

**First Investment Company K.S.C.P.
and its Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017



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working world

Ernst & Young
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of First Investment Company K.S.C.P. (the "Parent Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, 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 consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for opinion

We conducted our audit in accordance with International Standards of Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with 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.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

We identified the following audit matters:

a) Valuation of unquoted available-for-sale financial assets

Included in available-for-sale financial assets are unquoted equity securities of KD 29,166,788 measured at fair value. The valuation of these financial assets involve the exercise of judgment by the management and the use of assumptions and estimates. Key judgments applied by management in valuation of these financial assets include determination of price to book and price to earnings multiples from comparable companies, calculation of adjusted Net Asset Value (NAV) and application of illiquidity discounts. Due to these estimation uncertainties, this is considered a key audit matter.

Our audit procedures included, among others, the following:

- ▶ We performed audit procedures to assess the methodology and the appropriateness of the valuation models and inputs used to value available-for-sale financial assets. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation of these models and compared the models used with prior years.
- ▶ We assessed the adequacy and appropriateness of the Group's disclosures relating to available-for-sale financial assets in Notes 9 and 23 to the consolidated financial statements.

b) Impairment of investment in associates

The Group exercises significant influence over certain entities assessed to be associates amounting to KD 49,382,284 as at 31 December 2017, including listed associates with a carrying value of KD 24,700,796. Investment in associates are accounted for under the equity method of accounting and management determines at the end of each reporting period the existence of any objective evidence through which the Group's investment in associates may be impaired. If there is an indication that the Group's interests in an associate might be impaired, the management compares the entire carrying amount of the investment in associate to its recoverable amount.

As at 31 December 2017, management identified an impairment trigger for a certain listed associates where the carrying amount of the investment was higher than its fair value based on prevailing market share price. Management therefore performed an impairment assessment to calculate the value in use, which includes estimated future cash flow projections, terminal value growth rate and discount rate.

Given the significant judgments and estimates involved in assessing the recoverable amounts of investment in associates, we have considered this as a key audit matter.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

b) Impairment of investment in associates (continued)

Our audit procedures included, amongst others, the following:

- ▶ We evaluated management's assessment whether objective evidence of impairment exists in relation to the Group's interest in the associate and the qualitative and quantitative factors used such as the investee's financial performance including dividends, and market, economic or legal environment in which the associate operates
- ▶ We involved our internal valuation specialists to evaluate the significant assumptions and valuation methods used by the management, and the reasonableness and appropriateness of those assumptions and methods in the circumstances.
- ▶ We evaluated the adequacy of the Group's disclosures in Notes 10 to the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivity analysis.

c) Valuation of investment properties

Investment properties of the Group represent a significant part of the total assets and are measured at fair value as at 31 December 2017.

The management of the Group engages professionally qualified external valuers to assess the fair value of its investment properties on an annual basis.

The valuation of investment properties is highly dependent on estimates and assumptions, such as rental value, occupancy rates, discount rates, maintenance status, and financial stability of tenants, market knowledge and historical transactions.

Given the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we considered this as a key audit matter.

Our audit procedures included, among others, the following:

- ▶ We assessed the competence, independence and integrity of the external valuers engaged by the Group.
- ▶ We performed audit procedures to assess whether property specific standing data supplied to the external valuers by management reflected the underlying property records held by the Group.
- ▶ We assessed the reasonableness of the assumptions and estimates used by the external valuers in the valuation process and, where applicable, benchmarked these against specific property data, comparables and prior year's inputs.
- ▶ We assessed the adequacy and the appropriateness of the Group's disclosures concerning investment properties in Notes 13 to the consolidated financial statements.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in The Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 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 auditor's report, and we expect to obtain the remaining sections of the Group's 2017 Annual Report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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, 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 for Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of the 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 relating 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.

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

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



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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, 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.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

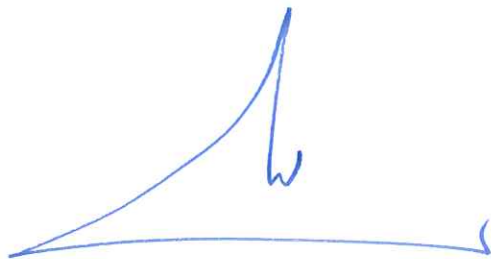
Report on other legal and regulatory requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory count was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017, that might have had a material effect on the business of the Parent Company or on its financial position.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)

Report on other legal and regulatory requirements (continued)

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER
LICENCE NO. 207-A
EY
AL AIBAN AL OSAIMI & PARTNERS

20 March 2018
Kuwait

First Investment Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
INCOME			
Revenue from construction contracts		502,991	2,473,384
Revenue from sales		2,254,873	240,483
		<u>2,757,864</u>	<u>2,713,867</u>
Cost of construction contracts		(520,727)	(1,922,486)
Cost of sales		(1,699,133)	(348,630)
		<u>(2,219,860)</u>	<u>(2,271,116)</u>
Gross profit		<u>538,004</u>	<u>442,751</u>
Murabaha income		92,859	138,325
Loss on sale of financial assets at fair value through profit or loss		(12,738)	(5,020)
Net change in fair value of financial assets at fair value through profit or loss		(18,128)	17,532
Gain on disposal of available-for-sale financial assets		18,644	15,151
Share of results of associates	10	1,846,560	1,149,331
Loss on sale of investment in associates		(97,018)	-
Net change in fair value of investment properties	13	(160,715)	667,013
Dividend income	4	183,295	270,479
Rental income		1,012,542	541,624
Gain on settlement of murabaha payable	14	-	679,331
Management fees		431,067	527,316
Foreign currencies exchange differences		(48,558)	25,182
Reversal of excess zakat provision	15	500,000	-
Other income		13,599	91,890
TOTAL INCOME		<u>4,299,413</u>	<u>4,560,905</u>
EXPENSES			
Staff costs		(2,371,710)	(1,887,728)
Depreciation		(177,470)	(84,539)
Amortisation of intangible assets		(59,771)	-
Finance costs		(169,441)	(123,060)
Impairment of available-for-sale financial assets	9	(22,393)	(82,538)
Provision for properties under development		(54,801)	-
Provision for impairment of other receivables	8, 25	(128,419)	(347,098)
Other expenses		(819,714)	(881,930)
TOTAL EXPENSES		<u>(3,803,719)</u>	<u>(3,406,893)</u>
PROFIT FOR THE YEAR BEFORE TAX AND DIRECTORS' REMUNERATION		<u>495,694</u>	<u>1,154,012</u>
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)		-	-
National Labour Support Tax (NLST)		-	-
Zakat		-	-
Directors' remuneration		-	(42,000)
PROFIT FOR THE YEAR		<u>495,694</u>	<u>1,112,012</u>
Attributable to:			
Equity holders of the Parent Company		750,245	700,456
Non-controlling interests		(254,551)	411,556
		<u>495,694</u>	<u>1,112,012</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	5	<u>1.16 fils</u>	<u>1.08 fils</u>

The attached notes 1 to 27 form part of these consolidated financial statements.

First Investment Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
Profit for the year		495,694	1,112,012
Other comprehensive income			
<i>Other comprehensive income to be reclassified to consolidated statement of income subsequent periods</i>			
Change in fair value of available-for-sale financial assets		993,767	243,417
Share of other comprehensive (loss) income of associates	10	(378,975)	240,103
Exchange differences on translation of foreign operations		(34,815)	(8,379)
Other comprehensive income for the year		579,977	475,141
Total comprehensive income for the year		1,075,671	1,587,153
Attributable to:			
Equity holders of the Parent Company		1,339,859	1,179,238
Non-controlling interests		(264,188)	407,915
		1,075,671	1,587,153

The attached notes 1 to 27 form part of these consolidated financial statements.

First Investment Company K.S.C.P. and its Subsidiaries


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 KD	2016 KD
ASSETS			
Cash and cash equivalents	6	7,215,102	13,060,476
Financial assets at fair value through profit or loss	7	1,149,442	1,422,577
Other assets	8	1,612,424	1,467,944
Inventories		957,038	941,979
Available-for-sale financial assets	9	32,327,431	31,269,782
Investment in associates	10	49,382,284	50,859,283
Properties under development	12	2,548,969	2,653,440
Investment properties	13	11,198,150	9,820,419
Property, plant and equipment		2,730,703	1,594,332
Goodwill and other intangible assets	11	1,760,390	-
TOTAL ASSETS		110,881,933	113,090,232
LIABILITIES AND EQUITY			
LIABILITIES			
Murabaha payables	14	3,027,472	2,268,062
Other liabilities	15	5,017,254	4,720,521
End of service benefits		829,052	698,781
TOTAL LIABILITIES		8,873,778	7,687,364
EQUITY			
Share capital	16	65,107,055	65,107,055
Share premium	16	18,250,362	18,250,362
Treasury shares	16	(108,816)	(108,816)
Statutory reserve	17	1,275,223	1,200,198
Share options reserve	17	3,016,890	3,016,890
Treasury shares reserve	16	1,118,684	1,118,684
Available for sale reserve	17	1,510,289	588,197
Foreign currency translation reserve	17	1,471,906	1,804,384
Retained earnings		5,705,139	5,029,919
Equity attributable to equity holders of the Parent Company		97,346,732	96,006,873
Non-controlling interests		4,661,423	9,395,995
TOTAL EQUITY		102,008,155	105,402,868
TOTAL LIABILITIES AND EQUITY		110,881,933	113,090,232



Bader Mohammed Al-Qattan
Chairman



Eisa A. S. Alweggian
Chief Executive Officer

First Investment Company K.S.C.P. and its Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

Attributable to equity holders of the Parent Company

	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Share options reserve KD	Treasury shares reserve KD	Available- for-sale reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub- total KD	Non- controlling interests KD	Total equity KD
As at 1 January 2017	65,107,055	18,250,362	(108,816)	1,200,198	3,016,890	1,118,684	588,197	1,804,384	5,029,919	96,006,873	9,395,995	105,402,868
Profit (loss) for the year	-	-	-	-	-	-	-	-	750,245	750,245	(254,551)	495,694
Other comprehensive income (loss) for the year	-	-	-	-	-	-	922,092	(332,478)	-	589,614	(9,637)	579,977
Total comprehensive income for the year	-	-	-	-	-	-	922,092	(332,478)	750,245	1,339,859	(264,188)	1,075,671
Transfer to statutory reserve	-	-	-	75,025	-	-	-	-	(75,025)	-	-	-
Distribution due to liquidation of a subsidiary (Note 10)	-	-	-	-	-	-	-	-	-	-	(4,644,606)	(4,644,606)
Net movement in non- controlling interests	-	-	-	-	-	-	-	-	-	-	174,222	174,222
At 31 December 2017	65,107,055	18,250,362	(108,816)	1,275,223	3,016,890	1,118,684	1,510,289	1,471,906	5,705,139	97,346,732	4,661,423	102,008,155

The attached notes 1 to 27 form part of these consolidated financial statements.

First Investment Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2017

Attributable to equity holders of the Parent Company

	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Share options reserve KD	Treasury shares reserve KD	Available- for-sale reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub- total KD	Non- controlling interests KD	Total equity KD
As at 1 January 2016	65,107,055	18,250,362	(2,102,052)	1,125,952	3,016,890	1,118,684	254,158	1,659,641	6,470,385	94,901,575	13,843,363	108,744,938
Profit for the year	-	-	-	-	-	-	-	-	700,456	700,456	411,556	1,112,012
Other comprehensive income (loss) for the year	-	-	-	-	-	-	334,039	144,743	-	478,782	(3,641)	475,141
Total comprehensive income for the year	-	-	-	-	-	-	334,039	144,743	700,456	1,179,238	407,915	1,587,153
Purchase of treasury shares	-	-	(73,940)	-	-	-	-	-	-	(73,940)	-	(73,940)
Transfer to statutory reserve	-	-	-	74,246	-	-	-	-	(74,246)	-	-	-
Distribution of treasury shares (Notes 5)	-	-	2,067,176	-	-	-	-	-	(2,067,176)	-	-	-
Distribution to non- controlling interests	-	-	-	-	-	-	-	-	-	-	(4,213,560)	(4,213,560)
Acquisition of non- controlling interests	-	-	-	-	-	-	-	-	-	-	(641,723)	(641,723)
At 31 December 2016	65,107,055	18,250,362	(108,816)	1,200,198	3,016,890	1,118,684	588,197	1,804,384	5,029,919	96,006,873	9,395,995	105,402,868

The attached notes 1 to 27 form part of these consolidated financial statements.

First Investment Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
OPERATING ACTIVITIES			
Profit for the year		495,694	1,112,012
Adjustments to reconcile profit for the year to net cash flows:			
Murabaha income		(92,859)	(138,325)
Realised loss on financial assets at fair value through profit or loss		12,738	5,020
Net change in fair value of financial assets at fair value through profit or loss		18,128	(17,532)
Gain on disposal of available-for-sale financial assets		(18,644)	(15,151)
Share of results of associates	10	(1,846,560)	(1,149,331)
Loss on sale of investment in an associate		97,018	-
Provision for properties under development	12	54,801	-
Net change in fair value of investment properties	13	160,715	(667,013)
Dividend income	4	(183,295)	(270,479)
Gain on settlement of murabaha payable	14	-	(679,331)
Foreign currencies exchange loss (gain)		48,558	(25,182)
Depreciation		257,276	165,296
Amortisation of intangible assets		59,771	-
Finance costs		169,441	123,060
Impairment of available-for-sale financial assets	9	22,393	82,538
Provision for impairment of other receivables	8	128,419	347,098
Provision for employees' end of service benefits		578,723	56,524
Reversal of zakat provision	15	(500,000)	-
		(537,683)	(1,070,796)
Working capital adjustments:			
Inventories		136,329	(592,832)
Other assets		(357,940)	1,154,863
Other liabilities		(1,056,227)	682,965
Cash (used in) from operations		(1,815,521)	174,200
Murabaha income received		90,887	133,798
Finance costs paid		(169,441)	(123,060)
Employees' end of service benefits paid		(357,375)	-
Net cash flows (used in) from operating activities		(2,251,450)	184,938
INVESTING ACTIVITIES			
Net movement in financial assets at fair value through profit or loss		234,366	(332,632)
Acquisition of a subsidiary, net of cash acquired	11	(3,068,185)	-
Dividends income received		183,295	270,479
Purchase of available-for-sale financial assets		(88,276)	(53,097)
Proceeds from disposal of available-for-sale financial assets		20,644	68,151
Additions of investment in associates	10	(1,625,000)	(991,416)
Proceeds from sale of investment in associates	10	462,640	-
Dividend received from associates	10	749,571	652,981
Development expenditure on properties under development	12	(6,859)	(423,582)
Additions of investment properties	13	(1,180,953)	-
Proceeds from disposal of investment properties		-	45,921
Purchase of property and equipment		(210,150)	(405,678)
Net cash flows used in investing activities		(4,528,907)	(1,168,873)
FINANCING ACTIVITIES			
Net movement in murabaha payables		785,583	162,675
Dividend paid		(24,822)	(59,341)
Directors' remuneration		-	(42,000)
Purchase of treasury shares		-	(73,940)
Distribution to non-controlling interests	6	-	(4,213,560)
Acquisition of non-controlling interests		-	(641,723)
Net movement in non-controlling interests		174,222	-
Net cash flows from (used in) financing activities		934,983	(4,867,889)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,845,374)	(5,851,824)
Cash and cash equivalents at the beginning of the year		13,060,476	18,912,300
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	7,215,102	13,060,476

The attached notes 1 to 27 form part of these consolidated financial statements.

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

Information about subsidiaries

The consolidated financial statements of the Group include:

Name of the entity	Country of incorporation	% equity interest		Principal activities
		2017	2016	
Al Marwa Holding Company K.S.C. (Closed) ¹	Kuwait	99.22%	99.22%	Holding company
FIC Projects Development Company	Cayman Islands	100%	100%	Real estate investment
Deema Real Estate Investment Company L.L.C.	KSA	100%	100%	Real estate investment
First Energy Resource Company K.S.C. (Closed) - Under Liquidation ("FERCO") ⁴	Kuwait	33.21%	33.21%	Energy sector
Masadar Energy Company for General Trading W.L.L. ¹	Kuwait	98%	98%	General trading
Shomoul Real Estate Company L.L.C.	KSA	50%	50%	Real estate investment
Yasmeen Al Kuwait Real Estate Company W.L.L. ¹	Kuwait	97%	97%	Real estate trading
Q80 International Valve Industries Company W.L.L.	Kuwait	66.6%	66.6%	Manufacturing
Asian Petroleum Facilities Maintenance Company W.L.L.	Kuwait	66.6%	66.6%	Energy sector
First Logistic Services L.L.C. ²	Oman	53.87%	53.87%	Logistics services
Gulf Business Forms Company W.L.L. ³	Kuwait	100%	-	Manufacturing

¹ The Parent Company effectively owns 100% equity interest in the above entities. Accordingly, the consolidated financial statements have been prepared on this basis. The ownership of the remaining equity interest in these subsidiaries is registered in the name of related parties as nominees. However, the Parent Company is the beneficial owner for 100% equity interest.

² The Group's effective equity interest is 65% (2016: 65%).

³ During the year, the Parent Company acquired equity interest of 100% in "Gulf Business Forms Company W.L.L.", a Kuwaiti limited liability company that specialises in manufacturing and trading of papers and forms, for a total consideration of KD 3,200,000. (Note 11).

⁴ The Group consolidates this entity based on de facto control. See Note 3 for more details.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the consolidated statement of income within "administrative expenses".

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the consolidated statement of income in accordance with IAS 39. Other contingent consideration that is not within the scope of IAS 39 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Investment in associates

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of income reflects the share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of results of an associate is shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The specific recognition criteria must also be met before revenue is recognised:

- Sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably, normally on delivery of the goods.
- Sale of properties is recognised when the risk and rewards of ownership have passed to the buyer usually evidenced by transfer of title of the properties.
- Murabaha income is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the net balance outstanding.
- Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.
- Management fees relating to portfolios and fund management, custody and on-going advisory services are recognised when earned.
- Dividends income is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Borrowing costs

Borrowing 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 borrowing costs are expensed in the period in which they occur. Borrowing costs consist of finance costs and other related costs that an entity incurs in connection with the borrowing of funds.

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

The Parent Company calculates 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 after deducting Board of Directors' remuneration for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year.

Zakat

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

Taxation on foreign subsidiaries

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition

(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. 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.

The Group determines the classification of its financial assets on initial recognition.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Gains or losses of investment held for trading are recognised in the consolidated statement of income. Financial assets are designated at fair value through profit or loss if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of income.

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

Available-for-sale financial assets

Available-for-sale (AFS) financial assets include equity and debt securities. Equity and debt investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the AFS 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 AFS reserve to the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The losses arising from impairment are recognised in the consolidated statement of income.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive the cash flows from the asset have expired; or
- the Group has transferred its rights to receive the 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 of 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of 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.

Available for sale financial assets

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is 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 is recognised directly in other comprehensive income. For available-for-sale equity securities measured at cost because their fair value cannot be measured reliably, impairment losses may not be reversed.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Financial assets (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

In addition, in accordance with CBK instructions, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities is made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

(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 the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include murabaha payables and other liabilities.

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

Subsequent measurement

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

Murabaha payables

Murabaha payable represents the amount payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables is stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Financial liabilities (continued)

Subsequent measurement (continued)

Other liabilities

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

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 of financial instruments

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

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments (continued)

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 23.

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 first-in/first-out basis.
- Finished goods and work in progress: cost of direct materials and labour 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 estimated costs of completion and the estimated costs necessary to make the sale.

Investment properties

Investment properties is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuers with relevant experience in the market in which the property is located. The valuation reflects market conditions at the reporting date. Changes in the fair values of investment properties are included in the consolidated statement of income.

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.

Transfers are made to (or from) investment properties only when there is a change in use. For a transfer from investment properties 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.

Property, plant and equipment

Capital work in progress is stated at cost, net of accumulated impairment losses, if any. Land has an unlimited useful life and therefore is not depreciated. Other items of property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant 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 values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which ranges between 3 to 25 years.

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

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit income when the asset is derecognised.

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 CGUs fair value less costs to sell 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the assets' 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Employees' end of service benefits

Provision is made for amounts payable to employees under the Kuwaiti Labour Law for private sector, employee contracts and applicable labour laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of termination of the reporting date.

Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the Group's voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares.

The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares. Part of the reserves created or appropriated and retained earnings equivalent to the cost of treasury shares is not available for distribution throughout the holding period.

Share based payment transactions

The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP). The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the market value of the Parent Company's shares at each reporting date and the date of final settlement to the exercise price with any change in intrinsic value recognised in the consolidated statement of income.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees exercise their rights. The cumulative expense recognised for equity-settled transactions at each reporting date until the exercise date, reflects the extent to which the exercise period has expired and the number of awards that, in the opinion of the Board of Directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

Foreign currency translation

The Group's consolidated financial statements are presented in Kuwaiti Dinar, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Group companies

As at the reporting date, the assets and liabilities of foreign subsidiaries and the carrying amount of foreign associates are translated into the Parent Company's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the reporting date, and their statement of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken to the consolidated statement of comprehensive income as foreign exchange translation reserve within equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

Fiduciary assets

The Group provides asset management and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated financial statements, as they are not assets of the Group.

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 can be made of the amount of the obligation.

Contingencies

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

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

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the effect of these changes are disclosed below.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The disclosure requirements of the amendments are not material to the Group's consolidated financial statements.

None of the other new standards, interpretations and amendments effective for the first time in 2017, have had a significant effect on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in the financial year 2018, when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the classification and measurement requirements of IFRS 9 as discussed below.

(a) *Classification and measurement*

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Based on management's assessment:

- Equity securities in non-listed companies currently held as available-for-sale (AFS) with gains and losses recorded in OCI are intended to be held for the foreseeable future. The Group will apply the option to present fair value changes in OCI. Impairment losses of KD 6,261,865 recognised in the consolidated statement of income during prior periods for these investments will be reclassified from retained earnings to OCI on initial application.
- Certain unquoted equity securities currently held as AFS amounting to KD 1,743,310 that are not traded in an active market and cannot be reliably measured at fair value are stated at cost net of impairment. This requirement for unquoted equity investments is not replicated in IFRS 9. Instead, all equity investments stated at cost must be measured at fair value. Under IFRS 9, the Group will designate these investments as FVOCI with any difference between the previous carrying amount and the fair value recognised in OCI at the date of initial application. Impairment losses of KD 4,874,156 recognised in the consolidated statement of income during prior periods for these investments will be reclassified from retained earnings to OCI on initial application.
- Certain financial assets classified as AFS amounting to KD 33,081 with gains and losses recorded in OCI mainly representing Group's investment in funds will instead, be measured at FVTPL. The cumulative changes in fair value related to those funds amounting to KD 15,505 which are currently recognised in OCI and accumulated in a separate reserve within equity, will be reclassified to retained earnings on initial application.
- Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Thus, such instruments will continue to be measured at amortised cost under IFRS 9.
- The classification of financial liabilities under IFRS 9 remains broadly the same as under IAS 39. The main impact on measurement from the classification of liabilities under IFRS 9 relates to the element of gains or losses for financial liabilities designated as at FVPL attributable to changes in credit risk. IFRS 9 requires that such element be recognised in other comprehensive income (OCI), unless this treatment creates or enlarges an accounting mismatch in profit or loss, in which case, all gains and losses on that liability (including the effects of changes in credit risk) should be presented in profit or loss. The Group has not designated any financial liabilities at FVPL. Therefore, this requirement has not had an impact on the Group.

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of property and equipment and intangible assets

The carrying amounts of the Group's property and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

4 DIVIDEND INCOME

	2017 KD	2016 KD
Financial assets at fair value through profit or loss	52,017	22,453
Available-for-sale financial assets	131,278	248,026
	<u>183,295</u>	<u>270,479</u>

5 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY

Basic and diluted earnings per share are computed by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year (after adjusting for treasury shares) as follows:

	2017	2016
Profit attributable to equity holders of the Parent Company (KD)	<u>750,245</u>	<u>700,456</u>
Weighted average number of outstanding shares	651,070,551	651,070,551
Less: weighted average number of treasury shares	<u>(1,627,929)</u>	<u>(1,601,648)</u>
Weighted average number of shares	<u>649,442,622</u>	<u>649,468,903</u>
Basic and diluted earnings per share attributable to equity holders of the Parent Company	<u>1.16 fils</u>	<u>1.08 fils</u>

The shareholders of the Parent Company in the AGM held on 5 June 2016 approved the distribution of 30,925,598 shares of its treasury shares to the shareholders as bonus shares, representing 5 shares for each 100 shares.

There have been no transactions involving ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following at 31 December:

	2017 KD	2016 KD
Cash on hand	2,448	3,592
Cash at bank	2,062,452	3,330,210
Murabaha deposits with original maturities of three months or less	5,144,204	9,100,701
Cash held in managed portfolios	<u>5,998</u>	<u>625,973</u>
Cash and cash equivalents as per the consolidated statement of financial position	<u>7,215,102</u>	<u>13,060,476</u>

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

6 CASH AND CASH EQUIVALENTS (continued)

Murabaha deposits with a carrying amount of KD 1,300,000 (2016: KD 1,300,000) have been pledged to secure murabaha payables of the Group (Note 14).

Murabaha deposits represent murabaha contracts with local Islamic banks with an original maturity of three months or less. The effective profit rates on these deposit range between 0.85 % and 1.88 % (2016: 0.63 % and 1.25%) per annum.

In the prior year, First Energy Resource Company K.S.C.C. (Under Liquidation), a subsidiary of the Group, has announced the distribution of first liquidation cash payment amounting to KD 6,062,000 to the shareholders. As a result of liquidation, the Parent Company received KD 2,013,311. Distributions payable to non-controlling interests amounted to KD 4,048,689. As at 31 December 2017, certain shareholders have not collected their share of the distribution. Accordingly, certain bank balances with an amount KD 391,061 (2016: KD 1,277,597) have been restricted for the purpose of distribution to these shareholders and are therefore not available for general use by the Group (Note 15).

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 KD	2016 KD
Designated:		
Quoted equity securities	830,171	1,081,456
Unquoted equity securities	242,702	229,510
Unquoted fund *	76,569	111,611
	<u>1,149,442</u>	<u>1,422,577</u>

* This balance represents an open-ended unlisted investment fund currently under liquidation by the Parent Company. Management assessed that the reported net asset value ("NAV") of the underlying fund approximates its fair value.

The hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques are presented in Note 23.

8 OTHER ASSETS

	2017 KD	2016 KD
Advances paid for an investment under incorporation	-	404,422
Accrued management fees	117,172	93,865
Other receivables*	1,495,252	969,657
	<u>1,612,424</u>	<u>1,467,944</u>

* As at 31 December 2017, other receivables with an initial carrying value of KD 1,088,789 (2016: KD 960,370) were impaired and fully provided for. See below for the movements in the provision for impairment of other receivables:

	2017 KD	2016 KD
At 1 January	960,370	613,272
Charge for the year	128,419	347,098
At 31 December	<u>1,088,789</u>	<u>960,370</u>

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 KD	2016 KD
Unquoted equity securities *	30,910,098	29,904,709
Quoted equity securities	1,384,252	1,332,404
Unquoted funds	33,081	32,669
	<u>32,327,431</u>	<u>31,269,782</u>

* Unquoted equity securities amounting to KD 29,166,788 (2016: KD 2,528,657) are measured at fair value using a variety of valuation techniques except for certain equity instruments whose fair value cannot be measured reliably amounting to KD 1,743,310 (2016: KD 27,376,052), these are measured at cost less impairment.

During the current year, a reliable measure of fair value for certain unquoted equity securities previously measured at cost have become available, accordingly these securities have been remeasured at fair value, and the resultant gain or loss is recognised in other comprehensive income (provided it is not impaired).

Gains arising from changes in fair value of unquoted equity securities amounting to KD 1,028,803 (2016: KD 288,073) are recognised in other comprehensive income.

The Group reviews its equity securities classified as available-for-sale financial assets at each reporting date to assess whether objective evidence of impairment exists. As a result of the assessment, the Group recognised an impairment loss of KD 22,393 during the year (2016: KD 82,538) directly in the consolidated statement of income.

The hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques are presented in Note 23.

10 INVESTMENT IN ASSOCIATES

Name of the company	County of incorporation	2017		2016	
		Percentage of ownership%	Carrying amount KD	Percentage of ownership%	Carrying amount KD
Burgan Company for Well Drilling K.S.C.P. ("BDC") ¹	Kuwait	14.66%	12,033,969	20.46%	16,339,779
Arkan Al-Kuwait Real Estate Company K.S.C.P. "Arkan"	Kuwait	28.99%	12,666,827	29.06%	12,242,581
First Education Company K.S.C. (Closed) ("FEDCO")	Kuwait	22.19%	4,178,334	22.19%	4,252,301
Taameer Investment Company O.L.L.C. ("Taameer")	Oman	37.40%	13,179,485	37.40%	13,130,419
Al Jazeera Al Oula Real Estate W.L.L.	KSA	20.90%	3,913,045	20.90%	3,971,206
Adeem Capital ²	KSA	-	-	40.00%	856,759
Sahab Al-Khalij Real Estate Company B.S.C. (Closed) - Under Liquidation	Bahrain	35.29%	71,318	35.29%	66,238
Al-Subeih Medical Company (Khalid Hamad Al-Subeih & Partners) W.L.L. ³	Kuwait	25%	2,756,963	-	-
Sons of Yousef Al-Subeih Real Estate Company (Khalid Hamad Al-Subeih & Partners) W.L.L. ³	Kuwait	25%	582,343	-	-
			<u>49,382,284</u>		<u>50,859,283</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

10 INVESTMENT IN ASSOCIATES (continued)

¹ The Group exercises significant influence over the investee company BDC by appointment of 2 board members out of a total board members of 6. The Group has considered the significant influence achieved through absolute voting rights to be sufficient to give it the practical ability to influence the relevant activities of the investee company, despite the fact they have less than 20% shareholding.

² During the current year, the Group has disposed its entire equity investment (40%) in Adeem Capital at a loss of KD 80,687.

³ During the current year, the Parent Company entered into a purchase agreement (the "Agreement") to acquire 25% equity stake in Al-Subeih Medical Company (Khaled Hamad Al-Subeih & Partners) W.L.L. and Sons of Yousef Al-Subeih Real Estate Company W.L.L. (together referred to as the "Target Business") for a total cash consideration of KD 3,250,000. Under the Agreement, the seller provided an undertaking to establish a holding company under which the net assets of the Target Business will be transferred to, and for which the shares will be allocated between the contractual parties proportionately. As the reporting date, an amount of KD 1,625,000 was paid, representing 50% of the total purchase consideration committed by the Group. Subsequent to the reporting date, the remaining balance of KD 1,625,000 was fully settled (Note 27). The legal formalities related to the incorporation of the holding company are still in progress as at the authorisation date of this consolidated financial statements. Further, as part of the Agreement, the Parent Company is required to pay a contingent consideration based on performance of the Target Business over an agreed period. The management of the Parent Company has performed an assessment to estimate such contingent payment and determined that no such payment would be required.

Provisional goodwill arising on acquisition of the Target Business amounting to KD 2,142,832 is included in the carrying amount of the investments.

At 31 December 2017, the fair value of the Group's investment in BDC and Arkan (based on quoted market price in KSE) was KD 2,761,298 and KD 5,926,366, respectively (2016: KD 4,457,794 and KD 6,714,820 respectively).

Impairment assessment of investment in associates

In respect of Group's investment in associates, the management considered performance outlook and business operations of the CGU to assess whether the recoverable amount of those entity cover their carrying amounts, based on Dividend Yield approach, Price to Earnings approach and Price to Book Value of comparable companies.

In respect of Group's investment in BDC, the management considered performance outlook and business operations of the CGU to assess whether the recoverable amount of this entity cover its carrying amount, based on the estimated cash flows, discounted back to their present value using a discount rate that reflects the risk profile.

The recoverable amount of the CGU has been estimated based on a value in use calculation, using cash flow projections approved by senior management covering a 3 years period (2016: 3 years period). The discount rate of 9.5% (2016: 11.1%) is applied to the cash flow projections with projected terminal growth rate of 3% (2016: 3%).

The calculation of value in use for the CGU is sensitive to the following assumptions:

- Revenue forecast;
- Discount rate; and
- Projected growth rate used to extrapolate cash flows beyond the budget period.

Revenue forecast:

Revenue forecasted is based on the renewal and extension of existing contracts that Burgan Company for Well Drilling currently has in its log books. The rates used in calculating the forecasted revenue are fixed to existing contractual rates.

Discount rate:

Discount rate is calculated by using the Weighted Average Cost of Capital (WACC). The inputs to the calculation of the discount rate reflects current market assessment of the time value of money and risks specific to the CGU and the country of the CGU.

Projected growth rate:

Assumptions are based on industry research.

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

10 INVESTMENT IN ASSOCIATES (continued)

Reconciliation to carrying amounts:

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
At 1 January	50,859,283	49,131,414
Additions	3,250,000	991,416
Distribution due to liquidation of a subsidiary ¹	(4,644,606)	-
Disposals	(800,407)	-
Share of results	1,846,560	1,149,331
Dividends received	(749,571)	(652,981)
Foreign exchange adjustments	(312,028)	149,483
Cumulative change in fair value	(66,947)	90,620
At 31 December	<u>49,382,284</u>	<u>50,859,283</u>

- ¹ The Parent Company has an effective equity interest of 33.21% in First Energy Resources Company K.S.C.C. ("Subsidiary") (2016: 33.21%). On 15 November 2015, the Extraordinary General Assembly meeting of the shareholders of the Subsidiary approved the liquidation of the Subsidiary. The Subsidiary has an investment in Burgan Company for Well Drilling K.S.C.P. (BDC) which was classified as an investment in associate within the Subsidiary. On 15 February 2017, the liquidation committee of the Subsidiary resolved to distribute the total shares invested in the associate of 19,117,935 shares to the shareholders. As a result, the Subsidiary has distributed 12,768,431 shares with a carrying value of KD 4,644,606 to the remaining shareholders of the Subsidiary. Accordingly, the Group's percentage of ownership in BDC decreased from 20.46% to 14.66% as of 31 December 2017.

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

10 INVESTMENT IN ASSOCIATES (continued)

The reporting dates of certain associates are not more than three months from that of the Group and there were no significant events or transactions between the reporting dates of associates and 31 December 2017. The following table illustrates the summarised financial information of the associates.

	<i>Arkan</i> <i>KD</i>	<i>BDC</i> <i>KD</i>	<i>FEDCO</i> <i>KD</i>	<i>Taameer</i> <i>KD</i>	<i>Others</i> <i>KD</i>	2017 <i>KD</i>	2016 <i>KD</i>
Assets	55,784,573	190,393,256	21,689,429	77,415,692	32,607,991	377,890,941	331,968,996
Liabilities	(21,852,733)	(129,505,936)	(3,162,423)	(42,176,429)	(8,897,305)	(205,594,826)	(165,919,707)
Intangible assets	-	21,214,797	-	-	-	21,214,797	21,214,797
Equity	33,931,840	82,102,117	18,527,006	35,239,263	23,710,686	193,510,912	187,264,086
Percentage ownership interest	28.99%	14.66%	22.19%	37.40%			
Group's share in the equity	9,836,501	12,033,969	4,111,168	13,179,485	5,180,837	44,341,960	47,945,636
Goodwill	2,830,326	-	67,166	-	-	2,897,492	2,913,647
Provisional goodwill	-	-	-	-	2,142,832	2,142,832	-
Group's carrying amount of the investment	12,666,827	12,033,969	4,178,334	13,179,485	7,323,669	49,382,284	50,859,283
Revenue	1,680,418	3,133,871	316,152	444,881	300,148	5,875,470	6,865,739
Profit for the year	3,578,159	2,439,937	602,150	648,425	313,394	7,582,065	4,703,445
Total comprehensive income for the year	3,578,159	2,439,937	416,553	648,425	313,394	7,396,468	5,087,683
Dividends received from associates during the year	583,171	-	166,400	-	-	749,571	652,981
Group's share of results for the year	1,038,219	357,695	133,617	242,511	74,518	1,846,560	1,149,331

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

11 BUSINESS COMBINATION

On 4 January 2017, the Parent Company acquired 100% equity interest of Gulf Business Forms Company W.L.L. (the "Acquiree Company"), a Kuwaiti limited liability company that specialises in manufacturing and trading of papers and forms required and used in electronic machines and computers.

The consideration paid and the fair values of the identified assets and liabilities of the Acquiree Company as at the acquisition date, are summarised as follows:

	<i>KD</i>
Non-current assets	
Property and equipment ¹	1,183,497
Intangible assets ²	836,794
	<hr/>
Current assets	
Inventories	151,388
Other assets	111,780
Bank balances and cash	131,815
	<hr/>
	394,983
	<hr/>
TOTAL ASSETS	2,415,274
	<hr/>
Liabilities	
Accounts payables and accruals	198,641
	<hr/>
Total identifiable net assets at fair value	2,216,633
	<hr/>
Purchase consideration transferred	3,200,000
	<hr/>
Goodwill arising on acquisition ³	983,367
	<hr/>
Analysis of cash flows on acquisition	
Consideration paid for the acquisition	(3,200,000)
Cash inflows on acquisition of a subsidiary	131,815
	<hr/>
Net cash outflows on acquisition of a subsidiary	(3,068,185)
	<hr/>

¹ Property and equipment

Property and equipment includes leasehold properties carried at KD 817,450. Notwithstanding the contractual term of the leases, management considers that, based on market experience, the leases are renewable for a similar term, at nominal rates of ground rent, and with no premium payable for renewal of such leases.

² Intangible assets

Intangible assets represents "Customer Lists". Based on the assessment of management experts an amortisation period of 14 years is estimated, considering a retention period of 5 years for existing customers and a long term attrition rate of 5% beyond 5 years. An amortisation charge of KD 59,771 has been recorded in the consolidated statement of income. As the 31 December 2017, the net carrying amount of the intangible assets is KD 777,023.

³ Goodwill

The recoverable amount of the CGU has been estimated based on a value-in-use calculation, using cash flow projections approved by senior management covering a 4 years period. The discount rate of 14.26% is applied to the cash flow projections with projected terminal growth rate of 2.1%.

The calculation of value in use for the CGU is sensitive to the following assumptions:

- Revenue forecast;
- Discount rate; and
- Projected growth rate used to extrapolate cash flows beyond the budget period.

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

11 BUSINESS COMBINATION (continued)

³ Goodwill (continued)

Revenue forecast:

Revenue forecasted is based on the renewal and extension of existing contracts that the Acquiree Company currently has in its log books. The rates used in calculating the forecasted revenue are fixed to existing contractual rates.

Discount rate:

Discount rate is calculated by using the Weighted Average Cost of Capital (WACC). The inputs to the calculation of the discount rate reflects current market assessment of the time value of money and risks specific to the CGU and the country of the CGU.

Projected growth rate:

Assumptions are based on industry research.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the CGU, management believes that a reasonably possible change in any of the above key assumptions would not cause the carrying value of the unit to materially exceed its recoverable amount.

12 PROPERTIES UNDER DEVELOPMENT

These represent properties that are held for sale in the ordinary course of business or develops and intends to sell before or on completion of construction.

	2017 KD	2016 KD
At 1 January	2,653,440	2,224,023
Additions	405,746	423,582
Transfer to investment properties (Note 13)	(446,460)	-
Foreign exchange adjustments	(8,956)	5,835
Write-down	(54,801)	-
At 31 December	<u>2,548,969</u>	<u>2,653,440</u>

As at 31 December 2017, properties under development with a carrying value of KD 1,534,194 (2016: KD 1,534,194) are pledged as a security against murabaha payables (Note 14).

13 INVESTMENT PROPERTIES

	2017 KD	2016 KD
At 1 January	9,820,419	36,048,434
Additions	1,180,953	-
Transfer from properties under development (Note 12)	446,460	-
Swapped for settlement of murabaha payables (Note 14)	-	(26,900,000)
Disposals	-	(45,921)
Change in fair value	(160,715)	667,013
Foreign exchange adjustments	(88,967)	50,893
At 31 December	<u>11,198,150</u>	<u>9,820,419</u>

Included within investment properties is a leasehold land granted by the government of Kuwait, carried at KD 3,441,630 (2016: KD 3,526,704). Notwithstanding the contractual term of the lease, management believes, based on market experience, that on expiry of the lease period, the Group can renew the lease for a similar period, without a premium and at nominal rates of ground rent.

As at 31 December 2017, investment properties with a carrying value of KD 6,859,024 (2016: KD 5,812,032) are pledged as a security against murabaha payables to foreign Islamic financial institution (Note 14).

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

13 INVESTMENT PROPERTIES (continued)

Sensitivity analysis

Significant increase (decrease) in average rent per sqm, yield rate and price per sqm in isolation would result in a significantly higher (lower) fair value of the properties.

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment properties.

	<i>Changes in valuation assumptions</i>	<i>Impact on profit for the year</i>	
		<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Average rent	+/- 5%	515,033	466,937
Yield rate	+/- 50 bp	538,525	493,906
Price per sqm	+/- 5%	44,875	24,085

14 MURABAHA PAYABLES

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Gross amount	4,044,681	2,554,294
Less: deferred finance costs	(1,017,209)	(286,232)
	<u>3,027,472</u>	<u>2,268,062</u>

As at 31 December 2017, murabaha payables amounting to KD 2,436,063 (2016: KD 1,830,639) carry a profit rate of 6.5% (2016: 6%) per annum. Murabaha payables are denominated in Omani Riyals (OMR).

During the prior year, the Parent Company has settled murabaha payables with a carrying value of KD 27,200,000 and its related finance costs of KD 379,331 obtained a local Islamic financial institution, through transferring its interest right in investment properties with a carrying value of KD 26,900,000. As a result, the Group recognised a gain of KD 679,331 from this transaction in the consolidated statement of income (Note 13).

Murabaha payables of KD 3,027,472 (2016: KD 2,268,062) are secured against the following:

- ▶ Murabaha deposits with a carrying value of KD 1,300,000 (2016: KD 1,300,000) (Note 6).
- ▶ Properties under development with a carrying value of KD 1,534,194 (2016: KD 1,534,194) (Note 12).
- ▶ Investment properties with a carrying value of KD 6,859,024 (2016: KD 5,812,032) (Note 13).

Maturity analysis is disclosed in Note 21.

15 OTHER LIABILITIES

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Payable to the shareholders of a subsidiary under liquidation (Note 6)	391,061	1,277,597
Accrued expenses	355,856	271,659
Acquisition of investment in associate (Note 10)	1,625,000	-
Other payables ¹	2,645,337	3,171,265
	<u>5,017,254</u>	<u>4,720,521</u>

¹ During the year, one of the Group's subsidiaries in the Kingdom of Saudi Arabia ("KSA") received the final zakat tax assessment from the General Authority of Zakat and Tax ("GAZT") in KSA with respect to a tax appeal filed by the subsidiary for the fiscal periods from 2007 to 2012. Accordingly, excess provision for the zakat liability amounting to KD 500,000 has been reversed in the statement of consolidated income in the current year.

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16 SHARE CAPITAL, SHARE PREMIUM, DIVIDENDS AND TREASURY SHARES

(a) Share capital and share premium

The authorised, issued and fully paid up capital of the Parent Company amounted to 651,070,551 shares (2016: 651,070,551 shares) of 100 fils each. All shares are paid in cash.

Share premium is not available for distribution.

(b) Dividends

The Parent Company's Board of Directors in their meeting held on 19 March 2018, has not proposed cash dividends or bonus shares issue for the year ended 31 December 2017. This proposal is subject to approval by the shareholders at the AGM meeting.

The Parent Company's Board of Directors, in their meeting held on 4 April 2017, has not proposed cash dividends or bonus shares issue for the year ended 31 December 2016. This proposal has been approved by the shareholders at the AGM meeting held on 30 May 2017.

(c) Treasury shares

	2017	2016
Number of treasury shares	1,627,929	1,627,929
Treasury shares as a percentage of total issued shares	0.250%	0.250%
Cost of treasury shares (KD)	108,816	108,816
Market value of treasury shares (KD)	63,489	74,071

Gains and losses arising from the sale of treasury shares are recognised in a separate reserve within equity "treasury shares reserve". This reserve shall be deemed un-distributable during the period of holding treasury shares.

An amount of KD 108,816 (2016: KD 108,816) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from statutory reserve and share premium throughout the holding period of treasury shares as per CMA requirements.

The weighted average market price of the Company's shares for the year ended 31 December 2017 was 55 fils per share (2016: 49 fils per share).

17 RESERVES

Statutory reserve

In accordance with the Companies' Law, and the Parent Company's Articles of Association, a minimum of 10% of the profit for the year before KFAS, NLST, Zakat and Directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Company's Board of Directors. The AGM of the shareholders of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

Available-for-sale reserve

Changes in the fair value and exchange differences arising on translation of investments that are classified as available-for-sale financial assets (eg equities), are recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts are reclassified to the consolidated statement of income when the associated assets are sold or impaired.

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the consolidated statement of income when the net investment is disposed of.

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17 RESERVES (continued)

Share option reserve

The share option reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested

18 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, managed funds, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management and are subject to the approval of the shareholders at the annual general assembly meeting.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	2017		2016	
	<i>Others KD</i>	<i>Total KD</i>	<i>Others KD</i>	<i>Total KD</i>
Consolidated statement of income				
Management fees	7,972	7,972	10,362	10,362
Consolidated statement of financial position				
Management fees and other receivables	17,913	17,913	9,941	9,941

Key management personnel compensation

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:

	2017 KD	2016 KD
Salaries and other short term benefits	289,125	290,160
End of service benefits	88,574	30,892
	377,699	321,052

The Board of Directors of the Parent Company proposed a directors' remuneration of KD Nil for the year ended 31 December 2017 (2016: KD Nil). This proposal is subject to the approval of the shareholders at the annual general assembly meeting of the Parent Company.

Directors' remuneration for the year ended 31 December 2015 of KD 42,000 was approved by the shareholders at the annual general assembly meeting of the Parent Company held on 5 June 2016. The remuneration was recorded as an expense for the year ended 31 December 2016.

Other transactions

The Group also manages portfolios on behalf of related parties amounting to KD 1,665,179 (2016: KD 1,981,953) which are not reflected in the Group's consolidated statement of financial position.

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19 SEGMENT INFORMATION (continued)

Geographic information

	2017 KD	2016 KD
Income		
Kuwait	2,971,121	2,103,880
Kingdom of Saudi Arabia	481,778	1,307,300
Others	846,514	1,149,725
	<u>4,299,413</u>	<u>4,560,905</u>
Results – profit (loss) for the year before tax and directors' remuneration		
Kuwait	199,083	(443,008)
Kingdom of Saudi Arabia	(308,428)	716,855
Others	605,039	880,165
	<u>495,694</u>	<u>1,154,012</u>
Segment assets		
Kuwait	53,637,508	56,093,099
Kingdom of Saudi Arabia	33,013,050	33,424,852
Others	24,231,375	23,572,281
	<u>110,881,933</u>	<u>113,090,232</u>
Segment liabilities		
Kuwait	(4,098,054)	(3,223,417)
Kingdom of Saudi Arabia	(2,032,008)	(2,633,308)
Others	(2,743,716)	(1,830,639)
	<u>(8,873,778)</u>	<u>(7,687,364)</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 Group's principal financial liabilities comprise non-derivative financial instruments such as murabaha payables and other liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets comprise financial assets at fair value through profit or loss, available-for-sale financial assets, other assets and cash and cash equivalents, that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Board of Directors are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

First Investment Company K.S.C.P. and its Subsidiaries

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20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily other receivables) and from its financing activities, including deposits with banks and financial institutions.

The Group has policies and procedures in place to limit the amount of credit exposure to any counterparty and establishing a maximum payment period for individual and corporate customers respectively. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments. Outstanding receivables are regularly monitored by management. The Group's bank balances are held with financial institutions with appropriate credit ratings.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets presented in the consolidated statement of financial position.

	2017 KD	2016 KD
Bank balances (excluding cash on hand)	7,212,654	13,056,884
Other assets	1,612,424	1,467,944
	<u>8,825,078</u>	<u>14,524,828</u>

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. To manage this risk, the Group maintains a level of cash and bank balances and other highly marketable securities at an amount in excess of expected cash outflows on financial liabilities

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

	Within 3 months KD	3 to 6 months KD	6 to 12 months KD	Over 1 year KD	Total KD
2017					
Liabilities					
Murabaha payables	273,945	170,967	687,600	2,912,169	4,044,681
Other liabilities (excluding rent received in advance)	2,241,557	365,232	810,676	1,599,789	5,017,254
	<u>2,515,502</u>	<u>536,199</u>	<u>1,498,276</u>	<u>4,511,958</u>	<u>9,061,935</u>
	Within 3 months KD	3 to 6 months KD	6 to 12 months KD	Over 1 year KD	Total KD
2016					
Liabilities					
Murabaha payables	115,306	278,803	417,553	1,742,632	2,554,294
Other liabilities (excluding rent received in advance)	75,483	620,425	612,798	3,384,277	4,692,983
	<u>190,789</u>	<u>899,228</u>	<u>1,030,351</u>	<u>5,126,909</u>	<u>7,247,277</u>

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21 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

2016	Maturing within one year			Sub- Total KD	Over 1 year KD	Total KD
	Within 3 months KD	3 to 6 months KD	6 to 12 months KD			
ASSETS						
Cash and cash equivalents	13,060,476	-	-	13,060,476	-	13,060,476
Financial assets at fair value through profit or loss	1,081,457	-	341,120	1,422,577	-	1,422,577
Other assets	562,241	478,812	414,363	1,455,416	12,528	1,467,944
Inventories	235,495	235,495	470,989	941,979	-	941,979
Available-for-sale financial assets	-	-	-	-	31,269,782	31,269,782
Investment in associates	-	-	856,759	856,759	50,002,524	50,859,283
Properties under development	-	-	-	-	2,653,440	2,653,440
Investment properties	-	-	-	-	9,820,419	9,820,419
Property and equipment	-	-	-	-	1,594,332	1,594,332
TOTAL ASSETS	14,939,669	714,307	2,083,231	17,737,207	95,353,025	113,090,232
LIABILITIES						
Murabaha payables	87,898	252,410	367,812	708,120	1,559,942	2,268,062
Other liabilities	103,021	620,425	612,798	1,336,244	3,384,277	4,720,521
End of service benefits	-	-	-	-	698,781	698,781
TOTAL LIABILITIES	190,919	872,835	980,610	2,044,364	5,643,000	7,687,364
NET LIQUIDITY GAP	14,748,750	(158,528)	1,102,621	15,692,843	89,710,025	105,402,868

22 FIDUCIARY ASSETS

Fiduciary assets comprise of portfolios managed by the Parent Company on behalf of clients. These are not assets of the Group and accordingly are not included in these consolidated financial statements. As at the reporting date, total fiduciary assets managed by the Group amounted to KD 117,971,300 (2016: KD 121,563,039). The total income earned from fiduciary assets for the year amounted to KD 431,067 (2016: KD 527,316).

23 FAIR VALUES FINANCIAL INSTRUMENTS

Financial instruments

The fair values of financial instruments, with the exception of certain available-for-sale equity securities measured at cost because their fair value cannot be measured reliably amounting to KD 1,743,310 (2016: KD 27,376,052), approximate their carrying amounts.

The management has used to following methods and assumptions to estimate the fair values of financial assets:

- Quoted equity securities have been fair valued based on their latest price quotations on the respective stock exchange at the reporting date.
- Fair values of unquoted equity securities are derived through a market approach which utilises price multiples of comparable quoted companies. A lack of marketability discount is applied on the fair values derived through this approach which ranges from 10% to 15% (2016: 10% to 15%) and is based on the management's judgment. A 5% increase in the lack of marketability discount will result in a decrease in fair values of these securities by KD 388,351 (2016: KD 148,745).
- Fair values of unquoted funds are measured based on their latest net asset values provided by the respective fund manager.

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23 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table provides the fair value measurement hierarchy for the Group's assets as at 31 December:

2017	Level 1 KD	Level 3 KD	Total KD
<i>Financial assets at fair value through profit or loss</i>			
- Quoted equity securities	830,171	-	830,171
- Unquoted equity securities	-	242,702	242,702
- Unquoted fund	-	76,569	76,569
<i>Available-for-sale financial assets</i>			
- Quoted equity securities	1,384,252	-	1,384,252
- Unquoted equity securities	-	29,166,788	29,166,788
- Unquoted funds	-	33,081	33,081
2016	Level 1 KD	Level 3 KD	Total KD
<i>Financial assets at fair value through profit or loss</i>			
- Quoted equity securities	1,081,456	-	1,081,456
- Unquoted equity securities	-	229,510	229,510
- Unquoted funds	-	111,611	111,611
<i>Available-for-sale financial assets</i>			
- Quoted equity securities	1,332,404	-	1,332,404
- Unquoted equity securities	-	2,528,657	2,528,657
- Unquoted funds	-	32,669	32,669

There were no transfers between Level 1 and Level 2 during 2017 and 2016.

Reconciliation of fair value measurement of the investment in unquoted equity shares and funds:

	<i>As at 1 January 2017 KD</i>	<i>Gain (loss) recognised in the consolidated statement of income KD</i>	<i>Gains recognised in OCI KD</i>	<i>Transfers KD</i>	<i>As at 31 December 2017 KD</i>
Financial assets at fair value through profit or loss					
- Unquoted equity securities	229,510	13,192	-	-	242,702
- Unquoted funds	111,611	(35,042)	-	-	76,569
Available-for-sale financial assets					
- Unquoted equity securities	2,528,657	-	1,028,803	25,609,328	29,166,788
- Unquoted funds	32,669	(979)	1,391	-	33,081

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23 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	<i>As at 1 January 2016 KD</i>	<i>Gain (loss) recognised in the consolidated statement of income KD</i>	<i>Gains recognised in OCI KD</i>	<i>Transfers KD</i>	<i>As at 31 December 2016 KD</i>
Financial assets at fair value through profit or loss					
- Unquoted equity securities	197,558	31,952	-	-	229,510
- Unquoted funds	113,147	(1,536)	-	-	111,611
Available for sale financial assets					
- Unquoted equity securities	2,240,584	-	288,073	-	2,528,657
- Unquoted funds	18,555	-	14,114	-	32,669

24 COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as a lessee

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

	<i>2017 KD</i>	<i>2016 KD</i>
Operating lease rentals due within one year	151,950	151,950
Operating lease rentals from one to five years	240,588	392,538
	<u>392,538</u>	<u>544,488</u>

Contingencies

- At 31 December 2017, the Group had provided bank guarantees amounting to KD 828,039 (2016: KD 964,493) for which the management anticipates that no material liabilities will arise.
- On 12 August 2016, one of the subsidiaries of the Group received a notification from the General Authority of Zakat and Tax ("GAZT") in KSA to settle a tax obligation for the fiscal period from 2007 to 2012 amounting to SAR 31,643,000 (equivalent to KD 2,542,771) out of which the Parent Company's share approximates SAR 22,757,645 (equivalent to KD 1,828,761).

The management of the subsidiary believes that the zakat dues notified by GAZT do not reflect the correct application of tax laws in KSA and accordingly, filed an objection on 18 October 2016. During the current year, the subsidiary received the final outcome of the appeal based on which the management reversed excess provision for the zakat liability amounting to KD 500,000 (Note 15).

25 LEGAL CASES

- During the year ended 31 December 2006, the Parent Company has signed a contract with the Public Authority for Housing Welfare ("the Authority") to provide consultancy services for the construction of Al Khiran project for a period of two years. Accordingly, the Parent Company has provided bank guarantees for an amount of KD 596,868. Both parties have mutually agreed to terminate the contract during the year ended 31 December 2013.

During the year ended 31 December 2015, the Parent Company has filed a lawsuit claiming a compensation against the services rendered to the Authority. On 13 March 2016, the case was transferred to the Administrative Circuit at the court.

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25 LEGAL CASES (continued)

During the prior year, the Authority has liquidated part of the bank guarantee amounting to KD 347,098. As a result of this event, the Parent Company has made a provision of KD 347,098 included in the consolidated statement of income during the year then ended.

On 8 January 2017, the Administrative Circuit at the court issued a ruling to transfer the case to the Department of Expert at the Ministry of Justice to verify the elements of the claim and issue an expert report. The session has been postponed to 22 April 2018 awaiting experts' report.

The Parent Company filed a lawsuit to suspend the liquidation of the bank guarantees. The case was then referred to the Administrative Circuit at the court. The court hearing was postponed to the session scheduled on 26 April 2018.

The Group has been advised by its legal counsel that it is very unlikely that the final outcome of the case will have a significant effect on the Group's consolidated financial statements. Accordingly, no additional provisions for the liability has been made during the year.

- b) During the years ended 31 December 2006 and 31 December 2007, the Parent Company has entered into agreements to purchase 14,500,000 shares of Al Muttaheda for Investment and Real Estate Development Company S.S.C.C (the investee company) from existing shareholders (the sellers). During that period, the purchase consideration for 10,500,000 shares, was paid by the Parent Company in full.

During the year ended 31 December 2007, the Parent Company noted that the sellers have not fulfilled their commitment of transferring certain assets to the Company as part of their share of increase in the capital of the investee company. Accordingly, the Parent Company withheld the payment for the remaining consideration related to 4,000,000 shares and filed a lawsuit against the sellers claiming for a temporary compensation. On the other hand, the sellers filed a counterclaim against the Parent Company demanding payment for the remaining consideration. However, the counterclaim was rejected by the Court of First Instance, Court of Appeal and the Court of Cassation on 11 April 2016.

Despite the decision from the Court of Cassation, the sellers filed another lawsuit against the Parent Company demanding the payment of KD 13,814,991 related to the remaining purchase consideration.

On 17 January 2017, the Court of First Instance has ruled in favour of the Parent Company rejecting the claim filed by the sellers based on the earlier verdict that was adjudicated by the Court of Cassation on 11 April 2016. The sellers further appealed against the ruling of the Court of First Instance and a verdict was issued on 21 June 2017, accepting the appeal and cancelling the earlier verdict issued by the Court of First Instance and referring the case to the Money Markets Circle.

On 9 January 2018, a verdict was issued rejecting the claim filed by the sellers based on earlier verdicts. The sellers appealed the verdict and a session is scheduled on 31 May 2018.

Based on the advice from the Group's legal counsel, the amount claimed by the sellers is unrealistic and has no merit. In addition, the sellers are not entitled to any compensation due to the judicial ruling of the previous legal case that was adjudicated by the Court of Cassation. Accordingly, no provision for any liability has been made in these consolidated financial statements.

26 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 maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to the owners of the Parent Company. The Group includes within net debt, Islamic borrowings, less cash and cash equivalents. Capital represents equity attributable to owners of the Parent Company.

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27 SUBSEQUENT EVENTS

Subsequent to the reporting date, an amount of KD 1,625,000 was paid by the Group representing the remaining balance of the total purchase consideration committed by the Group with respect to the acquisition of certain associates (Note 10).

There are no other adjusting or significant non-adjusting events have occurred between the reporting date and the date these consolidated financial statements are authorized for issue.