# NATIONAL INTERNATIONAL HOLDING COMPANY K.S.C.P. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

## 31 DECEMBER 2014

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working world

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# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL INTERNATIONAL HOLDING COMPANY K.S.C.P.

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National International Holding Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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BAKER TILLY KUWAIT

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL INTERNATIONAL HOLDING COMPANY K.S.C.P. (continued)**

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies' Law No. 25 of 2012, as amended and its executive regulation, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies' Law No. 25 of 2012, as amended and its executive regulation, or of the Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the Parent Company or on its financial position.

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

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

22 February 2015
Kuwait

## CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2014

| | Notes | *2014* *KD* | *2013* *KD* |
|---|---|---|---|
| Realized gain on sale of financial assets at fair value through profit or loss | | **38,916** | 70,987 |
| Unrealized loss on financial assets at fair value through profit or loss | | **(91,331)** | (22,493) |
| Realized gain on sale of financial assets available for sale | | **113,783** | 268,285 |
| Impairment loss on financial assets available for sale | | **(32,982)** | (177,319) |
| Gain on sale of investment properties | | **717,996** | 743,926 |
| Change in fair value of investment properties | 9 | **268,002** | 765,513 |
| Share of results of an associate | | **-** | (13,530) |
| Gain on sale of an associate | | **3,422** | - |
| Dividend income | | **368,974** | 474,044 |
| **Net investment income** | | **1,386,780** | 2,109,413 |
| Administrative expenses | | **(419,641)** | (463,751) |
| **Net operating income** | | **967,139** | 1,645,662 |
| Other income | | **51,264** | 29,919 |
| Foreign exchange gain | | **17,449** | 28,565 |
| Finance costs | | **(7,406)** | (98,182) |
| **PROFIT FOR THE YEAR BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND BOARD OF DIRECTORS' REMUNERATION** | | **1,028,446** | 1,605,964 |
| Contribution to KFAS | | **(9,256)** | (16,060) |
| NLST | | **(24,706)** | (39,125) |
| Zakat | | **(9,882)** | (15,650) |
| Board of Directors' remuneration | 10 | **(35,000)** | (35,000) |
| **PROFIT FOR THE YEAR** | | **949,602** | 1,500,129 |
| **BASIC AND DILUTED EARNINGS PER SHARE** | 4 | **4.61 fils** | 7.28 fils |

The attached notes 1 to 18 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

| | ***2014*** | *2013* |
|---|---|---|
| | ***KD*** | *KD* |
| **Profit for the year** | **949,602** | 1,500,129 |
| **Other comprehensive income:** | | |
| ***Other comprehensive income to be reclassified to the consolidated statement of income in subsequent periods:*** | | |
| *Financial assets available for sale:* | | |
| - Change in fair values | **409,078** | 514,202 |
| - Reclassified to consolidated statement of income on sale | **(113,783)** | (268,285) |
| - Reclassified to consolidated statement of income on impairment | **32,982** | 177,319 |
| **Other comprehensive income for the year** | **328,277** | 423,236 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **1,277,879** | 1,923,365 |

The attached notes 1 to 18 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| | Notes | *2014* **KD** | *2013* *KD* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 5 | **1,769,338** | 1,780,808 |
| Accounts receivable and other assets | 6 | **25,893** | 874,715 |
| Financial assets at fair value through profit or loss | 7 | **300,994** | 291,119 |
| Financial assets available for sale | 8 | **33,244,913** | 31,828,653 |
| Investment in an associate | | **-** | 113,203 |
| Investment properties | 9 | **3,022,163** | 3,073,850 |
| Furniture and equipment | | **6,262** | 955 |
| **TOTAL ASSETS** | | **38,369,563** | 37,963,303 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 10 | **21,262,500** | 21,262,500 |
| Share premium | 10 | **2,813,184** | 2,813,184 |
| Statutory reserve | 11 | **263,441** | 160,596 |
| Cumulative changes in fair values reserve | | **11,941,775** | 11,613,498 |
| Treasury shares | 12 | **(1,357,272)** | (1,357,272) |
| Treasury shares reserve | | **318,561** | 318,561 |
| Retained earnings | | **1,155,417** | 1,339,533 |
| **Total equity** | | **36,397,606** | 36,150,600 |
| **Liabilities** | | | |
| Bank overdraft | 5 | **-** | 477,064 |
| Accounts payable and other liabilities | 13 | **1,971,957** | 1,335,639 |
| **Total Liabilities** | | **1,971,957** | 1,812,703 |
| **TOTAL EQUITY AND LIABILITIES** | | **38,369,563** | 37,963,303 |

Abdul Wahab Mohamed Al-Wazzan
Chairman

Ali Ahmed Al-Bagli
Vice Chairman and Chief Executive Officer

The attached notes 1 to 18 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

| | Notes | *2014* *KD* | *2013* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **949,602** | 1,500,129 |
| Non-cash adjustments to reconcile profit for the year to net cash flows: | | | |
| Realized gain on sale of financial assets at fair value through profit or loss | | **(38,916)** | (70,987) |
| Unrealized loss on financial assets at fair value through profit or loss | | **91,331** | 22,493 |
| Realized gain on sale of financial assets available for sale | | **(113,783)** | (268,285) |
| Impairment loss on financial assets available for sale | 8 | **32,982** | 177,319 |
| Gain on sale of investment property | | **(717,996)** | (743,926) |
| Change in fair value of investment properties | 9 | **(268,002)** | (765,513) |
| Share of results of an associate | | **-** | 13,530 |
| Gain on sale of an associate | | **(3,422)** | - |
| Dividend income | | **(368,974)** | (474,044) |
| Depreciation | | **2,033** | 777 |
| Provision for employees' end of service benefits | | **20,887** | 21,313 |
| Interest income | | **(2,584)** | (171) |
| Finance costs | | **7,406** | 98,182 |
| | | **(409,436)** | (489,183) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable and other assets | | **848,822** | (17,065) |
| Financial assets at fair value through profit or loss | | **(62,290)** | 24,729 |
| Accounts payable and other liabilities | | **(353,940)** | 341,190 |
| Net cash flows from (used in) operating activities | | **23,156** | (140,329) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of financial assets available for sale | | **(2,081,030)** | (1,385,148) |
| Proceeds from sale of financial assets available for sale | | **1,073,848** | 1,507,195 |
| Proceeds from sale of investment in an associate | | **116,625** | - |
| Additions to investment properties | 9 | **(669,256)** | (3,399,671) |
| Proceeds from sale of investment properties | | **2,593,405** | 10,066,297 |
| Additions to furniture and equipment | | **(7,340)** | - |
| Dividend income received | | **368,974** | 474,044 |
| Interest income received | | **2,584** | 171 |
| Net cash flows from investing activities | | **1,397,810** | 7,262,888 |
| **FINANCING ACTIVITIES** | | | |
| Dividend paid | | **(947,966)** | - |
| Net movement in term loan | | **-** | (6,000,000) |
| Finance costs paid | | **(7,406)** | (98,182) |
| Net cash flows used in financing activities | | **(955,372)** | (6,098,182) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **465,594** | 1,024,377 |
| Cash and cash equivalents at 1 January | | **1,303,744** | 279,367 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 5 | **1,769,338** | 1,303,744 |

The attached notes 1 to 18 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

| | *Share capital* *KD* | *Share premium* *KD* | *Statutory reserve* *KD* | *Cumulative changes in fair values reserve* *KD* | *Treasury shares* *KD* | *Treasury shares reserve* *KD* | *Retained earning (Accumulated losses)* *KD* | *Total* *KD* |
|---|---|---|---|---|---|---|---|---|
| As at 1 January 2014 | 21,262,500 | 2,813,184 | 160,596 | 11,613,498 | (1,357,272) | 318,561 | 1,339,533 | 36,150,600 |
| Profit for the year | - | - | - | - | - | - | 949,602 | 949,602 |
| Other comprehensive income for the year | - | - | - | 328,277 | - | - | - | 328,277 |
| Total comprehensive income for the year | - | - | - | 328,277 | - | - | 949,602 | 1,277,879 |
| Cash dividend (Note 10) | - | - | - | - | - | - | (1,030,873) | (1,030,873) |
| Transfer to statutory reserve | - | - | 102,845 | - | - | - | (102,845) | - |
| **As at 31 December 2014** | **21,262,500** | **2,813,184** | **263,441** | **11,941,775** | **(1,357,272)** | **318,561** | **1,155,417** | **36,397,606** |
| As at 1 January 2013 | 21,262,500 | 5,959,546 | - | 11,190,262 | (1,357,272) | 318,561 | (3,146,362) | 34,227,235 |
| Loss for the year | - | - | - | - | - | - | 1,500,129 | 1,500,129 |
| Other comprehensive income for the year | - | - | - | 423,236 | - | - | - | 423,236 |
| Total comprehensive income (loss) for the year | - | - | - | 423,236 | - | - | 1,500,129 | 1,923,365 |
| Extinguishment of accumulated losses (Note 10) | - | (3,146,362) | - | - | - | - | 3,146,362 | - |
| Purchase of treasury shares | - | - | 160,596 | - | - | - | (160,596) | - |
| As at 31 December 2013 | 21,262,500 | 2,813,184 | 160,596 | 11,613,498 | (1,357,272) | 318,561 | 1,339,533 | 36,150,600 |

The attached notes 1 to 18 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

The consolidated financial statements of National International Holding Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively, the "Group") for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Parent Company's Board of Directors on 22 February 2015. The General Assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after their issuance.

The Annual General Assembly of the Parent Company's shareholders for the year ended 31 December 2013 was held on 27 April 2014 and approved the consolidated financial statements of the Group for the year ended 31 December 2013.

The Parent Company is a Kuwaiti public shareholding company registered and incorporated in Kuwait on 14 January 1979 whose shares are listed on the Kuwait Stock Exchange and is engaged in investing activities in both local and international markets as set forth in Article No. 5 of the Parent Company's Articles of Association. The Parent Company is regulated by the Capital Market Authority ("CMA").

The registered office of the Parent Company is located at Chamber of Commerce and Industry Building, 4th Floor, Al Shuhada Street, P.O. Box 25825 Safat Kuwait.

The Parent Company is a subsidiary of Gimbal Holding Company SPC (the "Ultimate Parent Company").

## 2 SIGNIFICANT ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

The consolidated financial statements have been presented in Kuwaiti Dinars (KD), which is also the functional and presentation currency of the Parent Company's.

The Group presents its consolidated statement of financial position broadly in order of liquidity. The maturity profile regarding recovery or settlement of the Group's assets and liabilities within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in Note 17.

### 2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of the following new and amended standards effective on or after 1 January 2014:

*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments had no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

*IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)*
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments had no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES (continued)**

*IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments did not impact the Group's financial position or performance.

*IFRIC 21 Levies*
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation had no impact on the Group as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

***Annual Improvements 2010-2012 Cycle***
In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 had no impact on the Group.

***Annual Improvements 2011-2013 Cycle***
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

Other new or amended standards which are effective on or after 1 January 2014 are not relevant to the Group and has no impact on the accounting policies, financial position or performance of the Group.

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt those standards when they become effective. However, the Group expects no significant impact from the adoption of these standards on its financial position or performance.

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

*IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests (Amendments)*
These amendments are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

*IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests (Amendments) (continued)*
In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments are not expected to have any impact on the Group.

*IFRS 14 Regulatory Deferral Accounts*
IFRS 14 becomes effective for annual periods beginning on or after 1 January 2016. IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of comprehensive income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer, this standard would not apply.

*IFRS 15 Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

*Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*
These amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments 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 part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments are not expected to have any impact on the Group since the Group had not used a revenue-based method to depreciate its non-current assets.

*Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*
These amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

*Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*
These amendments become effective for annual periods beginning on or after 1 July 2014. IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. It is not expected that these amendments would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

*Amendments to IAS 27 Equity Method in Separate Financial Statements*
These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. These amendments will not have any impact on the Group's consolidated financial statements.

***Annual improvements 2010-2012 Cycle***
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

*IFRS 2 Share-based Payment*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition; and
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

*IFRS 3 Business Combinations*
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

*IFRS 8 Operating Segments*
The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'; and
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

*IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

*IAS 24 Related Party Disclosures*
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

***Annual improvements 2011-2013 Cycle***
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

*IFRS 3 Business Combinations*
The amendment is applied prospectively and clarifies, for the scope exceptions within IFRS 3, that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3; and
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

***Annual improvements 2011-2013 Cycle (continued)***
*IFRS 13 Fair Value Measurement*
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

*IAS 40 Investment Property*
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

### 2.4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2014.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises assets (including goodwill), liabilities, non-controlling interests, and other components of equity while any resultant gain or loss is recognized in the consolidated statement of income. Consideration received and any investment retained are recognized in the consolidated statement of financial position at fair value. It also reclassifies any share of components previously recognised in OCI to the consolidated statement of comprehensive income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 BASIS OF CONSOLIDATION (continued)

Details of the subsidiaries included in the consolidated financial statements set out below:

| *Name of the company* | *Country of incorporation* | *Effective interest in equity* | | *Principal activities* |
|---|---|---|---|---|
| | | ***2014*** | *2013* | |
| Al Oula National Real Estate Company W.L.L. * | Kuwait | **97%** | 97% | Real estate activities |
| Al Ghad Project Management Company W.L.L. * | Kuwait | **97%** | 97% | Real estate projects management |

* The Parent Company has 100% beneficial ownership in these entities. The remaining 3% equity interest in these entities is registered in the name of nominees on behalf of the Parent Company, who confirmed in writing that the Parent Company is the beneficial owner of this interest.

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Revenue recognition**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and rebates, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks. The following specific recognition criteria must also be met before revenue is recognised:

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

*Interest income*
Interest income is recognised as interest accrues using the effective interest rate (EIR) method.

*Kuwait Foundation for the Advancement of Sciences (KFAS)*
The Parent Company calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that income from associates and subsidiaries and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

*National Labour Support Tax (NLST)*
The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. Cash dividend from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

*Zakat*
Zakat is calculated at 1% of the profit for the year in accordance with the requirements of the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

**Impairment of non-financial assets**
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of non-financial assets (continued)**
Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognizing impairment loss in the consolidated statement of income.

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 (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

**Financial instruments – initial recognition, subsequent measurement and derecognition**

**(i) Financial assets**

***Initial recognition and measurement***
Financial assets within scope of IAS 39 are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity, financial assets available for sale, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets on initial recognition.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

The Group's financial assets include cash and cash equivalents, receivables, financial assets at fair value through profit or loss, receivables and financial assets available for sale.

At the reporting date, the Group did not have any financial assets held-to-maturity or as derivatives designated as hedging instruments.

***Subsequent measurement***
The subsequent measurement of financial assets depends on their classification as follows:

*Cash and cash equivalents*
Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand and at banks and time deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and at banks, net of outstanding bank overdraft.

*Receivables*
Receivables are shown at the balance due, net of allowance for impairment. An estimate for doubtful debts is made, when collection of full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments – initial recognition, subsequent measurement and derecognition (continued)**

**(i) Financial assets (continued)**
***Subsequent measurement (continued)***
*Financial assets at fair value through profit or loss*
Financial assets carried at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in the consolidated statement of income. Financial assets are designated at fair value through profit or loss if they are managed, and their performance is evaluated on reliable fair value basis in accordance with a documented investment strategy. After initial recognition financial assets at fair value through profit or loss are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, financial assets available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

*Financial assets available for sale*
Financial assets available for sale include equity and debt securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of income, or determined to be impaired, at which time the cumulative loss is recognised in the consolidated statement of income and removed from the cumulative changes in fair values reserve. Financial assets whose fair value cannot be reliably measured are stated as cost less impairment losses, if any.

The Group evaluates whether the ability and intention to sell its available for sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available for sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

***Derecognition***
A financial asset (or, where applicable a part of financial asset or part of a Group of similar financial assets) is derecognised when:

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments – initial recognition, subsequent measurement and derecognition (continued)**

**(i) Financial assets (continued)**

***Derecognition (continued)***

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

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

**(ii) Impairment of financial assets**

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

*Financial assets carried at amortised cost*

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

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write off is later recovered, the recovery is credited to the consolidated statement of income.

*Financial assets available for sale*

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments – initial recognition, subsequent measurement and derecognition (continued)**

**(ii) Impairment of financial assets (continued)**
*Financial assets available for sale (continued)*
Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as financial assets available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

**(iii) Financial liabilities**
***Initial recognition and measurement***
Financial liabilities within the scope of IAS 39 are classified, at initial recognition, as financial liabilities at fair value through profit or loss. loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, and in case of loans and borrowings, net of directly attributable transactions costs.

The Group's financial liabilities comprise bank overdraft, accounts payable and other liabilities and term loan.

At the reporting date, the Group did not have any financial liabilities at fair value through profit or loss or as derivatives designated as hedging instruments.

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

*Loans and borrowings*
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the consolidated statement of income.

*Accounts payable*
Liabilities are recognised for amounts to be paid in the future for subcontracting work and goods or services received, whether or not billed to the Group.

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

An analysis of fair value measurement of financial instruments and further details as to how they are measured are provided in Note 18.

**Investments in an associate**
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group's investment in its associates is accounted for using the equity method of accounting.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments in an associate (continued)**
The share of profit of associates is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associates.

The financial statements of the associates are prepared for the same reporting period as the Group and in case of different reporting date of associate, which are not more than three months, from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

**Investment properties**
Generally, investment properties comprise properties under development and developed properties that are held to earn rentals or for capital appreciation or both. Properties held under a lease are classified as investment properties when they are held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment properties are measured initially at cost, including transaction costs. Transaction costs include professional fees for legal services, commissions and other costs to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the investment property would result in either gains or losses on the retirement or disposal of the investment property. Any gains or losses are recognised in the consolidated statement of income in the period of derecognition.

**Furniture and equipment**
Furniture and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable asset which is 5 years.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Furniture and equipment (continued)**
Expenditure incurred to replace a component of an item of furniture and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of furniture and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

An item of furniture and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

**Treasury shares**
The Parent Company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividend are distributed 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.

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

With respect to its national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation amount can be made.

**Foreign currencies**
Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency are translated to Kuwaiti Dinars at rates of exchange prevailing at the reporting date. Exchange differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Segment information**
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

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

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

*Classification of investments*
Management decides on acquisition of an investment whether it should be classified as "at fair value through profit or loss" or "financial assets available for sale".

Classification of investments as fair value through profit or loss depends on how management monitors the performance of these investments. When they have readily available reliable fair values and the changes in fair values are reported as part of in the management accounts, they are classified as fair value through profit or loss.

All other financial assets are classified as financial assets available for sale.

*Classification of real estate*
Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.
The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

**Estimates and assumptions**
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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

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

## 3 SIGNIFICANT ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS (continued)

**Estimates and assumptions (continued)**

*Valuation of unquoted equity investments*

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

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

*Impairment of investment in associates*

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

*Valuation of investment properties*

Fair value of investment properties is determined based on valuations by independent registered real estate assessors which have relevant experience in the local and international property market.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined (Note 8). As a result, these investments are carried at cost less impairment.

*Useful lives of furniture and equipment*

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

## 4 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares). Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As at 31 December, the Parent Company had no outstanding dilutive potential shares.

The information necessary to calculate basic earnings per share based on the weighted average number of shares outstanding, less treasury shares, during the year is as follows:

| | ***2014*** | *2013* |
|---|---|---|
| Profit for the year (KD) | **949,602** | 1,500,129 |
| Weighted average number of ordinary shares outstanding during the year (excluding treasury shares) | **206,174,650** | 206,174,650 |
| Basic and diluted earnings per share | **4.61 fils** | 7.28 fils |

## 5 CASH AND CASH EQUIVALENTS

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

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Cash on hand | **6,696** | 6,392 |
| Bank balances | **1,762,642** | 1,774,416 |
| Total cash and bank balances | **1,769,338** | 1,780,808 |
| Bank overdraft | **-** | (477,064) |
| | **1,769,338** | 1,303,744 |

Bank overdraft is payable to financial institutions in Kuwait and is denominated in Kuwaiti Dinars. Bank overdraft carries interest at an average rate of 3% (2013: 3%) per annum over the Central Bank of Kuwait discount rate.

## 6 ACCOUNTS RECEIVABLE AND OTHER ASSETS

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Receivable from sale of investment properties | **-** | 837,383 |
| Other receivables | **25,893** | 37,332 |
| | **25,893** | 874,715 |

## 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| ***Held for trading:*** | | |
| Local quoted equity securities | **300,994** | 291,119 |

## 8 FINANCIAL ASSETS AVAILABLE FOR SALE

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Local quoted equity securities | **1,874,581** | 1,398,668 |
| Local and foreign unquoted equity securities | **29,777,370** | 28,700,021 |
| Foreign managed portfolios (quoted and unquoted) | **1,159,887** | 1,315,184 |
| Foreign managed funds | **433,075** | 414,780 |
| | **33,244,913** | 31,828,653 |

An impairment loss of KD 9,091 (2013: KD 96,520) has been recorded against local quoted equity securities on which there has been a significant or prolonged decline in value.

**8 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)**

As at 31 December 2014, local and foreign unquoted equity securities amounting KD 9,705,329 (2013: KD 17,602,991) are carried at cost less impairment due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. Management has performed a review of these investments to assess whether any impairment has occurred in their value and accordingly, an impairment loss of KD Nil (2013: KD 80,799) has been recorded in the consolidated statement of income on these investments. Management is not aware of any circumstances that would indicate any further impairment required to be recorded against the value of these investments at the reporting date.

As at 31 December 2014, local and foreign unquoted equity securities amounting to KD 20,072,041 (2013: KD 11,097,030) are carried at fair value determined by the management of the Parent Company using an appropriate valuation method based on the latest audited financial information available. Management has performed a review of these investments to assess whether any impairment has occurred in their value. Management is not aware of any circumstances that would indicate any impairment required to be recorded against the value of these investments at the reporting date.

Foreign managed portfolios amounting to KD 1,159,887 (2013: KD 1,315,184) are carried at fair value reported by the respective investment manager. Management is not aware of any circumstances that would indicate any impairment required to be recorded against the value of this investments at the reporting date.

Foreign managed funds amounting to KD 433,075 (2013: KD 414,780) are carried at fair value reported by the respective fund manager. An impairment loss of KD 23,891 (2013: KD Nil) has been recorded in the consolidated statement of income on these investments. Management is not aware of any circumstances that would indicate any further impairment required to be recorded against the value of these investments at the reporting date.

As at 31 December 2014, financial assets available for sale amounting to KD 1,496,163 (2013: 2,785,184) are managed by a related party (Note 14).

Fair value hierarchy disclosures for financial assets available for sale are provided in Note 18.

**9 INVESTMENT PROPERTIES**

| | ***2014*** | *2013* |
|---|---|---|
| | ***KD*** | *KD* |
| At 1 January | **3,073,850** | 9,068,420 |
| Additions | **1,555,720** | 3,399,671 |
| Disposal | **(1,875,409)** | (10,159,754) |
| Change in fair value | **268,002** | 765,513 |
| At 31 December | **3,022,163** | 3,073,850 |

Investment properties are categorised as follows:

| | ***2014*** | *2013* |
|---|---|---|
| | ***KD*** | *KD* |
| Land | **1,562,090** | - |
| Developed property | **1,460,073** | 3,073,850 |
| Investment properties | **3,022,163** | 3,073,850 |

All investment properties as at 31 December 2014 and 31 December 2013 are located in Dubai, UAE.

As at 31 December 2014, the fair value of investment properties has been determined based on valuations obtained from two independent professional real estate valuers in UAE, who are an industry specialized in valuing such type of investment properties. Both valuers have valued the investment properties using the market approach.

Market approach is based on a comparison of active market prices for similar properties and recent arm's length market transactions, adjusted for difference in the nature, location or condition of the specific property.

## 9 INVESTMENT PROPERTIES (continued)

For valuation purpose, the Group has selected the lower (2013: lower) fair value of these two valuations. As a result, the Group has recorded a change in fair value amounting to KD 268,002, gain (2013: KD 765,513, gain) in the consolidated statement of income.

Fair value hierarchy disclosures for investment properties are provided in Note 18.

## 10 SHARE CAPITAL, SHARE PREMIUM AND CASH DIVIDEND

| | ***2014*** | *2013* |
|---|---|---|
| | ***KD*** | *KD* |
| *Authorised, issued and fully paid up share capital:* | | |
| 212,625,000 shares of 100 fils each paid in cash | **21,262,500** | 21,262,500 |

The Annual General Assembly of the Parent Company's shareholders for the year ended 31 December 2012 was held on 12 May 2013 and approved the Board of Directors' proposal to extinguish the accumulated losses attributable to the Parent Company as at 31 December 2012 amounting to KD 3,146,362 against share premium.

On 22 February 2015 (2013: 16 February 2014), the Board of Directors of the Parent Company proposed 4% (2013: 5%) cash dividend for the year ended 31 December 2014 of KD 824,699 (2013: KD 1,030,873) representing 4 fils per share (2013: 5 fils per share) to the Parent Company's shareholders on records as of the date of the Annual Ordinary General Assembly Meeting and Board of Directors' remuneration of KD 35,000 for the year ended 31 December 2014 (2013: KD 35,000). Board of Directors' remuneration for the year ended 31 December 2014 exceeds (2013: does not exceed) the amount permissible under local regulations. These proposals are subject to the approval of the Annual Ordinary General Assembly Meeting of the Parent Company's shareholders.

On 27 April 2014, the Annual Ordinary General Assembly Meeting of the Parent Company's shareholders was held and approved the distribution of the cash dividend and Board of Directors' remuneration for the year ended 31 December 2013 amounting to KD 1,030,873 and KD 35,000, respectively.

## 11 RESERVES

**Statutory reserve**
As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration has been transferred to statutory reserve.

The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital.

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

**General reserve**
As required by the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is required to be transferred to general reserve based on recommendation of the Board of Directors and subject to the approval of the General Assembly of the Parent Company's shareholders. Such annual transfer may be increased or discontinued by a resolution of the General Assembly of the Parent Company's shareholders upon recommendation from the Parent Company's Board of Directors.

For the years ended 31 December 2014 and 31 December 2013, no transfer was made to general reserve based on recommendation by the Parent Company's Board of Directors. This proposal is subject to the approval of the Annual Ordinary General Assembly Meeting of the Parent Company's shareholders.

## 12 TREASURY SHARES

| | *2014* | *2013* |
|---|---|---|
| Number of shares | **6,450,350** | 6,450,350 |
| Percentage of issued shares | **3%** | 3% |
| Market value (KD) | **354,769** | 483,776 |

Reserves of the Parent Company, equivalent to the cost of treasury shares, have been earmarked as non-distributable in the Parent Company.

## 13 ACCOUNTS PAYABLE AND OTHER LIABALITIES

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| Payables to contractors | **1,290** | 89,396 |
| Payables on purchase of investment properties | **886,463** | - |
| Amounts due to related parties (Note 14) | - | 30,000 |
| Retentions payable | - | 297,397 |
| Accrued expenses | **299,245** | 399,196 |
| Dividend payables | **220,177** | 138,447 |
| Employees' end of service benefits | **250,358** | 129,471 |
| Other liabilities | **314,424** | 251,732 |
| | **1,971,957** | 1,335,639 |

## 14 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions and balances with related parties included in the consolidated financial statements are as follows:

| | *2014* *KD* | *2013* *KD* |
|---|---|---|
| ***Consolidated statement of income*** | | |
| Realised gain on sale of financial assets available for sale | - | 19,467 |
| ***Consolidated statement of financial position*** | | |
| Financial assets available for sale (Note 8) | **1,496,163** | 2,785,184 |
| Amounts due to related parties (Note 13) | - | 30,000 |
| ***Key management compensation*** | | |
| Salaries and short-term benefits | **96,000** | 96,000 |
| Employees' end of service benefits | **7,600** | 5,190 |
| Executive committee remuneration | **15,000** | 15,000 |
| | **118,600** | 116,190 |

Amounts due to related parties do not carry any interest and are payable within one year from the reporting date.

## 15 SEGMENTAL INFORMATION

***Primary segmental information***

For management purposes, the Group is organized into business units based on their products and services, and has two reportable operating segments as follows:

- Equities and other investing activities comprise participation in financial and real estate funds and managing the Group's liquidity requirements; and
- Real estate investing activities comprise investing and trading in real estate and construction or development of real estate for the purpose of sale in the ordinary course of business and other related real estate services.

Segment reporting information is illustrated as follows:

| | *Equities and other investing activities KD* | *Real estate investing activities KD* | *Unallocated KD* | *Total KD* |
|---|---|---|---|---|
| ***Year ended 31 December 2014*** | | | | |
| Segment revenue | **527,679** | **717,996** | **66,129** | **1,311,804** |
| Unrealised loss on financial assets at fair value through profit or loss | **(91,331)** | - | - | **(91,331)** |
| Impairment loss on financial assets available for sale | **(32,982)** | - | - | **(32,982)** |
| Change in fair value of investment properties | - | **268,002** | - | **268,002** |
| Finance costs | - | **(7,406)** | - | **(7,406)** |
| Unallocated expenses, net | - | - | **(498,485)** | **(498,485)** |
| Segment results | **403,366** | **978,592** | **(432,356)** | **949,602** |
| ***As at 31 December 2014*** | | | | |
| Segment assets | **33,545,907** | **3,022,163** | **1,795,231** | **38,369,563** |
| Segment liabilities | - | **887,753** | **1,084,204** | **1,971,957** |

## 15 SEGMENTAL INFORMATION (continued)

| | *Equities and other investing activities KD* | *Real estate investing activities KD* | *Unallocated KD* | *Total KD* |
|---|---|---|---|---|
| *Year ended 31 December 2013* | | | | |
| Segment revenue | 813,487 | 743,926 | 58,313 | 1,615,726 |
| Unrealised loss on financial assets at fair value through profit or loss | (22,493) | - | - | (22,493) |
| Impairment loss on financial assets available for sale | (177,319) | - | - | (177,319) |
| Change in fair value of investment properties | - | 765,513 | - | 765,513 |
| Share of results of an associate | (13,530) | - | - | (13,530) |
| Finance costs | - | (98,182) | - | (98,182) |
| Unallocated expenses, net | - | - | (569,586) | (569,586) |
| Segment results | 600,145 | 1,411,257 | (511,273) | 1,500,129 |
| *As at 31 December 2013* | | | | |
| Segment assets | 32,232,975 | 3,073,850 | 2,656,478 | 37,963,303 |
| Segment liabilities | 30,000 | 386,793 | 1,395,910 | 1,812,703 |

***Secondary segmental information***

The Group operates in different geographical areas. A geographical analysis of results, assets and liabilities based on location is as follows:

| | *Results* | |
|---|---|---|
| | ***2014 KD*** | *2013 KD* |
| *Geographical areas:* | | |
| Kuwait | **(240,296)** | (564,733) |
| GCC | **985,998** | 1,681,456 |
| United States of America | **-** | 11,301 |
| Europe | **203,900** | 372,105 |
| | **949,602** | 1,500,129 |

| | *Assets* | | *Liabilities* | |
|---|---|---|---|---|
| | ***2014 KD*** | *2013 KD* | ***2014 KD*** | *2013 KD* |
| *Geographical areas:* | | | | |
| Kuwait | **21,491,527** | 22,549,147 | **1,085,494** | 1,812,703 |
| GCC | **3,615,270** | 3,496,103 | **886,463** | - |
| United States of America | **709,121** | 386,713 | **-** | - |
| Europe | **12,553,645** | 11,531,340 | **-** | - |
| | **38,369,563** | 37,963,303 | **1,971,957** | 1,812,703 |

## 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into interest rate risk, foreign currency risk and equity price risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process. The Board of Directors are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

### *16.1 Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Management of the Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The maximum credit risk is limited to the carrying values of financial assets appearing on the consolidated statement of financial position as follows:

| | ***2014*** | *2013* |
|---|---|---|
| | ***KD*** | *KD* |
| Banks balances | **1,769,338** | 1,780,808 |
| Accounts receivable and other assets | **25,893** | 874,715 |
| Total credit risk exposure | **1,795,231** | 2,655,523 |

### *16.2 Liquidity risk*

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

The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations.

| | *Less than 3 months* | *3 to 12 months* | *Over 1 year* | *Total* |
|---|---|---|---|---|
| | *KD* | *KD* | *KD* | *KD* |
| ***2014*** | | | | |
| Accounts payable and other liabilities | **1,501,422** | **220,177** | **250,358** | **1,971,957** |
| **Total liabilities** | **1,501,422** | **220,177** | **250,358** | **1,971,957** |
| *2013* | | | | |
| Bank overdraft | 477,064 | - | - | 477,064 |
| Accounts payable and other liabilities | 1,067,721 | 138,447 | 129,471 | 1,335,639 |
| Total liabilities | 1,544,785 | 138,447 | 129,471 | 1,812,703 |

The maturity profile of the Group's assets and liabilities is presented in Note 17.

## 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### *16.3 Market risk*

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

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

*16.3.1 Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its bank overdraft and term loan.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant:

| | *Increase/decrease in interest rates* | *Effect on profit for the year KD* |
|---|---|---|
| ***2014*** | **+/- 1%** | **-** |
| *2013* | +/- 1% | 4,771 |

*16.3.2 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 exchange rates. The Group manages its foreign currency risk by continuous assessment of the Group's open positions and current and expected exchange rate movements.

The Group is exposed to currency risk on purchases and sales of securities that are denominated in a currency other than the Kuwaiti Dinars mainly in US dollars. 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 Dinars.

The table below indicates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinars on profit (loss) for the year and other comprehensive income, with all other variables held constant:

| | *Increase/decrease in foreign currency rate* | *Effect on profit for the year KD* | *Effect on other comprehensive income KD* |
|---|---|---|---|
| ***2014*** | | | |
| US Dollars | **+/- 5%** | **-** | **35,456** |
| Euro | **+/- 5%** | **10,195** | **627,682** |
| *2013* | | | |
| US Dollars | +/- 5% | 565 | 19,336 |
| Euro | +/- 5% | 18,605 | 576,567 |

*16.3.3 Equity price risk*

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of industry concentration.

The following table demonstrates the sensitivity of the quoted investments' values to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

## 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### *16.3 Market risk (continued)*

*16.3.3 Equity price risk (continued)*

The effect on Group's results (as a result of a change in the fair value of financial assets at fair value through profit or loss at 31 December) and other comprehensive income (as a result of a change in the fair value of financial assets available for sale at 31 December) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

| | *2014* | | | *2013* | | |
|---|---|---|---|---|---|---|
| ***Market indices*** | *Change in equity price* | *Effect on profit for the year KD* | *Effect on other comprehensive loss KD* | *Change in equity price* | *Effect on profit for the year KD* | *Effect on other comprehensive income KD* |
| Kuwait | **+/- 5%** | **15,050** | **93,729** | +/- 5% | 14,556 | 69,933 |
| Others | **+/- 5%** | **-** | **9,943** | +/- 5% | - | 5,236 |

In respect of unquoted financial assets available for sale that are carried at cost (Note 8) , the impact of changes in equity prices cannot be reliably determined due to unavailability of reliable fair value of these investments.

### *16.4 Prepayment risk*

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

### *16.5 Operational risk*

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

### Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013. Capital comprises total equity of the Group excluding cumulative change in fair values reserve, and is measured at KD 24,455,831as at 31 December 2014 (2013: KD 24,537,102).

## 17 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled from the reporting date. The maturity profile for financial assets at fair value through profit or loss, financial assets available for sale, investment properties is based on management's estimate of liquidation of those financial assets. The maturity profile of assets and liabilities at 31 December are as follows:

| | *Less than 3 months KD* | *3 to 12 months KD* | *Over 1 year KD* | *Total KD* |
|---|---|---|---|---|
| ***2014*** | | | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | **1,769,338** | - | - | **1,769,338** |
| Accounts receivable and other assets | **25,893** | - | - | **25,893** |
| Financial assets at fair value through profit or loss | - | **300,994** | - | **300,994** |
| Financial assets available for sale | - | - | **33,244,913** | **33,244,913** |
| Investments properties | - | - | **3,022,163** | **3,022,163** |
| Furniture and equipment | - | - | **6,262** | **6,262** |
| **TOTAL ASSETS** | **1,795,231** | **300,994** | **36,273,338** | **38,369,563** |
| **LIABILITIES** | | | | |
| Accounts payable and other liabilities | **1,501,422** | **220,177** | **250,358** | **1,971,957** |
| **TOTAL LIABILITIES** | **1,501,422** | **220,177** | **250,358** | **1,971,957** |

| | *Less than 3 months KD* | *3 to 12 months KD* | *Over 1 year KD* | *Total KD* |
|---|---|---|---|---|
| *2013* | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | 1,780,808 | - | - | 1,780,808 |
| Accounts receivable and other assets | 874,715 | - | - | 874,715 |
| Financial assets at fair value through profit or loss | - | 291,119 | - | 291,119 |
| Financial assets available for sale | - | - | 31,828,653 | 31,828,653 |
| Investment in an associate | - | 113,203 | - | 113,203 |
| Investments properties | - | - | 3,073,850 | 3,073,850 |
| Furniture and equipment | - | - | 955 | 955 |
| TOTAL ASSETS | 2,655,523 | 404,322 | 34,903,458 | 37,963,303 |
| LIABILITIES | | | | |
| Bank overdraft | 477,064 | - | - | 477,064 |
| Accounts payable and other liabilities | 1,038,242 | 297,397 | - | 1,335,639 |
| TOTAL LIABILITIES | 1,515,306 | 297,397 | - | 1,812,703 |

## 18 FAIR VALUES OF FINANCIAL INSTRUMENTS

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 following table provides the fair value measurement hierarchy of the Group's assets carried at fair value at 31 December:

| | *Date of valuation* | *Level 1 KD* | *Level 2 KD* | *Level 3 KD* | *Total KD* |
|---|---|---|---|---|---|
| ***2014*** | | | | | |
| Financial assets at fair value through profit or loss | 31 December 2014 | **300,994** | - | - | **300,994** |
| *Financial assets available for sale:* | | | | | |
| Local quoted equity securities | 31 December 2014 | **1,874,581** | - | - | **1,874,581** |
| Local and foreign unquoted equity securities | 31 December 2013 | - | - | **20,072,041** | **20,072,041** |
| Foreign managed portfolios | 31 December 2014 | - | - | **1,159,887** | **1,159,887** |
| Foreign managed funds | 31 December 2014 | - | - | **433,075** | **433,075** |
| | | **1,874,581** | - | **21,665,003** | **23,539,584** |
| Investment properties | 31 December 2014 | - | **3,022,163** | - | **3,022,163** |

| | *Date of valuation* | *Level 1 KD* | *Level 2 KD* | *Level 3 KD* | *Total KD* |
|---|---|---|---|---|---|
| *2013* | | | | | |
| Financial assets at fair value through profit or loss | 31 December 2013 | 291,119 | - | - | 291,119 |
| *Financial assets available for sale:* | | | | | |
| Local quoted equity securities | 31 December 2013 | 1,398,668 | - | - | 1,398,668 |
| Local and foreign unquoted equity securities | 30 September 2013 | - | - | 11,097,030 | 11,097,030 |
| Foreign managed portfolios | 30 September 2013 | - | - | 1,315,184 | 1,315,184 |
| Foreign managed funds | 30 September 2013 | - | - | 414,780 | 414,780 |
| | | 1,398,668 | - | 12,826,994 | 14,225,662 |
| Investment properties | 31 December 2013 | - | 3,073,850 | - | 3,073,850 |

During the years ended 31 December 2014 and 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers out of level 3 fair value measurements. However, the fair value of foreign unquoted equity security amounting to KD 7,819,327 was available at 31 December 2014; accordingly, the Group transferred that investment, which was carried at cost at 31 December 2013, into level 3.

**18 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

The following table shows a description of the significant unobservable inputs used in determining the fair value measurement of financial assets categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December:

| | *Valuation technique* | *Significant unobservable inputs* | *Range (weighted average)* | *Sensitivity of the input to fair value* |
|---|---|---|---|---|
| Local and foreign unquoted equity securities | Peer market price to book value of similar companies in the same industry | Peer market price to book value factor and discount for lack of marketability | (10% – 20%) 22% | 1% increase (decrease) in the market price to book value factor would result in an increase (decrease) in fair value of these financial instruments by KD 73,461 (2013: 69,289).<br><br>1% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of these financial instruments by KD 67,879 (2013: 65,241). |

Fair value of local and foreign unquoted equity securities carried at fair value has been determined using the market price to book value model (MPBV). The valuation requires management to make certain assumptions about the model inputs, including, the discount rate and credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

Discount for lack of marketability has been assumed by the Parent Company's management which represents that discount that market participants would take into account when pricing similar financial instruments.

Foreign managed portfolios and foreign managed funds are valued based on fair values reported by the respective investment manager where it is determined through the valuation of the underlying assets.

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value at 31 December:

| | *At the beginning of the year KD* | *Net gains (losses) recorded in the consolidated statement of income KD* | *Net gains (losses) recorded in the consolidated statement of comprehensive income KD* | *Net purchases, transfers, sales and settlements KD* | *At the end of the year KD* |
|---|---|---|---|---|---|
| ***2014*** | | | | | |
| *Financial assets available for Sale:* | | | | | |
| Local and foreign unquoted equity securities | **11,097,030** | - | **1,155,684** | **7,819,327** | **20,072,041** |
| Foreign managed portfolios | **1,315,184** | - | **(155,297)** | - | **1,159,887** |
| Foreign managed funds | **414,780** | - | **18,295** | - | **433,075** |
| | **12,826,994** | - | **1,018,682** | **7,819,327** | **21,665,003** |

| | *At the beginning of the year KD* | *Net gains (losses) recorded in the consolidated statement of income KD* | *Net gains (losses) recorded in the consolidated statement of comprehensive income KD* | *Net purchases, transfers, sales and settlements KD* | *At the end of the year KD* |
|---|---|---|---|---|---|
| *2013* | | | | | |
| *Financial assets available for Sale:* | | | | | |
| Local and foreign unquoted equity securities | 10,780,703 | - | 316,327 | - | 11,097,030 |
| Foreign managed portfolios | 1,006,589 | - | 308,595 | - | 1,315,184 |
| Foreign managed funds | 773,074 | - | (39,006) | (319,288) | 414,780 |
| | 12,560,366 | - | 585,916 | (319,288) | 12,826,994 |

**Description of significant observable inputs to valuation of investment properties:**

Investment properties are valued using the market approach which is based on active market prices for similar properties, and recent arm's length market transactions, adjusted for difference in the nature, location or condition of the specific property.