

**EQUIPMENT HOLDING COMPANY K.S.C.P.
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EQUIPMENT HOLDING COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Equipment Holding Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

a) Revenue recognition

The revenue from construction contracts within the construction, leasing and maintenance segment of the Group is reported using the percentage of completion method. This requires significant management judgment and estimates such as assessment of costs incurred over total cost of the project, survey of work done and the process for identification of loss making contracts, which gives rise to a risk of incorrect recognition of revenue in a particular period. Further, if specific circumstances arise, such as contract prepayments or contract modifications, this may result in a risk of incorrect revenue recognition. Accounting policies for revenue recognition and the judgments used by the management for future losses on loss making contracts are given in notes 2.5 and 2.6 to the consolidated financial statements.

Considering the above, revenue recognition from construction contracts has been determined as a key audit matter.

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Revenue recognition (continued)

Our audit procedures, among others, included assessment of the appropriateness of the Group's revenue recognition policies, evaluation of management's assumptions in the determination of estimated costs to complete a project, the percentage of completion of a project, budget versus actual for both revenue and costs, and provisions for future losses for loss making projects mainly due to the delay in the execution of the projects including leasing contracts. We evaluated the significant judgments made by the management, whereby we examined project documentation and discussed the status of fixed price projects under construction with management, finance and project managers of the Group. In addition, we also assessed the management's process of identifying the loss making contracts by evaluating their cost to complete analysis of ongoing contracts.

We also performed test of details including examination of underlying contracts and hours incurred to assess the status of the fixed price and other projects. We also performed, on a sample basis, substantive audit procedures relating to the contractual terms and conditions and the appropriate accounting thereof including the assessment of the financial implications due to the delays in the execution of the projects. We assessed revenue recognition taking place before and after year-end to evaluate whether revenues are recognised in the appropriate period. Additionally, we assessed the appropriateness of disclosures made in note 3 to the consolidated financial statements.

b) Existence and impairment of trade receivables and unbilled contract receivables

Trade receivable and unbilled contract receivables balances are significant to the Group's consolidated financial statements. The collectability of trade receivables and unbilled contract receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by its management. Due to the nature of the business and requirements of customers, various contract terms are in place which impact the timing of revenue recognition and the collectability of these amounts. Given the magnitude and judgment involved in the impairment assessment of unbilled contract receivables and trade receivables such as ageing of these receivables, disputes over the work done, negotiation of variation orders etc., we have identified this as a key audit matter.

We have performed audit procedures on existence of trade receivables and unbilled contract receivables, which included substantive testing of revenue transactions, obtaining trade receivable external confirmations and subsequent receipt testing of bank payments. Assessing the impairment of trade receivables and unbilled contract receivables requires judgment and we have evaluated the assumptions used by the management in determining the provision for impairment of these receivables, notably through detailed analyses of ageing of receivables, assessment of significant overdue individual unbilled contract receivables and trade receivables and assessment of specific local risks, combined with legal documentation, where applicable.

We have assessed the timing of trade receivables and unbilled contract receivables recognition based on the terms agreed with customers. We also examined, on a sample basis, the terms of contracts with customers, invoices raised, etc., as part of our audit procedures. Furthermore, we assessed the appropriateness of disclosures made in notes 2.5, 2.6 and note 9 to the consolidated financial statements.

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

Report on the Audit of Consolidated Financial Statements (continued)

Other information included in the Group's 2016 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

Report on the Audit of Consolidated Financial Statements (continued)

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

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

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

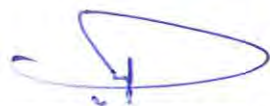
Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, and its executive regulations and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016 and its executive regulations nor of the Parent 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 of the Parent Company or on its financial position.



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



MOHAMMED HAMED AL SULTAN
LICENSE NO. 100 A
AL SULTAN AND PARTNERS
MEMBER OF BAKER TILLY
INTERNATIONAL

15 March 2017
Kuwait

Equipment Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Revenues	3	15,698,466	12,726,820
Cost of revenues	3	(20,746,573)	(12,677,418)
GROSS (LOSS) PROFIT		(5,048,107)	49,402
Rental income		68,982	119,927
Investment property expenses		(172,361)	(63,593)
Unrealised (loss) gain on revaluation of investment properties	7	(11,500)	233,679
Other income		336,018	460,365
Reversal of provision for obsolete and slow moving inventories	10	96,557	-
Provision for doubtful debts	9	(179,643)	(474,235)
General and administrative expenses		(1,299,014)	(1,735,524)
Selling and distribution expenses		(153,678)	(57,648)
LOSS FROM OPERATIONS		(6,362,746)	(1,467,627)
Gain on sale of property and equipment		1,309,122	27,728
Gain on sale of investment properties	6	1,465,821	-
Realised gain on sale of financial assets available for sale	8	46,351	176,667
Impairment loss of financial assets available for sale	8	-	(28,330)
Dividend income		46,387	34,963
Provision no longer required for directors' remuneration		-	65,000
Foreign exchange gain		42,553	145,679
Finance costs		(323,772)	(358,364)
LOSS FOR THE YEAR BEFORE BOARD OF DIRECTORS' REMUNERATION		(3,776,284)	(1,404,284)
Board of Directors' remuneration		-	(9,989)
LOSS FOR THE YEAR	4	(3,776,284)	(1,414,273)
BASIC AND DILUTED LOSS PER SHARE	5	(27.69) fils	(10.37) fils

The attached notes 1 to 22 form part of these consolidated financial statements.

Equipment Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

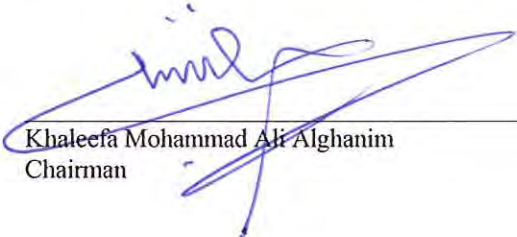
	Notes	2016 KD	2015 KD
LOSS FOR THE YEAR		(3,776,284)	(1,414,273)
OTHER COMPREHENSIVE LOSS:			
<i>Items that are or may be reclassified subsequently to consolidated statement of income in subsequent periods:</i>			
- Net unrealised revaluation (loss) gain on financial assets available for sale		(69,554)	132,528
- Transferred to consolidated statement of income on sale of financial assets available for sale	8	(46,351)	(176,667)
- Transferred to consolidated statement of income on impairment of financial assets available for sale	8	-	28,330
		(115,905)	(15,809)
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods:</i>			
Effect of revaluation on property	6	(537,030)	(180,786)
TOTAL OTHER COMPREHENSIVE LOSS FOR THE YEAR		(652,935)	(196,595)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(4,429,219)	(1,610,868)

Equipment Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 KD	2015 KD
ASSETS			
Non-current assets			
Property and equipment	6	11,503,384	20,309,059
Investment properties	7	1,002,000	9,591,679
Financial assets available for sale	8	369,977	741,374
Accounts receivable and others	9	429,485	302,958
		<u>13,304,846</u>	<u>30,945,070</u>
Current assets			
Inventories	10	1,598,950	2,535,074
Work in progress		38,078	174,239
Accounts receivable and others	9	8,777,985	5,790,069
Bank balances and cash	11	7,016,102	935,810
		<u>17,431,115</u>	<u>9,435,192</u>
TOTAL ASSETS		<u><u>30,735,961</u></u>	<u><u>40,380,262</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	12	13,640,000	13,640,000
Cumulative changes in fair value reserve		(17,521)	98,384
Revaluation reserve		1,115,809	7,379,027
Accumulated losses		(1,861,820)	(3,811,724)
Total equity		<u>12,876,468</u>	<u>17,305,687</u>
Non-current liabilities			
Employees' end of service benefits		915,846	911,189
Term loans	15	4,976,032	5,301,168
Murabaha payables		-	543,858
		<u>5,891,878</u>	<u>6,756,215</u>
Current liabilities			
Term loans	15	2,917,998	2,542,710
Murabaha payables		-	1,899,135
Accounts payable and accruals	16	9,049,617	10,056,718
Amount due to a related party	17	-	1,314,152
Bank overdraft	11	-	505,645
		<u>11,967,615</u>	<u>16,318,360</u>
Total liabilities		<u>17,859,493</u>	<u>23,074,575</u>
TOTAL EQUITY AND LIABILITIES		<u><u>30,735,961</u></u>	<u><u>40,380,262</u></u>


 Khaleefa Mohammad Ali Alghanim
 Chairman

The attached notes 1 to 22 form part of these consolidated financial statements.

Equipment Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital KD	Cumulative changes in fair value reserve KD	Revaluation reserve KD	Accumulated losses KD	Total KD
As at 1 January 2016	13,640,000	98,384	7,379,027	(3,811,724)	17,305,687
Loss for the year	-	-	-	(3,776,284)	(3,776,284)
Other comprehensive loss for the year	-	(115,905)	(537,030)	-	(652,935)
Total comprehensive loss for the year	-	(115,905)	(537,030)	(3,776,284)	(4,429,219)
Adjustment to revaluation reserve (Note 6)	-	-	(25,000)	25,000	-
Transfer of revaluation reserve to accumulated losses on sale (Note 6)	-	-	(5,701,188)	5,701,188	-
As at 31 December 2016	13,640,000	(17,521)	1,115,809	(1,861,820)	12,876,468
As at 1 January 2015	13,640,000	114,193	7,608,691	(2,446,329)	18,916,555
Loss for the year	-	-	-	(1,414,273)	(1,414,273)
Other comprehensive loss for the year	-	(15,809)	(180,786)	-	(196,595)
Total comprehensive loss for the year	-	(15,809)	(180,786)	(1,414,273)	(1,610,868)
Adjustment to revaluation reserve (Note 6)	-	-	(48,878)	48,878	-
As at 31 December 2015	13,640,000	98,384	7,379,027	(3,811,724)	17,305,687

The attached notes 1 to 22 form part of these consolidated financial statements.

Equipment Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
OPERATING ACTIVITIES			
Loss for the year		(3,776,284)	(1,414,273)
Adjustments to reconcile loss for the year to net cash flows:			
Depreciation	6	1,194,067	740,636
Gain on sale of property and equipment		(1,309,122)	(27,728)
Gain on sale of investment properties	6	(1,465,821)	-
Unrealised loss (gain) on revaluation of investment properties	7	11,500	(233,679)
Realised gain on sale of financial assets available for sale	8	(46,351)	(176,667)
Impairment loss of financial assets available for sale	8	-	28,330
Dividend income		(46,387)	(34,963)
Reversal of provision for slow moving and obsolete inventories	10	(96,557)	-
Provision for doubtful debts	9	179,643	474,235
Provision for employees' end of service benefits		218,251	146,733
Provision no longer required for directors' remuneration		-	(65,000)
Finance costs		323,772	358,364
		(4,813,289)	(204,012)
Working capital adjustments:			
Inventories		1,032,681	(291,570)
Work in progress		136,161	440,827
Accounts receivable and others		(3,025,286)	(966,896)
Accounts payable and accruals		(1,007,101)	2,386,966
Amount due to a related party		(1,314,152)	36,067
Cash flows (used in) from operations		(8,990,986)	1,401,382
Employees' end of service benefits paid		(213,594)	(50,295)
Net cash flows (used in) from operating activities		(9,204,580)	1,351,087
INVESTING ACTIVITIES			
Additions to property and equipment	6	(251,123)	(7,593,136)
Proceeds from sale of property and equipment		8,634,823	45,432
Proceeds from sale of investment properties		10,044,000	-
Proceeds from sale of financial assets available for sale		33,043	615,286
Dividend income received		46,387	34,963
Net cash flows from (used in) investing activities		18,507,130	(6,897,455)
FINANCING ACTIVITIES			
Proceeds from term loans		2,427,050	7,333,384
Repayment of term loans		(2,376,898)	(299,506)
Repayment of murabaha payables		(2,442,993)	(1,569,755)
Finance costs paid		(323,772)	(262,911)
Net cash flows (used in) from financing activities		(2,716,613)	5,201,212
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		6,585,937	(345,156)
Cash and cash equivalents at the beginning of the year		430,165	775,321
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	7,016,102	430,165

The attached notes 1 to 22 form part of these consolidated financial statements.

Equipment Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 CORPORATE INFORMATION

The consolidated financial statements of Equipment Holding Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 8 March 2017. The General Assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements in the Annual General Assembly meeting of the Parent Company's shareholders.

The Annual General Assembly of the shareholders' for the year ended 31 December 2015 was held on 18 July 2016 and approved the consolidated financial statements for the year ended 31 December 2015.

The Parent Company is a Kuwaiti Public Shareholding Company registered and incorporated in Kuwait on 25 May 1999. The Parent Company's shares are listed on the Kuwait Stock Exchange.

The Parent Company's principal activities are as follows:

- Owning shares in Kuwaiti or non-Kuwaiti companies and participating in the establishment of these companies;
- Participating in the management of owned companies;
- Lending money to companies in which it owns interest, as guarantor on behalf of these companies;
- Owning real estate and moveable property to conduct its operations within the limits as stipulated by law; and
- Owning industrial equities such as patents, industrial trademarks, royalties, or any other related rights, and franchising them to other companies within or outside the State of Kuwait.

The registered address of the Parent Company is P.O. Box 435, Safat 13005, Kuwait.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 which cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 November 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

The consolidated financial statements of the Group have been prepared under historical cost convention except for the revaluation of land and building classified within property and equipment, investment properties and financial assets available for sale that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Parent Company.

The consolidated statement of income for the year ended 31 December 2015 has been represented to improve the quality of information presented with no impact on the results for the year.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following amended IFRS recently issued by the IASB effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Equipment Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 1 Disclosure Initiative (Amendments)

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the consolidated statements of income and comprehensive income and the consolidated statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to consolidated financial statements;
- That the share of other comprehensive income ("OCI") of associates accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to consolidated statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the consolidated statements of income and OCI. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt those standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2016.

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

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

Equipment Holding Company K.S.C.P. and its Subsidiaries

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At 31 December 2016

2.4 BASIS OF CONSOLIDATION (continued)

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. When necessary, adjustments are made for any non-uniform accounting policies that may exist.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated statement of comprehensive income. Any investment retained is recognised at fair value.

Details of the subsidiary companies included in the consolidated financial statements as at 31 December are set out below:

Name of company	Country of incorporation	Effective interest in equity		Principal activity
		2016	2015	
Equipment Company W.L.L.*	Kuwait	99%	99%	Trading in construction equipment
Al-Khadda International General Trading and Contracting Company W.L.L.*	Kuwait	99%	99%	Construction contracts
Al Forat Group Holding Company K.S.C. (Closed)	Kuwait	96%	96%	Investments

*1% of Equipment Company W.L.L. is held in the name of Al-Khadda International General Trading and Contracting Company W.L.L. and 1% of Al-Khadda International General Trading and Contracting Company W.L.L. is held in the name of Equipment Company W.L.L. as nominee on behalf of the Parent Company, who have confirmed in writing that the Parent Company is the beneficial owner of those shares. Further, 4% of Al Forat Group Holding Company K.S.C. (Closed) is held in the name of other parties who have confirmed in writing that the Parent Company is the beneficial owner of those shares.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment less any allowable discounts. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Revenue from the sale of goods with no significant service obligation is recognised on delivery. Where significant tailoring, modification or integration is required, revenue is recognised in the same way as construction contracts described below.

Construction contracts

If the outcome of a contract can be reliably measured, revenue associated with the contract is recognised by reference to the stage of completion of the contracting activity as at the reporting date (the percentage of completion method). Provision is made in full for the amount of anticipated losses on uncompleted contracts in the year such losses are first projected.

The outcome of a construction contract can be estimated reliably when

- i. the total contract revenue can be measured reliably;
- ii. it is probable that the economic benefits associated with the contract will flow to the Group;
- iii. the costs to complete the contract and the stage of completion can be measured reliably; and
- iv. The contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of the construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of cost incurred that are expected to be recoverable.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

Contract revenue – contract revenue corresponds to the initial amount of revenue agreed in the contract plus any variations in the contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured. Revenue from variation claims are recognised in the period such claims are approved.

Contract costs – contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to the specific contract comprise of cost of materials used in the construction, labour costs, depreciation of property and equipment used on the contract, and other costs that are directly related to the contract

The gross amount due from customers for contract work is presented for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Rendering of services

Revenue from services rendered represents revenue from maintenance of equipment and is recognised when the service is rendered.

Rental income

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

Equipment Holding Company K.S.C.P. and its Subsidiaries
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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Dividend income

Revenue is recognised when the Group's right to receive the payment is established, which is generally when the shareholders approve the dividend.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other finance costs are expensed in the period they occur. Finance costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds which are recognised in the consolidated statement of income using the effective interest method.

Operating leases

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Group as a lessee

Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

Taxation

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labor Support Tax (NLST)

The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. Share of results of associates and cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

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.

Foreign currencies translation

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or consolidated statement of income is also recognised in other comprehensive income or consolidated statement of income, respectively).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment, except for land and buildings, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of income as incurred.

The carrying amounts are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

Land and buildings are measured at fair value less impairment losses which are recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the consolidated statement of income, the increase is recognised in the consolidated statement of income. A revaluation deficit is recognised in the consolidated statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation on other assets is recognised in the consolidated statement of income on a straight line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives for the current and comparative periods are as follows:

▪ Buildings	20 years
▪ Furniture and fixtures	5 - 7 years
▪ Motor vehicles	3 - 10 years
▪ Machinery and equipment	2 - 15 years
▪ Central air conditioning and computers	3 years

Depreciation methods, useful economic lives of property and equipment and residual values are reviewed at each financial year and revised for significant change where necessary.

Investment properties

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

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property. Gains or losses resulting from a change in the fair value of the investment property is immediately recognised in the consolidated statement of income within unrealised gain on revaluation of investment properties.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the period of derecognition.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount by recognising impairment loss in the consolidated statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

Impairment losses are recognised in the consolidated statement of income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials

Purchase cost on a weighted average cost basis.

Finished goods and work in progress

Cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less any estimated costs of completion and the estimated costs necessary to make the sale.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Initial recognition and measurement (continued)

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

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

The Group's financial assets include financial assets available for sale, accounts receivable and others and bank balances and cash.

Subsequent measurement

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

Financial assets available for sale

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

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the cumulative changes in fair value reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in the consolidated statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the cumulative changes in fair value reserve to the consolidated statement of income.

The Group evaluates whether the ability and intention to sell its financial assets available for sale in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

Trade receivables

Trade receivables 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.

Retentions receivable

Retentions receivable represent amounts of billings that are not paid by customers until conditions specified in the contract for payment of such amounts are met. Contract retentions receivable after one year from the reporting date are presented in the consolidated statement of financial position as non-current assets. Contract retentions due within one year from the reporting date are presented in the consolidated statement of financial position within accounts receivable.

Gross amount due from customers for contract work

Gross amount due from customers for uncompleted contracts represents contract revenue as at the reporting date less any amounts received or receivable as progress billings.

Derecognition

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

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

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Derecognition (continued)

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

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

Impairment of financial assets

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

Financial assets available for sale

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity financial assets classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include term loans and accounts payable and accruals.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Financial liabilities (continued)

Subsequent measurement

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

Term loans

Term loans represent interest bearing loans and borrowings. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation process.

Accounts payable and accruals

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

Derecognition

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

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.

Fair value

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value (continued)

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

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

Employees' end of service benefits

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.

Provisions

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

Contingencies

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

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

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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.

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:

Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as property held for development or investment property. The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

Classification of financial instruments

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

Classification of financial 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.

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions

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

Recognition of construction contract revenue

Recognised amounts of construction contract revenues and related receivables reflect management's best estimate of each contract's outcome and stage of completion. This includes the assessment of the profitability of on-going construction contracts and the order backlog. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty.

Profit on uncompleted contracts

Profit on uncompleted contracts is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. This requires the Group's management to determine the level at which reasonable estimates can be reached.

Estimated cost on uncompleted contracts

Revenue from contracts is measured by reference to the percentage of costs incurred to the estimated total costs for each contract applied to the estimated contract revenue, and reduced by the proportion of revenue previously recognised. This requires the Company to use judgment in the estimation of the total cost expected to complete each contract.

Valuation of property and equipment and investment properties

The Group measures its land and building at revalued amounts with changes in fair value being recognised in other comprehensive income. In addition, the Group carries its investment property at fair value, with changes in fair value being recognised in the consolidated statement of income. The fair value of land and building and investment property is determined based on valuations performed by independent registered professional real estate valuation experts, who have relevant experience in the real estate market, adjusted for management estimate of the net realisable value of these properties.

Useful lives of depreciable assets

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

Impairment of property and equipment

A decline in the value of property and equipment could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value which would be expected from the passage of time or normal use
- significant changes in the technology and regulatory environments
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

Valuation of unquoted equity investments

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

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

Equipment Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of financial assets available for sale

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

Impairment of inventories

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

Impairment of trade receivables, retentions receivable and gross amounts due from customers for contract works

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

3 REVENUES AND COST OF REVENUES

Revenues of the Group for the year ended 31 December comprise the following:

	2016 KD	2015 KD
Sale of machinery and equipment	4,321,320	3,539,822
Revenue from construction services	6,258,971	3,650,643
Revenue from maintenance and leasing projects	4,871,535	5,204,728
Revenue from maintenance workshop	188,306	223,677
Revenue from equipment leasing	58,334	107,950
	<u>15,698,466</u>	<u>12,726,820</u>

Cost of revenues for the year ended 31 December comprise the following:

	2016 KD	2015 KD
Cost of sales of machinery and equipment	3,539,098	2,842,597
Cost of construction services	9,094,815	5,546,506
Cost of maintenance and leasing projects	7,691,702	3,865,460
Cost of maintenance workshop	234,282	232,824
Cost of equipment leasing	186,676	190,031
	<u>20,746,573</u>	<u>12,677,418</u>

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4 LOSS FOR THE YEAR

Loss for the year is stated after charging:

	<i>Cost of revenues KD</i>	<i>General and administrative expenses KD</i>	<i>Total KD</i>
2016			
Staff costs	3,891,211	821,666	4,712,877
Depreciation (Note 6)	1,143,084	50,983	1,194,067
2015			
Staff costs	3,434,278	953,998	4,388,276
Depreciation (Note 6)	543,521	197,115	740,636

5 BASIC AND DILUTED LOSS PER SHARE

Basic loss per share are calculated by dividing the loss for the year by the weighted average number of ordinary shares outstanding during the year. Diluted loss per share are calculated by dividing the loss for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As at 31 December, the Parent Company has neither outstanding dilutive potential ordinary shares nor treasury shares.

The information necessary to calculate basic and diluted loss per share is as follows:

	<i>2016</i>	<i>2015</i>
Loss for the year (KD)	(3,776,284)	(1,414,273)
Weighted average number of shares outstanding during the year (share)	136,400,000	136,400,000
Basic and diluted loss per share	(27.69) fils	(10.37) fils

Equipment Holding Company K.S.C.P. and its Subsidiaries

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6 PROPERTY AND EQUIPMENT

	Lands KD	Buildings KD	Furniture and fixtures KD	Motor vehicles KD	Machinery and equipment KD	Central air conditioning and computers KD	Total KD
<i>Cost or valuation</i>							
At 1 January 2016	8,897,670	659,666	393,019	1,065,514	13,086,619	176,477	24,278,965
Additions	-	-	5,567	128,667	115,805	1,084	251,123
Disposals	(6,900,000)	(409,666)	(114,172)	(73,251)	(1,086,514)	(33,775)	(8,617,378)
Effect of revaluation	(497,670)	(39,360)	-	-	-	-	(537,030)
Adjustment *	-	(25,000)	-	-	-	-	(25,000)
At 31 December 2016	1,500,000	185,640	284,414	1,120,930	12,115,910	143,786	15,350,680
<i>Accumulated depreciation</i>							
At 1 January 2016	-	-	346,191	725,195	2,728,705	169,815	3,969,906
Charge for the year	-	25,000	15,670	142,078	1,009,314	2,005	1,194,067
Relating to disposals	-	-	(114,171)	(73,249)	(1,071,600)	(32,657)	(1,291,677)
Adjustment *	-	(25,000)	-	-	-	-	(25,000)
At 31 December 2016	-	-	247,690	794,024	2,666,419	139,163	3,847,296
<i>Net book value:</i>							
At 31 December 2016	1,500,000	185,640	36,724	326,906	9,449,491	4,623	11,503,384

* This adjustment relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

During the year ended 31 December 2016, the Group sold a leasehold land and a building to a third party which were classified as property and equipment with a carrying value of KD 7,309,666 and an investment property with a carrying value of KD 8,578,179 (Note 7) for a value amounting to KD 18,600,000 resulting in a realised gain of KD 2,712,155 allocated to gain on sale of property and gain on sale of investment properties amounted to KD 1,246,334 and KD 1,465,821, respectively, recognised in the consolidated statement of income for the year then ended.

Furthermore, the previously recognised revaluation gains included in the revaluation reserve relating to the property amounting to KD 5,701,188 has been fully transferred to the accumulated losses on sale as per requirements of "IAS 16 - Property, Plant and Equipment" ("IAS 16").

Equipment Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

6 PROPERTY AND EQUIPMENT (continued)

	Lands KD	Buildings KD	Furniture and fixtures KD	Motor vehicles KD	Machinery and equipment KD	Central air conditioning and computers KD	Total KD
<i>Cost or valuation</i>							
At 1 January 2015	8,989,670	797,330	362,530	1,049,086	3,526,919	172,622	14,898,157
Additions	-	-	30,489	128,080	9,568,175	4,135	9,730,879
Disposals	-	-	-	(111,652)	(8,475)	(280)	(120,407)
Effect of revaluation	(92,000)	(88,786)	-	-	-	-	(180,786)
Adjustment *	-	(48,878)	-	-	-	-	(48,878)
At 31 December 2015	8,897,670	659,666	393,019	1,065,514	13,086,619	176,477	24,278,965
<i>Accumulated depreciation</i>							
At 1 January 2015	-	-	325,917	665,860	2,221,537	167,537	3,380,851
Charge for the year	-	48,878	20,274	153,287	515,640	2,557	740,636
Relating to disposals	-	-	-	(93,952)	(8,472)	(279)	(102,703)
Adjustment *	-	(48,878)	-	-	-	-	(48,878)
At 31 December 2015	-	-	346,191	725,195	2,728,705	169,815	3,969,906
<i>Net book value:</i>							
At 31 December 2015	8,897,670	659,666	46,828	340,319	10,357,914	6,662	20,309,059

The buildings are constructed on leasehold industrial plots of lands leased from the Government of Kuwait.

The fair value of leasehold lands is KD 1,500,000 (2015: KD 8,897,670). Notwithstanding the contractual term of the leases, management considers that, based on market experience, the leases are renewable indefinitely, at similar nominal rates of ground rent, and with no premium payable for renewal of the leases and, consequently, as is common practice in Kuwait, these leases have been accounted for as freehold lands.

At 31 December 2016, machinery and equipment with a carrying value amounting to KD 4,274,580 (2015: KD 5,857,428) are mortgaged as a security against a term loan obtained from a local bank (Note 15).

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At 31 December 2016

6 PROPERTY AND EQUIPMENT (continued)

The fair value of the leasehold lands and buildings has been determined based on valuations obtained from two independent professional real estate valuers, who are industry specialists in valuing such type of properties. One of these valuers is a local bank and the other is a local reputable accredited valuer. Both valuers have valued the properties using the combination of the market approach and cost approach and hence, have been classified under level 2 and level 3 fair value hierarchy. For valuation purpose, the Group has selected the lower of these two valuations. As a result, the Group has recognised a revaluation loss amounting to KD 537,030 (2015: KD 180,786) in the consolidated statement of comprehensive income for the year and debited (2015: debited) to the revaluation reserve in equity.

Fair value hierarchy disclosures for property are provided in Note 22.

7 INVESTMENT PROPERTIES

	2016 KD	2015 KD
As at 1 January	9,591,679	9,358,000
Disposals (Note 6)	(8,578,179)	-
Unrealised (loss) gain on fair valuation	(11,500)	233,679
As at 31 December	<u>1,002,000</u>	<u>9,591,679</u>

The Group's investment properties are all located in Kuwait.

The fair value of the investment properties has been determined based on valuations obtained from two independent professional real estate valuers, other than a local bank, who are industry specialised in valuing such type of investment properties. The fair value is determined using the market approach and hence, have been classified under level 2 fair value hierarchy. For valuation purpose, the Group has selected the lower of these two valuations. As a result, the Group has recognised an unrealised loss on fair valuation amounting to KD 11,500 (2015: unrealised gain on fair valuation of KD 233,679) in the consolidated statement of income for the year.

Fair value hierarchy disclosures for investment properties are provided in Note 22.

8 FINANCIAL ASSETS AVAILABLE FOR SALE

	2016 KD	2015 KD
<i>Local:</i>		
Unquoted equity securities	<u>170,006</u>	<u>170,006</u>
<i>Foreign:</i>		
Quoted equity security	50,357	51,671
Unquoted equity securities	111,688	111,688
Managed funds and portfolio	<u>37,926</u>	<u>408,009</u>
	<u>199,971</u>	<u>571,368</u>
	<u>369,977</u>	<u>741,374</u>

During the year ended 31 December 2016, an impairment loss of KD Nil (2015: KD 28,330) has been recognised in the consolidated statement of income on a foreign quoted equity security (2015: on a foreign quoted equity security) on which there has been a significant or prolonged decline in its value.

At 31 December 2016, local and foreign unquoted equity securities amounting to KD 170,006 and KD 111,688 (2015: KD 170,006 and KD 111,688), respectively, are carried at cost less impairment loss because fair value could not be reliably measured on a regular basis. At 31 December 2016, management has reviewed these investments to assess whether impairment has occurred in their value. Management is not aware of any circumstances that would indicate any impairment in the value of these investments at the reporting date.

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At 31 December 2016

8 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

At 31 December 2016, managed funds and portfolio amounting to KD 37,926 (2015: KD 408,009) respectively, are carried at fair value as reported by the respective investment managers. Information for such investments is restricted to periodic investment performance reports provided by the respective investment managers. Management is not aware of any circumstances that would indicate any impairment in the value of these investments at the reporting date.

During the year ended 31 December 2016, the Group sold certain financial assets available for sale with a carrying value amounting to KD 255,492 (2015: KD 438,619) for a total consideration of KD 301,843 (2015: KD 615,286) resulting in a realised gain amounting to KD 46,351 (2015: KD 176,667) recorded in the consolidated statement of income for the year.

Fair value hierarchy disclosures for financial assets available for sale are provided in Note 22.

9 ACCOUNTS RECEIVABLE AND OTHERS

	2016 KD	2015 KD
Trade receivables and receivables from construction contracts, gross	9,506,141	8,950,969
Less: provision for trade receivables and receivables from construction contracts	(5,893,561)	(5,763,078)
Trade receivables and receivables from construction contracts, net	3,612,580	3,187,891
Retentions receivable, gross	928,696	692,448
Less: provision for retentions receivable	(34,927)	(34,927)
Retentions receivable, net	893,769	657,561
Advances to supplier, gross	996,253	934,578
Less: provision for advances to suppliers	(118,553)	(118,553)
Advances to supplier, net	877,700	816,025
Gross amounts due from customers for contract works	2,904,902	1,065,070
Accrued revenue	152,836	105,624
Prepaid expenses and other receivables*	765,683	260,856
	9,207,470	6,093,027
Non-current	429,485	302,958
Current	8,777,985	5,790,069
	9,207,470	6,093,027

* This amount includes an amount of KD 268,800 (2015: KD Nil) receivable from sale of certain unquoted equity financial assets available for sale (Note 8) and a cash margin amounting to KD 128,374 (2015: KD Nil) deposited at a local bank against bank guarantees obtained by the Group from which it is anticipated that no material liabilities will arise

As at 31 December, trade receivables and receivables from construction contracts, retentions receivable and advances to suppliers at a nominal value of KD 6,047,041 (2015: KD 5,916,558) were impaired and fully provided for.

Equipment Holding Company K.S.C.P. and its Subsidiaries

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At 31 December 2016

9 ACCOUNTS RECEIVABLE AND OTHERS (continued)

Movement in the provision for doubtful debts during the year was as follows:

	2016 KD	2015 KD
As at 1 January	5,916,558	5,442,323
Charge during the year	179,643	474,235
Written off during the year	(49,160)	-
As at 31 December	6,047,041	5,916,558

As at 31 December, the ageing of trade receivables and receivables from construction contracts and retentions receivable that are not past due and that are past due but not impaired at the reporting date was as follows:

	Total KD	Neither past due nor impaired KD	Past due but not impaired			
			Less than 3 months KD	3 to 6 months KD	6 to 12 months KD	More than 1 year KD
2016	4,506,349	819,619	993,203	897,134	197,236	1,599,157
2015	3,845,452	196,687	1,828,427	404,110	115,337	1,300,891

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over its receivables.

10 INVENTORIES

	2016 KD	2015 KD
Equipment for resale	947,298	838,917
Spare parts	875,242	1,329,516
Raw materials	-	794,954
	1,822,540	2,963,387
Less: provision for obsolete and slow moving inventory	(460,244)	(556,801)
	1,362,296	2,406,586
Ass: goods in transit	236,654	128,488
	1,598,950	2,535,074

Movement in the provision for slow moving and obsolete inventories was as follows:

	2016 KD	2015 KD
At 1 January	556,801	556,801
Reversal during the year	(96,557)	-
At 31 December	460,244	556,801

Equipment Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

11 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Bank balances and cash	7,016,102	935,810
Bank overdraft	-	(505,645)
	<u>7,016,102</u>	<u>430,165</u>

12 SHARE CAPITAL

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Authorised, issued and fully paid up share capital (136,400,000 shares of 100 fils each, fully paid in cash)	<u>13,640,000</u>	<u>13,640,000</u>

13 STATUTORY RESERVE

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year (before contributions to Board of Directors' remuneration) is to be transferred to the statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of 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 accumulated profits are not sufficient for the payment of a dividend of that amount.

For the years ended 31 December 2016 and 31 December 2015, no transfer was made to statutory reserve since the Group incurred losses and previously incurred losses were not fully recovered.

14 VOLUNTARY RESERVE

As required by the Parent Company's Articles of Association, 10% of the profit for the year (before contributions to Board of Directors' remuneration) is required to be transferred to the voluntary reserve based on recommendation of the Board of Directors subject to the approval of the General Assembly of the Parent Company's shareholders. Such annual transfer may be discontinued by a resolution of the shareholders' General Assembly upon recommendation from the Board of Directors.

For the years ended 31 December 2016 and 31 December 2015, no transfer was made to voluntary reserve since the Group incurred losses and previously incurred losses were not fully recovered.

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15 TERM LOANS

<i>Effective interest rate</i>	<i>Maturity date</i>	<i>2016 KD</i>	<i>2015 KD</i>
3.25% above Central Bank of Kuwait discount rate	30 October 2016	-	200,000
2.5% above Central Bank of Kuwait discount rate	31 March 2016	-	500,000
* 4% above Central Bank of Kuwait discount rate	30 April 2020	450,000	561,000
** 4% above Central Bank of Kuwait discount rate	31 July 2020	6,415,245	6,283,384
** 4% above Central Bank of Kuwait discount rate	30 September 2018	186,008	299,494
** 4% above Central Bank of Kuwait discount rate	30 March 2017	493,338	-
** 2.5% above Central Bank of Kuwait discount rate	30 June 2017	349,439	-
		<u>7,894,030</u>	<u>7,843,878</u>

* This loan is denominated in Kuwaiti Dinar with a local bank and is secured against corporate guarantees provided by the Parent Company and one of Group's subsidiaries.

** These loans are denominated in Kuwaiti Dinar with local banks and are secured against corporate guarantees provided by the Parent Company.

During the year ended 31 December 2016, the management of the Parent Company renewed and rescheduled the repayment of some of its loan instalments according to new facilities agreements with various banks.

At 31 December 2016, machinery and equipment with a carrying value amounting to KD 4,274,580 (2015: KD 5,857,428) are mortgaged as a security against a term loan obtained from a local bank (Note 6).

16 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2016 KD</i>	<i>2015 KD</i>
Trade payables	4,611,929	7,031,881
Notes payable	1,141,156	406,226
Advances received from customers	410,699	887,418
Retentions payable	56,657	-
Gross amounts due to customers for contract works	55,296	-
Accrued expenses	297,609	583,988
Provision for expected losses from contracts	1,542,817	285,061
Other liabilities	933,454	862,144
	<u>9,049,617</u>	<u>10,056,718</u>

17 RELATED PARTY TRANSACTIONS

These represent transactions with major shareholders, directors, executive officers and key management personnel of the Group, close members of their families and companies of which they are principal owners or over which they are able to exercise control or significant influence entered into by the Group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Parent Company's Board of Directors.

During the year ended 31 December 2016, the Group has fully settled the amount due to the major shareholder.

During the years ended 31 December 2016 and 2015, there were no transactions with related parties included in neither the consolidated statement of income nor the consolidated statement of comprehensive income.

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17 RELATED PARTY TRANSACTIONS (continued)

	2016	2015
	KD	KD
<i>Compensation of key management personnel</i>		
Salaries and short term benefits	<u>120,485</u>	<u>42,565</u>

18 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units, based on their products and services, in order to manage its various lines of business. For segment reporting, the Group has four reportable operating segments as follows:

The trading in construction equipment segment includes sale of machinery and equipment.

The construction, leasing and maintenance segment includes construction services and maintenance and leasing projects.

The real estate segment is engaged in real estate investing activities and all related real estate trading activities, which includes renting, purchasing and selling lands and buildings.

The investments sector includes local and foreign unquoted equity securities, foreign managed funds and portfolio and foreign quoted equity securities.

Management of the Parent Company monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on its results.

Reported segment results is based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and are reconciled to the Group results.

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18 SEGMENTAL INFORMATION (continued)

During the years ended 31 December 2016 and 2015, there were no significant inter-segment transactions. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment.

	<i>Trading in construction equipment KD</i>	<i>Construction, leasing and maintenance KD</i>	<i>Real estate KD</i>	<i>Investments KD</i>	<i>Total KD</i>
2016					
Segment revenue	<u>4,321,320</u>	<u>11,377,146</u>	<u>2,843,925</u>	<u>92,738</u>	<u>18,635,129</u>
Segment results	172,811	(6,254,884)	2,671,565	92,738	(3,317,770)
Unallocated income	-	-	-	-	437,724
Unallocated expenses	-	-	-	-	(896,238)
Loss for the year					<u>(3,776,284)</u>
2015					
Segment revenue	<u>3,539,822</u>	<u>9,186,998</u>	<u>147,655</u>	<u>211,630</u>	<u>13,086,105</u>
Segment results	26,880	(1,549,987)	290,013	211,630	(1,021,464)
Impairment loss of financial assets available for sale	-	-	-	(28,330)	(28,330)
Unallocated income	-	-	-	-	698,773
Unallocated expenses	-	-	-	-	(1,063,252)
Loss for the year					<u>(1,414,273)</u>
As at 31 December 2016					
Assets	14,192,182	9,531,077	1,002,000	369,977	25,095,236
Unallocated assets	-	-	-	-	5,640,725
					<u>30,735,961</u>
Liabilities	11,718,683	5,816,011	-	-	17,534,694
Unallocated liabilities	-	-	-	-	324,799
					<u>17,859,493</u>
As at 31 December 2015					
Assets	20,919,958	9,089,818	9,591,679	741,375	40,342,830
Unallocated assets	-	-	-	-	37,432
					<u>40,380,262</u>
Liabilities	13,779,703	5,072,190	-	-	18,851,893
Unallocated liabilities	-	-	-	-	4,222,682
					<u>23,074,575</u>

19 CONTINGENCIES AND COMMITMENTS**a) Contingencies**

At 31 December 2016, the Group has been provided with bank guarantees issued in the ordinary course of business amounting to KD 15,532,498 (2015: KD 13,798,075) from which it is anticipated that no material liabilities will arise. The bank guarantees are secured by a corporate guarantee from the Parent Company.

b) Commitments

The Group has entered into operating leases with lease terms between three and five years.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	2016 KD	2015 KD
<i>Operating lease commitments – Group as lessee</i>		
<i>Future minimum lease payments:</i>		
Within one year	674,940	157,312
After one year but not more than five years	2,699,760	629,248
	<u>3,374,700</u>	<u>786,560</u>

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk, the latter being subdivided into interest rate risk, foreign currency risk and equity price risk. No changes were made in the risk management objectives and policies during the years ended 31 December 2016 and 31 December 2015.

The Parent Company's board of directors is ultimately responsible to set out policies and strategies for management of risks.

The management of the Group reviews and agrees policies for managing each of these risks which are summarised below.

20.1 Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument leading to financial loss.

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party and to monitor the collection of receivables on an ongoing basis. The Group limits its credit risk with regard to bank balances by only dealing with reputable banks. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Maximum exposure to credit risk

The Group's exposure to credit risk from bank balances, gross amounts due from customers for contract works and accounts receivable arises from default of the counterparty. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The maximum exposure is the carrying amount as described in the consolidated statement of financial position.

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20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1 Credit risk (continued)

The maximum exposure is the carrying amount as follows:

	2016 KD	2015 KD
Accounts receivable and others	8,137,178	5,124,932
Bank balances	6,992,348	897,773
	<u>15,129,526</u>	<u>6,022,705</u>

Concentration of financial assets

The Group operates in two geographical markets, the domestic market in Kuwait and the regional market in the Middle East. The following table shows the distribution of the Group's financial assets by geographical markets.

	Kuwait KD
<i>At 31 December 2016</i>	
Accounts receivable and others	8,137,178
Bank balances	6,992,348
	<u>15,129,526</u>

	Kuwait KD
<i>At 31 December 2015</i>	
Accounts receivable and others	5,124,932
Bank balances	897,773
	<u>6,022,705</u>

20.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages the risk by ensuring bank facilities are available and by monitoring on a regular basis that sufficient funds are available to meet future commitments.

The following table summarizes the maturities of the Group's undiscounted financial liabilities as at 31 December, based on contractual payment dates and current market interest rates:

	Payable on demand KD	Less than one year KD	1 to 5 years KD	Total KD
<i>31 December 2016</i>				
Term loans	-	2,691,856	6,034,235	8,726,091
Accounts payable and accruals	1,725,064	4,607,891	2,305,963	8,638,918
	<u>1,725,064</u>	<u>7,299,747</u>	<u>8,340,198</u>	<u>17,365,009</u>

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20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2 Liquidity risk (continued)

	Payable on demand KD	Less than one year KD	1 to 5 years KD	Total KD
<i>31 December 2015</i>				
Term loans	-	2,874,397	5,973,376	8,847,773
Murabaha payables	447,832	1,559,351	554,836	2,562,019
Accounts payable and accruals	5,200,951	4,855,767	-	10,056,718
Amount due to a related party	1,314,152	-	-	1,314,152
Bank overdraft	505,065	-	-	505,065
	<u>7,468,000</u>	<u>9,289,515</u>	<u>6,528,212</u>	<u>23,285,727</u>

20.3 Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates and foreign exchange rates, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

20.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in variable interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk on its interest bearing liabilities (term loans). The Group manages the risk by maintaining an appropriate mix between fixed and floating rate.

The sensitivity of the consolidated statement of income to the effect of the assumed changes in interest rates on the Group's results for one year, based on the floating rate of financial assets and financial liabilities held at 31 December, with all other variables held constant is demonstrated below:

	Increase in basis points	Effect on loss for the year KD
<i>2016</i>	<u>100</u>	<u>4,881</u>
<i>2015</i>	<u>100</u>	<u>5,973</u>

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to significant interest rate risk since its term loans and bank overdraft are obtained from local banks at fixed interest rates above Central Bank of Kuwait discount rate.

20.3.2 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group mainly operates in the Middle Eastern countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, Euro and GBP. The Group's consolidated statement of financial position can be significantly affected by the movement in these currencies. To mitigate the Group's exposure to foreign currency risk, foreign currency cash flows are monitored.

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20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3 Market risk (continued)

20.3.2 Foreign currency risk (continued)

The Group's significant net exposure to foreign currency risk from the monetary asset denominated in foreign currencies less monetary liabilities at the reporting date, and which are translated into Kuwaiti Dinars at the closing rates are as follows:

	2016 KD	2015 KD
Currency		
US Dollar	(1,730,034)	(2,075,477)
Euro	(854,779)	(2,243,374)
GBP	(21,748)	(47,321)

The following table demonstrates the sensitivity of the Group's loss (due to changes in the fair value of monetary assets and liabilities) to a 5% possible change in the exchange rates, with all other variables held constant.

	Effect on loss for the year	
	2016 KD	2015 KD
Currency		
US Dollar	(86,502)	(103,774)
Euro	(42,739)	(112,169)
GBP	(1,087)	(2,366)

Management believes that there is a limited risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposure.

20.3.3 Equity price risk

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

The effect on the Group's other comprehensive income (as a result of a change in the fair value of financial assets available for sale) due to a 5% change in market indices, with all other variables held constant, is as follows:

	Effect on other comprehensive income	
	2016 KD	2015 KD
Market indices (Kuwait and middle east)		
Financial assets available for sale	883	2,217

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At 31 December 2016

21 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic and business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, term loans, murabaha payables and bank overdraft, less bank balances and cash. Capital includes share capital, cumulative changes in fair value reserve, revaluation reserve and accumulated losses.

	2016 KD	2015 KD
Term loans	7,894,030	7,843,878
Murabaha payables	-	2,442,993
Bank overdraft	-	505,645
Less: bank balances and cash	(7,016,102)	(935,810)
Net debt	877,928	9,856,706
Capital	12,876,468	17,305,687
Capital and net debt	13,754,396	27,162,393
Gearing ratio	6%	36%

22 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As at 31 December 2016, the fair values of financial instruments that are not carried at fair value are not materially different from their carrying amounts except for financial assets available for sale which are carried at cost less impairment with a carrying value of KD 281,694 as at 31 December 2016 (2015: KD 281,694) (Note8).

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At 31 December 2016

22 FAIR VALUE MEASUREMENT (continued)

The following table shows an analysis of the Group's assets recorded at fair value by level of the fair value hierarchy as at 31 December:

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
2016				
<i>Property and equipment:</i>				
Leasehold land	-	1,500,000	-	1,500,000
Building	-	-	185,640	185,640
	-	1,500,000	185,640	1,685,640
<i>Investment properties</i>	-	1,002,000	-	1,002,000
<i>Financial assets available for sale:</i>				
Foreign quoted equity security	50,357	-	-	50,357
Managed funds and portfolio	-	37,926	-	37,926
	50,357	37,926	-	88,283
2015				
<i>Property and equipment:</i>				
Leasehold lands	-	8,897,670	-	8,897,670
Buildings	-	-	659,666	659,666
	-	8,897,670	659,666	9,557,336
<i>Investment properties</i>	-	9,113,499	478,180	9,591,679
<i>Financial assets available for sale:</i>				
Foreign quoted equity security	51,671	-	-	51,671
Managed funds and portfolio	-	408,009	-	408,009
	51,671	408,009	-	459,680

During the years ended 31 December 2016 and 31 December 2015, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of level 3 fair value measurements.

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22 FAIR VALUE MEASUREMENT (continued)

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

	<i>At the beginning of the year KD</i>	<i>Net purchases, transfers, (sales) and settlements KD</i>	<i>Net losses recorded in the consolidated statement of income KD</i>	<i>Net losses recorded in the consolidated statement of comprehensive income KD</i>	<i>At the end of the year KD</i>
2016					
Property and equipment	659,666	(409,666)	(25,000)	(39,360)	185,640
Investment properties	478,180	(478,180)	-	-	-
2015					
Property and equipment	797,330	-	(48,878)	(88,786)	659,666
Investment properties	675,000	-	(196,820)	-	478,180

Description of significant unobservable inputs to valuation of financial assets available for sale:

Managed funds and portfolio are valued based on the net asset value provided by the respective investment managers.

The Group is confident of realising the carrying amounts of these investments and believes it to be reasonable estimates of fair value.

Description of significant observable inputs to valuation of non-financial assets:

Land and building under the property and equipment are valued using the combination of the market comparable approach and the cost approach. Market comparable approach is based on a comparison of active market prices for similar properties and recent arm's length market transactions, adjusted for difference in the nature, location or condition of the specific property. Cost approach is based on a comparison of the cost of constructing a similar property taking into consideration depreciation of the construction costs and fair value of the land, adjusted for difference in the nature, location or condition of the specific property.

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

Description of valuation techniques used and key inputs to valuation of the property:

<i>Classification</i>	<i>Type of property</i>	<i>Valuation technique</i>	<i>Input</i>	<i>Sensitivity of the input to fair value</i>
<i>Investment property</i>	<i>Land</i>	Market comparison adjusted for difference in the nature, location or condition of the specific property	Price per meter of KD 245	An increase (decrease) by 1% in the price per meter would result in increase (decrease) in fair value by KD 10,020.
<i>Property and equipment</i>	<i>Land</i>	Market comparison adjusted for difference in the nature, location or condition of the specific property	Price per meter of KD 300	An increase (decrease) by 1% in the price per meter would result in increase (decrease) in fair value by KD 15,000
<i>Property and equipment</i>	<i>Building</i>	Cost replacement approach	Cost per meter of KD 88	An increase (decrease) by 1% in the cost per meter would result in increase (decrease) in fair value by KD 1,856