Consolidated financial statements and independent auditors' report

# Al-Nawadi Holding Company – KPSC
# and Subsidiaries
# Kuwait

31 December 2016

# Contents

# Independent auditor's report

To the shareholders of
Al-Nawadi Holding Company – KPSC
Kuwait

**Report on the Audit of the Financial Statements**
**Opinion**

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

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

**Basis for Opinion**

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

## Independent Auditor’s Report to the Shareholders of Al-Nawadi Holding Company - KPSC (continued)

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

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

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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

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

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## Independent Auditor's Report to the Shareholders of Al-Nawadi Holding Company - KPSC (continued)

### Auditors' Responsibilities for the Audit of the Financial Statements (continued)

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

# Consolidated statement of profit or loss and other comprehensive income

| | Notes | Year ended 31 Dec. 2016 KD | Year ended 31 Dec. 2015 KD |
|---|---|---|---|
| **Income** | | | |
| Net services income | | **5,572,468** | 5,033,321 |
| Cost of services | | **(2,032,536)** | (1,889,834) |
| **Gross profit of services** | | **3,539,932** | 3,143,487 |
| Rental income | | **2,539,685** | 2,297,837 |
| Change in fair value from investments at fair value through statement of income | | **60,054** | (127,879) |
| Change in fair value of properties of health clubs and SPA's | 15 | **378,112** | 525,181 |
| Loss on sale of properties of health clubs and SPA's | | **295,000** | (650,000) |
| Profit on sale of property, plant and equipment | | **1,547** | 24,066 |
| Dividends income | | **11,647** | 15,549 |
| Interest income | | **15,462** | 6,133 |
| Other income | | **89,718** | 82,542 |
| | | **6,931,157** | 5,316,916 |
| **Expenses and other charges** | | | |
| General and administrative expenses | | **(805,194)** | (820,193) |
| Staff costs | | **(866,291)** | (702,092) |
| Finance costs | | **(649,994)** | (662,974) |
| Depreciation of property, plant and equipment | 14 | **(6,591)** | (6,149) |
| | | **(2,328,069)** | (2,191,407) |
| **Profit for the year before contribution to KFAS, NLST, Zakat provision and board of directors' remuneration** | | **4,603,088** | 3,125,509 |
| Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) | | **(41,428)** | (28,130) |
| Contribution for National Labour Support Tax (NLST) | | **-** | (78,400) |
| Zakat provision | | **(46,598)** | (31,360) |
| Board of directors' remuneration | | **(40,000)** | (50,000) |
| **Profit for the year** | | **4,475,062** | 2,937,619 |
| Other comprehensive income for the year | | **-** | - |
| **Total comprehensive income for the year** | | **4,475,062** | 2,937,619 |
| **Basic & diluted earnings per share** | 8 | **22.37 Fils** | 16.16 Fils |

*The notes set out on pages 7 to 36 form an integral part of these consolidated financial statements.*

# Consolidated statement of financial position

| | Notes | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|---|
| Assets | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **335,977** | 2,355,057 |
| Investments at fair value through statement of income | 10 | **502,605** | 442,551 |
| Accounts receivable and other debit balances | 11 | **1,930,725** | 1,436,025 |
| Inventories | 12 | **85,587** | 73,258 |
| | | **2,854,894** | 4,306,891 |
| **Non-current assets** | | | |
| Goodwill | 13 | **1,897,335** | 1,897,335 |
| Property, plant and equipment | 14 | **872,630** | 1,065,228 |
| Properties of health clubs and SPA's | 15 | **45,901,604** | 40,735,000 |
| | | **48,671,569** | 43,697,563 |
| Total assets | | **51,526,463** | 48,004,454 |
| Liabilities and equity | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Ijara and Tawarruq contracts facility | 16 | **15,314,306** | 17,080,001 |
| Accounts payable and other credit balances | 17 | **4,116,766** | 3,372,527 |
| | | **19,431,072** | 20,452,528 |
| **Non-current liabilities** | | | |
| Provision for staff end of service indemnity | | **371,065** | 302,662 |
| | | **371,065** | 302,662 |
| **Total liabilities** | | **19,802,137** | 20,755,190 |
| **Equity** | | | |
| Share capital | 18 | **20,001,733** | 18,183,394 |
| Share premium | 18 | **100,520** | 100,520 |
| Legal reserve | 19 | **2,084,054** | 1,623,746 |
| Voluntary reserve | 19 | **2,084,054** | 1,623,746 |
| Retained earnings | | **7,453,965** | 5,717,858 |
| **Total equity** | | **31,724,326** | 27,249,264 |
| Total liabilities and equity | | **51,526,463** | 48,004,454 |

Nawaf Abdullah Al Rifae
Chairman

*The notes set out on pages 7 to 36 form an integral part of these consolidated financial statements.*

# Consolidated statement of changes in equity

| | Share capital KD | Share premium KD | Legal reserve KD | Voluntary reserve KD | Retained earnings KD | Total KD |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | 18,183,394 | 100,520 | 1,623,746 | 1,623,746 | 5,717,858 | 27,249,264 |
| Issue of bonus shares (Note 20) | **1,818,339** | **-** | **-** | **-** | **(1,818,339)** | **-** |
| Total transactions with owners | **1,818,339** | **-** | **-** | **-** | **(1,818,339)** | **-** |
| Total comprehensive income for the year | **-** | **-** | **-** | **-** | **4,475,062** | **4,475,062** |
| Transfer to reserves | **-** | **-** | **460,308** | **460,308** | **(920,616)** | **-** |
| **Balance at 31 December 2016** | **20,001,733** | **100,520** | **2,084,054** | **2,084,054** | **7,453,965** | **31,724,326** |
| **Balance at 1 January 2015** | 16,530,358 | 100,520 | 1,311,195 | 1,311,195 | 5,884,895 | 25,138,163 |
| Issue of bonus shares (Note 20) | 1,653,036 | - | - | - | (1,653,036) | - |
| Total transactions with owners | - | - | - | - | (826,518) | (826,518) |
| Total comprehensive income for the year | 1,653,036 | - | - | - | (2,479,554) | (826,518) |
| Transfer to reserves | - | - | - | - | 2,937,619 | 2,937,619 |
| **Balance at 31 December 2015** | - | - | 312,551 | 312,551 | (625,102) | - |
| | **18,183,394** | **100,520** | **1,623,746** | **1,623,746** | **5,717,858** | **27,249,264** |

*The notes set out on pages 7 to 36 form an integral part of these consolidated financial statements.*

# Consolidated statement of cash flows

| | Note | Year ended 31 Dec. 2016 | Year ended 31 Dec. 2015 |
|---|---|---|---|
| | | **KD** | KD |
| OPERATING ACTIVITIES | | | |
| **Profit for the year** | | **4,475,062** | 2,937,619 |
| **Adjustments:** | | | |
| Depreciation of property, plant and equipment | | **367,643** | 373,698 |
| Change in fair value of properties of health clubs and SPA's | | **(378,112)** | (525,181) |
| Loss on sale of properties of health clubs and SPA's | | **(295,000)** | 650,000 |
| Dividends income | | **(11,647)** | (15,549) |
| Interest income | | **(15,462)** | (6,133) |
| Finance costs | | **649,994** | 662,974 |
| Provision for staff end of service indemnity | | **78,118** | 79,524 |
| | | **4,870,596** | 4,156,952 |
| **Changes in operating assets and liabilities:** | | | |
| Investments at fair value through statement of income | | **(60,054)** | 127,879 |
| Accounts receivable and other debit balances | | **(494,700)** | (963,289) |
| Inventories | | **(12,329)** | (10,980) |
| Accounts payable and other credit balances | | **744,239** | (313,440) |
| Staff end of service indemnity paid | | **(9,715)** | (53,484) |
| **Net cash from operating activities** | | **5,038,037** | 2,943,638 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | **(177,249)** | (522,570) |
| Net additions to properties of health clubs and SPA's | | **(5,193,492)** | 1,871,187 |
| Net book value of property, plant and equipment disposed | | **2,204** | 18,300 |
| Proceeds from sale of properties of health clubs and SPA's | | **700,000** | 3,600,000 |
| Dividends income received | | **11,647** | 15,549 |
| Interest income received | | **15,462** | 6,133 |
| **Net cash (used in)/from investing activities** | | **(4,641,428)** | 1,246,225 |
| FINANCING ACTIVITES | | | |
| Net change in Ijara and Tawarruq contracts facilities | | **(1,765,695)** | (804,955) |
| Net change in term loan | | **-** | - |
| Dividend paid | | **-** | (826,518) |
| Finance costs paid | | **(649,994)** | (662,974) |
| **Net cash used in financing activities** | | **(2,415,689)** | (2,294,447) |
| **(Decrease)/increase in cash and cash equivalents** | | **(2,019,080)** | 1,895,416 |
| Cash and cash equivalents at beginning of the year | 9 | **2,355,057** | 459,641 |
| **Cash and cash equivalents at end of the year** | 9 | **335,977** | 2,355,057 |

*The notes set out on pages 7 to 36 form an integral part of these consolidated financial statements.*

# Notes to the consolidated financial statements

## 1 Incorporation and activities

The company was incorporated on 28 September 2004 in the name of Al-Thuraya International Holding Company – KSC (Closed). On 30 April 2006 the company's name was changed from Al-Thuraya International Holding Company - KSC (Closed) to Al-Nawadi Holding Company – KPSC. The company's shares were listed in the Kuwait Stock Exchange on 31 May 2010 and its governed under the directives of the Capital Market Authority of Kuwait. and the Company has withdrawn from the stock exchange on 10 May 2016 and the Parent Company's shares are no longer traded on the Kuwait Stock Exchange.

The group comprises the parent company and its owned subsidiaries as stated in note (7).

Objectives of the parent company:

- Acquire shares in Kuwaiti or Non-Kuwaiti companies and participate in the establishment of these companies.
- Participate in the management of the companies in which it has shares.
- Lend the companies in which it has shares and guarantee same with others.
- Acquire movables and real estate properties necessary to practice its activity within the limits permitted by the law.
- Acquire the industrial ownership rights such as patents, industrial trademarks, industrial fees or any other related rights and rent out them to other companies to utilize same inside or outside Kuwait.
- Utilize the financial surpluses available with the company by investing same in financial and real estate portfolios managed by specialized companies.

The company has the right to carry out the above mentioned activities inside and outside the State of Kuwait directly or through an agent. The parent company may have an interest or participate in any aspect with the entities performing similar activities or which might assist it in the achievement of its objectives in Kuwait or abroad. The parent company may also establish or share or purchase these entities or affiliate them therewith.

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

The address of the parent company is: P. O. Box 34107, Al-Adailiya 73252 - State of Kuwait.

The consolidated financial statements for the year ended 31 December 2016 were approved by the board of director for issuance on ............................ and it's subject to approval by the general assembly of shareholders and official authorities.

## 2 Basis of preparation

The consolidated financial statements of the Group have been prepared under historical cost convention except for financial assets at fair value through statement of income and properties of health clubs & SPA's that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD").

## 3 Statement of compliance

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

# Notes to the consolidated financial statements (continued)

## 4 Changes in accounting polices

### 4.1 New and amended standards adopted by the company

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

| *Standard or Interpretation* | *Effective for annual periods beginning* |
|---|---|
| IAS 1 'Disclosure Initiative - Amendments | 1 January 2016 |
| IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments | 1 January 2016 |

***IAS 1 Disclosure Initiative – Amendments***

The Amendments to IAS 1 make the following changes:

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

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

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

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

### 4.2 IASB Standards issued but not yet effective

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

# Notes to the consolidated financial statements (continued)

## 4 Changes in accounting policies (continued)

### 4.2 IASB Standards issued but not yet effective (continued)

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

| *Standard or Interpretation* | *Effective for annual periods beginning* |
|---|---|
| IAS 7 Statement of Cash Flows- Amendments | 1 January 2017 |
| IAS 12 Income Taxes – Amendments | 1 January 2017 |
| IFRS 9 Financial Instruments: Classification and Measurement | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |
| IAS 40 Investment Property – Amendments | 1 January 2018 |

***IAS 7 Statement of Cash Flows- Amendments***

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

The Amendments:

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

***IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses - Amendments***

The Amendments to IAS 12 make the following changes:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type

# Notes to the financial statements (continued)

## 4 Changes in accounting policies (continued)

### 4.2 IASB Standards issued but not yet effective (continued)

***IFRS 9 Financial Instruments***

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

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

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

***IFRS 16 Leases***

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the 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 financial statements (continued)

## 4 Changes in accounting policies (continued)

### 4.2 IASB Standards issued but not yet effective (continued)

***IFRS 40 Investment Property - Amendments***

The Amendments to IAS 40 clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

## 5 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 entitities (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:

# Notes to the financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.1 Basis of consolidation (continued)

- 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.

### 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 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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensives income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within other comprehensive income.

 

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 profit or loss immediately.



## 5 Significant accounting policies (continued)

### 5.3 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note 5.2 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to Note (13) illustrating the procedures of impairment testing.

### 5.4 Revenue and expenses recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.

Revenue arises from the services provided and rents received and is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

The group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

#### *5.4.1 Services revenue*

Fees earned for the provision of services over a period of time are recongised over that period.

#### *5.4.2 Rental income*

Rental income arising from investment properties is accounted for on a straight line basis over the lease term.

#### *5.4.3 Interest income*

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

#### *5.4.4 Dividend income*

Dividend income are recognised at the time the right to receive payment is established.

#### *5.4.5* Cost of services

Cost of services is recognised in the consolidated statement of comprehensive income upon utilisation of the service or at the date of their origin.

### 5.5 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.

### 5.6 Ijara and Tawarruq contracts facilities

Ijara financing agreements ending with ownership, represent Islamic financing arrangements whereby the Islamic Financing Institutions would extend financing through directly purchasing the underlying asset and leasing it to the group provided that upon completion of all lease payments, the said asset will be transferred to the group. Ijara financing agreements ending with transfer of ownership are stated at the net amounts due after subtracting the deferred finance costs. Annual financing cost are included as part of expenses and other charges on a pro-rata time basis taking into account the borrowing rate and the outstanding balance.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.7 Taxation

#### *5.7.1 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.

#### *5.7.2 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.

### 5.8 Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the group's management.

Property, plant and equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of Property, plant and equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property, plant and equipment.

Property, plant and equipment are depreciated at annual rates of 10% to 20%.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of income.

### 5.9 Properties of health clubs and SPA's

Health clubs and SPA's represent investment properties owned by the company, and used as health clubs and SPA's for the operating activities and renting to others. Health clubs and SPA's properties are initially measured at cost of acquisition plus all additional costs associated with preparing the said buildings for its intended use. After the initial recognition, properties are measured individually at fair value based on valuations conducted by two external independent valuators whichever is less, in accordance with the instructions of Capital Markets Authorities in this respect. Changes in values are recognised in the consolidated statement of income for the year.

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

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.9 Properties of health clubs and SPA's (continued)

Cost of the works of health clubs & SPA's for which engineering designs have been completed or the group has obtained a license to develop same from the official authorities or has conducted constructions thereon are stated as deferred costs. These costs will be subsequently capitalized on the properties or charged to the consolidated statement of comprehensive income if the project is discontinued.

### 5.10 Inventories

Inventories are stated at the lower of cost and net realisable value after making provision for any slow moving, obsolete or damaged items. Cost includes all expenses directly attributable to the purchase transaction. Costs of ordinarily interchangeable items are assigned using the cost formula.

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.
The cost of inventories is based on the weighted average cost.

### 5.11 Financial instruments

#### *5.11.1 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 transactions costs, except for those carried at fair value through consolidated statement of comprehensive income 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 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.

Where the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

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 income.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.11 Financial instruments (continued)

#### *5.11.2 Classification and subsequent measurement of financial assets*

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

- Loans and receivables
- Financial assets at FVSI.

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

- ***Loans and receivables***

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

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

The group categorises loans and receivables into following categories:

*Trade receivables and other debit balances*

Trade receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash and bank balances, together with term deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

- ***Financial assets at FVTSI***

Classification of investments as financial assets at FVTSI depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of consolidated statement of income in the management accounts, they are as designated at FVTSI upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in consolidated statement of income. 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.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.11 Financial instruments (continued)

#### *5.11.3 Classification and subsequent measurement of financial liabilities*

The group's financial liabilities include term bank facilities, trade payables and other payables and accruals.

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

*Trade payables and accruals*
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

*Term bank facilities*
All term bank facilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

### 5.12 Trade and settlement date accounting

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

### 5.13 Offsetting of financial instruments

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

### 5.14 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.
For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

### 5.15 Impairment testing of non financial assets

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 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 cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.15 Impairment testing of non financial assets (continued)

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.

### 5.16 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.

Legal and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the commercial companies' law and the parent company's articles of association.

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

### 5.17 Related party transactions

Related parties consist of directors, executive officers, their close family members and companies of which they are principal owners. All related party transactions are approved by management.

### 5.18 End of service indemnity

The group 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

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

### 5.19 Foreign currency translation

#### *5.19.1 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.

#### *5.19.2 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 remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in consolidated statement of income. 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.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

**5.20 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.

**5.21 Segment reporting**

The group has three main segments: service segment, investments segment and real estate segment. 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. All inter-segment transfers are carried out at arm's length prices.

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.

## 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 Classification of financial instruments***

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

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

# Notes to the consolidated financial statements (continued)

## 6 Significant management judgements and estimation uncertainty (continued)

### 6.1 Significant management judgments (continued)

***6.1.1 Classification of financial instruments (continued)***

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

Classification of assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.
All other financial assets are classified as available for sale.

***6.1.2 Classification of real estate***

Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as property under development if it is acquired with the intention of 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.

### 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 investment at fair value through statement of income***

The Group treats investments at fair value through the statement of income as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires considerable judgment.

***6.2.2 Fair value measurement***

Management apply valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non financial assets. 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 may vary from the actual prices that would be achieved in an arm’s length transaction at the reporting date.

# Notes to the consolidated financial statements (continued)

## 7 Subsidiary companies

The details of the consolidated subsidiaries which are incorporated in the State of Kuwait are as follows:

| Name of company | Ownership % 2016 | Ownership % 2015 | Purpose |
|---|---|---|---|
| Al-Shyma for Medical Management and Care Co. – WLL | **99** | 99 | Preparing hospitals, clinic and medical laboratory, Presenting food meals |
| Platinum for General Trading Co. – WLL | **99** | 99 | General trading |
| The Triple for General Trading and Contracting Co. – WLL | **99** | 99 | General trading and contracting |

Although the legal ownership of the parent company in the above subsidiaries is 99%, the effective ownership in those companies is 100% and there are no rights for the non-controlling parties under the assignment letters received from those parties.

Summarised financial information for subsidiaries before intra group eliminations is set out below:

| | **As of 31 Dec. 2016** | | | As of 31 Dec. 2015 | | |
|---|---|---|---|---|---|---|
| | **Total assets KD** | **Total liabilities KD** | **Net assets KD** | Total assets KD | Total liabilities KD | Net assets KD |
| Al-Shyma for Medical Management and Care Co. – WLL | **47,808** | **(38,166)** | **9,642** | 46,475 | (34,295) | 12,180 |
| Platinum for General Trading Co. – WLL | **1,190,437** | **(514,890)** | **675,547** | 1,312,897 | (710,572) | 602,325 |
| The Triple for General Trading and Contracting Co. – WLL | **47,687,893** | **(18,425,355)** | **29,262,538** | 44,079,459 | (19,469,738) | 24,609,721 |
| | **48,926,138** | **(18,978,411)** | **29,947,727** | 45,438,831 | (20,214,605) | 25,224,226 |

| | **As of 31 Dec. 2016** | | As of 31 Dec. 2015 | |
|---|---|---|---|---|
| | **Total revenue KD** | **Profit for the year KD** | Total revenue KD | Profit for the year KD |
| Al-Shyma for Medical Management and Care Co. – WLL | **309,281** | **36,010** | 308,924 | 35,615 |
| Platinum for General Trading Co. – WLL | **5,786,146** | **2,744,290** | 5,246,055 | 2,291,980 |
| The Triple for General Trading and Contracting Co. – WLL | **3,915,498** | **2,093,700** | 2,845,280 | 1,174,489 |
| | **10,010,925** | **4,874,000** | 8,400,259 | 3,502,084 |

## 8 Basic & diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

| | **Year ended 31 Dec. 2016** | Year ended 31 Dec. 2015 |
|---|---|---|
| Profit for the year (KD) | **4,475,062** | 2,937,619 |
| Weighted average number of shares outstanding during the year (share) | **200,017,330** | 181,833,940 |
| **Basic and diluted earnings per share (Fils)** | **22.37** | 16.16 |

 

For the purpose of calculating earnings per share, the comparative figure of the weighted average number of shares has been adjusted to reflect the bonus shares issued during the year (note 18).

# Notes to the consolidated financial statements (continued)

## 9 Cash and cash equivalents

| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|
| Cash and bank balances | **316,477** | 835,361 |
| Term deposits (maturing within three months) | **19,500** | 1,519,696 |
| | **335,977** | 2,355,057 |

## 10 Investments at fair value through statement of income

| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|
| Investments in quoted shares | **324,443** | 296,331 |
| Investments in unquoted shares | **27,479** | 1,709 |
| Investment funds managed by others | **150,683** | 144,511 |
| | **502,605** | 442,551 |

## 11 Accounts receivable and other debit balances

| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|
| Trade receivables | **389,777** | 306,764 |
| Provision for doubtful debts | **(169,036)** | (169,036) |
| | **220,741** | 137,728 |
| **Other debit balances** | | |
| Prepaid expenses (below) | **581,070** | 590,366 |
| Accrued income | **234,883** | 47,094 |
| Refundable deposits | **23,940** | 49,696 |
| Advance payments to project under construction contractors | **677,468** | 611,141 |
| | **192,623** | 1,436,025 |

1,930,725

During the year, the Group has signed the lease contract of Plots (75, 76, 77, 78, 79 and 80) at Sabah Al-Salem at a total area of 5,625 square meters for 18 years starting from 1 September 2017 against an annual rent of KD 520,000 starting from 1 September 2017 paid by the Group during the year.

The purpose of leasing these Plots is building and utilization of a commercial complex during the lease period.

The following is the table of obsolescence of trade receivables:

| | **Less than 30 days KD** | **From 30 to 60 days KD** | **From 60 to 90 days KD** | **From 90 to 120 days KD** | **More than 120 days KD** | **Total KD** |
|---|---|---|---|---|---|---|
| **2016** | **21,412** | **23,606** | **18,906** | **13,881** | **311,972** | **389,777** |
| 2015 | 47,575 | 7,740 | 13,221 | 69,192 | 169,036 | 306,764 |

Receivables, which have not been impaired, are expected, based on the previous experience in the management of the group, to be fully recovered and it is not the group's policy to obtain guarantees from the debtors.

Further, the group's management assures that the outstanding balances, which have been past due for long periods specially these balances due more than 120 days listed above, are collectible balances, whether through judgments passed or through the periodic follow-up to collect same.

# Notes to the consolidated financial statements (continued)

## 12 Inventories

| | 31 Dec. 2016 KD | 31 Dec. 2015 KD |
|---|---|---|
| SPA's supplies inventories | **101,128** | 88,835 |
| Provision for slow moving inventories | **(15,541)** | (15,577) |
| | **85,587** | 73,258 |

## 13 Goodwill

Goodwill resulted from the acquisition of the total equity of subsidiaries during the year 2005 are as follows:

| | 31 Dec. 2016 KD | 31 Dec. 2015 KD |
|---|---|---|
| **Consideration value against purchasing companies** | **3,428,766** | 3,428,766 |
| **Fair value of companies on purchase date:** | | |
| Al-Shyma for Medial Management and Care Co. – WLL | **68,841** | 68,841 |
| Platinum for General Trading Co. – WLL | **87,120** | 87,120 |
| The Triple for General Trading and Contracting Co. – WLL | **1,375,470** | 1,375,470 |
| **Less: Total fair value of companies on purchase date** | **1,531,431** | 1,531,431 |
| **Resultant goodwill** | **1,897,335** | 1,897,335 |

Based on the result of activities of subsidiary companies during the past years and expected operating profits for the future years and the discounted cash flows, the value of goodwill, resulted from the acquisition of these subsidiary companies, was not impaired.

## 14 Property, plant and equipment

| | Furniture and fixtures KD | Tools and sports equipment KD | Computer software KD | 2016 Total KD | 2015 Total KD |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January | 1,445,345 | 2,880,177 | 137,837 | **4,463,359** | 4,310,253 |
| Additions | 33,763 | 125,638 | 17,848 | **177,249** | 522,570 |
| Transferred from properties of health clubs and SPA's | - | - | - | **-** | 134 |
| Disposals | (124,901) | (19,995) | (86) | **(144,982)** | (369,598) |
| At 31 December | 1,354,207 | 2,985,820 | 155,599 | **4,495,626** | 4,463,359 |
| **Accumulated depreciation** | | | | | |
| At 1 January | 1,335,268 | 1,942,934 | 119,929 | **3,398,131** | 3,375,597 |
| Charge for the year | 43,158 | 315,118 | 9,367 | **367,643** | 373,698 |
| Transferred from properties of health clubs and SPA's | - | - | - | **-** | (229) |
| Related to disposals | (124,833) | (17,859) | (86) | **(142,778)** | (350,935) |
| At 31 December | 1,253,593 | 2,240,193 | 129,210 | **3,622,996** | 3,398,131 |
| **Net book value at 31 December** | **100,614** | **745,627** | **26,389** | **872,630** | 1,065,228 |

The group depreciates its property, plant and equipment using annual rates from 10% to 20%.

# Notes to the consolidated financial statements (continued)

## 14 Property, plant and equipment (continued)

Depreciation charge for the year is distributed as follows:

| | 31 Dec. 2016 KD | 31 Dec. 2015 KD |
|---|---|---|
| Cost of services | **361,052** | 367,550 |
| Expenses and other charges | **6,591** | 6,149 |
| | **367,643** | 373,699 |

## 15 Properties of health clubs and SPA's

| | 31 Dec. 2016 KD | 31 Dec. 2015 KD |
|---|---|---|
| **Fair value at the beginning of the year** | **40,735,000** | 42,588,632 |
| Net additions during the year | **5,193,492** | 1,871,187 |
| Disposals during the year | **(405,000)** | (4,250,000) |
| Change in fair value (below (e) | **378,112** | 525,181 |
| **Fair value at the end of the year** | **45,901,604** | 40,735,000 |
| **Net unrealised gains included in the consolidated statement of comprehensive income for the year** | **378,112** | 525,181 |

During the year, the Company has sold property (2) at the free commercial area for KD 700,000 resulting in a gain of KD 295,000 (Property of Platinum Metro Health Institute has been sold during the year 2015 for KD 3,600,00 resulting in a loss of KD 650,000).

The breakup of properties of health clubs and SPA's is as follows:

| | Fair value 31 Dec. 2016 KD | Fair value 31 Dec. 2015 KD |
|---|---|---|
| **Completed properties of health clubs & SPA's** | | |
| Property of Platinum Health Institute – Mahboula | **5,165,000** | 5,100,000 |
| Property of Platinum Health Institute - Kifan | **3,250,000** | 3,250,000 |
| Property of 21C – Free Trade Zone | **-** | 405,000 |
| Property of Platinum Health Institute – Messilah –(b) below | **9,952,000** | 9,910,000 |
| Miral Commercial Tower – Al-Manqaf Sea area (Right of use) | **4,480,000** | 4,330,000 |
| Commercial Tower – Al Salmiya – below (c) | **6,490,000** | 6,300,000 |
| **Total completed properties of health clubs & SPA's** | **30,937,000** | 29,295,000 |
| **Properties of health clubs & SPA's under construction** | | |
| Commercial Tower – Al-Salmiya – below (c) | **674,604** | - |
| Investment free hold land – Al-Salmiya (Marina) – below (a) | **14,290,000** | 11,440,000 |
| **Total properties of health clubs & SPA's under construction** | **14,964,604** | 11,440,000 |
| **Total completed properties of health clubs & SPA's** | **45,901,604** | 40,735,000 |

a) During the year 2015, the Group has initiated an investment project at an investment land space (Salmiya Levels Tower – Marina) to build a commercial complex thereon. The value of the land space amounting to KD 11,440,000 has been transferred to the properties of health clubs and SPA's in progress.

b) During the year, the Company has made an expansion of the property of Platinum Health Institute at Messila and the property of Miral Commercial Tower at Mangaf Marine Area.

# Notes to the consolidated financial statements (continued)

## 15 Properties of health clubs and SPA's (continued)

c) Properties of health clubs and SPA's have been evaluated by a real estate independent external valuator and a local bank as at the financial year end, resulting in a revaluation gain of KD 378,112 (KD 525,181 in 2015) carried in the statement of comprehensive income for the year.

## 16 Ijara and Tawarruq contracts facility

**16.1** During the year the group rescheduled and reclassified its bank facilities granted by local Islamic bank as follows:

| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|
| Ijara contracts facility – (16.2) | **15,314,306** | 8,717,014 |
| Tawarruq contracts facility – (16.3) | **-** | 8,362,987 |
| | **15,314,306** | 17,080,001 |

### 16.2 Ijara contracts facility

The movement on Ijara contracts facility during the year appears as follows:

| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|
| Total Ijara contracts facility | **8,717,014** | 9,383,083 |
| | **7,932,878** | - |
| | **16,649,892** | 9,383,083 |
| Less: Paid instalments | **(1,488,000)** | (471,750) |
| Less: Deferred finance costs | **(152,414)** | (194,319) |
| Balance at the end of the year | **15,314,306** | 8,717,014 |

On 13 July 2016, both Ijara contracts of the Group have been combined in one Ijara contract and renewed at an amount of KD9,383,083. The Ijara contract is payable in 12 renewable equal monthly installments of KD94,350 each starting on 17 August 2016, the last installment of which amounting to KD8,056,564 is payable on 17 July 2016.

Ijara contracts facilities carry profit rates ranging between 3.8% - 4% per annum, Ijara contracts mature within one year and all appear in current liabilities.

### 16.3 Tawarruq contracts facility

The movement on Tawarruq contracts facility during the year appears as follows:

| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|
| Total Tawarruq contracts facility | **8,362,987** | 8,845,907 |
| Less: Paid instalments | **(273,423)** | (273,423) |
| Less: Deferred finance costs | **(156,686)** | (209,497) |
| | **(7,932,878)** | - |
| Balance at the end of the year | **-** | 8,362,987 |

# Notes to the consolidated financial statements (continued)

## 17 Accounts payable and other credit balances

| | 31 Dec. 2016 KD | 31 Dec. 2015 KD |
|---|---|---|
| Trade and contractors' payables | **1,102,522** | 354,484 |
| Accrued leaves and expenses | **208,135** | 161,960 |
| Kuwait Foundation for the Advancement of Science (KFAS) | **96,020** | 54,592 |
| National Labour Support Tax (NLST) | **78,400** | 78,400 |
| Board of directors' remuneration | **40,000** | 50,000 |
| Zakat provision | **77,958** | 31,360 |
| Deposits from others | **546,763** | 528,299 |
| Rent income received in advance | **1,460,878** | 1,784,306 |
| Dividends payable have not been claimed | **39,252** | 54,468 |
| Retentions payable | **466,838** | 274,658 |
| | **4,116,766** | 3,372,527 |

## 18 Share capital and share premium

The ordinary general assembly of shareholders held on 24 May 2016 approved the financial statements for the year ended 31 December 2015 and the directors' proposal to distribute bonus shares at the rate of 10% of the paid-up share capital, equivalent to KD1,818,339 and registered in the commercial registration on 8 August 2016.

Accordingly, the patent company's authorised, issued and fully paid-up share capital as at 31 December 2016 consists of 200,017,330 shares (181,833,940 shares in 31 December 2015) at a value of 100 Fils per share equivalent to KD20,001,733 (KD18,183,394 in 2015). And all of the share capital shares are in cash.

### *Share premium*

The share premium is not available for distribution except for what has been stated in the related legislative resolutions.

## 19 Reserves

In accordance with the Companies Law and the parent company's memorandum and articles of association, 10% of the profit for the year before KFAS, NLST, Zakat provision and directors' remuneration is to be transferred to legal 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 payment of a dividend of that amount.

In accordance with the parent company's articles of association 10% of the profit for the year before contribution to KFAS, NLST, Zakat provision and board of directors' remuneration is to be transferred to the voluntary reserve. There are no restrictions on distribution of voluntary reserve.

# Notes to the consolidated financial statements (continued)

## 20 General assembly and proposed dividends

Subject to the approval of the shareholders' general assembly and the requisite consent of the relevant authorities, the directors propose the distribution of bonus shares at the rate of 5% of the paid-up share capital or 5 shares for each 100 shares, equivalent to 1,000,087 shares and that for the shareholders registered in the parent company records at the date of the general assembly of shareholders.

The ordinary general assembly of shareholders held on 24 May 2016 approved the financial statements for the year ended 31 December 2015 and the directors proposal to distribute bonus shares at the rate of 5% of the paid-up share capital, equivalent to KD1,818,339.

## 21 Related party transactions

These represent transactions with certain related parties (directors and executive officers of the group and their related concerns) entered into by the group in the ordinary course of business and approved by the management and they appear as follows:

| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|
| **Key management compensation** | | |
| - Salaries and other short term benefits | **186,635** | 168,030 |
| - Employee end of service benefits | **11,000** | 12,397 |
| | **197,635** | 180,427 |

## 22 Segmental information

The group activities are concentrated in three main segments: services, investments and real estate. The segments' results are reported to the higher management in the group. The segments results, assets and liabilities are not reported based on the geographic locations as all the assets and liabilities are within the State of Kuwait.

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

| | **Year ended 31 December 2016** | | | | |
|---|---|---|---|---|---|
| | **Services KD** | **Investments KD** | **Real estate KD** | **Unallocated KD** | **Total KD** |
| Total income | **3,,539,932** | **87,163** | **3,212,797** | **91,265** | **6,931,157** |
| Expenses and other charges | **(1,522,876)** | **-** | **-** | **(933,220)** | **(2,456,095)** |
| Profit /(loss) for the year | **2,017,057** | **87,163** | **3,212,797** | **(841,955)** | **4,475,062** |
| Assets | **48,702,023** | **522,105** | **405,000** | **1,897,335** | **51,526,463** |
| Liabilities | **(19,431,072)** | **-** | **-** | **(371,065)** | **(19,802,137)** |
| Net assets | **29,270,951** | **522,105** | **405,000** | **1,536,270** | **31,724,326** |

# Notes to the consolidated financial statements (continued)

## 22 Segmental information (continued)

| | Year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | **Services KD** | **Investments KD** | **Real estate KD** | **Unallocated KD** | **Total KD** |
| Total income | 3,143,487 | (106,198) | 2,173,018 | 106,609 | 5,316,916 |
| Expenses and other charges | (1,371,215) | - | - | (1,008,082) | (2,379,297) |
| Profit / (loss) for the year | 1,772,273 | (106,198) | 2,173,018 | (901,473) | 2,937,619 |
| Assets | 43,739,872 | 1,962,247 | 405,000 | 1,897,335 | 48,004,454 |
| Liabilities | (20,452,528) | - | - | (302,662) | (20,755,190) |
| Net assets | 23,287,344 | 1,962,247 | 405,000 | 1,594,673 | 27,249,264 |

## 23 Fair value measurement

### 23.1 Fair value hierarchy

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.

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 (unobservable inputs).

### 23.2 Fair value measurement for financial instruments

The financial assets and liabilities in the consolidated statement of financial position are grouped as follows:

| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|
| ***Financial assets at amortised cost:*** | | |
| - Cash and cash equivalents | **355,977** | 2,355,057 |
| - Accounts receivable and other debit balances | **1,930,725** | 1,436,025 |
| ***Investments at fair value through statement of income at fair value:*** | | |
| - Investments at fair value through statement of income | **502,605** | 442,551 |
| | **2,769,307** | 4,233,633 |
| ***Financial liabilities at amortised cost:*** | | |
| - Ijara and Tawarruq contracts facility | **15,314,306** | 17,080,001 |
| - Accounts payable and other credit balances | **4,116,766** | 3,372,527 |
| - Provision for staff end of service indemnity | **371,065** | 302,662 |
| | **19,802,137** | 20,755,190 |

# Notes to the consolidated financial statements (continued)

## 23 Fair value measurement (continued)

### 23.2 Fair value measurement for financial instruments (continued)

Management considers that the carrying amounts of financial assets and financial liabilities, which are stated at amortized cost, approximate their fair value. The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.
The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

**a) Quoted shares**
All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

**b) Unquoted shares**
The financial statements include investments in unlisted securities which are measured at fair value. Fair value is estimated using last traded prices for those investments.

**c) Investment funds**
The underlying investments in investment funds primarily comprise of quoted securities whose fair values have been determined by reference the net assets values reported by fund managers.

### 23.3 Fair value measurement of non-financial assets

The following table presents the group's non-financial assets measured at fair value in the consolidated statement of financial position.

| 31 December 2016 | Level 1 KD | Level 2 KD | Level 3 KD | Total KD |
|---|---|---|---|---|
| **Completed properties of health clubs and SPA's** | | | | |
| Property of Platinum Health Institute – Mahboula | - | - | 5,165,000 | 5,165,000 |
| Property of Platinum Metro Health Institute | - | - | 3,250,000 | 3,250,000 |
| Property of 21C – Free Trade Zone | - | - | 9,952,000 | 9,952,000 |
| Property of Platinum Health Institute - Messilah | - | - | 4,480,000 | 4,480,000 |
| Miral Commercial Tower – Al-Manqaf Sea area (right of use) | - | - | 6,490,000 | 6,490,000 |
| Commercial tower – Al Salmiya – below (c) | - | - | 1,600,000 | 1,600,000 |
| Total completed properties of health clubs and SPA's | - | - | 30,937,000 | 30,937,000 |
| **Property of health clubs and SPA's under construction** | | | | |
| Levels tower – Al Salmiya | - | - | 14,290,000 | 14,290,000 |
| Investment free hold land – Al-Salmiya | - | - | 674,604 | 674,604 |
| | - | - | 14,964,604 | 14,964,604 |
| | - | - | 45,901,604 | 45,901,604 |

# Notes to the consolidated financial statements (continued)

## 23 Fair value measurement (continued)

### 23.3 Fair value measurement of non-financial assets (continued)

| 31 December 2015 | Level 1 KD | Level 2 KD | Level 3 KD | Total KD |
|---|---|---|---|---|
| **Completed properties of health clubs and SPA's** | | | | |
| Property of Platinum Health Institute – Mahboula | - | - | 5,100,000 | 5,100,000 |
| Property of Platinum Health Institute - Kifan | - | - | 3,250,000 | 3,250,000 |
| Property of 21C – Free Trade Zone | - | - | 405,000 | 405,000 |
| Property of Platinum Health Institute - Messilah | - | - | 9,910,000 | 9,910,000 |
| Miral Commercial Tower – Al-Manqaf Sea area (right of use) | - | - | 4,330,000 | 4,330,000 |
| Commercial Tower – Al-Salmiya | - | - | 6,300,000 | 6,300,000 |
| | **-** | **-** | **29,295,000** | **29,295,000** |
| **Property of health clubs and SPA's under construction** | | | | |
| Commercial Tower – Al-Salmiya | - | - | 11,440,000 | 11,440,000 |
| Investment free hold land – Al-Salmiya | - | - | - | - |
| | **-** | **-** | **11,440,000** | **11,440,000** |
| | **-** | **-** | **40,735,000** | **40,735,000** |

**Properties of health clubs and SPA's**

The properties of health clubs and SPA's represent buildings categorized as "Investment Buildings". The fair value of the investment properties has been determined based on valuation obtained from independent valuer, who is specialised in valuing these types of investment properties. The significant inputs and assumptions are developed in close consultation with management. The independent valuer has valued the investment properties using the Yield Method and market comparison. When the market comparison approach is used adjustments have been incorporated for factors such as plot size, location and current use. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

| | Investment properties | |
|---|---|---|
| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
| Opening balance | **40,735,000** | 42,588,632 |
| Additions | **5,193,492** | 1,871,187 |
| Disposal during the year | **(405,000)** | (4,250,000) |
| Change in fair value | **378,112** | 525,181 |
| Closing balance | **45,901,604** | 40,735,000 |

## 24 Risk management objectives and policies

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 group's risk management is carried out by the top management focuses on actively securing the group's short to medium term cash flows by minimizing the potential adverse effects on the group's financial performance through internal risk reports which analyse exposures by degree and magnitude of risks. Long term financial investments are managed to generate lasting returns.

The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

# Notes to the consolidated financial statements (continued)

## 24 Risk management objectives and policies (continued)

The most significant financial risks to which the group is exposed to are as follows.

### 24.1 Market risk

**a) Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to change in the foreign currency rates. Management believes that there is minimal risk of losses due to exchange rate fluctuations. Consequently, the group does not hedge the foreign currency risk.

**b) Interest rate risk**

Interest rate risk usually arises from the possibility that changes in interest rates will affect future profitability or fair values of financial instruments. The board of directors has determined the categories to adhered to for interest rate risk and also the gap deviations of interest rates within certain periods.

The Group monitors positions on a regular basis and the Group's plans for hedging are set out to maintain its financial positions within the established limits.

The effective interest rates (effective yield) on the monetary financial instruments are those rates that result in calculating the carrying value of the financial instrument by using the current value method. Fixed interest rates on the financial instruments are considered historical rates carried by using the amortized cost method and, in return, current rates are used for measuring the fair value of the instruments with floating rates.

**Interest rate sensitivity analysis**

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in interest rates of + 1% and – 1% (2015: + 1% and –1%) with effect from the beginning of the year.

These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the group's financial instruments held at each date of the consolidated statement of financial position. All other variables are held constant.

| | **31 Dec. 2016** | | 31 Dec. 2015 | |
|---|---|---|---|---|
| | **+ 1 %** | **-1 %** | + 1 % | -1 % |
| | **KD** | **KD** | KD | KD |
| Profit for the year | **153,143** | **(153,143)** | 170,800 | (170,800) |

**c) Price risk**

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified as investments at fair value through statement of 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 set by the group.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the consolidated financial statements date.

# Notes to the consolidated financial statements (continued)

## 24 Risk management objectives and policies (continued)

### 24.1 Market risk (continued)

**c) Price risk (continued)**

If equity prices had been 10% higher, the effect on the group profit for the year ended 31 December 2016 and year ended 31 December 2015 would have been as follows:

| | Profit for the year | |
|---|---|---|
| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
| Investments at fair value through statement of income | **50,261** | 44,255 |

### 24.2 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. It also obtains security when appropriate. The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the consolidated statement of financial position date, as summarized below:

| | **31 Dec. 2016 KD** | 31 Dec. 2015 KD |
|---|---|---|
| Cash and cash equivalents | **335,977** | 2,355,057 |
| Investments at fair value through statement of income | **502,605** | 442,551 |
| Accounts receivable and other debit balances | **1,930,725** | 1,436,025 |
| | **2,769,307** | 4,233,633 |

### 24.3 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. The Group's approach in managing this risk is to always make sure, as possible, of the availability of sufficient liquidity to meet its liabilities when they fall due, whether in natural or hard circumstances, without incurring unacceptable losses or risking the Group's reputation.

The board of directors shall assume full responsibility for managing liquidity risk as it has approved a suitable framework to manage liquidity risk and to manage short, medium and long term financing operations and liquidity management requirements. The Group manages liquidity risk through maintaining sufficient reserves, bank facilities and reserve borrowing facilities through continuous control and observation of the expected and effective cash flows and matching maturity dates of the financial assets and liabilities.

The following table analyses the financial liabilities of the Group based on the remaining period from the date of the consolidated statement of financial position to the contractual maturity date.

The amounts included in this table represent the undiscounted contractual cash flows. Balances due within one year equal their recognized balances as the effect of discount is not significant.

# Notes to the consolidated financial statements (continued)

## 24 Risk management objectives and policies (continued)

### 24.3 Liquidity risk (continued)

| 31 December 2016 | Less than 1 year KD | More than 1 year KD | Total KD |
|---|---|---|---|
| **Financial liabilities** | | | |
| Ijara and Tawarruq contracts facility | **15,314,306** | **-** | **15,314,306** |
| Accounts payable and other credit balances | **4,116,766** | **-** | **4,116,766** |
| Provision for staff end of service indemnity | **-** | **371,065** | **371,065** |
| **Total financial liabilities** | **19,431,072** | **371,065** | **19,802,137** |

| 31 December 2015 | | | |
|---|---|---|---|
| **Financial liabilities** | | | |
| Ijara and Tawarruq contracts facility | 17,080,001 | - | 17,080,001 |
| Accounts payable and other credit balances | 3,372,527 | - | 3,372,527 |
| Provision for staff end of service indemnity | - | 306,662 | 306,662 |
| **Total financial liabilities** | 20,452,528 | 306,662 | 20,755,190 |

## 25 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk. The management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management.

## 26 Capital risk management

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

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, return capital to shareholders or issue new shares or sell assets to reduce debt.

The capital structure of the group consists of the following:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| Ijara and tawarruq contracts facility (Note 16) | **15,314,306** | 17,080,001 |
| Less: Cash and cash equivalents (Note 9) | **(335,977)** | (2,335,057) |
| Net debt (KD) | **14,978,329** | 14,744,944 |
| Equity (KD) | **31,724,326** | 27,249,264 |
| Net debt to equity ratio (%) | **47%** | 54% |

## 27 Capital commitments

Capital commitments as at the consolidated statement of financial position date amounted to KD5,234,181 (31 December 2015: KD2,016,354) and represent the amounts resulted from the properties under construction.