of December 31, 2016, no KFAS has been provided for because of the accumulated losses of the Group.

u) National Labor Support Tax:
National Labor Support Tax (NLST) is calculated at 2.5% on the consolidated profit of the Group before contribution to Kuwait Foundation for the Advancement of Sciences, NLST, Zakat, and Board of Directors' remuneration, and after deducting the Group's share of profit from associates & un-consolidated subsidiaries listed in Kuwait Stock Exchange, its share of NLST paid by subsidiaries listed in Kuwait Stock Exchange, and cash dividends received from companies listed in Kuwait Stock Exchange in accordance with law No. 19 for year 2000 and Ministerial resolution No. 24 for year 2006 and their executive regulations.

As of December 31, 2016, no NLST has been provided for since there was no taxable profit on which NLST could be calculated.

v) Zakat:
Zakat is calculated at 1% on the consolidated profit of the Group before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, Zakat, and Board of Directors' remuneration, and after deducting the Group's share of profit from Kuwaiti shareholding associates & un-consolidated subsidiaries, its share of Zakat paid by Kuwaiti shareholding subsidiaries and cash dividends received from Kuwaiti shareholding companies in accordance with law No. 46 for year 2006 and Ministerial resolution No. 58 for year 2007 and their executive regulations.

As of December 31, 2016, no Zakat has been provided since there was no financial profit on which Zakat could be calculated.

w) Foreign currencies:
Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the end of reporting date are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated statement of profit or loss for the period. Translation differences on non-monetary items such as equity investments classified as investments available for sale are included in "cumulative changes in fair value" in other comprehensive income.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the end of reporting period. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in other comprehensive income. Such translation differences are recognized in consolidated statement of profit or loss in the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

x) Segment reporting:
A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

y) Contingencies:
Contingent liabilities are not recognized in the consolidated financial statements unless it is probable as a result of past events that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Else, they are disclosed unless the possibility of an outflow of resources embodying economic losses is remote.

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits as a result of past events is probable.

z) Critical accounting estimates and judgments:
The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards 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 revenue and expenses during the year. Actual results could differ from the estimates.

a- **Judgments:**
In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue recognition:
Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

(ii) Determination of contract cost:
Determination of costs which are directly related to the specific contract or attributable to the contract activity in general requires significant judgment. The determination of contract cost has a significant impact upon revenue recognition in respect of long term contracts. The Group follows guidance of IAS 11 for determination of contract cost and revenue recognition.

(iii) Provision for doubtful debts and inventory:
The determination of the recoverability of the amount due from customers and the marketability of the inventory and the factors determining the impairment of the receivable and inventory involve significant judgment.

(iv) Classification of financial assets:
On acquisition of a financial asset, the Group decides whether it should be classified as "at fair value through profit or loss", "available for sale" or "held to maturity". The Group follows the guidance of IAS 39 on classifying its financial assets.

The Group classifies financial assets as "at fair value through profit or loss" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through profit or loss at inception, provided their fair values can be reliably estimated. The Group classifies financial assets as "held to maturity" if the Group has the positive intention and ability to hold to maturity. All other financial assets are classified as financial assets "available for sale".

(v) Impairment of financial assets:
The Group follows the guidance of IAS 39 to determine when an available-for-sale equity instruments is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, a significant or prolonged decline in the fair value below its cost; and the financial health of and short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The determination of what is "significant" or "prolonged" requires significant judgment.

(vi) Classification of lands:
Upon acquisition of land, the Group classifies the land into one of the following categories, based on the intention of the management for the use of the land:

a- Work in progress
When the intention of the Group is to develop a land in order to rent or to occupy it in the future, both the land and the construction costs are classified as work in progress.

b- Investment properties
When the intention of the Group is to earn rentals from land or hold land for capital appreciation or if the intention is not determined for land, the land is classified as investment property.

(vii) Application of IFRIC 15 – Agreements for the construction of real estate:
The determination whether the agreements within the scope of IAS 11 – Construction Contracts or IAS 18 – Revenue require significant judgment.

**b- Estimates and assumptions:**

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

(i) Fair value of unquoted financial assets:
If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

(ii) Impairment of Goodwill:
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset or the cash-generating unit to which the goodwill is allocated. Estimating a value in use requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present-value of the cash-flows.

(iii) Long term contracts:
Revenue from long term contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. The revenue recognition as per the above criteria should correspond to the actual work completed. The determination of estimated costs and the application of percentage of completion method involve estimation. Further, the budgeted cost and revenue should consider the claims and variations pertaining to the contract.

(iv) Provision for doubtful debts and inventory:
The extent of provision for doubtful debts and inventories involves estimation process. Provision for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventories are subject to management approval.

(v) Revaluation of investment properties:

The Group carries its investment properties at fair value, with change in fair values being recognised in the consolidated statement of profit or loss. Two main methods were used to determine the fair value of the investment properties:

a- Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

(vi) Impairment of non-financial assets:

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

## 3. Accounts receivable and other debit balances

| | **2016** | 2015 |
|---|---|---|
| Trade receivables (a) | **6,544,941** | 8,692,815 |
| Contract receivables (a) | **8,527,527** | 7,062,014 |
| | **15,072,468** | 15,754,829 |
| Less: Provision for doubtful debts (b) | **(3,281,969)** | (1,865,487) |
| | **11,790,499** | 13,889,342 |
| Advance payments to suppliers and contractors and refundable deposits | **6,736,931** | 5,625,142 |
| Staff receivables | **252,598** | 1,063,877 |
| Other receivables | **3,100,396** | 2,772,397 |
| | **21,880,424** | 23,350,758 |

(a) Trade receivables and contract receivables

Trade receivables and contract receivables are non-interest bearing. The ageing of trade receivables and contract receivables are as follows:

| | Less than 180 days | 181 – 365 days | Impaired | Total |
|---|---|---|---|---|
| **2016** | **9,754,555** | **2,035,944** | **3,281,969** | **15,072,468** |
| 2015 | 11,658,611 | 2,230,731 | 1,865,487 | 15,754,829 |

As of December 31, 2016, trade receivables and contract receivables amounting to KD 2,035,944 (2015: KD 2,230,731) were past due but not impaired. These balances are related to independent customers for whom there is no history of default.

As of December 31, 2016 trade receivable amounting to KD 3,281,969 (2015 – KD 1,865,487) were impaired a provision has been taken.

(b) Provision for doubtful debts

The movement in the provision for doubtful debts is as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at the beginning of the year | **1,865,487** | 3,061,164 |
| Charge for the year | **2,650,486** | 63,985 |
| Utilized during the year | **(12,364)** | (1,259,662) |
| Provision no longer required (Note 25) | **(1,223,769)** | - |
| Foreign currency translation adjustments | **2,129** | - |
| Balance at the end of the year | **3,281,969** | 1,865,487 |

(c) The other classes within accounts receivable and other debit balances do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. Further, the Group does not hold any collateral as security, for accounts receivable and other debit balances.

4. Related party disclosures

The Group has entered into various transactions with related parties, i.e. major shareholders, board of directors, key management personnel, associates, Companies under common control and other related parties in the normal course of its business. Prices and terms of payment are approved by the Group's management. Significant related party balances and transactions are as follows:

| | Major shareholders | Associates | Companies under common control | 2016 | 2015 |
|---|---|---|---|---|---|
| **Balances included in consolidated statement of financial position:** | | | | | |
| Due from related parties | 133,932 | 1,560,000 | - | **1,693,932** | 1,592,436 |
| Due to related parties | - | - | 207,450 | **207,450** | 211,954 |

Due from/to related parties are non – interest bearing and are payable on demand.

| Transaction included in consolidated statement of profit or loss: | | | | | |
|---|---|---|---|---|---|
| General and administrative expenses (rent expenses) | - | - | 1,754,721 | **1,754,721** | 1,754,721 |

Financial assets available for sale amounting to KD 3,342,121 (2015: KD 3,342,121) are registered in the name of a related party and there is waiver letter for it in favor of the group (Note 7).

Investment properties with fair value amounting to KD 5,035,000 (2015: KD 5,130,000) are registered in the name of related party and there is a waiver letter in favor of the group (Note 9).

**Compensation to key management personnel:**

| | **2016** | 2015 |
|---|---|---|
| Short term benefits | **1,496,569** | 1,745,316 |
| Termination benefits | **116,132** | 269,323 |
| | **1,612,701** | 2,014,639 |

5. Gross amount due from / to customers for contract work

| | **2016** | 2015 |
|---|---|---|
| Contract costs incurred to date plus recognized profits less recognized losses | **13,058,283** | 8,908,563 |
| Progress billings | **(8,536,996)** | (5,284,320) |
| | **4,521,287** | 3,624,243 |
| Represented by: | | |
| Gross amount due from customers for contract work | **4,521,287** | 3,642,730 |
| Gross amount due to customers for contract work | **-** | (18,487) |
| | **4,521,287** | 3,624,243 |

6. Inventories

| | **2016** | 2015 |
|---|---|---|
| Merchandise inventory | **24,392,496** | 27,022,724 |
| Others | **470,070** | 508,403 |
| | **24,862,566** | 27,531,127 |
| Provision for slow moving inventories (a) | **(3,057,722)** | (1,306,848) |
| | **21,804,844** | 26,224,279 |

(a) **Provision for slow moving inventories**

The movement in the provision for slow moving inventories is as follows:

| | **2016** | 2015 |
|---|---|---|
| Balance at the beginning of the year | **1,306,848** | 1,230,263 |
| Charge for the year | **1,996,319** | 250,301 |
| Utilized during the year | **(245,445)** | (173,716) |
| Balance at the end of the year | **3,057,722** | 1,306,848 |

## 7. Financial assets available for sale

| | 2016 | 2015 |
|---|---|---|
| Quoted equity securities | **6,970** | 6,970 |
| Unquoted equity securities | **5,791,427** | 8,639,443 |
| | **5,798,397** | 8,646,413 |

The movement during the year is as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at the beginning of the year | **8,646,413** | 7,583,206 |
| Additions | **-** | 1,063,207 |
| Impairment loss (Note 26) | **(2,848,016)** | - |
| Balance at the end of the year | **5,798,397** | 8,646,413 |

Financial assets available for sale amounting to KD 3,342,121 ( 2015: KD 3,342,121) are registered in the name of a related party and there is a waiver letter for it in favor of the group (Note 4).

Investments available for sale are denominated in the following currencies:

| Currency | 2016 | 2015 |
|---|---|---|
| Kuwaiti Dinar | **5,798,397** | 8,602,799 |
| US Dollar | **-** | 28,798 |
| UK Pounds | **-** | 14,816 |
| | **5,798,397** | 8,646,413 |

It was not possible to reliably measure the fair value of unquoted financial assets amounting to KD 5,791,427 (2015: KD 8,639,443), due to non-availability of a reliable method that could be used to determine the fair value of such financial assets. Accordingly, they were stated at their cost less impairment losses.

## 8. Investment in associates

| Name of the associate | Country of incorporation | Principal activity | Ownership Percentage (%) 2016 | Ownership Percentage (%) 2015 | Carrying value (KD) 2016 | Carrying value (KD) 2015 |
|---|---|---|---|---|---|---|
| National Real Estate Company K.S.C.P | State of Kuwait | Real Estate | **30.98** | 30.98 | **89,464,897** | 91,602,662 |
| Riviera Holding Company K.S.C.C. | State of Kuwait | Real Estate | **40** | 40 | **1,899,212** | 1,899,212 |
| Alpha Energy Company K.S.C.C. | State of Kuwait | Oil and Energy | **20** | 20 | **7,899,492** | 7,737,317 |
| Al-Khureif United Holding Company K.S.C.C. Kuwait | State of Kuwait | Oil services | **24** | 24 | **8,524,180** | 7,002,734 |
| Bulgarian Dairy Company W.L.L. | State of Kuwait | Dairy | **40** | 40 | **120,000** | 120,000 |
| | | | | | **107,907,781** | 108,361,925 |

The movement during the year is as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at the beginning of the year | **108,361,925** | 106,195,682 |
| Group's share of results from associates | **6,561,104** | 6,288,725 |
| Group's share of associates' other comprehensive (loss) income | **(7,015,248)** | 103,244 |
| Disposal of associate (a) | **-** | (4,225,726) |
| Balance at the end of the year | **107,907,781** | 108,361,925 |

(a) During the year ended December 31, 2015, the Group had sold its investment in Jawad International Fashion - B.S.C. of KD 4,289,661 which resulted in a gain from sale of an associate amounting to KD 183,251.

The Group's share of other comprehensive income from associates is as follows:

| | 2016 | 2015 |
|---|---|---|
| Cumulative changes in fair value | **-** | 215,129 |
| Effect of changes in other comprehensive income of associates | **(746,194)** | (508,217) |
| Foreign currency translation adjustments | **(6,269,054)** | 515,648 |
| Reversal of change in other comprehensive income for an associate as a result of sale | **-** | (119,316) |
| | **(7,015,248)** | 103,244 |

The market value of the investment in National Real Estate Company K.S.C. (Public) as at the date of consolidated statement of financial position is KD 31,272,834 (2015: KD 24,632,390).

As of December 31, 2016, all shares of National Real Estate Company – K.S.C. (Public) with a market value amounting to KD 31,272,834 (2015: KD 24,632,390) are pledged to certain local banks against bank borrowings and murabaha payable (Note 13) and (Note 15).

The Group has not accounted for its share of results from its associates Riviera Holding Company - K.S.C. (Closed) and Kuwait Bulgarian Diary Co. W.L.L. due to non-availability of their audited financial statements for the year ended December 31, 2016. Management expects that business results are not material.

Summarized financial information for material associates are as follows:

**(a) National Real Estate Company - K.S.C. (Public)**

Summarized statement of financial position

| | 2016 | 2015 |
|---|---|---|
| Assets | **528,141,623** | 589,966,899 |
| Liabilities | **(328,302,400)** | (383,227,209) |
| Net assets | **199,839,223** | 206,739,690 |
| Group's ownership percentage | **30.98%** | 30.98% |
| Share of the associates' net assets | **61,910,191** | 64,047,956 |
| Goodwill at acquisition date | **27,554,706** | 27,554,706 |
| Carrying value of National Real Estate Company - K.S.C. (Public) | **89,464,897** | 91,602,662 |

Summarized Statement of profit or loss

| | 2016 | 2015 |
|---|---|---|
| Revenue | **33,937,872** | 28,477,766 |
| Cost | **(29,709,372)** | (19,718,678) |
| Other expenses | **(10,205,409)** | (10,229,557) |
| Other income | **22,079,043** | 16,896,711 |
| Net profit | **16,102,134** | 15,426,242 |

The contingent liabilities for the legal cases related to an associate of National Real Estate Company – K.S.C. (Public) are summarized as follows:

i. In 2007, the Associate was served with an administrative subpoena and, subsequently, in March 2008, with a grand jury subpoena, by the US Government in connection with an investigation into certain aspects of the Subsistence Prime Vendor ("SPV") Contract which expired in December 2010. In addition, some employees of the Associate were served with grand jury subpoenas. The Associate cooperated with this investigation and produced numerous records in response to this request.

In November 2009, the Associate was indicted by a federal grand jury in United States on multiple counts of fraud allegations. Furthermore, The United States Department of Justice also joined the qui tam lawsuit against the Associate under the US False Claims Act (the "Qui Tam Proceedings"). The Department of Justice is claiming substantial damages for alleged violations. The Associate pled not guilty to the indictment. Between February and November 2012, both parties filed various motions and opposition briefs which are pending before the court for ruling. The Associate's filings included motions to dismiss the indictment on various grounds and a motion to transfer venue to another judicial district.

As a result of this indictment, the Group companies of the Associate are suspended from bidding for new contracts with the US Government pending the outcome of the cases. However, the suspension did not affect continued performance of the existing contracts.

A judgment was issued by the higher Court of Appeal in the State of Kuwait on 30 January 2014 annulling the notices of service of process made upon the request of the competent American authorities at the Court of North Georgia in the United States, and determining such notices to be void ab initio. The judgment determined the Qui Tam Proceedings to be criminal in nature and further enjoined the Undersecretary in the Kuwait Ministry of Justice and others from serving the Associate, its employees and their dependents with any legal document related to the ongoing litigation at the Court of North Georgia in the United States. The above judgment is procedural in nature, and does not have any impact on the financial information of the Associate. As required by applicable law, the Associate has made disclosure of the foregoing judgment to the Kuwait Stock Exchange and the Kuwait Capital Markets Authority. The impact of this judgment leads to the same results that have been disclosed in the notes to previous consolidated financial statements of the Associate.

With respect to the Qui Tam Proceedings, in an order dated 5 February 2016, the United States District Court granted the United States' motion for alternative service of the Associate. The Qui Tam Proceedings are pending in the Northern District of Georgia in the United States. The order is not a final judgment in the matter. While publication of notice of the proceedings was subsequently made in a Kuwaiti newspaper, the United States District Court has yet to rule on whether service of process has yet been effected.

On 28 September 2016, the U.S. magistrate issued a Report and Recommendation recommending that the U.S. District Court deny the Associate's motions to dismiss the indictment and to transfer venue. The recommendation is not a final judgment in the matter, and the U.S. District Court has yet to rule on the Associate's motions.

Furthermore, in 2009, in relation to a cost reimbursable contract, the U.S. Defense Contract Audit Agency (DCAA) determined that reimbursement requests for certain costs incurred by the Associate were not proper, and demanded repayment of approximately and an amount of KD 23 million from the Associate. In 2011, the US Government collected KD 4.7 million from this amount by offsetting payments due on the Associate's other US Government contracts.

In November 2010, the Associate filed a Notice of Appeal in respect of the matter to the U.S. Armed Services Board of Contract Appeals (ASBCA). On 10 December 2014, the ASBCA ruled that it did not have subject-matter jurisdiction to review the appeal by the Associate.

On 8 April 2015, the Associate appealed the ASBCA ruling to the U.S. Court of Appeals for the Federal Circuit. As part of the same contract, the Associate asserted a KD 13 million claim for non-reimbursed costs. This claim was denied by the ASBCA and consolidated with the above referenced Government claim for KD 23 million. Both claims are therefore on appeal to the U.S. Court of Appeals for the Federal Circuit. The Associate also filed a separate complaint at the U.S. Court of Federal Claims on 7 April 2015 on a different jurisdictional basis seeking the KD 13 million affirmative claim, the KD 4.7 million which was offset by the U.S. Government as aforementioned, and a determination that the KD 23 million demanded by the US Government is invalid. On 10 March 2016 the U.S. Court of Appeals for the Federal Circuit granted a "limited remand" back to the ASBCA for the purpose of determining the real party in interest. Notwithstanding this remand, the U.S. Court of Appeals for the Federal Circuit retained jurisdiction over the appeal.

In October 2016, U.S. Defense Logistics Agency (DLA) sent a demand that the Associate reimburse the U.S. Government an amount of approximately KD 8.4 million for alleged "bottled water overcharges." The U.S. Government paid the claimed amount to the Associate for supplying bottled water to the U.S. military in Afghanistan in 2005. DLA claims that the Associate misrepresented the price of bottled water because PWC's supplier, Supreme Foodservice, charged an artificially-high price for the water that Supreme for catering services sold to the Associate. To date, DLA has not presented any evidence that the Associate was complicit in, or had any actual or constructive knowledge of, Supreme's fraud at the time the Associate purchased bottled water from Supreme for catering services. The Associate intends to defend vigorously against these claims, and has appealed DLA's decision before the United States Court of Federal Claims. In addition, the Associate has notified Supreme that the Associate will hold Supreme liable for all costs, including legal fees, the Associate incurs in defending this matter.

Despite inherent uncertainty surrounding these cases, no provision is recorded by the management in the consolidated financial statements. The Associate (after consulting the external legal counsel) is not able to comment on the likely outcome of the cases.

ii. Freight forwarding business - investigation

On 26 November 2009, the Italian Competition Authority (ICA) opened an investigation into the activities of some 20 freight forwarding companies including Associate's subsidiary in Italy. The ICA issued its final decision on 15 September 2011, imposing a total fine of approximately KD 55,000 (Euro 139,000) on Agility.

This decision was appealed by other third parties before the court and the proceedings were stayed pending a reference on the interpretation on the relevant points of EU law to the European Court of Justice, which handed down its judgment on 20 January 2016 that supports Associate's position. On October 23, 2016, the Italian court issued a ruling confirming the European Court of Justice ruling, and rejecting the third party appeals, thereby rendering as final the ICA decision.

In August 2010, the Brazilian competition authority ("CADE") opened an investigation into the activities of the freight forwarding industry which included the Associate. The investigation is currently ongoing. The Brazilian competition authority purported to serve a notice on the Associate through its Brazilian subsidiary. The Associate has to date rejected the validity of service of the notice. However, CADE stated in public announcement that it considers the notice to the Associate duly served. The Associate filed proceedings before the Brazilian court on 18 February 2014 requesting that the service of process be declared null. The Court issued a ruling rejecting this request and the Associate appealed against this ruling on 2 June 2015.

As at 31 December 2016, due to inherent uncertainty surrounding these investigations, the Associate's management (after consulting the external legal counsel) is not able to comment on the likely outcome of the investigations and in view of the difficulty in quantifying any additional potential liabilities in this regard, no provision is recorded in the consolidated financial statements

iii. Guarantee encashment

A resolution was issued by the General Administration of Customs for Kuwait ("GAC") to cash a portion, amounting to KD 10,092 thousand of the bank guarantee submitted by Global Clearing House Systems K.S.C. (Closed) (the "GCHS"), a subsidiary of the Associate, in favour of GAC in relation to performance of a contract. Pursuant to this resolution, GAC called the above guarantee during the year ended 31 December 2007.

GCHS appealed the above resolution at the Court of First Instance and the latter issued its judgment in favour of GCHS and ordered GAC to pay an amount of KD 58,927 thousand as compensation against the non-performance of its obligations under the contract, and KD 9,138 thousand towards refunding of the guarantee encashed earlier, together with an interest of 7% per annum on these amounts to be calculated from the date the judgment becomes final.

The GCHS appealed the judgment before the Court of Appeal requesting an increase in compensation. GAC also filed an appeal No. 1955 / 2014 administrative 4 before the Court of Appeal. On 13 September 2015, the Court of Appeal pronounced its judgement affirming the decision of the Court of First Instance. Both GCHS and GAC appealed against this ruling before the Kuwait Court of Cassation which is yet to pronounce its judgement.

The GCHS also filed a claim against GAC and requested, under one of its demands, the Court of Appeal to prohibit GAC from encashing the remaining bank guarantees offered by GCHS. The Court of Appeal issued its judgment in favour of GCHS in blocking the encashment of the bank guarantees in the possession of GAC.

In addition to the above, there are legal disputes between GCHS and GAC. Both the parties have filed various claims currently pending in the courts. The Associate's in-house counsel believes that these matters will not have a material adverse effect on the Associate's consolidated financial statements.

iv. KGL Litigation

During the year ended 31 December 2012, the Associate and certain of its subsidiaries were named as defendants in civil lawsuits filed by Kuwait and Gulf Link Transport Company ("KGL") and its affiliates in three separate jurisdictions in the United States for certain alleged defamation and interference with KGL's contracts with the US Government by an alleged former employee of the Associate. The Associate filed motions to dismiss the complaints and KGL also filed amended complaints. As a result, the Court in two of the jurisdictions granted the Associate's motion to dismiss the complaint. The ultimate outcome of the litigation in the other jurisdiction is uncertain at this time.

In addition to the above, the Associate is involved in various incidental claims and legal proceedings matters. The legal counsel of the Associate believes that these matters will not have a material adverse effect on the accompanying consolidated financial statements.

v. Subsequent to the reporting date, the Associate filed a request for arbitration related to one of its investments. The associate was unable to determine the fair value of its investments carried at fair value through profit and loss and the recoverability of the loan granted by the Associate to the related investee as at 31 December 2016 and 31 December 2015, due to nature and significant uncertainty around the investment and outcome of the request for arbitration. The investment is carried at its fair value as at 31 December 2013 of US Dollars 359 million which is equivalent to KD 109,881,000 (2015: KD 108,921,000).

As at 31 December 2016, interest bearing loan provided by the Associate to related investee amounted to KD 35,569,000 (2015: KD 35,258,000) for which the Associate's management is unable to determine the recoverability.

**(b) Alpha Energy Company- K.S.C. (Closed)**

Summarized statement of financial position

| | 2016 | 2015 |
|---|---|---|
| Current assets | 22,590,759 | 23,928,377 |
| Non-current assets | 76,516,720 | 72,501,692 |
| Current liabilities | (16,369,658) | (14,158,290) |
| Non-current liabilities | (43,087,800) | (43,179,637) |
| Net assets | 39,650,021 | 39,092,142 |
| Group's ownership percentage | 20% | 20% |
| Share of the associates' net assets | 7,930,004 | 7,818,428 |
| Other adjustments | (30,512) | (81,111) |
| Carrying value of Alpha Energy Company - K.S.C. (Closed) | 7,899,492 | 7,737,317 |

Summarized Statement of profit or loss

| | 2016 | 2015 |
|---|---|---|
| Sales | 78,105,710 | 104,788,943 |
| Cost of sales | (74,640,372) | (98,950,133) |
| Other expenses | (5,455,026) | (6,636,806) |
| Other income | 2,601,733 | 2,243,882 |
| Net profit | 612,045 | 1,445,886 |

**(c) Al-Khureif United Holding Co. – K.S.C. (Closed)**

Summarized statement of financial position

| | 2016 | 2015 |
|---|---|---|
| Current assets | 31,765,927 | 34,460,655 |
| Non-current assets | 85,251,619 | 36,849,535 |
| Current liabilities | (69,335,383) | (21,187,311) |
| Non-current liabilities | (28,525,467) | (37,060,821) |
| Net Assets | 19,156,696 | 13,062,058 |
| Group's ownership percentage | 24% | 24% |
| Share of the associates' net assets | 4,597,607 | 3,134,894 |
| Goodwill at acquisition date | 2,366,573 | 2,366,573 |
| Undistributed dividend | 1,560,000 | 1,501,267 |
| Carrying value of Al-Khureif United Holding Co. - K.S.C. (Closed) | 8,524,180 | 7,002,734 |

Summarized Statement of profit or loss

| | 2016 | 2015 |
|---|---|---|
| Revenue | 45,112,413 | 22,030,025 |
| Cost | (31,151,978) | (12,118,508) |
| Other expenses | (8,112,544) | (4,838,237) |
| Other income | 194,832 | 12,126 |
| Net profit | 6,042,723 | 5,085,406 |

9. Investment properties

| | 2016 | 2015 |
|---|---|---|
| Balance at the beginning of the year | **14,439,847** | 13,845,847 |
| Changes in fair value | **(812,901)** | 594,000 |
| Foreign currency translation adjustment | **164,061** | - |
| Balance at the end of the year | **13,791,007** | 14,439,847 |

Investment properties with fair value amounting to KD 5,035,000 (2015: KD 5,130,000) are registered in the name of related party and there is a waiver letter in favor of the group (Note 4).

Investment properties with fair value amounting to KD 6,750,000 (2015: KD 7,493,000) are pledged against Murabaha payable granted to the Group (Note 15).

The fair value of investment properties is based on valuations performed by accredited independent valuation experts using recognized valuation techniques and principles.

In estimating the fair value of investment properties, valuers had used the valuation techniques listed in the following schedule and had considered the nature and usage of investment properties.

| Class of investment property | Valuation technique | Level 2 | Total |
|---|---|---|---|
| Lands | Market sales method | 8,577,898 | **8,577,898** |
| Buildings | Market sales method | 5,213,109 | **5,213,109** |
| Total | | 13,791,007 | **13,791,007** |

Management of the Group has complied with the Executive Regulations of capital market authority respect to guidelines for valuation of investment properties.

10. Property, plant and equipment

| | Freehold lands | Buildings | Office equipment and computer | Furniture and fixtures | Vehicles | Plant and machinery | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At January 1, 2016 | 22,377,229 | 82,924,802 | 13,025,721 | 18,005,414 | 3,910,476 | 24,253,499 | 6,293,968 | 170,791,109 |
| Additions | - | 1,780,944 | 147,155 | 475,184 | 92,209 | 2,079,673 | 337,567 | 4,912,732 |
| Disposals | (729,509) | (1,419,322) | (456,852) | (725,334) | (31,009) | (4,232,011) | - | (7,594,037) |
| Transfer from capital work in progress | - | 2,421,550 | 321,491 | 16,649 | 35,581 | 38,979 | (2,834,250) | - |
| Reclassification from work in progress to other assets (Note 12) | - | - | - | - | - | - | (2,336,518) | (2,336,518) |
| Write off | - | - | - | - | - | - | (1,000,000) | (1,000,000) |
| Foreign currency translation adjustments | 138,306 | 785,013 | 130,517 | 182,074 | 36,326 | 231,019 | 20,779 | 1,524,034 |
| **At December 31, 2016** | **21,786,026** | **86,492,987** | **13,168,032** | **17,953,987** | **4,043,583** | **22,371,159** | **481,546** | **166,297,320** |
| **Accumulated depreciation:** | | | | | | | | |
| At January 1, 2016 | - | 40,717,781 | 10,360,161 | 13,947,310 | 3,320,152 | 18,181,784 | - | 86,527,188 |
| Charge for the year | - | 1,542,380 | 600,262 | 1,026,569 | 316,910 | 1,606,242 | - | 5,092,363 |
| Related to disposals | - | (780,494) | (286,577) | (531,177) | (15,640) | (2,480,734) | - | (4,094,622) |
| Foreign currency translation adjustments | - | 351,435 | 56,934 | 79,383 | 16,786 | 100,732 | - | 605,270 |
| **At December 31, 2016** | - | **41,831,102** | **10,730,780** | **14,522,085** | **3,638,208** | **17,408,024** | - | **88,130,199** |
| **Net book value:** | | | | | | | | |
| **At December 31, 2016** | **21,786,026** | **44,661,885** | **2,437,252** | **3,431,902** | **405,375** | **4,963,135** | **481,546** | **78,167,121** |
| At December 31, 2015 | 22,377,229 | 42,207,021 | 2,665,560 | 4,058,104 | 590,324 | 6,071,715 | 6,293,968 | 84,263,921 |

- Freehold lands and buildings with net book value of KD 15,109,598 (2015: KD 15,356,675) are pledged against bank borrowings and murabaha payable granted to the Group (Note 13) and (Note 15). There is no impairment loss recorded on freehold lands and buildings.

11. Goodwill

| | **2016** | 2015 |
|---|---|---|
| Balance at the beginning of the year | **10,738,591** | 10,738,591 |
| Impairment loss for the year | **(7,574,973)** | - |
| Balance at the end of the year | **3,163,618** | 10,738,591 |

Impairment losses amounted to KD 7,574,973 were recognized during the year due to an unexpected significant deterioration in the performance of Sultan Center S.A.L. – Lebanon and is expected to be prolonged as per the current market.

12. Other assets

| | Key money |
|---|---|
| **Cost:** | |
| At January 1, 2016 | 11,120,256 |
| Additions | 241,485 |
| Disposals | (522,867) |
| Transfer from work in progress to other assets (Note 10) | 2,336,518 |
| Foreign currency translation adjustments | (47,147) |
| **At December 31, 2016** | **13,128,245** |
| **Accumulated amortization:** | |
| At January 1, 2016 | 8,810,687 |
| Amortization charges for the year | 837,614 |
| Related to disposals | (122,086) |
| Foreign currency translation adjustments | (20,740) |
| **At December 31, 2016** | **9,505,475** |
| **Net book value:** | |
| **At December 31, 2016** | **3,622,770** |
| At December 31, 2015 | 2,309,569 |

13. Bank borrowings

Bank borrowings are granted by local and foreign banks to the Group. Bank borrowings for certain subsidiaries are secured by corporate guarantee by the Parent Company and the subsidiaries, mortgage of certain shares of associate with a market value of KD 25,862,343 (2015: KD 20,494,715), waiver right of the revenues of some branches of a subsidiary, certain bank accounts of subsidiaries and mortgage of freehold lands and building of subsidiaries with net book value of KD 11,805,448 (2015: KD 12,033,973).

Represented as follows:

| | Due date | **2016** | 2015 |
|---|---|---|---|
| Current portion | Installments ending on December 31, 2016 | **47,561,207** | 47,719,353 |
| Non-current portion | Installments ending on December 31, 2020 | **53,545,250** | 54,906,000 |
| | | **101,106,457** | 102,625,353 |

Management is in negotiations with the banks for the restructuring of bank borrowing facilities.

The annual interest on the above bank borrowings is as follows:

| Description | Currency | Interest rate (%) 2016 | 2015 |
|---|---|---|---|
| Weighted average annual interest rate over Central Bank of Kuwait discount rate | Kuwaiti Dinar | **1.75 – 2.5** | 1.75 – 2.5 |
| Weighted average annual interest rate | Jordanian Dinar | **6.5 – 8.5** | 6.5 – 8.5 |
| Weighted average annual interest rate over LIBOR rate | US Dollar | **2.5** | 2.5 |

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

| Currency | 2016 | 2015 |
|---|---|---|
| Kuwaiti Dinar | **95,130,641** | 97,389,258 |
| Jordanian Dinar | **4,638,417** | 3,828,998 |
| US Dollar | **1,337,399** | 1,407,097 |
| | **101,106,457** | 102,625,353 |

## 14. Accounts payable and other credit balances

| | 2016 | 2015 |
|---|---|---|
| Trade payable | **94,592,394** | 90,916,361 |
| Retentions payable to contractors | **260,331** | 511,358 |
| Leave and other employee accruals | **6,321,161** | 5,852,959 |
| Payable for purchase of property, plant and equipment | **131,269** | 149,966 |
| Provision for legal cases | **791,130** | 1,791,130 |
| Other provisions (a) | **10,410,682** | - |
| Other payables | **9,092,554** | 10,634,743 |
| | **121,599,521** | 109,856,517 |

(a) Other provisions are provided based on management estimates and comprise the following:

| | 2016 | 2015 |
|---|---|---|
| Provision against investment in associate | **3,000,000** | - |
| Provisions relating to investment in a subsidiary | **2,543,068** | - |
| Provision for legal cases | **1,479,626** | - |
| Provision for store closure | **959,141** | - |
| Provision for Zakat | **750,000** | - |
| Provision for staff retirement | **630,740** | - |
| Provision for key money | **350,000** | - |
| Other Provisions | **698,107** | - |
| | **10,410,682** | - |

## 15. Murabaha payable

| | 2016 | 2015 |
|---|---|---|
| Murabaha payable | **28,716,896** | 29,169,133 |
| Less: Unamortized future finance charge | **(1,432,434)** | (1,454,992) |
| Present value of murabaha payable | **27,284,462** | 27,714,141 |

Analyzed as:

| | Due date | 2016 | 2015 |
|---|---|---|---|
| Current portion | Installments ending on December 31, 2016 | **9,929,500** | 9,379,500 |
| Non-current portion | Installments ending on April 6, 2020 | **17,354,962** | 18,334,641 |
| Present value of murabaha payable | | **27,284,462** | 27,714,141 |

Murabaha payable carries average finance charges at 2.5% over the Central Bank of Kuwait discount rate and are secured by mortgage of certain shares of associates' shares with market value of KD 5,410,491 (2015: KD 4,137,675) mortgage of free hold lands and buildings owned by a subsidiary with a net book value of KD 3,304,150 (2015: KD 3,322,702) and mortgage of investment properties owned by a subsidiary amounting to KD 6,750,000 (2015: KD 7,493,000) (Note 9). Management in negotiation with banks for the restructuring of bank borrowing facilities.

16. Provision for end of service indemnity

| | 2016 | 2015 |
|---|---|---|
| Balance at the beginning of the year | **6,389,594** | 6,269,467 |
| Charge for the year | **1,280,161** | 938,703 |
| Paid during the year | **(1,079,368)** | (818,576) |
| Balance at the end of the year | **6,590,387** | 6,389,594 |

17. Share capital

Authorized, issued and paid-up capital amounted to KD 57,882,877 (2015: KD 57,882,877) distributed into 578,828,768 shares (2015: 578,828,768) of 100 fils each and all shares are in cash.

18. Treasury shares

| | 2016 | 2015 |
|---|---|---|
| Number of shares | **14,272,535** | 14,272,535 |
| Percentage of paid up shares (%) | **2.47** | 2.47 |
| Market value (KD) | **799,262** | 956,260 |
| Cost (KD) | **2,593,571** | 2,593,571 |

Due to the non-availability of credit balances in retained earnings, reserves, share premium, the Group's management has not allotted any amount in relation to treasury shares balance as of the financial reporting date.

19. Statutory reserve

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences,(KFAS) National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association. Since there is a net loss for the year as of the end of the year, there was no transfer to statutory reserve during the year.

20. Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. Since there is a net loss for the year as of the end of the year there was no transfer to voluntary reserve during the year.

21. Cost of sales

| | 2016 | 2015 |
|---|---|---|
| Beginning inventory | 27,022,724 | 27,965,045 |
| Purchases | 205,093,721 | 218,217,155 |
| Cost of goods available for sale | 232,116,445 | 246,182,200 |
| Ending inventory | (24,392,496) | (27,022,724) |
| Cost of sales | 207,723,949 | 219,159,476 |

22. Contract cost

| | 2016 | 2015 |
|---|---|---|
| Staff costs | 3,342,890 | 2,272,500 |
| Other operating costs | 6,790,360 | 3,402,890 |
| | 10,133,250 | 5,675,390 |

23. Service contract cost

This represents the cost of security services which represent transportation of precious materials, security systems and institutions safeguarding and include staff cost amounting to KD 7,784,931 (2015: KD 7,264,587).

24. General, administrative and selling expenses

General, administrative and selling expenses include staff costs amounting to KD 25,263,243 (2015: KD 26,090,481).

25. Provisions no longer required

| | 2016 | 2015 |
|---|---|---|
| Provision for doubtful debts no longer required (Note 3) | 1,223,769 | - |
| Reversal of accrued expenses and credit balances | - | 2,217,656 |
| | 1,223,769 | 2,217,656 |

26. Impairment loss

| | 2016 | 2015 |
|---|---|---|
| Impairment loss for goodwill (Note 11) | 7,574,973 | - |
| Impairment loss for financial assets available for sale (Note 7) | 2,848,016 | - |
| | 10,422,989 | - |

27. Board of Directors' remuneration

The Board of Directors' meeting held on March 29, 2017, proposed not to distribute Board of Directors' remuneration for the financial year ended December 31, 2016. This is subject to the approval of shareholders' Ordinary General Assembly for the Parent Company.

The Board of Directors' meeting held on March 31, 2016, recommended a Board of Directors' remuneration with an amount of KD 60,000 for the year ended December 31, 2015. According to the Article No. (198) of the Companies Law, it is not allowed to calculate the total Board of Directors' remuneration with more than 10% of net profit after deducting depreciation, reserves, and distribution of dividends for not less than 5% of capital to the shareholders or any other stipulated percentage in the Parent Company's Articles of Association, whichever is higher. On June 2, 2016, Board of Directors approved the Board of Director's remuneration Shareholders' Annual General Assembly.

28. (Loss) earnings per share attributable to the parent company's shareholders

There are no potential dilutive ordinary shares. The information necessary to calculate basic (loss) earnings per share based on weighted average number of shares outstanding during the year is as follows:

| | 2016 | 2015 |
|---|---|---|
| (Loss) profit for the year attributable to the Parent Company's Shareholders | (24,113,345) | 1,003,130 |
| Number of shares outstanding: | Shares | Shares |
| Number of issued shares at the beginning of the year | 578,828,768 | 578,828,768 |
| Less: Weighted average number of treasury shares | (14,272,535) | (14,272,535) |
| Weighted average number of shares outstanding | 564,556,233 | 564,556,233 |
| | Fils | Fils |
| (Loss) earnings per share attributable to Parent Company's shareholders | (42.71) | 1.78 |

29. Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements do not include any adjustments that might arise due to uncertainty of the Group's ability to continue as a going concern.

As of December 31, 2016, the Group's accumulated losses amounted to KD 34,455,690 (2015: KD 10,342,345). The current liabilities exceed the current assets by KD 125,064,758 (2015: KD 107,846,157). In addition, the gearing ratio had reached 92.61% (2015: 75.29%), while debt to share capital ratio had reached 214% (2015: 217%).

The Group's ability to continue as a going concern depends on its ability to make profits, enhance its future cash flows, restructure its credit facilities and the financial support from its major shareholders. Subsequent to year end ,the Board of Directors of the Parent Company have approved the comprehensive plan for financial and operational restructuring of the group and appointed an external specialist.

30. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash on hand and at banks, receivables, due from/to related parties, financial assets available for sale, bank borrowings, murabaha payable and payables and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

a) **Interest rate risk**

Financial instruments are subject to the risk of changes in value due to changes in the level of interest for its financial assets liabilities carrying floating interest rates. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature are indicated in the respective notes.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit through the impact on floating rate borrowings.

| **Year** | **Increase / (decrease) in interest rate** | **Balance as at December 31** | **Effect on consolidated statement of profit or loss** |
|---|---|---|---|
| **2016** | | | |
| **Bank borrowings** | **± 0.5% basis points** | **101,106,457** | **± 505,532** |
| **Murabaha payable** | **± 0.5% basis points** | **27,284,462** | **± 136,422** |
| 2015 | | | |
| Bank borrowings | ± 0.5% basis points | 102,625,353 | ± 513,127 |
| Murabaha payable | ± 0.5% basis points | 27,714,141 | ± 138,571 |

b) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash at banks, accounts receivable and due from related parties. The Group's cash at banks are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash and cash equivalent and accounts receivable and due from related parties.

c) Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between the following foreign currencies and Kuwaiti Dinar.

| | 2016 | | |
|---|---|---|---|
| | Increase / (decrease) against KD | Effect on consolidated statement of profit or loss (KD) | Effect on consolidated statement of profit or loss and other comprehensive income (KD) |
| Bahraini Dinar | ± 5% | ± 8,932 | ± 137,857 |
| Omani Riyal | ± 5% | ± 60,726 | ± 430,945 |
| Emirates Dirham | ± 5% | - | ± 283,619 |
| Jordanian Dinar | ± 5% | ± 9,145 | ± 84,307 |
| Lebanese Lire | ± 5% | ± 127,379 | ± 716,663 |
| Egyptian Pound | ± 5% | - | ± 920 |

| | 2015 | | |
|---|---|---|---|
| | Increase / (decrease) against KD | Effect on consolidated statement of profit or loss (KD) | Effect on consolidated statement of profit or loss and other comprehensive income (KD) |
| Bahraini Dinar | ± 5% | ±3,763 | ±146,221 |
| Omani Riyal | ± 5% | ±28,455 | ±362,859 |
| Emirates Dirham | ± 5% | - | ±281,384 |
| Jordanian Dinar | ± 5% | ±14,055 | ±102,379 |
| Lebanese Lire | ± 5% | ±419,260 | ±579,071 |
| Egyptian Pound | ± 5% | - | ±2,153 |

d) Liquidity risk:

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable. long with planning and managing the Group's forecasted cash flows by maintaining adequate cash reserves, maintaining valid and available credit lines with banks, and matching the maturity profiles of financial assets and liabilities.

a) **Maturity table for financial liabilities:**

| | 2016 | | | | |
|---|---|---|---|---|---|
| | 1 month | 1-3 months | 3-12 months | 1-5 Years | Total |
| Bank Borrowings | - | - | 47,561,207 | 53,545,250 | 101,106,457 |
| Accounts payable and other credit balances | 21,549,517 | 28,196,718 | 60,651,474 | - | 110,397,709 |
| Due to related parties | - | - | 207,450 | - | 207,450 |
| Murabaha Payable | - | - | 9,929,500 | 17,354,962 | 27,284,462 |
| | 21,549,517 | 28,196,718 | 118,349,631 | 70,900,212 | 238,996,078 |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | 1 month | 1-3 months | 3-12 months | 1-5 years | Total |
| Bank Borrowings | - | - | 47,719,353 | 54,906,000 | 102,625,353 |
| Accounts payable and other credit balances | 11,516,667 | 22,959,242 | 73,589,478 | - | 108,065,387 |
| Due to related parties | - | - | 211,954 | - | 211,954 |
| Murabaha Payable | - | - | 9,379,500 | 18,334,641 | 27,714,141 |
| | 11,516,667 | 22,959,242 | 130,900,285 | 73,240,641 | 238,616,835 |

b) **The analysis of the Group's contingent liabilities and capital commitments by remaining contractual maturities was as follows:**

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | 1 month | 1-3 months | 3-12 months | 1-5 Years | Over 5 years | Total |
| Letters of guarantee | 490,350 | 4,961,540 | 7,399,092 | 3,266,921 | - | 16,117,903 |
| Letters of credit | 248,702 | 409,379 | 1,242,454 | - | - | 1,900,535 |
| Capital commitments | - | 41,219 | 166,958 | 2,409,766 | 19,818,568 | 22,436,511 |
| | 739,052 | 5,412,138 | 8,808,504 | 5,676,687 | 19,818,568 | 40,454,949 |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | 1 month | 1-3 months | 3-12 months | 1-5 Years | Over 5 years | Total |
| Letters of guarantee | 1,315,865 | 3,167,834 | 8,217,478 | 4,409,853 | - | 17,111,030 |
| Letters of credit | 737,011 | 1,072,514 | 55,278 | - | - | 1,864,803 |
| Capital commitments | 66,296 | - | 414,376 | 4,346,925 | 19,331,265 | 24,158,862 |
| | 2,119,172 | 4,240,348 | 8,687,132 | 8,756,778 | 19,331,265 | 43,134,695 |

e) **Equity price risk:**

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual shares. The equity price risk exposure arises from the Group's investment in equity securities classified as financial assets available for sale. The Group is not significantly exposed to equity price risk.

31. Fair value measurement

The Group measures financial assets such as financial assets available for sale investments at fair value at each reporting date.

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

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

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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

| | **2016** | |
|---|---|---|
| | **Level 1** | **Total** |
| Financial assets available for sale | **6,970** | **6,970** |
| | **6,970** | **6,970** |

| | 2015 | |
|---|---|---|
| | Level 1 | Total |
| Financial assets available for sale | 6,970 | 6,970 |
| | 6,970 | 6,970 |

At December 31, the fair values of financial instruments approximate their carrying amounts, with the exception of certain financial assets available for sale carried at cost as indicated in Note 7. The management of the Group has assessed that fair value of financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

During the year there were no transfers between Level 1 and Level 2.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing 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.

The fair value measurement level for investment properties has been disclosed in Note 9.

32. Capital Risk Management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash on hand and at banks. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

For the purpose of capital risk management, the total capital resources consist of the following components:

| | 2016 | 2015 |
|---|---|---|
| Bank borrowings | 101,106,457 | 102,625,353 |
| Murabaha payable | 27,284,462 | 27,714,141 |
| Total borrowings | 128,390,919 | 130,339,494 |
| Less: Cash on hand and at banks | (4,332,433) | (4,529,451) |
| Net debt | 124,058,486 | 125,810,043 |
| Total equity | 9,895,337 | 41,283,874 |
| Total capital resources | 133,953,823 | 167,093,917 |
| Gearing Ratio | 92.61% | 75.29% |

33. Contingent liabilities and legal claims

a. At December 31, the group is contingently liable in respect of the following:

| | 2016 | 2015 |
|---|---|---|
| Letters of guarantee | 16,117,903 | 17,111,030 |
| Letters of credit | 1,900,535 | 1,864,803 |
| | 18,018,438 | 18,975,833 |

b. The Group's share of contingent liabilities of the associates are as follows:

| | 2015 | 2015 |
|---|---|---|
| Letters of guarantee | 1,350,861 | 1,386,373 |

c. The Group share of major legal claims from associate of National Real Estate Company - K.S.C.(Public) is as follows:

1. The Ministry of Finance (MOF) issued a resolution to terminate contracts relating to certain properties constructed on land leased from the Government upon the expiry of 25 years, the Parent company appealed against this resolution.

   For one of the properties, the court of appeal had ruled in favour of the MOF and awarded a compensation of KD 11,711,060. The Associate has further appealed to court of cassation and the case is still under consideration. For the other property, the court of first instance has ruled in favour of the MOF and awarded a compensation of KD 6,597,527. The Associate has further appealed to the Court of Appeal and the case is under consideration to date. The Associate has also filed law suits against the MOF demanding compensation for these properties. These cases are still under consideration till date.

2. An Arbitration claim was filed by one of the investors in Kuwait Free Trading Zone (KFTZ) against the Associate for alleged damages and loss of profit. Arbitration ruled against the Associate and awarded KD 6,021,803 to the investor in the KFTZ. The Associate has appealed in the court of first instance and the appeal was rejected. The Associate has appealed at the Court of Appeal and is still under consideration till date.

3. The Ministry of Commerce and Industry (MOCI) had cancelled the management contract of KFTZ. The Associate filed a lawsuit appealing the decision of MOCI. The Associate had recognized a provision for KD 13,360,424 upon losing control over the assets in KFTZ. The Court of Cassation has ruled in favour of MOCI on 22 March 2016, which brings to the end of this legal case. There were no additional provision required as the Associate had earlier fully provided for KFTZ assets.

4. The Associate filed a legal case against Kuwait Ports Authority (KPA) and a transport company claiming for the unpaid rent from their utilization of certain plots in KFTZ. The Court of Appeal confirmed the appeal obliging KPA and the transport company to jointly pay KD 6,956,416 to the Associate. The Associate received the amount as stated in the Court ruling on 11 October 2011. KPA and the transport company appealed against the ruling in the Court of Cassation which is still pending. On conservative basis, provisions recorded earlier were not reversed by the Associate even after the receipt of amounts from KPA and the transport company, until a final ruling is issued.

   Also, the Associate has filed a lawsuit against KPA to compensate it for utilizing other sites in KFTZ. The Court transferred the matter to Experts department which is still under consideration to date.

Provisions are taken for those cases where it is more probable that the Associate will not prevail in the opinion of the external legal counsel.

In addition to the above, there are other lawsuits raised against the Associate in the ordinary course of business, and the Associate's external legal counsel believes that these matters will not have a material adverse effect on the Group consolidated financial statements.

34. Capital commitments

One of the subsidiaries has entered into a 25 year agreement for the lease of land and another subsidiary has entered into a 22 year agreement for the lease of another land, also, another subsidiary entered into operating lease agreement ranging from 2 – 15 years. Under the lease agreements, the subsidiaries are committed to pay annual lease rentals as follows:

| | **2016** | 2015 |
|---|---|---|
| Less than 1 year | **208,177** | 480,672 |
| From 1 to 5 years | **2,409,766** | 4,346,925 |
| More than 5 years | **19,818,568** | 19,331,265 |
| | **22,436,511** | 24,158,862 |

The Group's share of capital commitments of the associate are as follows:

a) Capital commitments amounting to KD 3,543,417 (2015: 6,793,012).
b) Commitments under a major non-cancelable operating lease, primarily for land leased from the Government of Kuwait for the Water Front Project for the associate as follows:

| Year | **Amount** |
|---|---|
| 2016 – 2019 | **26,209** |
| | **26,209** |

For the operating lease commitments, the associate company is required to give a bank guarantee to Ministry of Finance of 0.5% of the total value of the capital project concerned for the purpose of maintenance services.

35. General Assembly and Board of Directors' meeting

The Board of Directors' meeting held on March 29, 2017 recommended not to distribute cash dividends for the year ended December 31, 2016. This recommendation is subject to the approval of the Ordinary Shareholders' Annual General Assembly.

The parent company's Shareholders' Annual General Assembly meeting held on June 2, 2016 has approved not to distribute cash dividends or bonus shares for the year ended December 31, 2015.

The Shareholders' Annual General Assembly held on May 27, 2015 approved not to distribute cash dividends or bonus shares for the year ended December 31, 2014.

36. Segment information

For management purposes, the group has the following strategic divisions as reportable operating segments, which are summarized as follows:

| Reportable operating segment | Description |
|---|---|
| Retail | Food products hypermarkets. |
| Investments | Investing in securities, associates and joint operations. |
| Contracting | Construction |
| Real Estate | Management, development, and trading in real estate. |

Information related to each reportable geographic segment is set out below:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | **Retail** | **Investment** | **Contracting** | **Real Estate** | **Total** |
| **Total revenue** | **248,384,156** | **548,020** | **24,859,221** | **1,734,429** | **275,525,826** |
| **Gross profit (Loss)** | **42,690,204** | **(24,522)** | **5,008,493** | **753,181** | **48,427,356** |
| **Depreciation and amortization** | **(5,077,305)** | **-** | **(178,763)** | **(673,909)** | **(5,929,977)** |
| **Finance charges** | **(447,962)** | **(5,401,318)** | **(35,155)** | **-** | **(5,884,435)** |
| **(Loss) profit for the Segments** | **(24,178,656)** | **570,244** | **2,261,247** | **(2,699,234)** | **(24,046,399)** |
| **Total assets** | **96,160,903** | **121,007,515** | **18,951,520** | **30,563,676** | **266,683,614** |
| **Total liabilities** | **247,723,933** | **69,840** | **5,234,486** | **3,760,018** | **256,788,277** |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Retail | Investment | Contracting | Real Estate | Total |
| Total revenue | 263,285,112 | 199,722 | 19,065,636 | 1,854,048 | 284,404,518 |
| Gross profit | 46,616,772 | 10,251 | 4,663,194 | 908,263 | 52,198,480 |
| Depreciation and amortization | (5,952,069) | - | (195,987) | (682,373) | (6,830,429) |
| Finance charges | (669,757) | (5,249,369) | (32,526) | (3,855) | (5,955,507) |
| (Loss) profit for the Segments | (1,661,495) | 937,549 | 4,046,544 | (2,162,153) | 1,160,445 |
| Total assets | 115,162,385 | 122,136,066 | 17,721,356 | 33,080,113 | 288,099,920 |
| Total liabilities | 237,097,949 | 79,693 | 6,074,636 | 3,563,768 | 246,816,046 |