

Consolidated financial statements and independent auditor's report
National Industries Group Holding – KPSC and Subsidiaries
Kuwait

31 December 2018

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Independent auditor's report

To the shareholders of
National Industries Group Holding – KPSC
Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National Industries Group Holding – Kuwaiti Public Shareholding Company (the “Parent Company”) and Subsidiaries, (collectively the “Group”), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below as the key audit matters.

Valuation of investments held at fair value

The Group invests in various assets classes, of which 48% of the total assets represent investments which are carried at fair value and classified either as financial assets at fair value through profit or loss or as financial assets at fair value through other comprehensive income. These investments are fair valued on a basis considered most appropriate by the management, depending on the nature of the investment, and the valuation is performed by the Group using a fair value hierarchy as detailed in Note 36.3. 45% of these investments are carried at fair value based on Level 1 valuations, and the balance 55% of these investments are carried at fair value either based on Level 2 or Level 3 valuations. Fair value measurement can be a subjective area and more so for the investments classified under level 2 and level 3 since these are valued using inputs other than quoted prices in an active market. Given the inherent subjectivity in valuation of investments classified under level 2 and level 3, we determined this to be a key audit matter. Refer to Notes 5.13.3, 5.13.8, 6.1, 6.2, 19, 20 and 36.3 for more information on fair valuation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Our audit procedures included, among others, documenting and assessing the processes in place to fair value the investment portfolio. Agreeing the carrying value of the investments to the Group's internal valuations prepared using valuation techniques, assessing and challenging the appropriateness of estimates, assumptions and valuation methodology and obtaining supporting documentation and explanations to corroborate the valuations.

Independent auditor's report to the shareholders of National Industries Group Holding – KPSC (continued)

Key Audit Matters (continued)

Impairment of investments in associates

The Group's investments in associates represent 26% of the total assets and are accounted for under the equity method of accounting and considered for impairment in case of indication of impairment. The investment in associates is significant to our audit due to the Group's share of results in the associates and the carrying value of these associates. In addition, significant management judgment and number of assumptions are required in the assessment of impairment, including the determination of the recoverable value of the investment based on its value-in-use, in case there is a significant or prolonged decline in value based on published price quotes. Further, the projected future cash flows and discount rates used by the Group in determining the investment's value in use are also subject to estimation uncertainty and sensitivity. Accordingly, we considered this as a key audit matter. Refer to Notes 5.4, 6.1, 6.2, and 23 for more information on investment in associates.

Our audit procedures included, among others, evaluating management's consideration of the impairment indicators of investment in associates. In evaluating such consideration, we assessed whether any significant or prolonged decline in value exists, whether there are any significant adverse changes in the technological market, economic or legal environment in which the associate operates, or structural changes in the field of industry in which the investee company operates, or changes in the political or legal environment effecting the investees business, and also whether there are any changes in the investees financial condition. We also reviewed management's assessment of the recoverable value of the investment including the reasonability of the cash flow projections and discount rates used in the value in use calculation for associates, where there was a significant or prolonged decline in value.

Other information included in the Group's 2018 annual report

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2018 other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2018 after the date of our auditor's report.

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

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

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

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

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

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



Independent auditor's report to the shareholders of National Industries Group Holding – KPSC (continued)

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

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

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

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

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

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



Independent auditor's report to the shareholders of National Industries Group Holding – KPSC (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business or financial position of the Parent Company.

Anwar Y. Al-Qatami, F.C.C.A.

(Licence No. 50-A)

of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Kuwait

24 March 2019

Consolidated statement of profit or loss

	Note	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Sales		125,406	110,510
Cost of sales		(103,331)	(90,441)
Gross profit		22,075	20,069
Income from investments	8	44,683	34,570
Changes in fair value of investment properties	22	34	(3,455)
Share of results of associates	23	15,182	19,035
Profit on disposal of associates	23	4,207	17,447
Rental income		2,753	1,859
Interest and other income	9	21,994	4,760
Distribution costs		(8,602)	(7,384)
General, administrative and other expenses		(25,404)	(23,664)
(Loss)/gain on foreign currency exchange		(855)	1,540
		76,067	64,777
Finance costs	11	(32,693)	(31,412)
Impairment in value of goodwill and other intangible assets	25	(3,634)	-
Impairment in value of available for sale investments		-	(5,247)
Impairment in value of receivables and other assets (net of reversal)	17	(1,280)	(246)
Profit before foreign taxation		38,460	27,872
Foreign taxation	12a	(1,250)	(488)
Profit before KFAS, Zakat, NLST and Directors' remuneration		37,210	27,384
KFAS, Zakat and NLST	12b	(1,263)	(717)
Directors' remuneration		(480)	(480)
Profit for the year	13	35,467	26,187
Profit for the year attributable to:			
Owners of the Parent Company		19,841	24,160
Non-controlling interests	7	15,626	2,027
		35,467	26,187
Basic and diluted earnings per share attributable to the owners of the Parent Company	14	15.0 Fils	18.2 Fils

The notes set out on pages 12 to 83 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

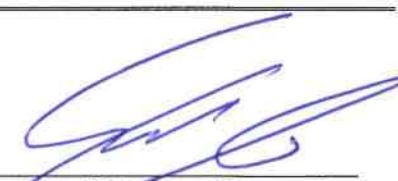
	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Profit for the year	35,467	26,187
Other comprehensive (loss)/income:		
Items to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation of foreign operations		
- Exchange differences arising on translation of foreign operations	(16,503)	(4,670)
- Transferred to consolidated statement of profit or loss on partial disposal of an associate	4,514	-
Available for sale investments:		
- Net changes in fair value arising during the year	-	(4,989)
- Transferred to consolidated statement of profit or loss on disposal	-	(11,444)
- Transferred to consolidated statement of profit or loss on impairment	-	5,247
Share of other comprehensive (loss)/income of associates		
- Changes in fair value	(346)	3,368
- Transferred to consolidated statement of profit or loss on disposal (Note 23.5)	-	(1,703)
Total other comprehensive loss to be reclassified to profit or loss in subsequent periods	(12,335)	(14,191)
Items not to be reclassified to profit or loss in subsequent periods		
Defined benefit plan actuarial gains/(losses)	1,231	(1,086)
Net changes in fair value of investments in equity instruments designated at FVOCI	(20,503)	-
Total other comprehensive loss not being reclassified to profit or loss in subsequent periods	(19,272)	(1,086)
Total other comprehensive loss for the year	(31,607)	(15,277)
Total comprehensive income for the year	3,860	10,910
Total comprehensive (loss)/income for the year attributable to:		
Owners of the Parent Company	(6,540)	15,549
Non-controlling interests	10,400	(4,639)
	3,860	10,910

The notes set out on pages 12 to 83 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Assets			
Bank balances and cash	15	32,077	38,436
Short-term deposits	15	9,136	8,020
Wakala and sukuk investments	16	1,153	1,153
Accounts receivable and other assets	17	49,453	95,907
Inventories	18	36,587	33,194
Financial assets at fair value through profit or loss	19	364,713	74,780
Financial assets at fair value through other comprehensive income	20	216,485	-
Available for sale investments	21	-	525,202
Investment properties	22	76,857	66,121
Investment in associates	23	317,462	336,045
Property, plant and equipment	24	88,876	72,314
Goodwill and other intangible assets	25	9,925	14,121
Total assets		1,202,724	1,265,293
Liabilities and equity			
Liabilities			
Due to banks	15	23,009	22,315
Accounts payable and other liabilities	26	58,677	48,391
Borrowings and bonds	27	611,117	673,315
Provisions	28	13,573	15,157
Total liabilities		706,376	759,178
Equity attributable to owners of the Parent Company			
Share capital	29	135,985	135,985
Share premium	29	122,962	122,962
Treasury shares	30	(30,375)	(30,375)
Cumulative changes in fair value	31	21,679	103,959
Other components of equity	31	23,827	30,457
Retained earnings		78,608	13,000
Equity attributable to owners of the Parent Company		352,686	375,988
Non-controlling interests	32	143,662	130,127
Total equity		496,348	506,115
Total liabilities and equity		1,202,724	1,265,293


Sa'ad Mohammed Al-Sa'ad
Chairman


Ahmad Mohammed Hassan
Chief Executive Officer

The notes set out on pages 12 to 83 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

Equity attributable to the owners of the Parent Company

	Share capital KD '000	Share premium KD '000	Treasury shares KD '000	Cumulative changes in fair value (Note 31 a) KD '000	Other components of equity (Note 31b) KD '000	Retained earnings KD '000	Sub-Total KD '000	Non-controlling interests KD '000	Total KD '000
Balance at 1 January 2018	135,985	122,962	(30,375)	103,959	30,457	13,000	375,988	130,127	506,115
Adjustments arising on adoption of IFRS 9 on 1 January 2018 (Note 4.1)	-	-	-	(64,220)	-	60,789	(3,431)	(481)	(3,912)
Balance at 1 January 2018 (Restated)	135,985	122,962	(30,375)	39,739	30,457	73,789	372,557	129,646	502,203
Transactions with owners									
Amounts due to non-controlling interests on capital reduction of a subsidiary (Note 32)	-	-	-	-	-	-	-	(1,069)	(1,069)
Non-controlling interests arising on acquisition of subsidiaries (Note 32)	-	-	-	-	-	-	-	6,568	6,568
Dividend paid to non-controlling interests by the subsidiaries	-	-	-	-	-	-	-	(1,655)	(1,655)
Dividend paid (Note 41)	-	-	-	-	(251)	(13,000)	(13,251)	-	(13,251)
Other net changes in non-controlling interests	-	-	-	-	-	(80)	(80)	(228)	(308)
Total transactions with owners	-	-	-	-	(251)	(13,080)	(13,331)	3,616	(9,715)
Comprehensive income									
Profit for the year	-	-	-	-	-	19,841	19,841	15,626	35,467
Other comprehensive (loss)/income for the year [actuarial gain and others] (Notes 31,32 and 33)	-	-	-	(19,075)	(8,537)	1,231	(26,381)	(5,226)	(31,607)
Total comprehensive (loss)/income for the year	-	-	-	(19,075)	(8,537)	21,072	(6,540)	10,400	3,860
Transfer of reserve	-	-	-	-	2,158	(2,158)	-	-	-
Realised loss on equity investments at FVOCI	-	-	-	1,015	-	(1,015)	-	-	-
Balance at 31 December 2018	135,985	122,962	(30,375)	21,679	23,827	78,608	352,686	143,662	496,348

The notes set out on pages 12 to 83 form an integral part of these consolidated financial statements.

Equity attributable to owners of the Parent Company

The notes set out on pages 12 to 83 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
OPERATING ACTIVITIES		
Profit before foreign taxation	38,460	27,872
Adjustments:		
Dividend income from financial assets at FVOCI	(3,607)	-
Dividend income from available for sale investments	-	(6,572)
Profit on sale of available for sale investments	-	(18,124)
Changes in fair value of investment properties	(34)	3,455
Share of results of associates	(15,182)	(19,035)
Profit on disposal of associates	(4,207)	(17,447)
Interest/profit on bank balances, short-term deposits and wakala investments	(1,055)	(617)
Gain on acquisition of subsidiary	(593)	-
Discount on settlement of borrowings	(17,041)	(2,063)
Loss on disposal of property, plant and equipment	-	37
Net provisions (released)/charged	(1,684)	512
Depreciation and amortisation	7,419	6,727
Impairment in value of goodwill and other intangible assets	3,634	-
Impairment in value of available for sale investments	-	5,247
Impairment in value of receivable and other assets (net of reversal)	1,280	246
Finance costs	32,693	31,412
Other non-cash adjustments	(351)	(231)
	39,732	11,419
Changes in operating assets and liabilities:		
Inventories	(2,444)	(834)
Accounts receivable and other assets	43,977	6,930
Financial assets at fair value through profit or loss	(833)	2,002
Accounts payable and other liabilities	681	1,054
Cash from operations	81,113	20,571
Taxation paid	(666)	(488)
KFAS, Zakat and NLST paid	(46)	(112)
Net cash from operating activities	80,401	19,971

The notes set out on pages 12 to 83 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

	Note	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(12,745)	(7,883)
Proceeds from disposal of property, plant and equipment		66	26
Proceeds from disposal of investment properties		-	2,200
Additions to investment properties		(10,359)	(7,012)
Investment in associates		(2,107)	(5,558)
Dividend received from associate companies		9,984	9,376
Proceeds from capital reduction/disposal of associates		17,200	1,103
Purchase of financial assets at FVOCI		(14,366)	-
Proceeds from sale of financial assets at FVOCI		12,464	-
Dividend income on financial assets at FVOCI		3,607	-
Acquisition of new subsidiary net of cash and bank balances		(326)	-
Decrease in wakala investments maturing after three months		-	11
Disposal of intangible assets		-	180
Decrease in blocked deposits		213	106
Purchase of available for sale investments		-	(39,949)
Proceeds from sale of available for sale investments		-	55,491
Dividend income received from available for sale investments		-	6,572
Interest/profit on bank balances, short-term deposits, wakala investments		762	708
Net cash from investing activities		4,393	15,371
FINANCING ACTIVITIES			
Finance lease payments		(136)	(118)
Net (decrease)/increase in borrowings		(49,069)	1,745
Dividend paid to the owners of the Parent Company		(12,075)	(423)
Finance costs paid		(32,870)	(31,723)
Change in non-controlling interests		3,616	(2,281)
Net cash used in financing activities		(90,534)	(32,800)
Net (decrease)/increase in cash and cash equivalents		(5,740)	2,542
Translation difference		16	(29)
		(5,724)	2,513
Cash and cash equivalents at beginning of the year		23,922	21,409
Cash and cash equivalents at end of the year	15	18,198	23,922

The notes set out on pages 12 to 83 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Incorporation and activities

National Industries Group Holding – KPSC (“the Parent Company”) was incorporated in 1961 as a Kuwaiti shareholding company in accordance with the Commercial Companies Law in the State of Kuwait and in April 2003, its status was transformed to a “Holding Company”. The Parent Company along with its subsidiaries are jointly referred to as “the Group”. The Parent Company’s shares are traded on the Kuwait Stock Exchange and Dubai Financial Market.

The main objectives of the Parent Company are as follows:

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

The address of the Parent Company’s registered office is PO Box 417, Safat 13005, State of Kuwait.

The Board of Directors of the Parent Company approved these consolidated financial statements for issuance on 24 March 2019. The general assembly of the Parent Company’s shareholders has the power to amend these consolidated financial statements after issuance.

2 Basis of preparation

The consolidated financial statements are prepared under the historical cost convention modified to include the revaluation of freehold and leasehold properties, the measurement at fair value of financial assets at fair value through profit or loss and financial asset at fair value through other comprehensive income and investment properties.

The consolidated financial statements are presented in Kuwaiti Dinars (“KD”) and all values are rounded to the nearest thousand (KD ‘000), except when otherwise indicated.

The Parent Company’s management has decided to change the presentation of the consolidated statement of financial position to a presentation based on liquidity (previously the consolidated statement of financial position distinguished between current and non-current) as it provides information more relevant and appropriate of the Group’s activities.

Notes to the consolidated financial statements (continued)

3 Statement of compliance

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

4 Changes in accounting policies

4.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2018 which have been adopted by the Group. Information on these new standards which are relevant to the Group, is presented below:

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

Several other amendments and interpretations apply for the first time in 2018, but do not have a material impact on the consolidated financial statements of the Group.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9, Financial Instruments effective from 1 January 2018.

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

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Group’s exposure to credit risk in the consolidated financial statements (Note 36).

The main areas of impact are as follows:

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

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

IFRS 9 Financial Instruments (continued)

The main areas of impact are as follows: (continued)

- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Further, the gains and losses on subsequent measurement of debt type financial instruments measured at Fair Value Through Other Comprehensive Income (FVOCI) will be recognised in equity and will be recycled to profit or loss on derecognition or reclassification.

However, gains or losses on subsequent measurement of equity type financial assets measured at FVOCI are now recognised in the consolidated statement of profit or loss and other comprehensive income (presented in the “cumulative change in fair value” reserve in equity), and transferred to retained earnings on derecognition and are not recycled to the consolidated statement of profit or loss. Dividend income on these assets continues to be recognised in consolidated statement of profit or loss.

Based on the analysis of the Group’s financial assets and liabilities as at 31 December 2018 and of the circumstances that existed at that date, management of the Group have determined the impact of implementation of IFRS 9 on the consolidated financial statements of the Group as follows:

Classification and measurement:

Group holds most debt type financial assets to hold and collect the associated cash flows and, therefore, these are to continue to be accounted for at amortised cost.

Accordingly, bank balances and cash, short term deposits, wakala and sukuk investments, accounts receivables and other assets are all held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Management analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments as of 1 January 2018 is not required.

Equity investments are to be measured at FVTPL as well as FVOCI as certain existing investments in equity instruments qualify for designation as FVOCI category. The gains and losses on these investments are no longer be recycled to statement of profit or loss on subsequent measurement or on derecognition. Further, these investments are no longer subject to impairment test.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group

IFRS 9 Financial Instruments (continued)

The following table shows the previous measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as of 1 January 2018:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD '000	Re- measurement - ECL KD '000	Re- measurement -Others KD '000	New carrying amount under IFRS 9 KD '000
Financial assets						
Bank balances and cash	Loans and receivables	At amortised cost	38,436	(14)	-	38,422
Short term deposits	Loans and receivables	At amortised cost	8,020	(1)	-	8,019
Accounts receivable and other assets*	Loans and receivables	At amortised cost	90,448	(447)	-	90,001
Wakala and sukuk investments	Loans and receivables	At amortised cost	1,153	-	-	1,153
Investments:						
- Managed funds	AFS	FVTPL	81,291	-	-	81,291
- Managed funds	AFS	FVOCI	29,236	-	(21)	29,215
- Quoted shares	AFS	FVTPL	190,697	-	-	190,697
- Quoted shares	AFS	FVOCI	40,745	-	-	40,745
- Unquoted equity participations	AFS	FVTPL	27,142	-	-	27,142
- Unquoted equity participations	AFS	FVOCI	156,091	-	(299)	155,792
- Quoted shares	FVTPL	FVTPL	18,981	-	-	18,981
- Quoted shares	FVTPL	FVOCI	5,947	-	-	5,947
- Local funds	FVTPL	FVTPL	2,630	-	-	2,630
- Local funds	FVTPL	FVOCI	2,704	-	-	2,704
- Foreign managed portfolios and funds	FVTPL	FVTPL	43,140	-	-	43,140
- Foreign managed portfolios and funds	FVTPL	FVOCI	1,378	-	-	1,378
Total financial assets			738,039	(462)	(320)	737,257

*Excluding non-financial assets of KD5,459 thousand.

(AFS - Available for sale, FVOCI – Fair value through other comprehensive income, FVTPL - Fair value through profit or loss)

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

IFRS 9 Financial Instruments (continued)

The following table summarises the new measurement categories under IFRS 9 by class of financial asset as at 1 January 2018:

	IFRS 9 categories		
	Financial assets at Fair Value Through Profit or Loss (FVTPL) KD '000	Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) KD '000	Financial Assets at Amortised cost KD '000
Bank balances and cash	-	-	38,422
Short term deposits	-	-	8,019
Accounts receivable and other assets	-	-	90,001
Wakala and sukuk investments	-	-	1,153
Investments	363,881	235,781	-
Balance at 1 January 2018	363,881	235,781	137,595

There is no impact on the financial liabilities of the Group and will continue to be measured at amortised cost.

Impairment of financial assets:

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- (1) Debt instruments measured subsequently at amortised cost or at FVOCI;
- (2) Trade receivables and contract assets; and
- (3) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

The Group has applied simplified approach to impairment for trade and other receivables as required or permitted under the standard. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

IFRS 9 Financial Instruments (continued)

Impairment of financial assets (continued):

The Group's balances with banks are low risk and are considered to be fully recoverable and hence measurement of bank balances under IFRS 9 did not have a material impact on the consolidated statement of profit or loss of the Group. It is the Group's policy to measure such instruments on a 12-month ECL basis. However, the ECL provision on these balances are not material to the Group's consolidated financial statements. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

Summary of impact on application of IFRS 9:

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowances as follows:

	Provision as at 31 Dec. 2017 KD '000	Adjustments KD '000	Provision as at 1 Jan. 2018 KD '000
Accounts receivable and other assets	(1,538)	(447)	(1,985)
Bank balances and short term deposits	-	(15)	(15)
	(1,538)	(462)	(2,000)

As allowed by the transition provisions of IFRS 9, the Group elected not to restate comparative information for prior periods with respect to classification and measurement, and impairment requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in the retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the comparative periods does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The implementation of IFRS 9 has resulted in the following impact:

	Balance at 31 Dec. 2017 as reported KD '000	Adjustments KD '000	Balance at 1 Jan. 2018 as restated KD '000
Assets			
Bank balances and cash	38,436	(14)	38,422
Short-term deposits	8,020	(1)	8,019
Wakala and sukuk investments	1,153	-	1,153
Accounts receivable and other assets	90,448	(447)	90,001
Financial assets at fair value through profit or loss	74,780	289,101	363,881
Financial assets at fair value through other comprehensive income	-	235,781	235,781
Available for sale investments	525,202	(525,202)	-
Investment in associates*	336,045	(1,153)	334,892

* The adjustments to "investment in associates" represents the Group's share of the IFRS 9 impact related to the associate on 1 January 2018.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group

IFRS 9 Financial Instruments (continued)

The following table analyses the impact on transition to IFRS 9 to cumulative changes in fair value and retained earnings:

	Cumulative changes in fair value reserve KD '000	Retained earnings KD '000	Equity attributable to owners of the Parent Company KD '000	Non-controlling Interests KD '000	Total equity KD '000
Closing balance under IAS 39 – 31 December 2017	103,959	13,000	375,988	130,127	506,115
Impact of reclassifications and re-measurements:					
Equities, funds and other investments from FVTPL to FVOCI	(305)	305	-	-	-
Equities, funds and other investments from available for sale to FVTPL	(61,381)	61,381	-	-	-
Equity securities and funds which were at cost from available for sale to FVOCI	(82)	-	(82)	(238)	(320)
Group share of IFRS 9 adjustments done by the associates	(2,452)	2,452	-	-	-
Recognition of expected credit loss under IFRS 9 for financial assets of associates	-	(1,110)	(1,110)	(43)	(1,153)
Recognition of expected credit loss under IFRS 9 for financial assets	-	(301)	(301)	(161)	(462)
Other adjustments related to IFRS 9 amendments	-	(1,938)	(1,938)	(39)	(1,977)
Adjustments arising on adoption of IFRS 9 on 1 January 2018	(64,220)	60,789	(3,431)	(481)	(3,912)
Opening balance under IFRS 9 – 1 January 2018	39,739	73,789	372,557	129,646	502,203

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

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

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- Timing – whether revenue is required to be recognized over time or at a single point in time
- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group

IFRS 15 Revenue from Contracts with Customers (continued)

- Time value – when to adjust a contract price for a financing component
- Specific issues, including –
 - non-cash consideration and asset exchanges
 - contract costs
 - rights of return and other customer options
 - supplier repurchase options
 - warranties
 - principal versus agent
 - licencing
 - breakage
 - non-refundable upfront fees, and
 - consignment and bill-and-hold arrangements.

Adoption of the standard did not have any material effect on the Group's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

Adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

4.2 IASB Standards issued but not yet effective

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

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

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 16 Leases	1 January 2019
IFRS 3 – Amendments	1 January 2020
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
IAS 28 – Amendments	1 January 2019
IAS 1 and IAS 8 – Amendments	1 January 2020

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed. Management anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future should such transactions arise.

IFRS 16 Leases

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the consolidated statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- assessing the additional disclosures that will be required.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 3 – Amendments

The Amendments to IFRS 3 Business Combinations are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only with respect to Definition of Business. The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle

Amendments to IFRS 3 and IFRS 11 - Clarify that when an entity obtains control of a business that is a joint operation it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 28 – Amendments

The amendments to IAS 28 clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 1 and IAS 8 – Amendments

The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies

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

5.1 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the Parent Company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the Parent Company's financial statements. The details of the significant subsidiaries are set out in Note 7 to the consolidated financial statements.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the date the Group gains control, or until the date the Group ceases to control the subsidiary, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

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:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group has directly disposed of the related assets or liabilities.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.2 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the consolidated statement of profit or loss immediately.

5.3 *Goodwill and other intangible assets*

5.3.1 *Goodwill*

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note 15 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to Note 5.12 for a description of impairment testing procedures.

5.3.2 *Other intangible assets*

Identifiable non-monetary assets acquired in a business combination and from which future benefits are expected to flow are treated as intangible assets. Intangible assets comprise of Indefeasible Rights of Use (IRU).

Intangible assets which have a finite life are amortized over their useful lives. For acquired network businesses whose operations are governed by fixed term licenses, the amortisation period is determined primarily by reference to the unexpired license period and the conditions for license renewal.

IRU are the rights to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognised at cost as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibres or dedicated wave length bandwidth and the duration of the right is for the major part of the underlying asset's economic life. They are amortised on a straight line basis over the shorter of the expected period of use and the life of the contract which ranges between 10 to 15 years.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.4 Investment in associates

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The share of results of an associate is shown on the face of the consolidated statements of profit or loss. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The difference in reporting dates of the associates and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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 associate. 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 under a separate heading in the consolidated statement of profit or loss.

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

5.5 Segment reporting

The Group has four operating segments: Investment, building materials, specialist engineering and hotel and IT services segments. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources.

For management purposes, the Group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.6 Revenue

Revenue arises from sale of goods, rendering of services, investing and real estate activities.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group follows a 5-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligation(s) are satisfied

The Group often enters into transactions involving a range of the Group's products and services.

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises revenue from the following major sources:

5.6.1 Sale of goods

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customers generally upon delivery or shipment of the goods.

Revenue from the sale of goods with no significant service obligation is recognised on delivery.

In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer (if any).

5.6.2 Rendering of services

The Group generates revenues from after-sales service and maintenance, consulting, hotel operations, IT services and construction contracts. Consideration received for these services is initially deferred, included in other liabilities and is recognised as revenue in the period when the service is performed.

In recognising after-sales service and maintenance revenues, the Group considers the nature of the services and the customer's use of the related products, based on historical experience.

The Group also renders hotel services and revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed. Room revenue is recognised on the rooms occupied on a daily basis and food and beverage and other related sales are accounted for at the time of sale.

The Group earns fees and commission income from diverse range of asset management, investment banking, custody, consulting and brokerage services provided to its customers. Fees and commission income are recognised over the period of the service.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.6 Revenue (continued)

5.6.3 Interest income

Interest income is reported on an accrual basis using the effective interest method.

5.6.4 Dividend income

Dividend income, other than those from investments in associates, are recognised at the time the right to receive payment is established.

5.6.5 Rental income

Rental income from investment properties is recognised as noted in Note 5.10.

5.7 Operating expenses

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

5.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

5.9 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost or valuation, less the estimated residual value of property, plant and equipment, on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	Lower of 50 years or remaining useful life
Long leasehold property	Lower of 50 years or remaining lease term
Short leasehold property	Lease term
Property on leasehold land	4 to 20 years
Plant and machinery	1 to 20 years
Motor vehicles	2 to 10 years
Furniture and equipment	3 to 10 years

Any increase arising on revaluation is credited directly to other comprehensive income as “revaluation reserve” except to the extent where the increase reverses a revaluation decrease related to the same asset for which a decrease in valuation has previously been recognised as an expense, it is credited to the consolidated statement of income. Any decrease in the net carrying amount arising on revaluation is charged directly to the consolidated statement of income, or charged to the revaluation reserve to the extent that the decrease is related to an increase for the same asset which was previously recorded as a credit to the revaluation surplus.

Depreciation on the re-valued properties is charged to the consolidated statement of profit or loss over their remaining estimated useful lives and an amount equivalent to the excess depreciation charge relating to the increase in carrying amount is transferred each year from the revaluation reserve to retained earnings.

No depreciation is provided on freehold land. Properties in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Depreciation of these assets, which is on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.10 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

5.11 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are re-measured at fair value on an individual basis based on valuations by independent real estate valuers and are included in the consolidated statement of financial position. Changes in fair value are taken to the consolidated statement of profit or loss.

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

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

5.12 Impairment testing of goodwill and non-financial assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.12 Impairment testing of goodwill and non-financial assets (continued)

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from the asset or each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements.

Discount factors are determined individually for each asset or cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

5.13 Financial instruments

5.13.1 Recognition, initial measurement and derecognition

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

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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 consolidated statement of profit or loss.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.13 Financial instruments (continued)

5.13.2 Classification of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- financial assets at amortised cost
- financial assets at fair value through profit or loss (FVTPL)
- financial assets at fair value through other comprehensive (FVOCI)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset

The Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (Note 5.13.3); and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In this period presented, no such irrevocable designation has been made.

5.13.3 Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

The Group's financial assets at amortised cost comprise of the following:

- *Murabaha investments/receivables*

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

Murabaha receivables which arise from the Group's financing of long-term transactions on an Islamic basis are classified as Murabaha receivables originated by the Group and are carried at the principal amount less provision for credit risks to meet any decline in value. Third party expenses such as legal fees, incurred in granting a Murabaha are treated as part of the cost of the transaction.

All Murabaha receivables are recognized when the legal right to control the use of the underlying asset is transferred to the customer.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.13 Financial instruments (continued)

5.13.3 Subsequent measurement of financial assets (continued)

The Group's financial assets at amortised cost comprise of the following (continued):

- *Wakala investments*

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

- *Bank balances, cash and short term deposits*

Cash on hand and demand deposits are classified under bank balances and cash and short term deposits represent deposits placed with financial institutions with a maturity of less than one year.

- *Receivables and other financial assets*

Trade receivable are stated at original invoice amount less allowance for impairment.

Receivables which are not categorised under any of the above are classified as "Other receivables/Other financial assets"

Financial assets at FVTPL

Financial assets that do not meet the criteria for measurement at amortised cost or FVOCI are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. The category also contains investments in equity shares.

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

The Group's financial assets at FVTPL comprise of the following:

- *Investment in managed portfolios and funds*
- *Investment in quoted shares*
- *Investment in unquoted equity participation*

Financial assets at FVOCI

The Group's financial assets at FVOCI comprise of investments in managed portfolios and funds, equity shares (quoted shares and unquoted equity participation).

On initial recognition, the Group may make irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVOCI. Designate at FVOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.13 Financial instruments (continued)

5.13.3 Subsequent measurement of financial assets (continued)

Financial assets at FVOCI (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value reserve. The cumulative gain or loss is transferred to retained earnings within the consolidated statement of changes in equity.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss.

5.13.4 Impairment of financial assets

The Group computes expected credit losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- Bank balances
- Short term deposits
- Wakala and sukuk investments
- Accounts receivables and other financial assets

The Group recognises ECL on investment in debt instruments measured at amortised cost on balances and deposits with banks and other assets. Equity instruments are not subject to Expected Credit Losses.

Expected Credit Losses

The Group applies three-stage approach to measuring expected credit losses (ECL) as follows:

Stage 1: 12 months ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.13 Financial instruments (continued)

5.13.4 Impairment of financial assets (continued)

Expected Credit Losses (continued)

Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of impairment

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

At each reporting date, the Group also assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.

The Group has applied simplified approach to impairment for trade and other assets as permitted under the standard. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.13 Financial instruments (continued)

5.13.5 Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include trust certificates issued, borrowings, leasing creditors, due to banks, trade payables and other liabilities and derivative financial instruments.

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

Financial liabilities at amortised cost

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

- *Borrowings*

All 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.

- *Bonds*

Bonds are stated on the consolidated statement of financial position at their principal amount, net of directly related costs of issuing the bonds to the extent that such costs have not been amortised. These costs are amortised through the consolidated statement of profit or loss over the life of the bonds using the effective interest rate method.

Finance cost is charged as an expense as it accrues, with unpaid amounts included in accounts payable and other liabilities.

- *Wakala payables*

Wakala payables represent short-term borrowings under Islamic principles, whereby the Group receives funds for the purpose of financing its investment activities and are stated at amortised cost.

- *Murabaha finance payables*

Murabaha finance payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha finance payables are stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

- *Ijara financing*

Ijara finance payable ending with ownership is an Islamic financing arrangement through which a financial institution provides finance to purchase an asset by way of renting the asset ending with transferring its ownership. This ijara finance payable is stated at the gross amount of the payable, net of deferred finance cost. Deferred finance costs are expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

- *Leasing and hire purchase payables*

Assets acquired under finance leases and hire purchase arrangements are capitalised and the related liabilities, excluding finance charges are included in liabilities. Finance charges in respect of such liabilities are charged to the consolidated statement of profit or loss as incurred.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.13 Financial instruments (continued)

5.13.5 Classification and subsequent measurement of financial liabilities (continued)

Financial liabilities at amortised cost (continued)

- *Accounts payables and other financial liabilities*

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

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument’s fair value that are reported in profit or loss, are included within finance costs or other income.

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at FVTPL are either held for trading or designated as such on initial recognition.

Financial liabilities held for trading or designated at FVTPL, are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

Derivative financial instruments

Where the Group uses derivative financial instruments, such as interest rate to mitigate its risks associated with interest rate fluctuations, such derivative financial instruments are initially recognised at cost, being the fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using valuation quotes provided by financial institutions, based on prevailing market information. Derivatives, if any, are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group does not adopt hedge accounting, and any realised and unrealised (from changes in fair value) gain or losses are recognised directly in the consolidated statement of profit or loss.

5.13.6 *Amortised cost of financial instruments*

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

5.13.7 *Offsetting of financial instruments*

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

5.13.8 *Fair value of financial instruments*

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.13 Financial instruments (continued)

5.13.8 Fair value of financial instruments (continued)

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 36.

5.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the weighted average cost formula.

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

5.15 Equity, reserves and dividend payments

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

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

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

Other components of equity include the following:

- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into KD and the Group's share of foreign currency translation reserves shown in the associates statement of financial position.
- Cumulative changes in fair value – comprises gains and losses relating to financial assets at FVOCI

Retained earnings/accumulated losses include all current and prior period profit retained/(losses) incurred. All transactions with owners of the Parent Company are recorded separately within equity.

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

5.16 Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity.

When the treasury shares are reissued, gains are credited to a separate account in equity, (the "gain on sale of treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.17 Provisions, contingent assets and contingent liabilities

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

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

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

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

5.18 Foreign currency translation

5.18.1 Functional and presentation currency

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

5.18.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined. Translation difference on non-monetary asset classified as, “fair value through profit or loss” is reported as part of the fair value gain or loss in the consolidated statement of profit or loss and “financial assets at FVOCI” are reported as part of the cumulative change in fair value reserve within other comprehensive income.

5.18.3 Foreign operations

In the Group’s financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the KD are translated into KD upon consolidation.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal/liquidation of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal/liquidation.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.18 Foreign currency translation (continued)

5.19 End of service indemnity

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

In addition to the end of service benefits with respect to its Kuwaiti national employees, the Group also 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.

5.20 Pensions (related to the foreign subsidiaries)

Contributions are paid to both defined benefit and defined contribution pension schemes in accordance with the recommendations of independent actuaries and advisors. Contributions to defined contribution schemes are charged to the consolidated statement of profit or loss on an accrual basis.

In respect of defined benefit schemes a defined benefit liability (or asset) is recognised in the consolidated statement of financial position and it is calculated as the present value of the defined benefit obligation using the projected unit credit method plus any unrecognised actuarial gains or losses less any past service cost not recognised less the market value of the plan assets.

Pension expense is charged to the consolidated statement of profit or loss and is calculated as the aggregate of current service cost (using the projected unit credit method), a net interest cost on the discounted defined benefit obligation net of the expected return on plan assets, recognised past service costs and the effect of curtailments or settlements.

Actuarial gains or losses are recognised in full in other comprehensive income.

5.21 Share-based Payment

Certain employees of the Group receive remuneration in the form of share-based payment transactions, whereby the employees render services in exchange for shares ("equity settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the period end market value of the company's shares with the issue price. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the shares vest.

5.22 Taxation

5.22.1 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Group. As per law, allowable deductions include, share of profits of listed associates and cash dividends from listed companies which are subjected to NLST.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.22 Taxation (continued)

5.22.1 National Labour Support Tax (NLST) (continued)

For the year ended 31 December 2017, one of the subsidiaries of the Group has no liability towards NLST in line with agreement between The Islamic Republic of Pakistan and the State of Kuwait for the “avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income” which state that income source shall be taxed only in the Contracting State.

5.22.2 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

5.22.3 Zakat

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

For the year ended 31 December 2017 and 2018, the Parent Company has no liability towards NLST, KFAS and Zakat due to tax losses incurred.

5.22.4 Withholding taxes

The Group is exempt from income taxation and withholding taxes in Kuwait. However, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. Withholding tax is a generic term used for the amount of withholding tax deducted of the source of the income and is not significant for the Group. The Group presents the withholding tax separately from the gross investment income in the consolidated statement of profit or loss. For the purpose of the consolidated statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

5.22.5 Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

Deferred taxation is provided in respect of all temporary differences. Deferred tax assets are recognised in respect of unutilised tax losses when it is probable that the loss will be used against future profits.

5.23 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances, short-term deposits, murabaha and wakala investments and short term highly liquid investments maturing within three months from the date of inception less due to banks and blocked bank balances.

5.24 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

5.25 Related party transactions

Related parties are associates, major shareholders, board of directors, executive staff, their family members and the companies owned by them. All related party transactions are carried out with the approval of the Group’s management.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty

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

6.1 Significant management judgments

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

6.1.1 Business model assessment

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in Note 5.13). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

6.1.2 Significant increase in credit risk

Estimated credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define "significant" increase. Therefore, assessment whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

6.1.3 Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading or investment property. Such judgement at acquisition determines whether these properties are subsequently measured at cost or net realisable value whichever is lower or fair value and if the changes in fair value of these properties are reported in the statement of profit or loss.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business. And if such properties are under development with an intention of being sold in future they are classified under trading properties under development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use. And if such properties are under development they are classified under investment properties under development.

6.1.4 Revenue recognition

Revenue is measured based on the consideration which the Group expects to be entitled in a contract and is recognised when it transfers control of a product or service to a customer. The determination of whether the revenue recognition criteria as specified under IFRS 15 and in the revenue accounting policy explained in Note 5.6 are met requires significant judgement.

6.1.5 Control assessment

When determining control, management considers whether the Group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.1. Significant management judgments (continued)

6.1.6 Equity method accounting for entities in which the Group holds less than 20% of the voting rights

Management has assessed the level of influence that the Group has over its material associate, Mabance Company - KPSC and determined that it has significant influence even though the shareholding in this associate is below 20%, because of the factors mentioned in note 23.3. Consequently, this investment has been classified as an associate and has been accounted for using the equity method.

6.2. Estimates uncertainty

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

6.2.1 Impairment of goodwill and other intangible assets

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

6.2.2. Impairment of 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 profit or loss.

6.2.3. Impairment of financial assets

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

During the year, the Group has recognised net impairment losses of KD1,280 thousand (2017: KD246 thousand) against loan and receivables.

6.2.4. Useful lives of depreciable/amortisable assets

Management reviews its estimate of the useful lives of depreciable/amortisable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical and other obsolescence that may change the utility of certain software, intangible assets and property, plant and equipment.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (Continued)

6.2. Estimates uncertainty (continued)

6.2.5. Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

At the financial position date, gross inventories were KD38,005 thousand (2017: KD34,963 thousand), with provision for old and obsolete inventories of KD1,418 thousand (2017: KD1,769 thousand). Any difference between the amounts actually realised in future periods and the amount expected will be recognised in the consolidated statement of profit or loss.

6.2.6. Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

6.2.7. Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of profit or loss. The Group engaged independent valuation specialists to determine fair values and the valuers have used valuation techniques to arrive at these fair values. These estimated fair values of investment properties may vary from the actual prices that would be achieved in a arm's length transaction at the reporting date.

6.2.8. Defined benefits obligation

Management's estimate of the defined benefit obligation is based on number of critical underlying assumption such as standard rates of inflation, mortality, discount rate and anticipation of future pension increases. Variation in these assumptions may significantly impact the defined benefit obligations and amount and the annual defined benefits expenses (as analysed in Note 33).

6.2.9. Provision for foreign taxation

The Group has made provision for potential tax liabilities which may arise on foreign income. These provisions have been assessed based on information available to management as of the reporting date. The actual liability which may or may not arise if and when the relevant tax authorities make an official assessment may substantially differ from the actual provision made (Note 26 b).

6.2.10. Contract revenue

Recognised amounts of service and related receivables reflect management's best estimate of each contract's outcome and stage of completion. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty.

Notes to the consolidated financial statements (continued)

7 Subsidiary companies

7.1 Details of the Group's material consolidated subsidiaries at the end of the reporting period are as follows:

	Country of registration and place of business	Nature of business	Proportion of ownership interest	
			31 Dec. 2018 %	31 Dec. 2017 %
Al Durra National Real Estate – KSC (Closed)	Kuwait	Real Estate	97*	97*
National Combined Industries Holding Company for Energy – KSC (Closed)	Kuwait	Investments	96*	96*
Pearl National Holding – KSC (Closed)	Kuwait	Investments	99*	99*
Economic Holding Company – KSC (Closed)	Kuwait	Investments	97*	97*
BI Group Plc	United Kingdom	Specialist Engineering	100	100
Proclad Group Limited	UAE	Specialist Engineering	100	100
Eagle Proprietary Investments Limited	UAE	Investments	100	100
Pearl Offshore Enterprises Limited (note 7.3)	BVI	Investments Holdings	100	100
Denham Investment Limited	Cayman Islands	Investments	85	85
Ikarus Petroleum Industries Company – KSC (Closed)	Kuwait	Petroleum	72	72
National Industries Company - KPSC	Kuwait	Industrial	51	51
Noor Financial Investment Company – KPSC	Kuwait	Investments	51	51

* The Group's holding of these subsidiaries are 100% and the remaining stake is held by nominees on its behalf.

7.2 Subsidiaries with material non-controlling interests

The Group includes three subsidiaries with material non-controlling interests (NCI):

Name	Proportion of ownership interests and voting rights held by the NCI		Profit allocated to NCI		Accumulated NCI	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Noor Financial Investment Company - KPSC (NFI)	49%	49%	10,732	505	48,092	47,333
National Industries Company - KPSC (NIC)	49%	49%	1,737	1,247	51,250	51,541
Ikarus Petroleum Industries Company – KSC (Closed) (IPI)	28%	28%	3,050	33	35,997	26,503
Individual immaterial subsidiaries with non-controlling interests			107	242	8,323	4,750
			15,626	2,027	143,662	130,127

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

Summarised financial information for the above subsidiaries, before intragroup eliminations, is set out below:

	31 December 2018			31 December 2017		
	NFI KD '000	NIC KD '000	IPI KD '000	NFI KD '000	NIC KD '000	IPI KD '000
Total assets	131,309	112,032	121,851	171,114	113,739	109,696
Total liabilities	(61,713)	(23,091)	(10,581)	(108,691)	(23,578)	(16,658)
Non-controlling interest (including NCI in the subsidiary's statement of financial position)	(41,283)	(46,794)	(35,182)	(40,567)	(47,493)	(25,678)
Equity attributable to the shareholders of the Parent Company	28,313	42,147	76,088	21,856	42,668	67,360
	Year ended 31 December 2018			Year ended 31 December 2017		
	NFI KD '000	NIC KD '000	IPI KD '000	NFI KD '000	NIC KD '000	IPI KD '000
Revenue	48,971	54,791	15,821	28,063	45,809	2,183
Profit for the year	23,798	3,773	10,428	2,100	2,971	782
Other comprehensive (loss)/income for the year	(13,602)	(2,222)	2,051	(6,714)	(33)	(8,291)
Total comprehensive income/(loss) for the year	10,196	1,551	12,479	(4,614)	2,938	(7,509)
- attributable to the shareholders of the Parent Company	6,662	869	8,830	(1,834)	1,627	(5,437)
- attributable to NCI	3,534	682	3,649	(2,780)	1,311	(2,072)
Dividend paid to NCI	-	(1,397)	-	-	(1,749)	-
Net cash flow from/(used in) operating activities	6,098	4,697	32,525	2,709	9,668	(2,367)
Net cash flow from/(used in) investing activities	30,025	(3,305)	(26,338)	5,429	(2,260)	3,737
Net cash flow used in financing activities	(39,318)	(2,990)	(11,322)	(11,222)	(4,169)	(683)
Net cash (outflow)/inflow	(3,195)	(1,598)	(5,135)	(3,084)	3,239	687

7.3 Pearl Offshore Enterprises Limited is a special purpose vehicle (SPV) which was incorporated during the year 2011 and total assets with a carrying value of KD113,092 thousand (2017: KD121,842 thousand) and total liabilities of KD73,085 thousand (2017: KD83,472 thousand) of the Parent Company are held by the SPV.

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.4 Acquisition of an indirect subsidiary

During the year, the one of the local subsidiaries of the Group acquired 60% equity stake in Middle East Chemicals Company Ltd – WLL (a Saudi Company operating in the basic chemicals sector) and the acquisition was accounted in accordance with IFRS 3 as follows:

	31 March 2018 (unaudited) KD '000
Total consideration	8,247
Value of non-controlling interests	5,893
	14,140
Less : Recognized amounts of identifiable assets acquired and liabilities assumed	
Bank balances and cash (net of due to banks)	6,154
Account receivables and other assets	1,303
Inventories	598
Property, plant and equipment	11,166
Borrowings	(3,912)
Accounts payable and other liabilities	(576)
Total identifiable net assets	14,733
Negative goodwill (included under interest and other income)	(593)

The initial accounting for the business combination is provisional due to its complexity, and will be adjusted retrospectively (if required) when the final purchase price allocation is completed during the one-year measurement period from the acquisition date.

The results of the newly acquired indirect subsidiary was consolidated to the Group's results effective from 1 April 2018 and the financial position as at 31 December 2018 was consolidated with the Group's financial position as of that date based on management accounts. Accordingly, Middle East Chemicals Company Ltd – WLL as a subsidiary contributed revenue and profit of KD4,526 thousand and KD707 thousand to the net results of the Group respectively.

8 Income from investments

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Dividend income:		
- From financial assets at fair value through profit or loss	8,345	806
- From financial assets at fair value through other comprehensive income	3,607	-
- From available for sale investments	-	6,572
Profit on sale of available for sale investments	-	18,124
Realised gain on financial assets at fair value through profit or loss	4,487	1,342
Unrealised gain on financial assets at fair value through profit or loss	28,163	7,726
Interest income on debt securities classified under financial assets at FVTPL	81	-
	44,683	34,570

Notes to the consolidated financial statements (continued)

9 Interest and other income

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Interest/profit on bank balances, short term deposits, wakala investments	1,055	617
Gain on acquisition of subsidiary (negative goodwill) (Note 7.4)	593	-
Service income, management and placement fees	340	472
Discount on settlement of borrowings (Note 27 b)	17,041	2,063
Net gain relating to liquidated/disposed foreign subsidiaries*	1,732	-
Others	1,233	1,608
	21,994	4,760

*The gain has mainly resulted from the net realisation of the positive foreign currency translation reserves which were booked in the previous years in equity with regard to the liquidated/disposed foreign subsidiaries.

10 Net gain/(loss) on financial assets and financial liabilities

Net gain/(loss) on financial assets and financial liabilities, analysed by category, is as follows:

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Financial assets at amortised cost (2017: loans and receivables):		
- Interest/profit on bank balances and short term deposits	1,034	602
- Profit from wakala and sukuk investments	21	15
- Income from future trade customers (on accounts receivable and other assets)	7	55
- impairment in value of receivable and other assets	(1,280)	(246)
Financial assets at FVTPL:		
- Realised gain	4,487	1,342
- Unrealised gain	28,163	7,726
- Dividend income	8,345	806
- Interest income on debt securities	81	-
Financial assets at FVOCI (2017: available for sale investments):		
- recognised directly in other comprehensive income (including NCI share)	(20,503)	(11,186)
- recognised directly in consolidated statement of profit or loss as dividend	3,607	6,572
- recognised directly in consolidated statement of profit or loss as profit on sale	-	6,680
- recycled from other comprehensive income to consolidated statement of profit or loss on impairment and disposal	-	6,197
	23,962	18,563
Financial liabilities at amortised cost:		
- Borrowings and bonds	(32,693)	(31,412)
- Discount on settlement of borrowings	17,041	2,063
	8,310	(10,786)
Net gain recognised in the consolidated statement of profit or loss	28,813	400
Net loss recognised in the consolidated statement of profit or loss and other comprehensive income	(20,503)	(11,186)
	8,310	(10,786)

Notes to the consolidated financial statements (continued)

11 Finance costs

Finance costs mainly relate to due to banks, borrowings, bonds and lease creditors. All these financial liabilities are stated at amortized cost.

In addition, finance costs for the current year include one of indirect subsidiaries management's best estimate of accrued interest on an amount payable related to a court decision received against it, subsequent to the reporting date.

12 Taxation and other statutory contributions

(a) Foreign taxation*

Taxation of subsidiaries

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Current tax expense		
Current year charge	(1,201)	(527)
Deferred tax (expenses)/income		
Current year (expenses)/income	(49)	39
	(1,250)	(488)

* Foreign taxation includes an amount of KD518 thousand charged (2017: KD482 thousand charged) by certain foreign subsidiaries which is calculated based on the tax law adopted in United Kingdom.

(b) KFAS, Zakat and NLST of local subsidiaries

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Contributions to Kuwait Foundation for Advancement of Science (KFAS)	(310)	(266)
Provision for Zakat	(437)	(285)
Provision for National Labour Support Tax (NLST)	(516)	(166)
	(1,263)	(717)

The contributions and provisions are on profit of local subsidiaries, whereas no contribution and provision for the Parent Company was recognised in the current year (2017: Nil) as the net taxable results attributable to the Parent Company was a loss.

13 Profit for the year

Profit for the year is stated after charging:

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Staff costs	29,644	27,385
Depreciation and amortisation	7,419	6,727
Net provision reversal for obsolete and slow moving inventories	(351)	(74)

The number of staff employed by the Parent Company at 31 December 2018 was 61 (2017: 67).

Notes to the consolidated financial statements (continued)

14 Basic and diluted earnings per share attributable to the owners of the Parent Company

Earnings per share are calculated by dividing the profit for the year attributable to the owners of the Parent Company by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
Profit for the year attributable to the owners of the Parent Company (KD '000)	19,841	24,160
Weighted average number of shares outstanding during the year (excluding treasury shares) – shares	1,325,056,996	1,325,056,996
Basic and diluted earnings per share	15.0 Fils	18.2 Fils

15 Cash and cash equivalents

	Effective interest/profit rate %	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Bank balances and cash	0.25% - 0.62%	32,077	38,436
Short term deposits	2.5% - 2.75%	9,136	8,020
Due to banks (a)	4.5% - 6.0%	(23,009)	(22,315)
		18,204	24,141
Less: Blocked balances		(6)	(219)
Cash and cash equivalents for the purpose of consolidated statement of cash flows		18,198	23,922

a) Due to banks include bank overdraft facilities utilised by one of the subsidiaries of the Group which are secured against short term deposits of KD610 thousand as at 31 December 2018 (2017: KD1,008 thousand).

16 Wakala and sukuk investments

	Effective profit rate % (per annum)		31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
	2018	2017		
Wakala investments				
Placed with local Islamic banks	3%	1.37%	1,000	1,000
Sukuk investments			153	153
			1,153	1,153

Wakala investments of KD14,324 thousand (31 December 2017: KD14,324 thousand) placed by a local subsidiary of the Group with a local Islamic investment company matured in the last quarter of 2008. The investee company defaulted on settlement of these balances on the maturity date. However, revised maturity dates were stipulated by the court. The investee company again defaulted the payment of 2nd, 3rd, 4th and 5th instalments due in June 2014, 2015, 2016 and 2017 respectively. The subsidiary has initiated various legal cases against the investee company to recover these amounts. Full provision was made for receivable in accordance with the Central Bank of Kuwait provision rules.

Notes to the consolidated financial statements (continued)

16 Wakala and sukuk investments (continued)

During the previous years, the one of the local subsidiaries of the Group assumed the financial and legal obligations on wakala investments of KD9,968 thousand (in violation of the Commercial Companies Law of 1960) that the subsidiary had placed with the above investment company as part of total wakala investments of KD14,324 thousand in a fiduciary capacity under a wakala agreement with certain related parties, despite having no such obligation under the wakala agreement. The subsidiary initiated legal proceedings against the parties to recover the amount including profits thereon. During the year 2014, the Court of Appeal had ordered the related parties to pay KD8,285 thousand with 7% of profit thereon to the subsidiary which was overturned by the Court of Cassation in favor of the related party during the year 2015. The subsidiary also initiated legal proceeding relating to the remaining amount of KD1,683 thousand against the related parties. During the year ended 31 December 2018, the Court of Appeal has ordered the related parties to pay KD1,683 thousand to the subsidiary and the related parties have appealed against the court decision.

17 Accounts receivable and other assets

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Financial assets		
Net trade receivables	29,857	26,514
Amounts due on sale of investments	-	5,420
Amounts due on disposal of an associate (Note 23.5)	-	43,028
Due from related parties (Note 17 b and 35)	6,866	6,740
Interest and other accrued income	1,168	1,267
Retentions and refundable deposits	1,026	961
Other financial assets	6,158	6,518
	45,075	90,448
Non-financial assets		
Prepayments and other assets	4,378	5,459
	4,378	5,459
	49,453	95,907

- a) Trade receivables are non-interest bearing and generally on 30 to 120 days terms.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses on trade receivables. The loss rates are based on days past due for groupings of different debtor segments with similar loss patterns. The calculation also considers the past default experience of the debtor, current and forward-looking factors affecting the debtor's ability to settle the amount outstanding, general economic condition of the industry in which the debtor operates and an assessment of both current as well as the forecast direction of conditions at the reporting date.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery.

As at 31 December the aging analysis of trade receivables is as follows:

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Neither past due nor impaired	19,501	21,658
Past due but not impaired		
- 31 – 90 days	5,552	654
- more than 90 days	4,804	4,202
Total trade receivables	29,857	26,514

Notes to the consolidated financial statements (continued)

17 Accounts receivable and other assets (continued)

- b) This includes an amount of USD14mn equivalent to KD4,253 thousand (2017: USD6mn equivalent to KD1,814 thousand) loan provided by a foreign subsidiary of the Group to a related party who is a US based real estate developer. The loan carries fixed interest rate of 8.5% and is receivable, at the latest by 3 April 2021. As of the reporting date, the above subsidiary is committed to provide a further USD1mn (2017: USD 9mn) to the developer.
- c) During the year, the Group recognised a net impairment loss of KD1,280 thousand (2017: KD246 thousand) against trade and other receivables.

18 Inventories

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Finished goods and work-in-progress	18,158	16,490
Raw materials and consumables	15,091	12,986
Spare parts and others	3,705	3,652
Goods in transit	1,051	1,835
	38,005	34,963
Provision for obsolete and slow moving inventories	(1,418)	(1,769)
	36,587	33,194

19 Financial assets at fair value through profit or loss

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Local quoted shares	147,920	18,099
Foreign quoted shares	66,573	6,829
Unquoted equity participations	21,642	-
Quoted debt securities (held in managed portfolios)	1,299	-
Local funds	2,508	5,334
Foreign managed portfolios and funds	124,771	44,518
	364,713	74,780

- a) Quoted shares and managed funds, held by the Group, with a fair value of KD151,276 thousand (2017: KD131,205 thousand including investments previously classified under available for sale investments) are secured against borrowings (Note 27).
- b) Foreign managed portfolios and funds include investments in private equity funds with a carrying value of KD122,626 thousand (2017: KD33,372 thousand). Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

Notes to the consolidated financial statements (continued)

20 Financial assets at fair value through other comprehensive income

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Local quoted shares	10,220	-
Foreign quoted shares	35,634	-
Local unquoted equity participations	23,651	-
Foreign unquoted equity participations	117,403	-
Foreign managed portfolios and funds	29,577	-
	216,485	-

- a) These investments are held in equity instruments for medium - to long-term strategic objectives. Accordingly, the management has chosen to identify these investments in equity instruments as financial assets at fair value through other comprehensive income where it is believed that the recognition of short-term fluctuations in the fair value of these financial assets in the consolidated statement of profit or loss will not be consistent with the Group's strategy to hold such investments for long-term purposes and realizing their performance potential in the long term.
- b) Quoted shares with a fair value of KD32,651 thousand (Available for sale investments at 31 December 2017: KD38,955 thousand) and unquoted shares with a fair value of KD168 thousand (Available for sale investments at 31 December 2017: KD6,888 thousand) are secured against bank borrowings (Note 27).
- c) During the year 2016, the Group signed a conditional agreement with a foreign party to sell 10.45% shareholding in K-Electric Company, one of the Pakistani listed companies involved in the generation, transmission and distribution of electricity. The above shares are held through certain subsidiaries of the Group and have been recorded under financial assets at fair value through other comprehensive income (previously classified under available for sale investments). However, the completion of the sale contemplated in the conditional agreement is further extended during the previous year until the receipt of applicable regulatory approvals and satisfaction of other conditions precedent specified therein and therefore profit or loss expected from the above sale has not yet been determined.

21 Available for sale investments

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Foreign managed funds	-	110,527
Local unquoted equity participations	-	39,389
Foreign unquoted equity participations	-	143,844
Local quoted shares	-	110,204
Foreign quoted shares	-	121,238
	-	525,202

The Group has applied, for the first time, IFRS 9 "Financial Instruments" as described in Note 4.1 effective from 1 January 2018. Accordingly, the management of the Group has re-classified its existing available for sale investments as described in Note 4.1.

Notes to the consolidated financial statements (continued)

22 Investment properties

The movement in investment properties is as follows:

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Fair value as at 1 January	66,121	64,294
Additions	10,711	7,493
Disposal	-	(2,200)
Changes in fair value	34	(3,455)
Foreign currency translation	(9)	(11)
	76,857	66,121

Investment properties comprise of lands and buildings in the following countries:

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Kuwait	57,666	52,365
Saudi	6,579	6,071
Jordan	504	501
UAE	11,264	6,267
London	844	917
Total	76,857	66,121

- Investment properties are stated at fair value, which has been determined based on valuations performed by independent valuers (Note 36.4 for details).
- Investments properties amounting to KD50,482 thousand (2017: KD44,728 thousand) are secured against borrowings (Note 27).
- At the reporting date, a property located in Kuwait with a carrying value of KD17,046 thousand (2017: KD11,470 thousand) is under development. During the year borrowing cost of KD352 thousand (2017: KD481 thousand) has been capitalised for properties which are under development. Two other properties in UAE and KSA with a carrying value of KD10,752 thousand and KD1,786 thousand (2017: KD4,278 thousand and KD1,290 thousand) respectively are also being developed.

23 Investment in associates

Details of the Group's material associates at the end of the reporting period are as follows:

	Country of registration and principal place of business	Nature of business	Percentage ownership	
			31 Dec. 2018	31 Dec. 2017
Meezan Bank Ltd – (Quoted)	Pakistan	Islamic banking	38	49
Privatization Holding Company – KPSC (Quoted)	Kuwait	Financial services	36	36
Kuwait Cement Company – KPSC (Quoted)	Kuwait	Industrial	26	26
Mabane Company - KPSC - (Quoted) (23.3)	Kuwait	Real estate	18	18

Notes to the consolidated financial statements (continued)

23 Investment in associates (continued)

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Balance at 1 January (previously reported)	336,045	350,540
Adjustments arising from adoption of IFRS 9 on 1 January 2018 (Note 4.1)	(1,153)	-
Balance as at 1 January 2018 – restated	334,892	350,540
Additions during the year	2,107	5,558
Share of results	15,182	19,035
Disposal/capital reduction (Note 23.5)	(12,993)	(28,388)
Share of other comprehensive income	(346)	3,368
Dividend distribution	(9,984)	(9,376)
Foreign currency translation adjustment	(11,485)	(4,376)
Other adjustments	89	(316)
Balance at the end of the year	317,462	336,045

- 23.1 All of the above named associates are accounted for using the equity method in these consolidated financial statements.
- 23.2 A major portion of an associate with a carrying value of KD145,977 thousand (2017: KD148,644 thousand) is kept in a custody portfolio account with specialised institution (Note 27 d).
- 23.3 Although the Group owns 18% of the investee, the Group exercises significant influence over the associate by way of board representation.
- 23.4 Investment in associates includes quoted associates with a carrying value of KD299,573 thousand (2017: KD316,573 thousand) having quoted market value of KD280,921 thousand at 31 December 2018 (2017: KD308,711 thousand) based on published quotes. In accordance with IAS 36 “Impairment of Assets” the Group’s recoverable amount of these associates (which represent the higher of fair value less costs to sell, and value in use) was in excess of their carrying values and accordingly no impairment was recognized against these investments during the year ended 31 December 2018.
- 23.5 During the year, one of the local subsidiaries of the Group partially disposed (11% out of its holding of 49% at 31 December 2017) one of its foreign associates (Meezan Bank Ltd.) for a consideration of KD20,797 thousand resulting in a net gain of KD4,197 thousand (including the recycling of previously recognised Group’s share of the said associate’s foreign currency translation reserve of KD4,514 thousand to the consolidated statement of profit or loss).

During the previous year, the Group disposed one of its foreign associates (Airport International Group P.S.C.) with a carrying value of KD27,227 thousand in which the Group held 24%. Accordingly the Group has recognised a net gain of KD17,504 thousand (including the recycling of previously recognised Group’s share of the said associate’s other comprehensive income of KD1,703 thousand to the consolidated statement of profit or loss) on disposal of the associate in the consolidated statement of profit or loss for the year ended 31 December 2017 and the net proceeds on disposal amounting to KD43,028 thousand was due and included in accounts receivable and other assets as of 31 December 2017. During the year, the Group has received the proceeds fully.

Notes to the consolidated financial statements (continued)

23 Investment in associates (continued)

23.6 Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates named above, are set out below. The summarised financial information below represents the amounts presented in the financial statements of the associates (and not the Groups share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

	Mabane Company – KPSC*		Kuwait Cement Company – KPSC		Meezan Bank Ltd.		Privatization Holding Company – KPSC	
	2018 KD '000	2017 KD '000	2018 KD '000	2017 KD '000	2018 KD '000	2017 KD '000	2018 KD '000	2017 KD '000
As at 31 December								
Total assets	1,271,000	1,239,733	301,912	305,743	2,041,717	2,142,390	133,540	153,355
Total liabilities	(377,361)	(359,172)	(108,754)	(108,323)	(1,947,242)	(2,037,693)	(46,855)	(53,121)
Non-controlling interests	(61,325)	(61,169)	(145)	(144)	(2,182)	(2,748)	(907)	(1,804)
Equity attributable to the owners of the associate	832,314	819,392	193,013	197,276	92,293	101,949	85,778	98,430
For the year ended 31 December								
Revenue	31,044	44,891	96,259	97,257	105,428	98,388	8,108	8,215
Profit/(loss) for the year attributable to shareholders	23,332	39,421	7,943	17,191	19,420	15,315	(5,351)	3,069
Other comprehensive (loss)/income for the year	(1,249)	(776)	2,760	3,476	(1,883)	(4,821)	(427)	1,894
Total comprehensive income/(loss) for the year	22,083	38,645	10,703	20,667	17,537	10,494	(5,778)	4,963
Dividends received from the associate during the year	1,669	1,567	3,797	3,797	2,913	3,812	1,190	-
As at 31 December								
Net assets of the associate attributable to the shareholders of the associate	832,314	819,392	193,013	197,276	92,293	101,949	85,778	98,430
Proportion of the Group's ownership interest	17.88%	17.68%	26.10%	25.89%	38.18%	49.11%	35.82%	35.82%
Interest in the associate	148,818	144,869	50,376	51,075	35,240	50,067	30,726	35,258
Goodwill	10,496	10,496	14,893	14,893	5,229	8,637	-	-
Other adjustments	87	402	5,830	4,142	-	-	(3,663)	(5,883)
Carrying value of the investment	159,400	155,767	71,099	70,110	40,469	58,704	27,063	29,375
Fair value of the Group's interests in the quoted associates which are based on the quoted market prices available on the respective Stock Exchanges, which are Level 1 Inputs in terms of IFRS 13.	106,574	116,448	72,537	84,482	89,421	95,481	11,407	11,143

*Has been adjusted for the differences in accounting policies between Group and the associate.

Notes to the consolidated financial statements (continued)

23 Investment in associates (continued)

23.6 Summarised financial information of material associates (continued)

Aggregate information of associates that are not individually material to the Group;

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Group share of results for the year	3,439	(1,005)
Group share of comprehensive income	29	4,294
Group share of total comprehensive income	3,468	3,289
Aggregate carrying value of the Group interest in associates	19,431	22,089
Aggregate dividend received from the associates during the year	415	200

23.7 Group's share of associates' contingent liabilities:

- a) The Group's share of associates' contingent liabilities amounted to KD138,695 thousand (2017: KD154,631 thousand). This includes the Group's share of contingent liabilities related to a foreign bank (Meezan Bank Ltd.) which amounted to KD102,696 thousand (2017: KD110,995 thousand).
- b) The local income tax authority in Pakistan has raised a demand requesting Mezzan Bank Limited, an associate of one of the subsidiaries of the Group, to pay additional tax amounting to KD3.9 million (Subsidiary's share KD1.5 million) for prior years including 2017. The associate has obtained a stay order against this demand and has also filed appeals with the relevant Appellate Authorities. Subsidiary's management, in consultation with tax advisors, is confident that the decision in respect of this matter would be in subsidiary's favour and, accordingly, no provision is made in these consolidated financial statements with respect thereto.

Notes to the consolidated financial statements (continued)

24 Property, plant and equipment

Year ended 31 December 2018

	Land KD '000	Freehold properties KD '000	Leasehold properties KD '000	Properties on leasehold land KD '000	Plant and machineries KD '000	Motor vehicles KD '000	Furniture and equipment KD '000	Leased plant, machinery and vehicles KD '000	Properties under construction KD '000	Total KD '000
Cost or valuation										
At 1 January 2018	1,463	20,214	618	35,325	95,262	13,066	13,428	2,780	5,074	187,230
Foreign exchange adjustments	7	(67)	(8)	11	(696)	(7)	9	(143)	1	(893)
Additions/transfer	-	204	9	176	7,096	2,388	210	-	2,662	12,745
On acquisition of an indirect subsidiary (Note 7.4)	2,183	1,460	-	-	10,346	43	748	-	153	14,933
Reclassification	-	90	-	-	16	-	39	-	(145)	-
Disposals	-	-	(11)	-	(2,143)	(16)	(75)	-	-	(2,245)
At 31 December 2018	3,653	21,901	608	35,512	109,881	15,474	14,359	2,637	7,745	211,770
Accumulated depreciation and impairment losses										
At 1 January 2018	-	5,428	73	25,629	60,313	11,243	10,298	1,932	-	114,916
Foreign exchange adjustments	-	(72)	(2)	3	(606)	(5)	(15)	(104)	-	(801)
Charge for the year	-	829	14	737	3,845	674	971	121	-	7,191
On acquisition of an indirect subsidiary (Note 7.4)	-	434	-	-	3,099	24	210	-	-	3,767
Relating to disposals	-	-	(9)	-	(2,080)	(16)	(74)	-	-	(2,179)
At 31 December 2018	-	6,619	76	26,369	64,571	11,920	11,390	1,949	-	122,894
Net book value										
At 31 December 2018	3,653	15,282	532	9,143	45,310	3,554	2,969	688	7,745	88,876

Properties on lease hold land are on lands which have been leased from the government of Kuwait through renewable lease contracts.

Property under construction mainly represents the cost incurred, on the expansion of one of the subsidiaries existing factories and the construction of a manufacturing lines by a subsidiary. During the prior years, portions of the manufacturing lines which were completed and ready for intended use were capitalised in the appropriate categories. The costs relating to the remaining manufacturing lines and facilities will be transferred to the appropriate asset categories when the assets are ready for their intended use.

Notes to the consolidated financial statements (continued)

24 Property, plant and equipment (continued)

Year ended 31 December 2017

	Land KD '000	Freehold properties KD '000	Leasehold properties KD '000	Properties on leasehold land KD '000	Plant and machineries KD '000	Motor vehicles KD '000	Furniture and equipment KD '000	Leased plant, machinery and vehicles KD '000	Properties under construction KD '000	Total KD '000
Cost or valuation										
At 1 January 2017	1,483	18,619	598	35,249	91,579	12,812	13,210	2,567	2,540	178,657
Foreign exchange adjustments	(20)	69	10	(32)	1,856	20	15	189	-	2,107
Additions/transfer/consolidation of new subsidiaries	-	402	4	137	4,220	327	235	24	2,534	7,883
Reclassification	-	1,124	6	-	(1,130)	-	-	-	-	-
Disposals	-	-	-	(29)	(1,263)	(93)	(32)	-	-	(1,417)
At 31 December 2017	1,463	20,214	618	35,325	95,262	13,066	13,428	2,780	5,074	187,230
Accumulated depreciation and impairment losses										
At 1 January 2018	-	4,704	51	24,891	56,310	10,642	9,563	1,659	-	107,820
Foreign exchange adjustments	-	3	10	(9)	1,824	19	(6)	127	-	1,968
Charge for the year	-	721	12	765	3,415	650	773	146	-	6,482
Relating to disposals	-	-	-	(18)	(1,236)	(68)	(32)	-	-	(1,354)
At 31 December 2017	-	5,428	73	25,629	60,313	11,243	10,298	1,932	-	114,916
Net book value										
At 31 December 2017	1,463	14,786	545	9,696	34,949	1,823	3,130	848	5,074	72,314

Notes to the consolidated financial statements (continued)

25 Goodwill and other intangible assets

25.1 Goodwill

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Balance at 1 January	11,364	10,708
Additions	-	83
Impairment in value of goodwill	(2,468)	-
Foreign exchange adjustment	(334)	573
	8,562	11,364

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiaries. Goodwill of KD2,029 thousand (2017: KD2,029 thousand) and KD6,533 thousand (2017: KD9,335 thousand) has been allocated to the IT service business and specialist engineering unit of the Group, respectively as these are the cash generating unit (CGU) which is expected to benefit from the synergies of the business combination. It is also the lowest level at which goodwill is monitored for impairment purposes.

Impairment testing

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGUs to which these items are allocated. The recoverable amount is determined based on higher of value-in-use calculations or fair value less cost to sell.

Management used the following approach to determine values to be assigned to the following key assumptions in the value in use calculations:

Key assumption	Basis used to determine value to be assigned to key assumption
Growth rates	Anticipated average growth rate of 0% to 4% (2017: 0% to 3%) per annum. Value assigned reflects past experience and changes in economic environment. Cash flows beyond the five-year period have been extrapolated using a growth rate of 0% to 4% (2017: 0% to 3%). This growth rate does not exceed the long term average growth rate of the market in which the CGU operates.
Discount rates	Discount rates of 6.4% to 17.5% (2017: 3.5% to 17%). Discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors result in any of the goodwill allocated to appropriate cash generating units being impaired. During the year, the Group recognised an impairment of KD2,468 thousand against goodwill which has been allocated to the specialist engineering unit of the Group. Based on the above analysis, there are no indications that goodwill included in any of the cash generating units is further impaired.

Notes to the consolidated financial statements (continued)

25 Goodwill and other intangible assets (continued)

25.2 Intangible assets – Indefeasible right of use (IRU)

This represents an intangible asset in the form of an indefeasible right of use (IRU) to a telecommunication asset arising from a subsidiary acquired during 2014 and the movement is as follows:

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Cost		
At the beginning of the year	3,268	3,631
Disposal of intangible assets	-	(363)
Balance at the end of the year	3,268	3,268
Accumulated amortization and impairment		
At the beginning of the year	(511)	(314)
Impairment in value of intangible assets*	(1,166)	-
Relating to disposal	-	48
Charge for the year	(228)	(245)
At the end of the year	(1,905)	(511)
Net book value at the end of the year	1,363	2,757
Total goodwill and intangible assets	9,925	14,121

* During the year, the management has performed an impairment assessment of the intangible assets and as a result recognised an impairment of KD1,166 thousand (2017: Nil) based on the recoverable value of the intangible assets based on fair value approach.

26 Accounts payable and other liabilities

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Financial liabilities		
Trade payables	19,409	18,954
Accrued interest	2,206	2,031
Dividend payable	1,300	754
Leasing creditors	72	156
Payable on acquisition of subsidiary	1,517	1,509
Due to related parties (Note 35)	2,114	1,512
Provision for cost of gas usage for previous years (a)	2,700	2,700
Provision for taxation (b)	11,274	6,911
Staff payables	2,831	2,095
Deferred consideration on acquisition of new subsidiaries	-	1,179
Amounts due to non-controlling interests on capital reduction of a subsidiary	1,088	883
Other accruals	5,331	3,487
Other liabilities	7,260	5,322
	57,102	47,493
Non-financial liabilities		
Other creditors	1,575	898
	1,575	898
	58,677	48,391

Notes to the consolidated financial statements (continued)

26 Accounts payable and other liabilities (continued)

a) This represents provision for cost of gas usage by one of the local subsidiaries of the Group amounting to KD2,700 thousand. During the year 2016, above subsidiary received a letter from a government owned entity which supplies gas to one of the factories of the subsidiary demanding payment for usage of gas for 2004 till 2011. The subsidiary rejected this claim on several grounds and the supplier filed a legal case against the subsidiary claiming its right to recover the amount. The court in its first hearing transferred the case to the Expert's department. Subsequently, the court issued a ruling ordering the subsidiary to pay an amount of USD9,300 thousand to the plaintiff. Accordingly, the subsidiary recorded a provision against this liability during the year ended 31 December 2016. Further, the subsidiary appealed the ruling and the judgment is still pending.

b) This includes an amount of KD1,578 thousand potential tax liability of one of the local subsidiaries of the Group on dividend income received in previous years from foreign entities located in a GCC country (at the rate of 5%). No tax claims or assessments have been made by any regulatory authority as of date. However, based on advice received from consultants and other information available to the subsidiary's management, on a conservative basis, the Subsidiary provided for the above amount in a previous year.

27 Borrowings and bonds

	Effective Interest rate	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Borrowings			
Short term			
Short term conventional loans	2.14% - 5.5%	161,103	104,506
Short term Islamic financing arrangements	4.25% - 6.0%	7,739	18,512
		168,842	123,018
Long term			
Long term conventional loans	1.4% - 5.9%		
- Current portion of long term conventional loans		89,804	228,990
- Due after more than one year		214,402	145,666
Long term Islamic financing arrangements	4.0% - 6.0%		
- Current portion of long term Islamic financing arrangements		6,490	113,334
- Due after more than one year		106,579	37,307
		417,275	525,297
Total borrowings		586,117	648,315
Bonds (Note 27 g)		25,000	25,000
Total borrowings and bonds		611,117	673,315

- a As of 31 December 2018, total borrowings include an amount of KD129,646 thousand and KD16,684 thousand (2017: KD114,975 thousand and KD4,076 thousand) denominated in US Dollars and other foreign currencies respectively.

Notes to the consolidated financial statements (continued)

27 Borrowings and bonds (continued)

- b During the year, one of the local subsidiaries of the Group has completed restructuring of its loans amounting to KD23,129 thousand. As per restructuring agreement, an amount of KD560 thousand is payable within one year from the reporting date and remaining amount is repayable after one year. These restructured loans are fully secured by financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and against shares of two unlisted indirect subsidiaries of the Group.

Additionally, during the fourth quarter of the current year, the local subsidiary has settled loans due to two lenders amounting to KD66,560 thousand (2017: KD6,875 thousand) against a payment of KD49,519 thousand (2017: KD4,812 thousand) with a 25.6% (2017: 30%) discount. The gain amounting to KD17,041 thousand (2017: KD2,063 thousand) which resulted from the waiver of the principal has been recognised under interest and other income during the year.

- c Islamic financing arrangement amounting to KD1,528 thousand (2017: KD2,317 thousand) are secured against property, plant and equipment with a book value of KD2,598 thousand (2017: KD2,746 thousand). Also, certain conventional loans of KD5,503 thousand (2017: KD4,590 thousand) are secured against property, plant and equipment with a book value of KD3,581 thousand (2017: KD5,011 thousand).
- d During the year, the Parent Company settled a Murabaha facility amounting to KD79,646 thousand at maturity, from the proceeds obtained through a new Murabaha facility of KD71,023 thousand and the remaining amount of KD8,623 thousand was settled in cash. The above new Murabaha facility is included under long term Islamic financing as of the reporting date. Under the terms of the new facility agreement, shares of one of the listed associates having a carrying value of KD145,977 thousand (2017: KD148,644 thousand) are kept in a custody portfolio account with specialised institutions (Note 23.2).
- e Borrowings include unsecured long term financing facilities obtained by one of the foreign indirect subsidiaries of the Group from a Saudi Islamic bank and a financial institution and the amount due within one year from the facilities amounted to KD1,707 thousand. The unutilised facility balances as of 31 December 2018 amounted to SAR119.1mn equivalent to KD9,635 thousand. During the year, the above borrowings have been secured by foreign quoted investments with a fair value of KD5,915 thousand.
- f Islamic financing arrangements includes Ijara payables of KD23,691 thousand (2017: KD22,324 thousand) which is secured against investment properties of local subsidiaries (Note 22).

Bonds

- g During the year 2016, the Parent Company issued a floating rate bonds of KD25,000 thousand at face value maturing on 20 December 2021. The bonds benefit from certain uncollateralized financial assets at fair value through other comprehensive income and investment in subsidiary through one of the local subsidiaries of the Group to ensure repayment.

28 Provisions

	31 Dec. 2018 KD'000	31 Dec. 2017 KD'000
Pension liability (Note 33)	1,458	3,328
Provision for staff indemnity	11,664	11,429
Provision for land-fill expenses	451	400
	13,573	15,157

Notes to the consolidated financial statements (continued)

29 Share capital and share premium

- a) As of 31 December 2018, authorized issued and fully paid share capital in cash of the Parent Company comprised of 1,359,853,075 shares of 100 Fils each (31 December 2017: 1,359,853,075 shares).
- b) Share premium is not available for distribution.

30 Treasury shares

	31 Dec. 2018	31 Dec. 2017
Number of shares	34,796,079	34,796,079
Percentage of issued shares	2.56%	2.56%
Market value (KD '000)	5,498	5,219
Cost (KD'000)	30,375	30,375

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

As at 31 December 2018, an associate company of the Group held 135,692,090 (2017: 135,692,090) shares equivalent to 10% (2017: 10%) of the Parent Company's shares issued.

31 Cumulative changes in fair value and other components of equity

- a) Cumulative changes in fair value

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Balance at 1 January (previously reported)	103,959	108,729
Adjustments arising on adoption of IFRS 9 on 1 January 2018 (Note 4.1)	(64,220)	-
Balance at 1 January (restated)	39,739	108,729
<i>Other comprehensive income:</i>		
Net change in fair value of available for sale investments	-	(1,579)
Transferred to consolidated statement of profit or loss on disposal of available for sale of investments	-	(11,034)
Transferred to consolidated statement of profit or loss on impairment in value of available for sale investments	-	5,026
Share of other comprehensive income of associates		
- Changes in fair value	(163)	4,520
- Transferred to consolidated statement of profit or loss on disposal (Note 23.5)	-	(1,703)
Net changes in fair value of investments in equity instruments designated at FVOCI	(18,912)	-
Other comprehensive loss for the year	(19,075)	(4,770)
Realised gain on equity investments at FVOCI	1,015	-
Balance at 31 December	21,679	103,959

Notes to the consolidated financial statements (continued)

31 Cumulative changes in fair value and other components of equity (continued)

b) Other components of equity

	Statutory reserve KD '000	General reserve KD '000	Gain on Sale of treasury shares reserve KD '000	Foreign currency translation reserve KD '000	Total KD '000
Balances as at 31 December 2017	12,853	1,694	18,452	(2,542)	30,457
Transactions with owners:					
Dividend paid	-	(251)	-	-	(251)
Other comprehensive income:					
Currency translation differences	-	-	-	(10,862)	(10,862)
Exchange differences transferred to consolidated statement of profit or loss on partial disposal of an associate	-	-	-	2,325	2,325
Other comprehensive income	-	-	-	(8,537)	(8,537)
Reserve transfers	2,158	-	-	-	2,158
Balances as at 31 December 2018	15,011	1,443	18,452	(11,079)	23,827
Balances at 31 December 2016	11,167	1,694	18,452	213	31,526
Other comprehensive income:					
Currency translation differences	-	-	-	(2,755)	(2,755)
Other comprehensive income	-	-	-	(2,755)	(2,755)
Reserve transfers	1,686	-	-	-	1,686
Balances at 31 December 2017	12,853	1,694	18,452	(2,542)	30,457

Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before KFAS, NLST, Zakat and directors' remuneration but after Non-controlling interests is to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the distribution of a dividend of that amount. No transfer is required in a year in which the Group has incurred a loss or where accumulated losses exist. During the year, the Group has transferred an amount of KD2,158 thousand (2017: KD1,686 thousand) to statutory reserve.

General reserve

In accordance with the Parent Company's Articles of Association, a certain percentage of the profit for the year before KFAS, NLST, Zakat and directors' remuneration but after Non-controlling interests is to be transferred to the general reserve at the discretion of the Board of Directors which is to be approved at the General Assembly. No transfer is required in a year in which the Group has incurred a loss or where accumulated losses exist. During the year, the Board of Directors of the Parent Company do not propose any transfer to general reserve and this is subject to approval at the General Assembly.

Notes to the consolidated financial statements (continued)

32 Non-controlling interests

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Balance at 1 January (previously reported)	130,127	137,047
Adjustments arising on adoption of IFRS 9 on 1 January 2018 (Note 4.1)	(481)	-
Balance at 1 January (restated)	129,646	137,047
Amounts due to non-controlling interests on capital reduction of a subsidiary*	(1,069)	-
Non-controlling interests arising on acquisition of subsidiaries**	6,568	302
Dividend paid to non-controlling interests by the subsidiaries	(1,655)	(2,187)
Other net changes in non-controlling interests	(228)	(396)
Transactions with non-controlling interests	3,616	(2,281)
Profit for the year	15,626	2,027
<i>Other comprehensive income :</i>		
Exchange differences arising on translation of foreign operations	(5,641)	(1,915)
Exchange differences transferred to consolidated statement of profit or loss on partial disposal of an associate	2,189	-
Net change in fair value of available for sale investments	-	(3,410)
Transferred to consolidated statement of profit or loss on disposal of available for sale investments	-	(410)
Transferred to consolidated statement of profit or loss on impairment in value of available for sale investments	-	221
Share of other comprehensive loss of associates	(183)	(1,152)
Net changes in fair value of investments in equity instruments designated at FVOCI	(1,591)	-
Total other comprehensive loss for the year	(5,226)	(6,666)
Total comprehensive income/(loss) for the year	10,400	(4,639)
Balance at 31 December	143,662	130,127

* On 18 December 2017, the shareholders of one of the indirect subsidiaries of the Group, decided to decrease its share capital from KD33,500 thousand to KD14,137 thousand (by KD19,363 thousand) by setting off of accumulated losses of KD17,113 thousand and distributing to shareholders an amount of KD2,250 thousand out of which KD1,069 thousand pertains to non-controlling interests and these transactions have been adjusted in the Group's financials during the current year.

** During the year, certain subsidiaries of the Group have acquired certain local and foreign subsidiaries and non-controlling interests arising on acquisition of those subsidiaries amounted to KD6,568 thousand. Further, acquisition of one of those subsidiaries resulted in a bargain purchase surplus (negative goodwill) of KD593 thousand which has been included under "interest and other income" in the consolidated statement of profit or loss (Note 7.4).

Notes to the consolidated financial statements (continued)

33 Defined benefit pensions schemes

The Group has defined benefit pension schemes for the employees and former employees of certain subsidiaries in the United Kingdom. The Schemes provide benefits based on final salary and length of service on retirement. The Schemes are subject to the Statutory Funding Objective under the United Kingdom Pensions Act 2004. A valuation of the schemes is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Group must agree with the Trustees of the Schemes the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The Schemes are managed by a professional trustee appointed by the Group. The Trustee has responsibility for obtaining valuation of the fund, administering benefit payments and investing the Schemes' assets. The Trustee delegates some of these functions to their professional advisers where appropriate.

The Schemes expose the Group to a number of risks:

- Investment risk: The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term the short term volatility can cause additional funding to be required if deficit emerges.
- Interest rate risk: The Schemes' liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Schemes hold assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk: A significant proportion of the benefits under the Schemes are linked to inflation. Although the Schemes' assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
- Mortality risk: In the event that members live longer than assumed a deficit will emerge in the Schemes.
- For certain sections of the Schemes, members are assumed to commute 20% of their pension for cash at retirement. If on average less pension is taken this would lead to a deficit emerging.
- The Trustee holds insurance policies for some members of the Schemes. There is a very small risk that the insurers may default on their policies which would cause additional funding to be required.

Effect of the Schemes on the Group's future cash flows

The Group is required to agree Schedules of Contributions with the Trustee of the Schemes following the valuation which must be carried out at least once every three years. In the event the valuation reveals a larger deficit than expected the Group may be required to increase contributions above those set out in the existing Schedules of Contributions. Conversely if the position is better than expected contributions may be reduced.

The Group expects to contribute KD593 thousand to its defined benefit plan in 2019 which has been agreed with the Pension Trustee in line with actuarial advice and aims to eliminate the deficit within an acceptable period of time.

The following disclosures cover all the schemes on an aggregated basis. The schemes are closed to new members and do not accrue further benefits. Actuarial calculations have been made in order to determine pension liabilities and pension expenses in connection with the Group's defined benefit pension schemes.

Notes to the consolidated financial statements (continued)

33 Defined benefit pensions schemes (continued)

The following assumptions have been used in calculating the liabilities and expenses incurred:

	31 Dec. 2018	31 Dec. 2017
Discount rate at 31 December	3.00%	2.80%
Inflation assumption (RPI)	3.45%	3.35%
Revaluation in deferment (CPI)	2.45%	2.35%
Expected return on plan assets	3.00%	2.80%
Future salary increases	0.00%	0.00%
Future pension increases	3.30%	3.35%
Mortality after retirement	2018: SAPS (S2NA) (2017: SAPS (S2NA)) tables with medium cohort year of birth projections and minimum of 1.25% (2017: 1.25%) per annum improvement.	

Under the mortality tables adopted, the expected age at death for a member at age 65 is as follows:

	31 Dec. 2018	31 Dec. 2017
Male currently aged 45	89.6	89.6
Female currently aged 45	90.7	91.9
Male currently aged 65	87.2	87.8
Female currently aged 65	89.2	90.0

The average of the weighted average duration of the liabilities of each of the Schemes is 18 years (2017: 16 years).

Consolidated statement of profit or loss

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Interest cost	(602)	(641)
Expected return on assets	526	562
Accrued expenses	-	(8)
Past service cost	(530)	-
Net annual charge included in general, administrative and other expenses	(606)	(87)

A reconciliation of the movement in the liability for defined benefit pension scheme is as follows:

Consolidated statement of financial position

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Brought forward liability	3,328	2,743
Consolidated statement of profit or loss (net)	606	87
Contributions	(1,193)	(639)
Actuarial (gain)/losses	(1,202)	940
Foreign exchange adjustments	(81)	197
Carried forward liability	1,458	3,328

Notes to the consolidated financial statements (continued)

33 Defined benefit pensions schemes (continued)

Reconciliation of consolidated statement of financial position liability

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Present value of obligations	18,968	22,095
Fair value of plan assets	(17,510)	(18,767)
Net plan deficit	1,458	3,328
Unrecognised actuarial losses	-	-
Net liability recognised in the consolidated statement of financial position	1,458	3,328

Changes in the present value of the defined benefit obligation

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Opening defined benefit obligation	22,095	20,551
Corporate disposal	-	(583)
Interest cost	602	641
Actuarial (gains)/losses	(1,465)	1,151
Accrued expenses	-	8
Past service cost	530	-
Experience loss	(792)	-
Benefits and expenses paid	(1,024)	(1,021)
Foreign exchange adjustment	(978)	1,348
Closing defined benefit obligation	18,968	22,095

Changes in the fair value of the plan assets

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Opening fair value of plan assets	18,767	17,816
Expected return on assets	526	562
Actuarial (losses)/gains	(1,055)	203
Contributions by employer	1,193	639
Benefits and expenses paid	(1,024)	(1,021)
Corporate disposal	-	(614)
Foreign exchange adjustment	(897)	1,182
Closing fair value of plan assets	17,510	18,767

The fair value of the plan assets, by category is as follows:

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Plan assets:		
Equities	8,755	8,820
Bonds	6,654	8,633
Other assets	2,101	1,314
	17,510	18,767

The actual return on the Schemes' assets net of expenses over the period was 2.8% (2017: 4.2%).

Notes to the consolidated financial statements (continued)

33 Defined benefit pensions schemes (continued)

Sensitivity of the value placed on liabilities

The defined benefit obligation would be affected by changes in the actuarial assumptions. The table below shows the potential impact of relatively small changes in the key assumptions:

Adjustment to assumptions	Approximate effect on liabilities KD '000
<i>Discount rate</i>	
Plus 0.5%	(1,556)
Minus 0.5%	1,765
<i>Inflation</i>	
Plus 0.25%	363
Minus 0.25%	(367)
<i>Life expectancy</i>	
Plus 1 year	761
Minus 1 year	(757)

Note the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

34 Segmental analysis

The Group activities are concentrated in four main segments: investment, building material, specialist engineering and hotel and IT operations. The segments' results are reported to the higher management in the Group. In addition, the segments results, assets and liabilities are reported based on the geographic locations which the Group operates in.

Geographical segments

The geographical analysis is as follows;

	Assets		Sales	
	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Kuwait	640,716	628,293	64,404	59,656
Outside Kuwait	562,008	637,000	61,002	50,854
	1,202,724	1,265,293	125,406	110,510

Notes to the consolidated financial statements (continued)

34 Segmental analysis (Continued)

The following is the segments information, which conforms with the internal reporting presented to management:

	Investment		Building materials		Specialist engineering and chemical		Hotel and IT services		Total
	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000	
Segment revenue	88,853	74,216	52,923	45,141	58,110	48,060	14,373	17,309	214,259 184,726
Less:									
Income from investments							(44,683)	(34,570)	(44,683) (34,570)
Share of result of associates							(15,182)	(19,035)	(15,182) (19,035)
Profit on disposal of associates							(4,207)	(17,447)	(4,207) (17,447)
Changes in fair value of investment properties							(34)	3,455	(34) 3,455
Rental income							(2,753)	(1,859)	(2,753) (1,859)
Interest and other income							(21,994)	(4,760)	(21,994) (4,760)
Sales, per consolidated statement of profit or loss							125,406	110,510	125,406 110,510
Segment profit/(loss)	70,445	56,236	3,703	3,046	(1,105)	(1,610)	(1,035)	72	72,008 57,744
Less:									
Finance costs							(32,693)	(31,412)	(32,693) (31,412)
Other unallocated (loss)/gain							(855)	1,540	(855) 1,540
Profit before foreign taxation							38,460	27,872	38,460 27,872
Segment assets	1,018,780	1,099,847	70,925	68,623	98,261	77,332	14,758	19,491	1,202,724 1,265,293
Segment liabilities	(23,712)	(14,631)	(23,091)	(23,578)	(17,414)	(17,576)	(8,033)	(7,763)	(72,250) (63,548)
Segment net assets	995,068	1,085,216	47,834	45,045	80,847	59,756	6,725	11,728	1,130,474 1,201,745
Borrowings, bonds and due to banks							(634,126)	(695,630)	(634,126) (695,630)
Total equity, per consolidated statement of financial position							496,348	506,115	496,348 506,115

Notes to the consolidated financial statements (continued)

34 Segmental analysis (Continued)

Property, plant and equipment of the Group are primarily utilised by the building materials segment, hotel & IT services segment and the specialist engineering segment. The additions and depreciation relating to property, plant and equipment along with impairment in values by each segment, in which the assets are used, are as follows:

	Investment KD '000	Building materials KD '000	Specialist engineering and chemical KD '000	Hotel and IT services KD '000	Total KD '000
At 31 December 2018					
Additions to property, plant and equipment	10	5,523	7,121	91	12,745
Depreciation	316	3,023	3,462	390	7,191
Impairment in value of goodwill and other intangible assets	-	-	2,468	1,166	3,634
At 31 December 2017					
Additions to property, plant and equipment	4	3,760	4,024	95	7,883
Depreciation	221	3,129	2,806	326	6,482
Impairment in value of available for sale investments	5,247	-	-	-	5,247

35 Related party transactions

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

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

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Balances included in the consolidated statement of financial position:		
Due from related parties (included in accounts receivable and other assets)		
- Due from associate companies	921	825
- Due from key managements personal	70	70
- Due from other related parties	5,875	5,845
Due to related parties (included accounts payable and other liabilities)		
- Due to associates	419	20
- Due to other related parties	1,695	1,492
	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Transactions with related parties:		
Development and construction costs	-	2,555
Sale of available for sale investments and investment properties to related parties	-	1,173
Transfer of assets to a related party	-	350
Purchase of financial assets at FVOCI	3,537	-
Transactions included in the consolidated statement of profit or loss:		
Purchase of raw materials – from associates	4,308	2,899
Impairment in value of accounts receivable and other assets	803	-

Notes to the consolidated financial statements (continued)

35 Related party transactions (continued)

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Compensation of key management personnel of the Group		
Short term employee benefits	4,654	3,913
Board of Directors' remuneration including subsidiaries	839	850
End of service benefits	163	253
	5,656	5,016

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

36.1 Categories of financial assets and liabilities

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

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Financial assets:		
At amortised cost: (2017: loans and receivables)		
• Bank balances and cash	32,077	38,436
• Short term deposits	9,136	8,020
• Wakala and sukuk investments	1,153	1,153
• Accounts receivable and other financial assets (Note 17)	45,075	90,448
	87,441	138,057
At fair value:		
• Financial assets at fair value through profit or loss (Note 19)	364,713	74,780
• Financial assets at fair value through other comprehensive income (Note 20)	216,485	-
	581,198	74,780
Available for sale investments (Note 21)		
- At fair value	-	504,988
- At cost / cost less impairment	-	20,214
	-	525,202
Total financial assets	668,639	738,039
Financial liabilities:		
At amortised cost:		
• Due to banks	23,009	22,315
• Accounts payable and other financial liabilities (Note 26)	57,102	47,493
• Borrowings and bonds	611,117	673,315
	691,228	743,123

Notes to the consolidated financial statements (continued)

36 Summary of assets and liabilities by category (continued)

36.2 Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income are carried at fair value and measurement details are disclosed in note 36.3 to the consolidated financial statements. In the opinion of the Group's management, the carrying amounts of all other financial assets and liabilities which are at amortised costs are considered a reasonable approximation of their fair values.

The Group also measures non-financial asset such as investment properties at fair value at each annual reporting date (Note 36.4).

36.3 Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

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

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

The financial assets and liabilities measured at fair value on a recurring basis in the statement of consolidated financial position are grouped into the fair value hierarchy as follows;

At 31 December 2018

	Note	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total Balance KD'000
Assets at fair value					
Financial assets at FVTPL					
-Quoted shares	a	214,493	-	-	214,493
-Quoted debt securities	a	1,299	-	-	1,299
-Unquoted equity participations	b	-	12,134	9,508	21,642
-Managed portfolios and funds	c	-	5,207	122,072	127,279
Financial assets at FVOCI					
-Quoted shares	a	45,854	-	-	45,854
-Unquoted equity participations	b	-	58,789	82,265	141,054
-Managed portfolios and funds	c	-	6,951	22,626	29,577
		261,646	83,081	236,471	581,198

Notes to the consolidated financial statements (continued)

36 Summary of financial assets and liabilities by category (continued)

36.3 Fair value hierarchy (continued)

At 31 December 2017

	Note	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total Balance KD'000
Assets at fair value					
Financial assets at FVTPL					
-Quoted shares	a	24,928	-	-	24,928
-Managed portfolios and funds	c	654	41,751	7,447	44,518
Available for sale investments					
-Quoted shares	a	216,808	-	14,634	231,442
-Unquoted equity participations	b	-	61,531	102,202	163,733
-Managed portfolios and funds	c	-	3,786	106,027	109,813
		242,390	107,068	230,310	579,768

Measurement at fair value

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

The methods and valuation techniques used for the purpose of measuring fair values, are unchanged compared to the previous reporting year, except for certain foreign quoted shares that have been fair valued based on quoted prices in active markets as the Group's management believes that such valuations are more representative of the fair values of such investments based on the information available to the management. Accordingly, these investments with a carrying value of KD14,634 thousand has been transferred from level 3 to 1 level.

a) Quoted shares and debt instruments (Level 1 and 3)

Quoted shares represent all listed equity securities which are publicly traded in stock exchanges. Where quoted prices in an active market are available, the fair value of such investments have been determined by reference to their quoted bid prices at the reporting date (Level 1) and if the market for an investment is not active, the Group has established fair value by using valuation techniques (Level 3).

b) Unquoted equity participations (Level 2 and 3)

The consolidated financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using discounted cash flow model or observable market prices or other valuation techniques which include some assumptions that are not supportable by observable market prices or rates.

c) Managed portfolios and funds

Private equity funds (Level 3)

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

Other managed portfolios and funds (Level 1, 2 and 3)

The underlying investments of international managed portfolios and funds represent quoted and unquoted securities. They are valued based on periodic reports received from the portfolio/fund managers.

Notes to the consolidated financial statements (continued)

36 Summary of assets and liabilities by category (continued)

36.3 Fair value hierarchy (continued)

Level 3 Fair value measurements

The Group measurement of financial assets and liabilities classified in level 3 uses valuation techniques inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	31 Dec. 2018 KD'000	31 Dec. 2017 KD'000
Opening balance	230,310	297,135
Net change in fair value	(1,139)	2,423
Impairment recognised in profit or loss	-	(3,401)
Transferred from investments carried at cost to fair value	20,214	-
Net addition during the year	1,720	10,500
Reclassification	(14,634)	(76,347)
Closing balance	236,471	230,310

Notes to the consolidated financial statements (continued)

36 Summary of assets and liabilities by category (continued)

36.3 Fair value hierarchy (continued)

The following table provides information about the sensitivity of the fair values measurement to changes in the most significant unobservable inputs:

Financial assets	Fair value as at 31 Dec. 2018 KD'000	Fair value hierarchy	Valuation technique	Significant unobservable input	Sensitivity of the fair value measurement to the input	Range
Financial assets at FVTPL:						
Unquoted equity participations	9,508	-	NAV reported by investment manager	Fair market value of the underlying assets	Higher the FMV of the assets, higher the value	N/A
Managed portfolios and funds	122,072	7,447	NAV reported by investment manager	Fair market value of the underlying assets	Higher the FMV of the assets, higher the value	N/A
Financial assets at FVOCI:						
Unquoted equity participations	82,265	-	Adjusted NAV basis/ DCF method/ market multiples	Long term growth rate for cash flows for subsequent years	Higher the growth rate, higher the fair value	3% - 3.45%
Managed portfolios and funds	22,626	-	NAV reported by investment manager	WACC Discount for lack of marketability Fair market value of the underlying assets	Higher the WACC, lower the value Higher the discount rate, lower the value Higher the FMV of the assets, higher the value	13% - 15% 10% - 15% N/A
Available for sale investments:						
Unquoted equity participations and certain quoted shares	-	116,836	DCF method/ market multiples	Long term growth rate for cash flows for subsequent years WACC Discount for lack of marketability	Higher the growth rate, higher the fair value Higher the WACC, lower the value Higher the discount rate, lower the value	2.5% - 4.0% 10.07% - 16.45% 10% - 15%
Private equity funds and other managed funds	-	106,027	NAV reported by investment manager	Fair market value of the underlying assets	Higher the FMV of the assets, higher the value	N/A

The impact on profit or loss and other comprehensive income would be immaterial if the relevant risk variable used to fair value the level 3 investments were changed by 5%.

Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account these premiums and discounts when pricing the investments.

Notes to the consolidated financial statements (continued)

36 Summary of assets and liabilities by category (continued)

36.4 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured level 3 of fair value hierarchy on a recurring basis at 31 December 2018 and 2017.

	31 Dec. 2018 KD'000 Level 3	31 Dec. 2017 KD'000 Level 3
Investment properties		
- Lands and buildings in Kuwait	38,020	38,045
- Lands and buildings in Saudi Arabia	4,794	4,781
- Lands and buildings in UAE	344	354
- Properties under development	29,583	17,038
- Lands in UAE	168	1,635
- Lands in Jordan	504	501
- Lands in Kuwait	2,600	2,850
- Building in London	844	917
	76,857	66,121

The above buildings mainly represent rental properties on freehold land categorized as “Investment Lands” (i.e land which can be used to construct multiple residential unit buildings, apartments, villas, duplex and studios), in Kuwait, UAE, London and Saudi Arabia. The freehold lands above also mainly represent lands categorized as investment lands. The fair value of the investment properties has been determined based on valuations obtained from independent valuers, who are specialised in valuing these types of investment properties. The significant inputs and assumptions are developed in close consultation with management. One of these valuers is a local bank (for local investment properties) who has valued the investment properties using primarily two methods, one of which is the yield method and other being a combination of the market comparison approach for the land and cost minus depreciation approach for the buildings. The other valuator who is a local/foreign reputable valuator has also valued the investment properties primarily by using a combination of the methods noted above. When the market comparison approach is used, adjustments have been incorporated for factors specific to the land in question, including plot size, location, construction/development cost and current use. For the valuation purpose for properties in Kuwait, the Group has selected the lower value of the two valuations (2017: lower of two valuations). Further information regarding the level 3 fair value measurements is set out in the table below:

Notes to the consolidated financial statements (continued)

36 Summary of assets and liabilities by category (continued)

36.4 Fair value measurement of non-financial assets (continued)

	Fair value as at		Valuation technique	Significant unobservable input	Relationship of unobservable inputs to fair value	Range of unobservable inputs
	31 Dec. 2018 KD'000	31 Dec. 2017 KD'000				
Land and buildings in Kuwait, UAE and Saudi Arabia	72,741	60,218	Yield method and Market comparison approach for land and cost less depreciation for buildings	Estimated market price for land (per sqm)	The higher the price per square meter, the higher the fair value	2018: KD714 to KD7,900 (2017: KD1,100 to 8,052)
				Construction cost (per sqm)	The higher the price per square meter, the higher the fair value	2018: KD51 to KD2,527 (2017: KD59 to KD662)
				Average monthly rent (per sqm)	The higher the construction cost per square meter, the higher the fair value	2018: KD3.86 to KD154.37 (2017: KD2.5 to KD154)
				Yield rate	The higher the rent per square meter, the higher the fair value	2018: 6.11% to 11.15% (2017: 5.23% to 14.89%)
				Vacancy rate	The higher the yield rate, the lower the value	2018: 10% (2017: 10%)
Freehold lands Kuwait, UAE and Jordan	3,272	4,986	Market comparison approach	Estimated market price for land (per sqm)	The higher the price per square meter, the higher the fair value	2018: KD89 to KD7,900 (2017: KD55 to KD8,050)
Building in London	844	917	Yield method	Average monthly rent (per sqm)	The higher the rent per square meter, the higher the fair value	2018: KD11.85 (2017: KD11.12)
				Yield rate	The higher the yield rate, the lower the value	2018: 6.11% (2017: 5.86%)
				Vacancy rate	The higher the vacancy rate the lower the fair value	2018: 10% (2017: 10%)

Level 3 Fair value measurements

The Group measurement of investment properties classified in level 3 uses valuation techniques inputs that are not based on observable market data. The movement in the investment properties is disclosed in Note 22.

Notes to the consolidated financial statements (continued)

37 Risk management objectives and policies

The Group's financial liabilities comprise due to banks, short term and long term borrowings and bond, leasing creditors and accounts payable and other liabilities. The main purpose of these financial liabilities is to raise finance for Group operations. The Group has various financial assets such as accounts receivable and other assets, bank balance and cash, wakala and sukuk investments, short term deposits and investments and investment securities which arise directly from operations.

The Group's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Board of Directors sets out policies for reducing each of the risks discussed below.

The Group also enters into derivative transactions, primarily interest rate swaps. The purpose is to manage the interest rate risks arising from the Group's sources of finance. The Group's policy is not to trade in derivative financial instruments.

37.1 Market risk

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

a) Foreign currency risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group mainly operates in the Middle East, USA and United Kingdom and is exposed to foreign currency risk arising, primarily from US Dollar, Saudi Riyal and GBP. The consolidated statement of financial position can be significantly affected by the movement in these currencies. To mitigate the Group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Foreign currency risk is managed on the basis of limits determined by the Parent Company's board of directors and a continuous assessment of the consolidated open positions.

The Group's significant net exposure to foreign currency denominated monetary assets less monetary liabilities at the reporting date, translated into Kuwaiti Dinars at the closing rates are as follows:

	31 Dec. 2018 <i>Equivalent</i> KD '000	31 Dec. 2017 <i>Equivalent</i> KD '000
US Dollars	(97,540)	(140,043)
Saudi Riyals	14,658	15,670
GBP	(97)	2,634

The Parent Company's management estimates that a reasonable possible change in the above exchange rate would be 5%.

If the Kuwaiti Dinar had strengthened against the foreign currencies assuming the above sensitivity (5%), then this would have the following impact on the profit for the year. There is no impact on the Group's other comprehensive income.

Notes to the consolidated financial statements (continued)

37 Risk management objectives and policies (continued)

37.1 Market risk (continued)

a) Foreign currency risk (continued)

	Impact on profit	
	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
US Dollars	4,877	7,002
Saudi Riyals	(733)	(783)
GBP	5	(132)
	4,149	6,087

If the Kuwaiti Dinar had weakened against the foreign currencies assuming the above sensitivity (5%), then there would be an equal and opposite impact on the profit for the year, and the balances shown above would be negative for US Dollars and GBP and positive for Saudi Riyals (2017: negative for US Dollars and positive for GBP and Saudi Riyals).

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to the foreign currency risk.

b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk on its short term deposits (Note 15), borrowings and bonds (Note 27) and due to banks (Note 15) which are both at fixed and floating interest rates. The risk is managed by the Group by managing an appropriate mix between fixed and floating rate, short term deposits and borrowings.

Positions are monitored regular to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit for the year to reasonable possible change of interest rate of +25 (0.25%) and -75 (0.75%) basis points with effect from the beginning of the year. The calculation is based on the Group's financial instruments held at each reporting date. All other variables are held constant. There is no impact on Group's other comprehensive income.

	Increase in interest rates		Decrease in interest rates	
	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Effect on profit for the year	(1,479)	(1,620)	4,438	4,860

c) Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group is exposed to equity price risk with respect to its listed equity investments which are primarily located in Kuwait, Jordan, Bahrain, Abu Dhabi, Saudi Arabia, Egypt, Pakistan and USA. Equity investments are classified either as "financial assets at fair value through profit or loss" or "financial assets at fair value through other comprehensive income".

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits determined by the Group.

Notes to the consolidated financial statements (continued)

37 Risk management objectives and policies (continued)

37.1 Market risk (continued)

c) Equity price risk (continued)

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

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

	Profit for the year		Other comprehensive income	
	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Financial assets at FVTPL	21,449	2,558	-	-
Financial assets at FVOCI (2017: Available for sale investments)	-	1,085	4,585	21,680
	21,449	3,643	4,585	21,680

For a 10% decrease in the equity prices there would be an equal and opposite impact on the profit for the year and other comprehensive income and the amounts shown above would be negative.

37.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities.

The Group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the reporting date, as summarized below:

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Bank balances and cash	32,077	38,436
Short term deposits	9,136	8,020
Wakala and sukuk investments	1,153	1,153
Accounts receivable and other assets (Note 17)	45,075	90,448
Financial assets at fair value through profit or loss	364,713	74,780
Financial assets at fair value through other comprehensive income	216,485	-
Available for sale investments	-	525,202
	668,639	738,039

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by Group, and incorporate this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. None of the above financial assets are past due nor impaired except for certain wakala investments (Note 16) and account receivable and other asset (Note 17) respectively. The Group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

Notes to the consolidated financial statements (continued)

37 Risk management objectives and policies (continued)

37.2 Credit risk (continued)

In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk for bank balances and short term deposits is considered negligible, since the counterparties are reputable financial institution with high credit quality. Information on other significant concentrations of credit risk is set out in Note 37.3.

37.3 Concentration of assets

The distribution of financial assets by geographic region was as follows:

	Kuwait KD '000	Other Middle Eastern Countries KD '000	Asia and Africa KD '000	UK and Europe KD '000	USA KD '000	Total KD '000
At 31 December 2018						
Geographic region:						
Bank balances and cash	14,401	6,387	133	10,695	461	32,077
Short term deposits	8,953	183	-	-	-	9,136
Wakala and sukuk investments	1,153	-	-	-	-	1,153
Accounts receivable and other assets	18,540	14,881	2,257	8,297	1,100	45,075
Financial assets at FVTPL	164,679	79,747	2,176	4,897	113,214	364,713
Financial assets at FVOCI	39,793	102,437	55,650	4,329	14,276	216,485
	247,519	203,635	60,216	28,218	129,051	668,639
At 31 December 2017						
Geographic region:						
Bank balances and cash	27,316	6,923	121	4,063	13	38,436
Short term deposits	7,473	547	-	-	-	8,020
Wakala and sukuk investments	1,153	-	-	-	-	1,153
Accounts receivable and other assets	20,524	56,000	2,306	6,212	5,406	90,448
Financial assets at FVTPL	17,436	13,555	873	34,702	8,214	74,780
Available for sale investments	160,195	197,070	69,963	4,977	92,997	525,202
	234,097	274,095	73,263	49,954	106,630	738,039

37.4 Liquidity risk

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

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

The maturity profile for investments carried at fair value through profit or loss, fair value through other comprehensive income (2017: available for sale investments) and investment properties is determined based on management's estimate of liquidation of those investments.

Notes to the consolidated financial statements (continued)

37 Risk management objectives and policies (continued)

37.4 Liquidity risk (continued)

Maturity profile of assets and liabilities are as follows:

	At 31 December 2018			At 31 December 2017		
	1 year KD '000	Over 1 year KD '000	Total KD '000	1 year KD '000	Over 1 year KD '000	Total KD '000
ASSETS						
Bank balances and cash	32,077	-	32,077	38,436	-	38,436
Short term deposits	9,136	-	9,136	8,020	-	8,020
Wakala and sukuk investments	1,000	153	1,153	1,153	-	1,153
Accounts receivable and other assets	43,219	6,234	49,453	92,152	3,755	95,907
Inventories	36,587	-	36,587	33,194	-	33,194
Financial assets at FVTPL	144,828	219,885	364,713	74,780	-	74,780
Financial assets at FVOCI	57,676	158,809	216,485	-	-	-
Available for sale investments	-	-	-	113,836	411,366	525,202
Investment properties	-	76,857	76,857	-	66,121	66,121
Investment in associates	4,886	312,576	317,462	-	336,045	336,045
Property, plant and equipment	-	88,876	88,876	-	72,314	72,314
Goodwill and other intangible assets	-	9,925	9,925	-	14,121	14,121
	329,409	873,315	1,202,724	361,571	903,722	1,265,293
LIABILITIES						
Due to banks	23,009	-	23,009	22,315	-	22,315
Accounts payable and other liabilities	58,642	35	58,677	48,364	27	48,391
Borrowings and bonds	265,136	345,981	611,117	465,342	207,973	673,315
Provisions	-	13,573	13,573	-	15,157	15,157
	346,787	359,589	706,376	536,021	223,157	759,178

The contractual maturities of financial liabilities based on undiscounted cash flows are as follows:

	Up to 1 month KD '000	1-3 months KD '000	3-12 months KD '000	Over 1 year KD '000	Total KD '000
31 December 2018					
Financial liabilities (undiscounted)					
Due to banks	23,009	-	-	-	23,009
Accounts payable and other liabilities	26,003	6,527	24,537	35	57,102
Borrowings and bonds	37,939	60,839	194,260	407,484	700,522
	86,951	67,366	218,797	407,519	780,633
31 December 2017					
Financial liabilities (undiscounted)					
Due to banks	22,315	-	-	-	22,315
Accounts payable and other liabilities	20,125	8,254	19,087	27	47,493
Borrowings and bonds	41,041	81,186	368,654	229,804	720,685
	83,481	89,440	387,741	229,831	790,493

The Group's short term borrowings principally represent revolving facilities with local and foreign banks and financial institutions. During the year 2018, the Group's management has successfully renewed all short term facilities which were classified as falling due within one month and one to three months.

Notes to the consolidated financial statements (continued)

38 Capital risk management

The Group's capital management objectives are to ensure that the Group maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, buy back shares, issue new shares or sell assets to reduce debt.

The capital structure for the Group consists of the following:

	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Borrowings and bonds (Note 27)	611,117	673,315
Due to banks	23,009	22,315
	634,126	695,630
Less :		
Bank balances and cash	(32,077)	(38,436)
Short term deposits	(9,136)	(8,020)
Wakala and sukuk investments	(1,153)	(1,153)
Net debt	591,760	648,021
Total equity	496,348	506,115

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by the total equity as follows:

	31 Dec. 2018 %	31 Dec. 2017 %
Net debt to equity ratio	119	128

39 Fiduciary assets

One of the subsidiaries of the Group manages mutual funds, portfolios on behalf of related and third parties, and maintains securities in fiduciary accounts which are not reflected in the consolidated statement of financial position. Assets under management at 31 December 2018 amounted to KD9,225 thousand (2017: KD8,840 thousand) of which assets managed on behalf of related parties amounted to KD3,121 thousand (2017: KD2,968 thousand).

40 Contingent liabilities and capital commitments

At 31 December 2018, the Group had contingent liabilities in respect of outstanding bank guarantees amounting to KD26,888 thousand (2017: KD24,705 thousand) and other contingencies with regard to pending litigations and tax claims amounting to KD356 thousand (2017: KD356 thousand).

At the reporting date the Group had commitments for the purchase of investments and the acquisition of property, plant and equipment and investment properties totalling KD31,498 thousand (2017: KD43,418 thousand) and committed loan to a related party KD304 thousand (2017: KD2,720 thousand).

At the reporting date, the Group had commitment to pay lease rentals amounting to KD3,874 thousand (2017: KD4,815 thousand).

Notes to the consolidated financial statements (continued)

41 Dividend distribution

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the Parent Company's Board of Directors propose a cash dividend of 12% (2017: 10%) equivalent to 12 Fils (2017: equivalent to 10 Fils) per share for the year ended 31 December 2018 and 5% bonus shares which represent 67,992,654 shares of 100 Fils each amounting to KD6,799 thousand.

At the Annual General Meeting held on 10 May 2018, the shareholders approved a cash dividend of 10% equivalent to 10 Fils per share for the year ended 31 December 2017 (2016: Nil).

42 Comparative information

Certain other comparative figures have been reclassified to conform to the presentation in the current year, and such reclassification does not affect previously reported net assets, net equity and net results for the year or net decrease in cash and cash equivalents.