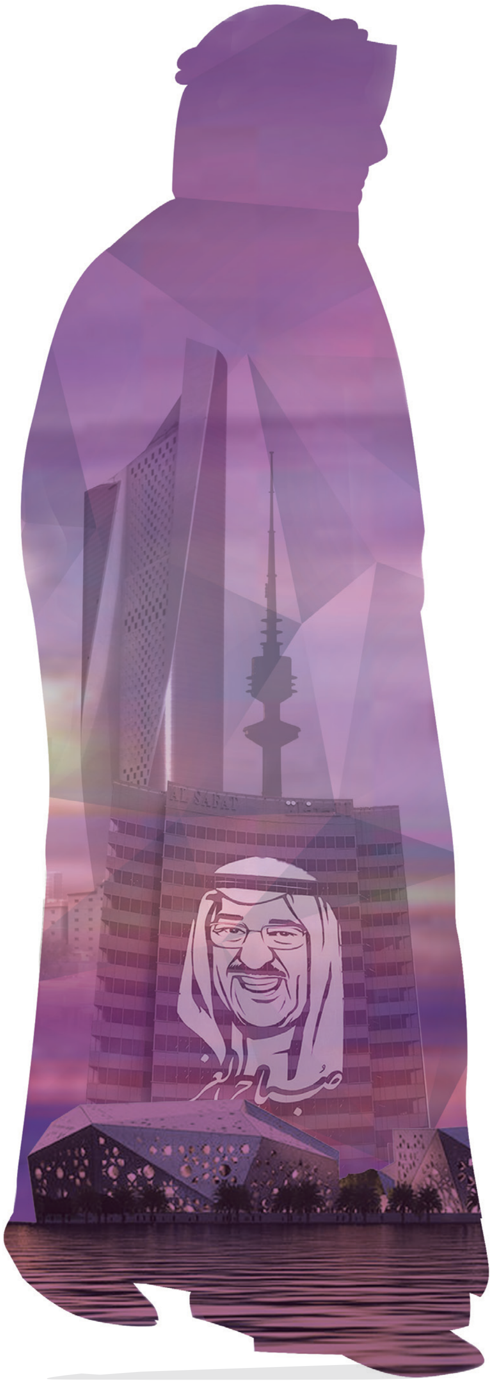
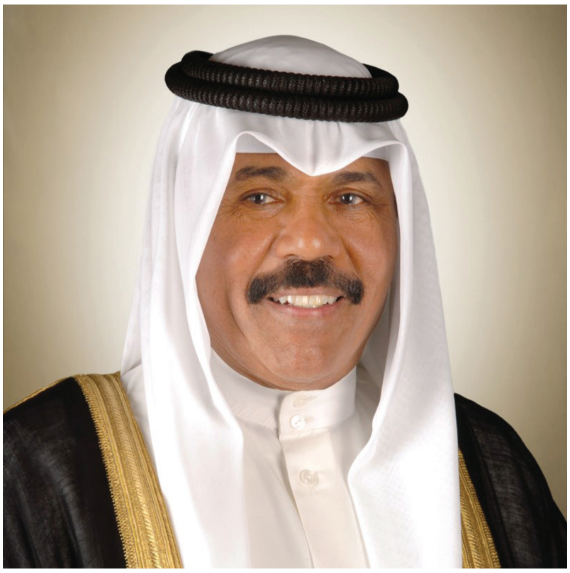
شركة الصفاة للإستثمار ش.م.ك

AL SAFAT INVESTMENT COMPANY K.S.C

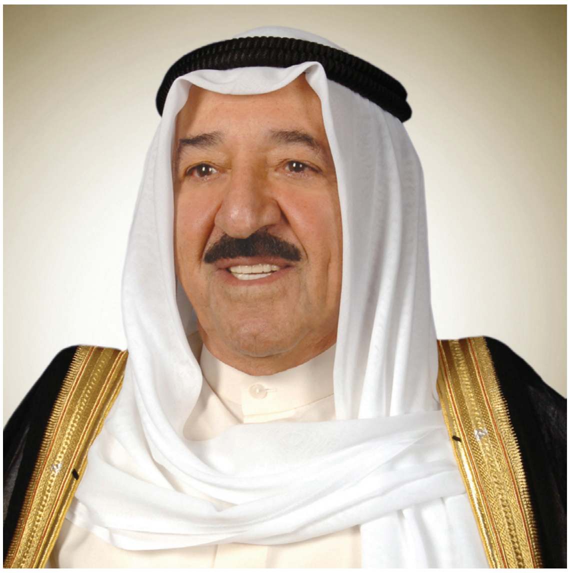


ANNUAL REPORT 2018

بسم الله الرحمن الرحيم



HH. SHEIKH
NAWAF AL-AHMAD AL-JABER AL-SABAH
Crown Prince of the State of Kuwait



HH. SHEIKH
SABAH AL-AHMAD AL-JABER AL-SABAH
Amir of the State of Kuwait

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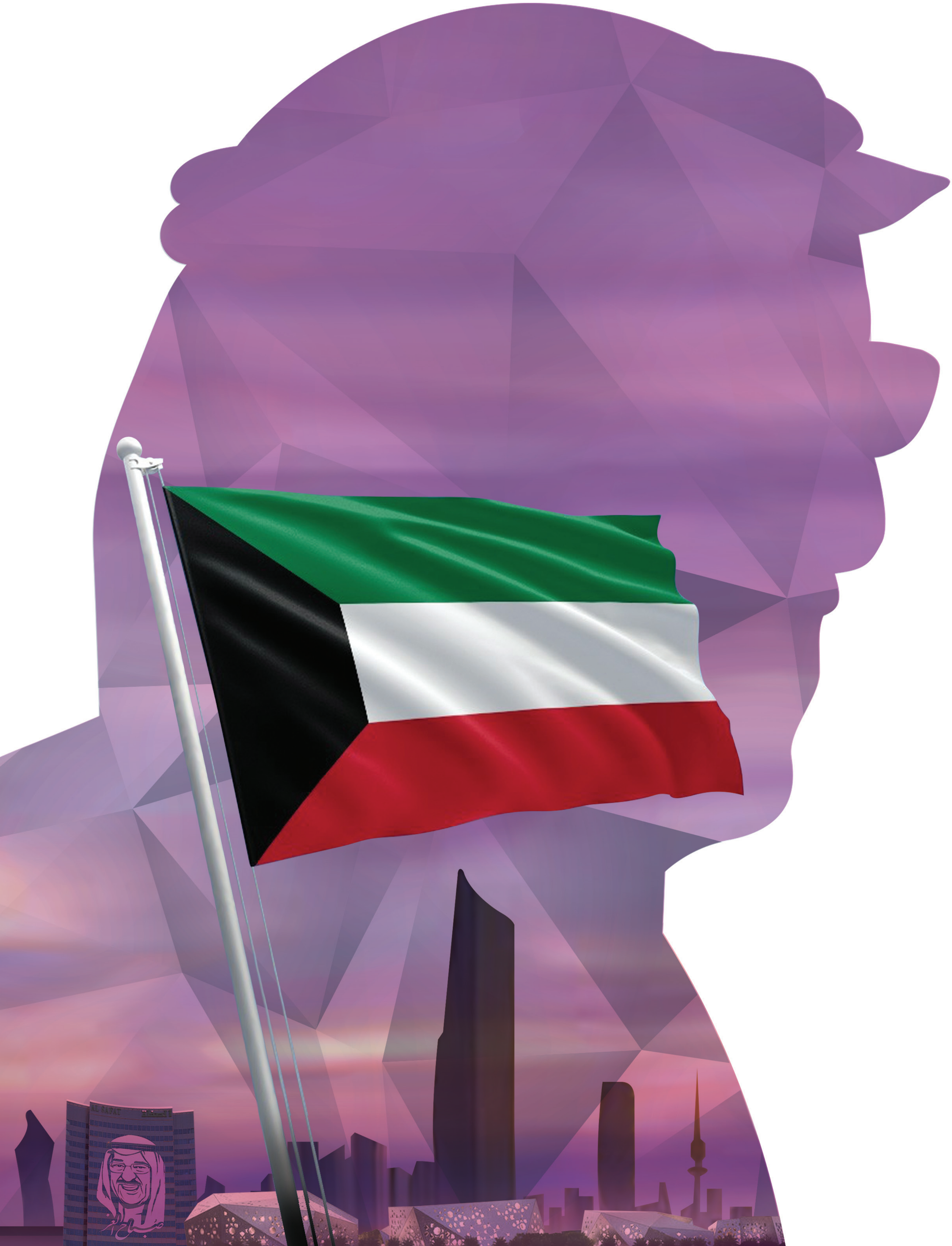

Company Profile

Alsafat Investment Company was incorporated on September 15th, 1983 as a Kuwaiti Shareholding Company (KSC) that currently has a share capital of KD 25,693,940.

It conducts its business with adherence to Islamic Shariah and the rules and regulations set by Kuwaiti Capital Markets Authority, the Central Bank of Kuwait and Ministry of Commerce and Industry.

Safat has a wide-ranging investments and interests in real-estate, finance and other sectors; in addition, it offers a diverse set of financial and consultancy services that supports the shareholders' aims and goals.

All investments and financial services offered by the Company are in accordance with the highest standards of Islamic Shariah compliance, supervised by a CMA-Certified Islamic Shariah Auditor.

Company's activities:

1) Invest in real estate, financial, healthcare, industrial, energy, agricultural, food and other economic sectors through participating in the establishment of specialized companies or purchase of stocks and bonds in these companies, or manage projects in various sectors.

2) Manage funds of private and public institutions funds and investing such funds in the various economic sectors.

3) Conduct and provide technical, economic and evaluation consultancy, study investment projects and prepare the necessary studies through a professional integrated team.

4) Act as an intermediary in lending and borrowing transactions and extend loans to others in accordance with the generally recognized conventions and rules and regulations laid down by the Central Bank of Kuwait.

5) Perform the functions of lead manager of bonds issued by companies and institutions as well as the functions of investment trustee.

6) Carry out stock trading including sale and purchase of shares and bonds of local and international governmental institutions.

7) Provide all services that assist in development and reinforcement of the market's financial and monetary capabilities in Kuwait and satisfying its needs.

8) Form and manage all kinds of investment funds in accordance with the applicable law.

9) Manage and oversee the activities of Collective Investment Scheme acting as an "Investment Controller".

Subsidiaries, Assosiates and Key Investments of Al-Safat Investment Company

Subsidiaries of Al-Safat Investment Company:

Name of the Subsidiary	Ownership Percentage 2018
Al-Safat Holding Company K.S.C. (Closed)	100 %
Safat House for Consultancy Company K.S.C. (Closed)	96 %
Dar Al-Safat for General Trading Company W.L.L.	100 %
The Roots Brokerage – Egypt	60 %
Safat House for General Trading Company W.L.L.	80 %

Assosiates of Al-Safat Investment Company:

Name of the Associate	Ownership Percentage 2018
Asia Holding Company K.S.C	21.7%
Senergy Holding Company K.S.C.	20.9%

Key Investments of Al-Safat Investment Company:

Name of the Company
Al-Qudra Holding Company - United Arab Emirates
Osos Holding Group Company K.S.C.
Shuaiba Industrial Company K.P.S.C.
Kuwait Medical Centre Holding Company K.S.C. (Closed)

Board of Directors

Abdullah Hamad AlTerkait
Chairman

Fahad Abdul Rahman Al Mukhaizim
Vice Chairman

Abdul Muhsen Suliman Al Meshan
Board Member

Dr. Anwar Ali Al Naqi
Board Member

Mishaal Ahmed Al Jareki
Board Member

Abdul Razzaq Zaid Al Dhubayan
Board Member

Naser Bader Al Sharhan
Board Member

Abdullah Hamad AlTerkait - Chairman

It is a privilege and pleasure to welcome you to the 2018 Ordinary General Assembly on behalf of myself and my colleagues the members of the Board of Directors. I would like to start this meeting by expressing my gratitude to the shareholders of Al Safat Investment Company for their continued support and trust. Kindly see the comprehensive company's annual report on the consolidated financial statements for the ended year on December 31, 2018, which contains a clear picture of the company's performance and financial position and presents the most important achievements during this year, which illustrates the efforts exerted to improve the performance and achieve the desired objectives to ensure the benefit of shareholders.

Dear Shareholders,

The year 2018 had witnessed remarkable developments in terms of local and regional investment products and activities. Investment in the emerging companies, technology and venture capital sector has increased. The number of funds and investment products registered by investment companies has also increased locally compared to previous years as there was a significant un-will to invest in this particular sector.

It is expected that these transactions will continue to rise in 2019 in the light of announced and planned acquisitions, in addition to the significant growth in the volume of funds and financing directed to the emerging companies sector, which will increase the interest of financial and investment companies to benefit from this vital and future sector.

Report of the Board of Directors for 2018

Dear Shareholders,

Al Safat Investment Company has continued to move forward with the plan of setting a careful strategic and promising plan for development, investment and regional and geographic expansion, which will achieve financial results and profitable gains, which will enable us to meet the challenges and explore new horizons to benefit our shareholders.

During the year 2018, the management of the company, represented by the Board of Directors and the Executive Management, continued the process of financial structuring and exclusion of non-strategic investments and re-investment in strategic sectors using strategic tools in addition to supporting the activities and expansion of subsidiaries and associated companies. The positive results of this plan are expected in the next few years, which will help in raising the level of profitability from operations and raising the quality of revenues, which will have a significant impact on the profits and financial position of the company and thus the shareholders of the parent company.

The management of Al Safat Investment Company is working to implement a careful and secure strategy in managing direct investments and managed portfolios of clients' accounts. The objective is to focus on operating companies, leading stocks, fast-growing and fixed-income stocks while maintaining optimal geographical and sectorial distribution.

The management of the company is working to enhance its investments and the investments of its clients in the local shares listed on the Kuwait Stock Exchange after the qualitative leap achieved by the stock exchange during the previous year through the division of the market, which reflected positively by enhancing the confidence of investors in the securities sector, in addition to setting rules and amendments by supervisory authorities that increased the concept of awareness of investors and added more transparency and control of the financial markets sector.

Safat Group is also concentrating on working in industrial and Chemical Operational activities, Real Estate activity as well through its subsidiaries. Currently we are in the process of studying and operating a new Chemical Factory that will help ensuring all local market requirements.

Moreover, we expect that one of our associate companies which works in the Oil Services Sector to obtain a good percentage of shares in the local market of Oil Industry and Services in the near future.

Currently, In the industrial field we are in the process of developing and expanding one of our industrial subsidiaries which in turn will contribute to acquiring new contracts and tenders with governmental & Private sectors.

As for real estate activity which is considered as safe haven for investment, we are in the process of studying and establishing a new industrial and commercial complex which will be developed during this year, and this is going to increase the company shares in Real estate Sector.

Financial performance of the Company as on 31 December 2018:

Al Safat Investment Company (the parent company) ended its fiscal year 2018 with a profit for the fourth year in a row. The company achieved profits for the year ended 31 December 2018 amounting to KD 1,149,042, equivalent to 4.49 fils per share compared to a profit of KD 1,028,125 i.e. 4.01 fils per share for the year ended December 2017.

The total assets of the Group on 31 December 2018 amounted to KD 54 million compared to KD 56.9 million as at 31 December 2017. The Parent Company's shareholders' equity amounted to KD 20.8 million on 31 December 2018, with a book value of 81.2 fils per share.

The Group's total liabilities at 31 December 2018 amounted to KD 25.2 million compared to KD 25.4 million as at 31 December 2017.

On December 31st, 2018, the Company's outstanding payables amounted to KD 21.1 million representing the existing agency with Qatar National Bank.

The latest update of QNB legal case was the decision issued by the Court of Cassation on 21/03/2018 stating the **Cassation Judgment** (No. 2013/2701 **Commercial Appeal**) and returning the proceedings to the management of experts and the assignment of a tripartite committee to settle the account between the parties on the basis of **the contract of investment agency and investment offers with the investment subject to the principle of profit and loss** and the statement of all operations investment carried out by Al-Safat Investment Company for the benefit of the Bank. Whether that has been beneficial of not, in the first case a statement of the amount and the share of the appellant bank and the value of the investor's amount and the revenues.

In summary, the said appeal is likely to have a positive effect on the legal position of the company, based on the opinion of the legal advisors responsible for following up the QNB case, and leads to the refund of these investments. We hope to inform you of the good news of this case, and thus the company has completed the debts and obligations and has started a new phase of business development and improvement for Al-Safat Investment Company. This will have a good financial impact that will improve the financial statements, God willing.

Dear Shareholders,

The priorities of Al-Safat Investment Company are to establish transparency, governance and internal control, which will lead to an increase in the level of institutional work in accordance with the requirements of the Capital Market Authority and the regulatory bodies.

With regard to the Company's compliance with corporate governance rules and the integrity of financial reporting, the Board of Directors confirms to you the integrity and accuracy of the financial statements for 2018 and the relevant reports of the Company's activities, which are provided to external auditors in order to carry out the tasks entrusted to them as required.

Dear Shareholders,

In conclusion, I extend to all of you my sincere thanks for your trust and support to continue our progress in the company's business and success, I would like to also thank all regulation authorities in Kuwait, the Capital Markets Authority, the Ministry of Commerce and Industry and the Central Bank of Kuwait for their efforts and endeavors to develop and improve the financial markets sector, through implementing the best international standards and practices, which in turn re-invigorate the investment and economic sector of the State of Kuwait.

I would also like to thank all the members of the Board of Directors and the Executive Management represented by the Chief Executive Officer and all the managers and employees of the company for their efforts to achieve the best results and their efforts to develop and implement the work methodology to ensure continuity of progress, develop performance and achieve the desired revenues.

Abdullah Hamad Al-Terkait

Chairman of the Board of Directors

Corporate Governance Report for Al Safat Investment Company For the financial year ended December 31st, 2018

The company's perspective on governance principles

Al Safat Investment Company adheres to the principles and guidelines of corporate governance. In this regard, the company is committed to developing corporate governance standards to achieve best governance practices as one of the priorities of the Board of Directors and senior management of Al Safat Investment Company. This development is made through the review and improvement in the levels of supervision and control throughout the operations of Al Safat Group. This development also comes within the framework of the company's endeavor to promote good corporate governance practices to enhance the success of the company and promote the achievement of its objectives and aspirations. At the top of these objectives is to gain the confidence of our existing and potential shareholders, investors, and all stakeholders, as well as to establish best management practices that support the principles of accountability which are based on integrity and transparency. The Company is committed to all disclosure and transparency requirements to ensure the protection of the rights of different categories of shareholders as well as fair and equitable treatment of rights and duties towards all shareholders to guarantee and clarify the rules and procedures for taking decisions related to affairs of Al Safat Investment Company and its compliance with corporate governance provisions.

Rule 1: Establishing a balanced structure for the board of directors

The members of the Board of Directors have contributed effectively and dynamically by using their expertise to form a coherent, flexible board of directors which is fully competent to meet the challenges of a changing economic environment. The members of the Board of Directors also made efforts to raise the level of corporate governance in the company in the belief in its role in the sustainability of business and improving the performance at all levels.

The Board of Directors of Al Safat Investment Company consists of seven members who were elected by the shareholders of the Company at the Ordinary General Meeting of the Company held on August 23rd, 2016 for a period of three years after obtaining the approval of the Capital Markets Authority on the names of the candidates for membership of the Board of Directors. The Board consists of 5 non-executive members as well as two independent members.

The Candidates' nomination for the new Board of Directors was announced for a period of two weeks from February 4th, 2019 until February 18th, 2019, for 7 seats. Seven candidates submitted their candidacy; and the Remuneration and Nomination Committee confirmed that they had met all the required conditions. Therefore, the candidates submitted their applications to the Capital Market Authority for approval of applications for candidacy, which was obtained on 04 March 2019.

All members of the current Board of Directors have the appropriate qualifications and experience for the Company's activities according to the following table:

Member Name	Member Position	Qualification and Practical Experience	Date of election
Abdullah Hamad Al-Terkait	Chairman - Non-Executive	- Bachelor Degree in Public Administration and Political Science. - Years of practical experience: 13 years.	23 August 2016
Fahd Abdul Rahman Al Mukhaizim	Vice-chairman - Non-Executive	- Master of Business Administration. - Bachelor degree in Finance. - Years of practical experience: 23 years.	23 August 2016
Abdul Mohsen Suleiman Al-Meshan	Member - Non-Executive	- Bachelor Degree in International Finance and Marketing. - Years of practical experience: 39 years	23 August 2016
Naser Bader Al-Sharhan	Member - Independent	- Bachelor Degree in Political Science and Marketing. - Years of practical experience: 21 years.	23 August 2016
Mishaal Ahmed Al - Jareki	Member - Non-Executive	- Master of Business Administration with specialization in General and Strategic Management. - Bachelor Degree in Accounting. - Years of practical experience: 13.5 years	23 August 2016
Dr. Anwar Ali Al-Naqi	Member - Independent	- Ph.D., Master and Bachelor Degree in Civil Engineering. - Bachelor Degree in Architecture. - Years of practical experience: 41 years.	23 August 2016
Abdul Razzaq Zaid Al dhubayan	Member - Non-Executive	- Bachelor Degree in Civil Engineering. - Years of practical experience: 14.5 years	23 February 2016
Khawla Mohammed Kandeel	Secretary of the Board	- Technical Certificate in Business Administration. - Years of practical experience: 21 years.	23 February 2014

The members of the Board of Directors allocate sufficient time to review the functions and responsibilities entrusted to them, so that the Board of Directors shall meet at the invitation of the chairman.

An overview of the Board of Directors' meetings

The Board of Directors' meetings held during 2018 are explained through the following statement:

Member Name	Meeting No. (1) dated 21/02/2018	Meeting No. (2) dated 07/03/2018	Meeting No. (3) dated 14/05/2018	Meeting No. (4) dated 01/08/2018	Meeting No. (5) dated 13/11/2018	Meeting No. (6) dated 25/12/2018	Number of Meetings
Abdullah Hamad Al-Terkait	√	√	√	√	√	√	6
Fahd Abdul Rahman Al Mukhaizim	√	√	√	√	√	√	6
Abdul Mohsen Suleiman Al-Meshan	√	√	√	√	√	√	6
Naser Bader Al-Sharhan	√	√	√	√	√	√	6
Mishaal Ahmed Al - Jareki	√	√	√	√	√	√	6
Dr. Anwar Ali Al-Naqi	√	√	√	√	√	√	6
Abdul Razzaq Zaid Al dhubayan	√	√	√	√	√	√	6

ll members of the Board approved (1) circular resolution of the Board of Directors by first pass on 17 / 04 / 2018.

Method of applying the requirements of registration, coordination and keeping the minutes of meetings of the Company board of directors:

The Secretary shall assist the members of the Board fully and continuously to ensure that they properly receive any required information. Also, the Secretary shall assist the chairman of the Board in all matters related to the preparation of the agenda of the Board meetings and the issuance of invitations to Members. He also shall record all the resolutions and discussions of the board members, record the results of the votes taken in the meetings of the Board, and work on keeping the special documents and keeping a record of the meetings of the Board in consecutive numbers for the year in which the meeting was held with the registration of the meeting place, date and time of start and end.

Rule 2: Proper identification of functions and responsibilities

An overview about how the company identifies the policy of the functions, responsibilities and duties of each of the members of the board of directors and executive management, as well as the powers and authorities delegated to the executive management:

As part of Al Safat Investment Company's commitment to implementing the fundamentals of good governance, the management of the company, represented by its Board of Directors and Executive Management, has taken into consideration the responsibilities and duties of the Board of Directors and the Executive Management. The role of the Board of Directors in the company represents the point of balance that works to achieve shareholders' objectives and to follow up the executive management of the company. The Board of Directors seeks to achieve the company's strategic objectives by ensuring that the executive management performs the functions entrusted to it to the fullest extent, enhances the company's competitiveness, achieves high growth rates, makes efforts to maximize profits, and ensures that the executive management resolutions and procedures are always in the interest of shareholders.

- Approval of the strategic objectives, plans and policies of the company and reviewing them periodically.
- Approval of the annual estimated budgets and approving the periodic and annual financial statements before sending them to the regulatory bodies.
- Supervising the company's main capital expenditures, and owning and disposing of the assets.
- Ensuring the Company's compliance with policies and procedures to ensure that the Company respects the applicable internal regulations and regulations.
- Ensuring the accuracy and integrity of the data and information to be disclosed in accordance with applicable disclosure and transparency policies and procedures.
- Establishing effective channels of communication that allow shareholders to learn about the different aspects of the company's activities.
- Forming specialized committees emanating from the Board of Directors in accordance with a charter specifying the responsibilities and powers of each committee.
- Determining the authorities vested in the executive management through the adoption of a comprehensive list of powers of the company. The control and supervision of the performance of executive management members shall be carried out by the Board which shall ensure that they perform all the functions entrusted to them.

The achievements of the Board of Directors during 2018:

Based on the Board's responsibilities to achieve the best financial and operational results and to achieve the company's strategic plan to the fullest, the Board has achieved during the year 2018 of the following achievements:

- Approving the annual financial statements for 2017 and the periodic (quarterly) statements for 2018 and submitting them to the regulatory authorities.

- Setting the company's main and financial objectives, developing and adopting the strategies, plans and policies.
- Monitoring the implementation of annual strategies, work plans and budget and verifying the causes of deficiencies.
- Following up with the executive management to ensure the effectiveness of the internal control systems that protect the company's assets, ensure the integrity and accuracy of financial statements, company records and compliance with the relevant rules, regulations and instructions by monitoring and supervising the audit functions of the company's departments.
- Evaluating the performance of the Board of Directors as a whole during 2018, in addition to evaluating the members of the Board for themselves and evaluating the performance of the CEO during 2018, in addition to approving the evaluation results of the members of the committees of the Board of Directors.
- Approval of the nomination and appointment of the Co.'s CEO: Mr. Ahmed Fathi AbuZeid.
- Approval of the International Financial Reporting Standard (IFRS 9) that the Company shall apply when preparing its financial statements.
- Approval of the annual and estimated budget of the company.
- Approval of the company's investment of surplus funds available in the Arab Republic of Egypt, in the interest of profitability and profitable returns in favor of the company.
- Approval of assigning and appointing a specialized consultant office to amend and update the internal work policies and regulations of the company (organizational structure, job description, terms of reference, policies and work procedures of the company's departments). In addition to the approval of some internal policies and procedures in accordance with the requirements of the regulatory authorities.
- Follow up with legal consultants regarding the legal case between the company and Qatar National Bank.
- Appointment of the Investor and Social Responsibility Unit Officer.

An overview about the application of the requirements for the board of directors to form independent specialized committees, taking into account the following information about each committee:

The internal control and management system of Al Safat Investment Company is based on the guidelines and regulations issued by the Capital Markets Authority, the Central Bank of Kuwait, the Ministry of Commerce and Industry, The Company's Memorandum of Association and Articles of Association, as well as the company's internal work policies and regulations. The Board of Directors has delegated some of its powers to the committees of the Board of Directors in accordance with the charters approved by the Board of Directors which define the functions, responsibilities and powers of each committee.

The Board of Directors has formed several committees that have emerged from it. The instructions and rules of the Government issued by the Capital Market Authority have been taken into account in the formation of the Board Committees and the laws and circulars issued by the Central Bank of Kuwait concerning the companies that carry out financing activities. The following Board Committees include:

The Board of Directors Committees include the following:

The Audit Committee

- Date of formation of the Committee: 25th September 2016
- Duration of the committee: related to the term of the current administration
- Members of the Committee: Mr. Abdul Rahman Fahad Al Mukhaizim -President of the Committee.
  - Mr. Anwar Ali Al-Naqi - Vice-President
  - Mr. Nasser Badr Al-Sharhan - Member
  - Number of meetings held during 2018: Seven (7) meetings

Functions and achievements of the Committee during 2018:

- Reviewing the periodic financial statements (quarterly) and the annual report of the external auditor and approve them in principle before submitting them to the Board of Directors for the final approval in order to ensure the integrity of the financial statements of the company and the independence and integrity of the external auditor.
- Discussing and studying the observations made in the report of the External Auditor.
- Approval of the internal audit plan for the various departments of the company.
- Recommending the appointment of an internal audit manager for the company - Mr. Hassan Qaqish - after taking the approval of the Capital Markets Authority on the request for his candidacy.
- Recommending the Appointment of new external auditors for the Company in compliance with the Article (6.4.3) Book 5 of Executive bylaws- Securities Activities and Registered Persons - which stipulates that the auditor shall not carry out auditing of any client for more than four consecutive financial years unless the client is in liquidation. Such period shall be calculated from the date of registration in the auditors register at the Authority.
- Reviewing and approval of the report of the internal control systems of the company (ICR) for 2017، which was sent to the Capital Markets Authority; and to authorize the internal auditor to follow up and address the observations.
- Recommending the assignment and appointment of a specialized consultant office to amend and update the internal work policies and regulations of the company (organizational structure, job description, and terms of reference, policies and work procedures of the company's departments).
- Recommending the appointment of a specialized internal audit office to assist the internal audit manager to perform his duties and prepare the internal audit reports for the various departments of the company for the year 2018.
- Evaluating the annual performance of the members of the Committee and the manager of internal audit and submit the results to the Board for approval.

- Recommending the Board of Directors to approve the application of International Financial Reporting Standard (IFRS 9) and to apply it within the Company.

Risk Management Committee

- Date of formation of the Committee: 25th September 2016
- Duration of the Committee: Depends on the term of office of the current Board of Directors
- Members of the Committee:
  - Mr. Anwar Ali Al-Naqi - President
  - Mr. Mishal Ahmed Al-Jarki - Vice President
  - Mr. Abdul Razzaq Zaid Aldbayan - Member
- Number of meetings held during 2018: five (5) meetings

Functions and achievements of the Committee during 2018:

- Preparing and following up the risk management strategies and policies and assessing the systems and mechanisms for identifying and measuring different types of risks.
- Assisting the Board of Directors in identifying and assessing key risks to the Company and ensuring that the Company manages the risks efficiently.
- Reviewing and submitting a recommendation to the Board of Directors on the risks reports sent to the Capital Markets Authority which is prepared by the risk manager.
- Recommending the assignment and appointment of a specialized consultant office to amend the internal work policies and regulations of the company (The organizational structure, job description, Authority Matrix and policies and work procedures of the company's departments).
- Reviewing the report of the violations imposed on the company during the year by the Capital Markets Authority relating to the risks, specifying the procedures for correcting the situation and delegating the risk management officer and the compliance officer to follow up (No violations were imposed on the company by the regulatory authorities during 2018).
- Evaluating the annual performance of the members of the Committee and the Director of Risk Management and submitting the results to the Board for approval.

Remuneration and Nominations Committee:

- Date of formation of the Committee: 25th September 2016
- Duration of the Committee: Depends on the term of office of the current Board of Directors
- Members of the Committee:
  - Mr. Abdullah Hamad Al-Terkait - President
  - Mr. Abdulrazak Zaid al-Dhabayan-Vice President
  - Mr. Nasser Bader Al-Sharhan-member
- Number of meetings held during the year 2018: four (4) meetings

Tasks and achievements of the Committee during 2018:

- the preparation of a clear policy for remuneration of board members and executive management.

- Identify the required skills needed for board membership and review these needs on an annual basis.
- Recommend the nomination and appointment of the current CEO of the company, Mr. Ahmed Fathi Abou Zeid, after taking the approval of the Capital Markets Authority to request his candidacy.
- Prepare the annual evaluation forms for each of the board members and members of the committees and the CEO and send them to fill them and then sort the results of the evaluation after the adoption of the results from the board of directors.
- Evaluate the annual performance of the Committee members and submit the results to the board of directors for approval.
- Recommending the appointment of the Director of Internal audit and the internal Shariah audit officer, after confirming the conditions required by the Capital Markets Authority.
- Review and approve a report of the rewards granted to members of the Board of Directors and executive management during the year.
- Study and Comply with the conditions of independence that must be met by an independent board member.

Provision Committee:

- Date of formation of the Committee: 25 September 2016
- Duration of the committee: Depends on the term of office of the current Board of Directors
- Members of the Committee:
  - Mr. Abdulrazak Zeid Al-Dbayan-President
  - Mr. Hasan Mahmoud Qaqish-member and Committee's secretary
  - Mr. Herald Leo Fernandez – member
- Number of meetings held during the year 2018: two (2)

Tasks and achievements of the Committee during 2018:

- Establish and approve provisions against existing and doubtful receivable balances.
- Proof and adoption of additional custom for some of the company's existing legal proceedings.

Executive Committee:

- Date of formation of the Committee: 25 September 2016
- Duration of the committee: Depends on the term of office of the current Board of Directors.
- Members of the Committee:
  - Mr. Fahad Abdulrahman Al-Mukhaizim, President.
  - Mr. Abdulla Hamad Al-Terkait, vice-President
  - Mr. Nasser Bader Al-Sharhan - member
  - Mr. Mishal Ahmed al-Jarki - member
- Number of meetings held during the year 2018: None
- Functions and achievements of the Committee during 2018: none

Credit Committee:

The credit Committee is not currently active because al-Safat Investment Company has not been involved in the finance grant activity but was established at the request of the Central Bank of Kuwait, as the company has this activity.

A summary of how the requirements that allow board members to obtain information and data in a timely and accurate manner are applied:

The Board of Directors has adopted a manual of procedures to ensure that members of the Board of Directors receive information in a timely and accurate manner in accordance with relevant laws and legislations. The guide sets out the mechanism for requesting information and presenting it to the board of directors and the procedures and obligations of members to maintain the confidentiality of the information given to them by virtue of their work.

Rule 3: Selection of qualified members of the Board of Directors and executive management

About applying the requirements of forming the nomination and remuneration Committee:

The nominating mechanism established within the Company ensures the continued selection and attraction of competencies to join either to run for membership of the Board of Directors or executive management. The Board of Directors has established a nomination and remuneration committee in accordance with the rules of governance, which includes the Committee's composition to an independent member, and the Board adopted the Committee's work Charter which includes the Committee's tasks and responsibilities, which include:

- Recommend acceptance of nomination and renomination of board members and executive management.
- Establish a clear remuneration policy for board members and executive management.
- Identification of required skills requirements for board membership and review of those requirements on an annual basis.
- Attracting requests from those who wish to fill executive positions as needed, and studying and reviewing those requests.
- Identify the different segments of rewards that will be awarded to employees
- Prepare a job description for Executive board members, non-executive members and independent members.
- Proposing the nomination and re-nomination of members for elections by the General Assembly and ensuring that independent Members do not lack independence.
- Define the mechanisms for evaluating the performance of the Board as a whole and the performance of each board member and executive management.
- Identify indicators to measure the performance of the Board and review those indicators on an annual basis.
- Reviewing and proposing training programs and workshops for members of the board of Directors.

- Periodically review the payroll and grading schedule.
- Prepare a detailed annual report on all rewards granted to board members and executive management, whether amounts, benefits or bonus, whatever their nature and name, to be presented to the General Assembly of the company for approval.

Rewards report for members of the Board of Directors and executive management:

A separate report was prepared for the rewards and benefits granted to members of the Board of Directors and executive management of al-Safat Investment Company and its subsidiaries during the year 2018.

Rule 4: Ensure integrity of financial reporting

Written undertakings by both the Board of directors and the executive management of the integrity and integrity of the prepared financial reports.

Among the contents of the company's annual report are the written undertakings of both the board of directors and the executive management for the integrity and efficiency of the prepared financial reports.

About the application of the requirements of the composition of the Audit committee

The main role of the audit committee is to oversee all matters of auditing and ensuring the integrity and efficiency of financial reports and internal control systems. The Audit Committee shall carry out the following tasks, for example:

- Review all periodic interim and annual financial statements before presenting them and recommending them to the board of directors.
- Recommend to the Board of Directors the appointment of external auditors.
- Study and review the notes on the financial statements and request the Executive Officer to work on amending them if necessary.
- Recommend to the Board of Directors to appoint the Manager of Internal audit, and review and approve the internal audit plans.
- Review the results of internal reports and ensure that all necessary corrective actions are taken.
- Review the results of inspection of the company's regulators and take the necessary steps to correct the observations.
- Review matters relating to the nomination of the External Auditor and submit a recommendation to the Board of Directors.
- Recommend that an independent audit Office be commissioned to assess and review internal control systems, and prepare a report on this matter (internal control report) Internal control reports
- During 2018 there was no discrepancy between the recommendations of the Audit Committee and the decisions of the Board of Directors.

Independence and impartiality of the external Auditor

The ordinary General Assembly, held on April 30, 2018, approved the appointment of the company's external auditors for 2018, Mr. Khaled Hassan Ibrahim al-Ahmed from Al Sour chartered accountants and Mr. Faisal Saqr Abdul Karim al-Saqer- BDO Al Nisf.

The external auditors of the company are registered with a special register in the capital Markets Authority, which are independent from the company and its board of directors. External auditors are invited to attend the meetings of the General Assembly, the report prepared by them is read to the shareholders and the external auditors are allowed to discuss their views with the Audit Committee before the annual and interim financial statements are submitted to the Board for decision.

Rule 5: Sound risk management and internal control systems developed

Requirements for the formation of an independent risk management department:

The company has established risk management which protects the company from potential risks of various types and determines the propensity and quality of acceptable risks. By establishing a range of internal control systems that are adequate and appropriate for the company's activity and nature of its work. The Administrator shall have the necessary expertise after taking the approval of his appointment from the Capital Markets Authority and the risk Manager shall be independent so that he directly follows the board of Directors according to the approved organizational structure of the company.

Requirements for the formation of the Risk Management Committee:

The main role of the risk committee is to oversee all matters related to risk management and to contribute to the development of risk management policies and regulations consistent with the company's risk tolerance, in addition to the application of the following requirements:

- Review the company's risk management policies and procedures and recommend them to the board of directors for approval.
- Evaluation of systems and mechanisms to identify, measure and monitor the types of risks that the company may be exposed to.
- Ensure the independence of risk management staff and that they have a full understanding of the risks surrounding the company.
- Review the risk reports that are sent to the capital Markets Authority periodically and work to provide crisis solutions and follow up with risk management to address the risks contained in the reports.
- Review the issues raised by the Audit committee on risk.

Control systems and internal control:

Al Safat Investment Company has developed effective control systems, procedures and tools for risk management and internal control to cover all activities of the company.

The company continuously develops periodic reporting systems for all departments working in the company. As it is one of the most important tools in Follow-up of performance, control, and risk reduction by applying the principle of double control to ensure proper identification of powers and responsibilities, complete segregation of duties and non-conflict of interest. The company also has the internal audit and Compliance department. The board is keen to activate its role and support to ensure the highest level of internal control.

The company also has a compliance department that includes many outstanding skills and expertise to ensure compliance with all laws and regulations and is one of the most important internal control tools within the company. Compliance Department works in collaboration with the audit and risk Management department to ensure the application Double check and control procedures the Board of Directors is keen to activate its role on an ongoing basis.

Requirements for the formation of an independent internal audit department:

Al-Safat Investment Company has established the Internal Audit department with full technical independence through its direct affiliation to the audit committee which in turn follows the board of directors. The internal Audit Department performs several tasks including monitoring and auditing the performance of various departments in the company to ensure the proper application of the company's internal systems, regulations and policies. As well as ensuring the efficiency of the internal control systems in all departments of the company. The Internal Audit Department oversees the preparation of reports presented to the audit committee, which reviews the observations of the external auditors on the internal control systems to ensure that they are applied and that the company is complying with the relevant policies, regulations and instructions.

Rule 6: Promoting professional behavior and ethical values:

Standards and determinants of professional conduct and ethical values:

The Board of Directors of the company established the standards and determinants that entrench the concepts and ethical values in the company in accordance with the requirements of all official bodies. The executive management seeks to implement the objectives of the company according to those criteria and parameters and include them in the work Charter. The policy of reporting illegal practices has also been prepared in the event that an incorrect or non-secure order is observed. The policy also touched on other, very important aspects such as the relationship with shareholders, and the information security policy, so that all board members, executive management and staff should adhere to them in all their work assignments.

Policies and mechanisms on the reduction of conflict of interest cases:

The company's board of Directors has adopted a conflict of interest policy that aims to ensure that appropriate procedures are applied to detect and effectively deal with conflicts of fundamental interests. Also to ensure that the Board of directors handles cases Opposing existing, potential and prospective interests and that all decisions are taken in the interests of the company and this policy is an integral part of the company's full commitment to integrity and fairness in dealing with stakeholders, and the policy has set out the basics of dealing and managing conflict of interest situations. Parties whose interests are in conflict with the interest of the company, as well as the respective roles of the Board of Directors, executive management, compliance and internal audit departments and the Co.'s general Assembly with respect to conflict of interest, as well as the disclosure mechanism.

Rule 7: Disclosure and transparency in a timely and accurate manner:

Precise and transparent presentation and disclosure mechanisms that define the aspects, areas and characteristics of disclosure:

The company is characterized by openness, credibility and cooperation, and in the realization of the Company's established principles and in application of good governance best practices and a commitment to all legal requirements.

The Board of Directors adopted a policy of disclosure and transparency including definitions of some important legal terms as well as The policy clarified general disclosure policies, disclosure rules, disclosure procedures and disclosure mechanisms. The policy also set out the company's Disclosure Matrix and Company disclosures on its website, the purpose of which is to develop general guidelines for the effective and efficient conduct of operations. The company has prepared a special document outlining all the periodic reports and records of the regulatory authorities.

Requirements of the Board of Directors and executive management disclosures:

The company has prepared a register for the disclosures of board members, executive management, knowledgeable persons and disclosures of ownership of the stock group listed on Boursa Kuwait, and the company makes sure to apply the rules of disclosure of interests and disclosure of knowledgeable persons.

Requirements for forming a unit regulating investor affairs:

On 25 December 2018, the Board of Directors of the company at its meeting No. 6 of 2018 appointed Mr. Abdulaziz Abdulmohsen al-Mashaan as the Head of the investor Affairs and Social Responsibility unit, by applying and complementing the work of the Board of directors of Al-Safat investment company to establish a special unit Investors are committed to the provisions of the corporate governance rules and have been working on the preparation of policies and procedures for the work of the Unit to regulate the mechanism of dealing with investors and be responsible for the availability and availability of data, information and reports for investors and shareholders through the means of disclosure Common.

Information Technology infrastructure Development:

The company is using information technology to facilitate disclosure procedures so that it has recently developed the website of the company to be in line with the rules of governance and disclosure, and the company is currently working to put all of its disclosures on the website as soon as they are issued in order to for all interested people to have access to it. The Compliance Department is also relying on the electronic system to determine rates of interest and change.

Rule 8: Respect for shareholders ' rights:

Requirements for the identification and protection of the general rights of shareholders:

Al-Safat Investment Company ensures that all shareholders exercise their rights in a fair and non-conflict with the company's law issued by the Ministry of Trade and Industry, the rules of governance issued by the Kuwait Capital Markets Authority, and all decisions and instructions in this regard. The company has developed and approved the policy of protecting shareholders ' rights by the Board of directors so that all shareholders of the company enjoy all the following rights:

- Recording the value of the property contributed to the company's records.
- Disposition of shares from registration, transfer and/or transfer of property.
- Obtaining the assessment in dividend distributions.
- Obtain a share of the company's assets in case of liquidation.
- Obtaining data and information about the company's activity and its operational and investment strategy on a regular basis.
- Participate in the meetings of the General Assembly of shareholders and vote on its resolutions.
- Election of members of the board of Directors.
- Monitor the performance of the company in general, and the Board of directors in particular.
- Investigate with the Board of Directors or executive management and the filing of claims of responsibility if they fail to perform the tasks assigned to them.

Create a special record that is kept at the clearing agency:

A stock register and shareholder data are saved by the Kuwait Clearing Company in accordance with the corporate governance rules, and the Investor Relations Officer shall keep an updated version of the shareholders ' register periodically and the register shall be available to all shareholders for information on the dates specified and in accordance with the law and without any fees.

Encourage shareholders to participate and vote in the meetings of the company's associations:

The company allows its shareholders to participate actively in the meetings of the General Assembly, discuss the topics on the agenda. Shareholders have the right to vote on the resolutions of the General Assembly either on the original or acting, and all the information on voting rights is provided to all shareholders and potential investors in a permanent and continuous manner.

The company has extended an invitation to shareholders during 2018 to attend the ordinary General Assembly meeting, including the agenda, time and venue of the meeting by announcing twice in the daily newspapers of the State of Kuwait.

Rule 9: Recognizing the role of stakeholders

Systems and policies that ensure the protection and recognition of the rights of stakeholders

The company works to respect and protect the rights of the stakeholders in all its internal and external transactions and dealings. Adopting the appropriate approach to ensure the protection of the rights of the stakeholders by adhering to the laws and directives issued in this regard. It also complies with contracts entered into with other parties and complies with the obligations conferred on them in these contracts and agreements with respect to the stakeholders.

The company recognizes the role of stakeholders, and has therefore developed an appropriate mechanism to facilitate the reporting by stakeholders of improper practices to which they may be exposed, through the preparation and adoption of a policy to protect the rights of stakeholders.

Encourage stakeholders to participate in the follow-up of the company's various activities

The company provides stakeholders with access to information and data relevant to their activities through the Investor Affairs Unit, customer service management and Complaints Unit, as well as through the company's website, ongoing disclosures and through the development of performance methods and services for stakeholders. The company has also developed appropriate policies to enable stakeholders to inform the Board of any improper practices they are exposed to by the company and to provide appropriate protection to the reporting Parties.

Rule 10: Enhance and improve performance

Mechanisms that allow members of the board and executive management to receive training programs and courses on an ongoing basis:

Al-Safat Investment Co. has developed and prepared a plan to conduct training courses and programs for board members and executive management. To ensure that they have a full understanding of the company's operation and operations activities as well as the obligations incumbent upon them, including the financial and operational aspects of the activities The company, the legal and regulatory obligations placed upon them, duties and powers, ways to combat money-laundering and the financing of terrorism, the strategy and business plan of the company, the role of the committees emanating from the Board of directors and the laws, decisions and updates of the activities of the company and regulators.

Evaluating the performance of the Board as a whole and the performance of each board member and executive management

The company has worked to develop policies and systems to measure and evaluate the performance of each board member and executive management on a regular basis. The company has developed a set of performance measurement indicators related to the extent to which the company's strategic objectives and quality of risk management and adequacy of internal control systems are achieved. Enabling Performance measurement indicators from identifying strengths and weaknesses and suggesting that they be addressed in accordance with the company's interest.

During the fourth quarter of 2018, a performance evaluation was conducted for the board of Directors, its members and committees. As well as the performance evaluation of the CEO of the company, through the performance evaluation forms prepared by the rewards and nominations committee. The Board of Directors adopted all evaluation results in compliance with corporate governance and domestic policy.

The efforts of the Board of Directors to create the institutional values of Co.'s Employees

The Board of directors of Al-Safat Investment Company has worked to create values within the company in the short, medium and long term of the establishment of policies and procedures that work to achieve the strategic objectives of the company and improve performance rates. In addition to the development of integrated reporting systems to create values and inform the employees of the company on the methodology of the company's work and continuous developments and updates.

Rule 11: Focus on the importance of social responsibility

To ensure a balance between each of the company's objectives and the goals of the Society

On 25 December 2018, the Board of Directors of the company at its meeting No. 6 of 2018 appointed Mr. Abdulaziz Abdulmohsen al-Mashaan as the Head of the investor Affairs and Social Responsibility unit, in compliance with the company's preparation of the policy of managing its social responsibility, which allows the company To achieve its objectives, which are integrated with the objectives of society by acting ethically and contributing to the sustainable development of society in general and to the employees of the company in particular, by working to improve the living and socio-economic conditions of the workforce and their families, as well as the society at large, contributing to the reduction of levels of unemployment in society, the optimum utilization of available resources, the creation of employment opportunities for them and the support and promotion of national employment.

During the holy month of Ramadan, al-Safat Investment Co., in collaboration with the Kuwait Bank for Food, organized a campaign to distribute iftar meals to some companies, where a group of various employees of Al-Safat investment departments volunteered to work for good in the holy month. The campaign for the workers of the companies of Al-Safat Investment Company, the support of workers is a primary responsibility of all members of society and is part of the social responsibility plan adopted by the company.

The social responsibility of the private sector has become part of the strategy of many private sector companies through which different groups or community projects are supported by a clear institutional framework that follows the regulations of corporate governance and the laws of the country, and that the social responsibility activities of Al Safat investment aims to support students in various higher education institutions in the country as well as the youth sector, saying that the private sectors are betting on Kuwaiti youth in their growth.

The programs and mechanisms used to help highlight the company's efforts in the field of social work

Al-Safat Investment company has developed policies to ensure that the company's social responsibility objectives are disclosed to its employees, and awareness and education programs are conducted for the employees of the company to ensure that they are familiar with the social responsibility objectives of the company and continuously contribute to Upgrading the company, in addition to engaging the employees in the implementation of the CSR program by contributing to the various community activities carried out by the company.

Abdullah Hamad Al-Terkait

Chairman of Board of Directors

The Report of The Audit Committee for the ended year 31st December 2018

The Audit Committee of Al-Safat Investment Company is one of the main features of the company's implementation of the good governance rules. The efficiency of the committee is directly related to the efficiency of the Board of Directors. The Audit Committee performs its duties under the powers and responsibilities assigned to it by the Board of Directors in accordance with its Charter, monitoring the company's financial reports, accounting principles, internal and external auditing, and matters related to internal control, as well as coordination with the external auditors of the company.

Internal control systems:

The Audit Committee of Al-Safat Investment Company conducts an annual evaluation of the efficiency of the Company's internal audit and reviewing systems and making reports thereof, specifically evaluating the following:

1. The efficiency and competence of the audit procedures applied to protect the assets of Al-Safat Investment Company through evaluating the validity of its financial statements and evaluating the efficiency of the operations and the mechanism of work within the company.
2. Identify risk factors, including unexpected changes in the market, which affect the performance and work of the company and its ability to mitigate risk factors.
3. Evaluation of the performance of the executive management in the implementation of internal audit systems.
4. Addressing any weakness or failure to implement the company's internal audit systems.

During the year 2018, the Audit Committee regularly held its regular/ periodic meetings (7 meetings) to manage and measure the effectiveness of the internal control systems, in the presence of both external auditors of the company and the manager of Internal Audit.

Among the most important achievements of the Committee during the year are the following:

1. Reviewing the interim, annual financial statements (quarterly), the report of the external auditor and approving them before recommending them to the Board of Directors for the final approval in order to ascertain the validity of the financial statements of the company and the independence and integrity of the external auditor.
2. Discussing and studying the observations contained in the report of the External Auditor.
3. Approving the internal audit plan for the various departments of the company.
4. Recommending the appointment of new external auditors for the Company in compliance with the Article (6-4-3) book 5 of CMA Executive bylaws - Securities Activities and registered persons, which stipulated that the external auditor shall not review and audit the accounts of any client for more than four consecutive financial years unless the client is in liquidation, and this period shall be calculated from the date of registration in the auditors register with the entity.

5. Reviewing and adopting the report of the internal control systems of the company (ICR), which is prepared by Al-Ateeqi Certified Accountants - Kuwait and sent to Capital Market Authority and authorize the Manager of internal auditor to follow up and address the observations.
6. Recommending the appointment of an internal audit manager of the company, Mr. Hassan Qaqish, after the approval of the Capital Market Authority of his candidacy application.
7. Recommending the appointment and assignment of a specialized consultant office to amend and update the internal work policies and regulations of the company (organizational structure, job description, capacity table, policies and work procedures of the company's departments).
8. Recommending the appointment of a specialized Internal Audit Office to assist the Internal Audit Manager to perform his duties and prepare internal audit reports for the various departments of the Company for the year 2018.
9. Conduct the annual performance evaluation of the members of the Committee and the Director of Internal Audit and submit the results to the Board of Directors until they are approved.
10. Recommending to the Board of Directors to adopt the application of Accounting Standard IFRS9 and to apply it within the Company.

Regulatory obligations:

In accordance with the Executive Regulations of Law No. 7/2010 and amendments thereto issued by the Capital Market Authority, the Audit Committee continued to take the steps necessary to implement the new corporate governance directives, including updating the existing audit procedures and preparing records for the registration of the Committee's minutes of meetings, resolutions and agendas. In addition, the committee confirmed that the Board of Directors and the Executive Management are committed to providing clear written undertaking of the accuracy and integrity of the annual financial statements and financial reports relevant to the Company's activity. They include all the financial aspects of the Company and its operating results, and prepared in accordance with International Financial Reporting Standards.

The Audit Committee evaluates the status of the Company's internal audit systems on an ongoing basis to ensure that they comply with regulatory requirements and best market practices, and the status of corrective action plans and key performance indicators specified for the internal audit administration.

In conclusion, the Audit Committee considers that its follow-up, control, audit procedures on auditors' reports and on applied internal control systems, in order to indicate that Al-Safat Investment Company has an appropriate control environment for its activities and is not considered as obstacle of achieving its objectives, and that the company is making progress in the effectiveness of the system of monitoring and compliance with the laws and regulations issued by the regulatory authorities in the State of Kuwait.

Fahd Abdulrahman Al Mukhaizem
Chairman of the Audit Committee

State of Kuwait
Date: 05/03/2019

Board of Directors' Undertaking

We, the chairman and members of the Board of Directors of Al-Safat Investment Company KSC, hereby assure the accuracy and integrity of the financial statements as of 31 December 2018 except omission and error, and that the financial reports of the company have been presented fairly, properly and according to the International Financial Reporting Standards applicable in the State of Kuwait according to such information and reports as have been received by us from the Executive management, auditors and that due care has been made to verify the integrity and accuracy of those reports.

Chairman
Abdullah Hamad AlTerkait

Vice-Chairman
Fahad Abdul Rahman
Al Mukhaizim

Board Member
Abdul Muhsen Suliman
Al Meshan

Board Member
Naser Bader
Al Sharhan

Board Member
Dr. Anwar Ali
Al Naqi,

Board Member
Mishaal Ahmed
Al Jareki

Board Member
Abdul Razzaq Zaid
Al Dhubayan

Executive Management's Undertaking

To Chairman and Members of the Board of Directors,

With reference to the above-mentioned subject, and in accordance with the requirements of the Kuwait Capital Markets Authority, we assure that the consolidated financial statements of Al-Safat Investment Company KSC, the parent company and its subsidiary companies for the financial year ended 31 December 2018, are presented in a sound and fair manner except omission and error, that they show all the Financial aspects of the company in terms of operating data and results, and have been prepared according to the International Financial Reports Standards as approved by the Kuwaiti Capital Markets Authority.

Chief Executive Officer
Ahmed Fathy Abouzeid

Acting Finance Manager
Herald Leo Fernandes

التاريخ: 1440/07/08

الموافق: 2019/03/14

تقرير هيئة الرقابة الشرعية

عن الفتـــرة الماليــة 2018/01/01-2018/12/31

السادة / شركة الصفاة للاستثمار المحترمين

السلام عليكم ورحمة الله وبركاته، وبعد:

وفقاً للسلطات المخولة لنا من قبل أعضاء الجمعية العمومية لشركة الصفاة للاستثمار وبموجب النظام الأساسي للشركة وتعليمات الجهات الرقابية ذات الصلة فإن هيئة الرقابة الشرعية تقدم تقريرها النهائي عن الفترة 2018/01/01 – 2018/12/31 وهو يتضمن أربعة بنود على النحو الآتي:-

أولاً : أعمال هيئة الرقابة الشرعية :

قامت هيئة الرقابة الشرعية بأعمالها والتي اشتملت على فحص الهياكل الإستثمارية وصيغ العقود والمنتجات والسياسات والإجراءات ، سواء بشكل مباشر أو بالتنسيق مع إدارة التدقيق الشرعي الداخلي من أجل الحصول على جميع المعلومات والتفسيرات التي اعتبرتها ضرورية لتزويدها بأدلة تكفي لإعطاء تأكيدات معقولة بأن الشركة لم تخالف أحكام الشريعة الإسلامية في ضوء قرارات هيئة الرقابة الشرعية والمعايير الشرعية المعتمدة للشركة وقرارات الجهات الرقابية ذات الصلة .

ثانياً : قرارات هيئة الرقابة الشرعية :

قامت هيئة الرقابة الشرعية للشركة بالرد على جميع استفسارات الشركة وأصدرت عدد (1) قراراً.

ثالثاً : السياسات والإجراءات المعتمدة من قبل هيئة الرقابة الشرعية:

لم تقم هيئة الرقابة الشرعية للشركة بإعتماد اي سياسات وإجراءات لمنتجات و أنشطة للشركة خلال الفترة.

رابعاً : الرأي النهائي :

في رأينا وبعد دراسة جميع الإيضاحات والتأكيدات التي حصلنا عليها فإننا نعتقد :

1. أن العقود والعمليات والمعاملات التي أبرمتها الشركة خلال الفترة من 2018/01/01 إلى 2018/12/31 تمت في الجملة وفقاً لأحكام الشريعة الإسلامية .
2. إن مسؤولية إخراج الزكاة تقع على عاتق المساهمين.

وصل اللهم على سيدنا محمد وعلى آله وصحبه أجمعين

رئيس هيئة الرقابة الشرعية	**عضو هيئة الرقابة الشرعية**	**عضو هيئة الرقابة الشرعية**
أ.د. عبدالعزيز القصار	**د. عيسى زكي عيسى**	**د. علي إبراهيم الراشد**

Shariah External Audit Report

التاريخ :2018/03/01

التقرير النهائي للتدقيق الشرعي الخارجي
للفترة المالية من (2017/01/01 – 2017/12/31م)

إلى الجمعية العمومية : شركة الصفاة للاستثمار

السلام عليكم ورحمة الله وبركاته...

نطاق العمل:

وفقاً إلى عقد الارتباط الموقع معكم، فإن نطاق العمل يتحدد في التأكد من مدى التزام شركة الصفاة للاستثمار في تنفيذ العقود والمعاملات طبقاً لقرارات الهيئة الشرعية كما تم بيانها في القرارات الآراء والإرشادات.

مسؤولية الشركة:

تقع مسئولية الالتزام بتنفيذ العقود والمعاملات طبقاً لأحكام الشريعة الإسلامية كما تم بيانها من قبل الهيئة الشرعية للشركة على الإدارة التنفيذية.

مسؤولية شركة التدقيق الشرعي الخارجي عن البيانات المالية:

إن مسؤوليتنا تنحصر في إبداء رأي مستقل في مدى مطابقة معاملات الشركة وأنشطتها لقرارات الهيئة الشرعية للشركة بعد الفحص والإطلاع على العقود والعمليات والتنسيق مع الجهات المسؤولة عن إجراء العمليات بجميع طرق التواصل من الزيارات الميدانية والمراسلات وغيرها وفق الجدول المعد لذلك .

لقد قمنا بالإطلاع على تقرير هيئة الرقابة الشرعية والمدقق الشرعي الداخلي، كما قمنا بالإطلاع على جميع ما يلزم من أجل الحصول على جميع المعلومات والتفسيرات والإقرارات الزيارات التدقيقية التي نعتبرها ضرورية والتي كانت على النحو التالي : تمت الزيارة السنوية للصندوق بتاريخ 2018/03/01 وتمت مناقشة بند الاستثمارات المتاحة للبيع والودائع لأجل والنقد لدى الشركة وبند البنوك الدائنة وكانت النتائج الزيارة أن زودتنا بأدلة تكفي لإعطاء تأكيد معقول بمدى التزام معاملات الشركة وأنشطتها بقرارات الهيئة الشرعية للشركة، وتنفيذها للعقود والمعاملات المعتمدة من الهيئة ونعتقد بأن أعمال التدقيق التي قمنا بها توفر أساسا مناسباً لإبداء رأينا.

رأينا:

إن جميع العقود والعمليات التي تم فحصها والإطلاع عليها والقواعد المرجعية لتلك العقود والعمليات متوافقة مع قرارات الهيئة الشرعية للشركة ، ولم يتبين لنا أية مخالفات شرعية وفق القواعد المرجعية من قبل الهيئة الشرعية للشركة .

أ.ضاري ليث العتيقي
رئيس القطاع الشرعي

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Fax.00965 2241 33 69
P.O.Box.957 Sura
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State of Kuwait

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Independent auditors' report & Consolidated Financial Statements For the year ended 31st December 2018

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Independent auditors' report

The Shareholders of

Al Safat Investment Company K.S.C.(Closed)

State of Kuwait

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Al Safat Investment Company K.S.C. (Closed) ("the Parent Company") and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, 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.

Emphasis of matter

Without qualifying our opinion mentioned above, we draw attention to note 23 which states that the Group has recorded past due wakalas amounted to KD 21,107,286 as at 31 December 2018 (2017: KD 20,999,424).

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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.

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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

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

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 organization 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 2018 that might have had a material effect on the business of the Parent Company or on its financial position.

Faisal Saqer Al Saqer
Licence No. 172-A
BDO Al Nisf & Partners

Khaled H. AL-Ahmad- CPA
License No. 173 – "A"
AL-Soor Certified Public Accountants
GGI Independent Member-Switzerland

Kuwait: 18 March 2019

Consolidated statement of financial position At 31 December 2018

	Notes	2018 KD	2017 KD
Assets			
Property, plant and equipment	4	**3,067,195**	6,615,355
Investment properties	5	**3,992,451**	-
Right of use property	6	**18,102,915**	18,962,370
Goodwill	7	**1,470,500**	1,550,265
Intangible assets		**16,979**	14,665
Investment in associates	8	**4,165,836**	1,229,514
Available for sale investments	9	**-**	14,379,149
Financial assets at fair value through other comprehensive income	10	**11,127,076**	-
Inventory		**1,286,227**	886,556
Accounts receivable and other debit balances	11	**3,903,651**	3,157,001
Due from related parties	12	**121,874**	573,893
Investment in modaraba	13	**1,182,209**	-
Financial assets at fair value through profit or loss	14	**1,489,723**	3,179,992
Term deposits		**-**	235,000
Cash and cash equivalent	15	**3,774,299**	4,910,945
		53,700,935	55,694,705
Assets held for sale	16	**316,881**	1,285,490
Total assets		**54,017,816**	56,980,195
Equity and liabilities			
Equity			
Share capital	17	**25,693,940**	25,693,940
Share premium	18	**259,677**	259,677
Statutory reserve	19	**505,263**	388,834
Voluntary reserve	20	**505,263**	388,834
Treasury shares	21	**(307,393)**	(307,393)
Treasury shares reserve		**615,002**	615,002
Other reserves	22	**(9,982,592)**	(7,071,849)
Retained earnings		**3,514,813**	2,969,835
Equity attributable to owners of the Parent Company		**20,803,973**	22,936,880
Non-controlling interests		**7,927,967**	8,640,138
Total equity		**28,731,940**	31,577,018
Liabilities			
Provision for staff indemnity		**887,051**	866,039
Wakala investment	23	**21,107,286**	20,999,424
Accounts payable and other liabilities	24	**3,211,287**	2,903,269
Due to related parties	12	**-**	1,000
Notes payable		**55,779**	7,379
Due to banks	15	**24,473**	54,981
		25,285,876	24,832,092
Liabilities related to assets held for sale	16	**-**	571,085
Total Liabilities		**25,285,876**	25,403,177
Total equity and liabilities		**54,017,816**	56,980,195

Abdullah Hamed Al-Terkait
Chairman

Fahad Abdulrahman Al-Mukhaizim
Vice Chairman

Consolidated statement of profit or loss For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
Investment Activities			
Income from Islamic deposits		**143,296**	117,259
Dividend income		**683,608**	650,917
Income from portfolio and asset management		**35,077**	48,043
Realized gain on sale of investment at fair value through statement of profit or loss		**27,786**	17,308
Unrealized loss on investment at fair value through statement of profit or loss		**(115,758)**	(493,907)
Gain on bargain purchase of subsidiary	3.2	**-**	2,784,366
Gain on bargain purchase of associate	8	**2,053,314**	-
Group›s share of results of associates	8	**(23,121)**	(375,932)
Gain on sale of property, plant and equipment		**3,826**	3,843
Gain / (loss) on sale of assets held for sale	16	**40,676**	(9,142)
Income from credit balances written off	16(b)	**437,065**	-
Net rental gain from right of use property	25	**153,944**	12,428
Fee income		**175,807**	35,240
Reversal of provisions / (provisions)	26	**131,907**	(173,481)
Impairment losses	27	**(79,765)**	(346,727)
(Loss) / gain on foreign currency exchange		**(74,944)**	294,605
Other income		**86,371**	97,307
Total profit from investment activities		**3,679,089**	2,662,127
Trading Activities			
Revenue from trading activities		**3,823,509**	2,475,972
Cost of revenue from trading activities		**(3,491,346)**	(2,118,206)
Total profits from trading activities		**332,163**	357,766
Net profit from investment and trading activities		**4,011,252**	3,019,893
Expenses			
General and administrative expenses	28	**(2,450,267)**	(2,280,190)
Selling and distribution expenses		**(291,583)**	(125,348)
Profit for the year before Kuwait Foundation for the Advancement of Sciences ("KFAS") and Zakat		**1,269,402**	614,355
KFAS		**(10,584)**	(5,110)
Zakat		**(4,663)**	(7,100)
Profit for the year		**1,254,155**	602,145
Attributable to:			
Owners of the parent		**1,149,042**	1,028,125
Non-controlling interests		**105,113**	(425,980)
		1,254,155	602,145
Earnings per share (Basic and diluted) attributable to owners of the Parent Company (fils)	29	**4.49**	4.01

Consolidated statement of comprehensive income For the year ended 31 December 2018

	Notes	**2018**	2017
		KD	KD
Profit for the year		**1,254,155**	602,145
Other comprehensive loss items:			
Items that may be reclassified subsequently to the consolidated statement of profit or loss:			
Net unrealized loss on available for sale investments		**-**	(12,275,043)
Impairment of available for sale investments		**-**	346,727
Exchange differences on translating foreign currency		**36,422**	(11,825)
Exchange differences on translating foreign currency of associate		**-**	(350)
Items that may not be reclassified subsequently to the consolidated statement of profit or loss:			
Loss from financial assets at fair value through other comprehensive income		**(3,151,575)**	-
Revaluation of properties reclassified to investment properties	5	**250,760**	-
Fair value reserve of an associate	8	**(260,989)**	(19,859)
Other comprehensive loss		**(3,125,382)**	(11,960,350)
Total comprehensive loss for the year		**(1,871,227)**	(11,358,205)
Attributable to:			
Owners of the Parent Company		**(1,738,611)**	(10,938,732)
Non-controlling interests		**(132,616)**	(419,473)
		(1,871,227)	(11,358,205)

Consolidated statement of changes in equity For the year ended 31 December 2018

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Treasury shares	Treasury shares reserve	Other reserves (note 22)	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 31 December 2016	25,693,940	259,677	284,800	284,800	(307,393)	615,002	4,895,008	2,149,778	33,875,612	2,529,199	36,404,811
Profit / (loss) for the year	-	-	-	-	-	-	-	1,028,125	1,028,125	(425,980)	602,145
Other comprehensive (loss) / income for the year	-	-	-	-	-	-	(11,966,857)	-	(11,966,857)	6,507	(11,960,350)
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	(11,966,857)	1,028,125	(10,938,732)	(419,473)	(11,358,205)
Addition of non-controlling interest through business combination	-	-	-	-	-	-	-	-	-	6,575,870	6,575,870
Transferred to reserves	-	-	104,034	104,034	-	-	-	(208,068)	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(45,458)	(45,458)
Balance at 31 December 2017	25,693,940	259,677	388,834	388,834	(307,393)	615,002	(7,071,849)	2,969,835	22,936,880	8,640,138	31,577,018
Impact on adoption of IFRS 9	-	-	-	-	-	-	32,971	(103,434)	(70,463)	(10,277)	(80,740)
Balance at 1 January 2018 (Restated)	25,693,940	259,677	388,834	388,834	(307,393)	615,002	(7,038,878)	2,866,401	22,866,417	8,629,861	31,496,278
Profit for the year	-	-	-	-	-	-	-	1,149,042	1,149,042	105,113	1,254,155
Other comprehensive loss for the year	-	-	-	-	-	-	(2,887,653)	-	(2,887,653)	(237,729)	(3,125,382)
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	(2,887,653)	1,149,042	(1,738,611)	(132,616)	(1,871,227)
Transferred to reserves	-	-	116,429	116,429	-	-	-	(232,858)	-	-	-
Reclassified to an associate (note 8)	-	-	-	-	-	-	-	(323,833)	(323,833)	-	(323,833)
Capital reduction of a subsidiary (note 3.2)	-	-	-	-	-	-	-	-	-	(535,902)	(535,902)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(33,376)	(33,376)
Profit realised from sale of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(56,061)	56,061	-	-	-
Balance at 31 December 2018	25,693,940	259,677	505,263	505,263	(307,393)	615,002	(9,982,592)	3,514,813	20,803,973	7,927,967	28,731,940

Consolidated statement of cash flows For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
Cash flows from operating activities			
Profit for the year		**1,254,155**	602,145
Adjustments for:			
Depreciation	4	**372,597**	336,327
Amortisation of right of use property	6	**859,455**	859,455
Group›s share of results of associates	8	**23,121**	375,932
Gain on bargain purchase of associate	8	**(2,053,314)**	-
Income from Islamic deposits		**(143,296)**	(117,259)
Dividend Income		**(683,608)**	(650,917)
Realized gain on investment at fair value through statement of profit or loss		**(27,786)**	(17,308)
Unrealized loss on investments at fair value through statement of profit or loss		**115,758**	493,907
Gain on bargain purchase of subsidiary	3.2	**-**	(2,784,366)
(Gain) / loss on sale of assets held for sale	16	**(40,676)**	9,142
Income from credit balances written off	16 (b)	**(437,065)**	-
(Reversal of provisions) / provisions	26	**(131,907)**	173,481
Impairment losses	27	**79,765**	346,727
Provision for staff indemnity		**122,097**	183,781
Gain on sale of property and equipment		**(3,826)**	(3,843)
Amortization of intangible assets		**1,780**	933
Currency exchange (gain) / loss on wakala investment		**107,862**	(323,504)
		(584,888)	(515,367)
Changes in operating assets and liabilities			
Investments at fair value through statement of profit or loss		**123,524**	(432,871)
Accounts receivable and other assets		**(624,526)**	(8,321)
Inventory		**(220,495)**	163,286
Wakala receivables and Islamic finance		**-**	493,750
Due from related parties		**(92,149)**	269,906
Due to related party		**(1,000)**	(15,652)
Accounts payable and other liabilities		**286,138**	236,339
Cash generated (used in) / from operations		**(1,113,396)**	191,070
Staff indemnity paid		**(101,085)**	(70,558)
Net cash (used in) / from operating activities		**(1,214,481)**	120,512
Cash flows from investing activities			
Net purchase of available for sale investments		**-**	(1,507,200)
Purchase of property, plant and equipment	4	**(556,006)**	(136,510)
Purchase of right of use	5	**-**	(1,900,000)
Net proceed from sale of financial assets at fair value through other comprehensive income		**295,696**	-
Purchase of an associate	8	**(166,596)**	-
Term deposits		**235,000**	(235,000)
Net proceed from sale of asset held for sale	16	**875,266**	-
Investment in modaraba		**(1,182,209)**	-
Proceeds from sale of property, plant and equipment		**4,922**	7,179
Purchase of intangible assets		**(5,594)**	(5,938)
Proceeds from sale of intangible assets		**1,500**	-
Purchase of subsidiary		**-**	(1,548,572)
Cash from purchase of a subsidiary		**-**	855,057
Dividend paid to non-controlling interests		**(33,376)**	(45,458)
Income received from Islamic deposits		**143,296**	117,259
Dividend income received		**448,044**	194,194
Net cash from / (used in) investing activities		**59,943**	(4,204,989)
Cash flows from financing activities			
Notes payable		**48,400**	7,379
Net cash used in financing activities		**48,400**	7,379
Decrease in cash and cash equivalent		**(1,106,138)**	(4,077,098)
Cash and cash equivalent at beginning of the year		**4,855,964**	8,933,062
Cash and cash equivalent at end of the year	15	**3,749,826**	4,855,964
Non-cash transactions			
Due from related parties		**535,902**	-
Non-controlling interests		**(535,902)**	-

1. General information

Al Safat Investment Company K.S.C. (Closed) ("the parent company") incorporated on 15 September 1983. The parent company shares was listed on the Kuwait Stock Exchange on 21 November 2005 and is governed under the supervision of the Capital Market Authority and Central Bank of Kuwait. The company has been cancelled from trading on the Kuwait Stock Exchange on 13 March 2013.

The group comprises the parent company and its subsidiaries. Details of the subsidiaries are set out in note 3.2.

The purposes which the company was incorporated and its activities are as follows:

1. Producing various chemical products and marketing them locally and abroad.
2. Investing in real estate, industrial, agricultural and other economic sectors through participating the incorporation of specialized companies or acquiring shares or bonds in these companies in various sectors.
3. Participating in the incorporation or partially acquiring companies in various sectors.
4. Managing funds of private and public institutions and investing these funds in various economic sectors.
5. Providing and preparing technical consultations, economic, valuation, feasibility studies for investment project and preparing necessary studies for those establishments and companies.
6. Mediation in lending and borrowing operations.
7. Acting as bond issuance managers for bonds issued by companies or agencies and investment trustee.
8. Financing and mediating international commercial transactions.
9. Providing loans to others taking into consideration safe principles in extending loans and the continuation of safety for financial position of the company as per rules and regulation of Central Bank of Kuwait.
10. To carry out securities trading transaction including buying and selling stocks and bonds of companies and local and international governmental agencies.
11. Performing all services contributing to development and supporting the ability of stock market and cash liquidity in Kuwait and satisfying needs as permitted by law and policies and procedures issued by Central Bank of Kuwait.
12. Establishing and managing investment funds in its varied forms as permitted by law. The company is allowed to have interest or to participate, in any form, with agents performing similar activities or cooperate for realizing its purpose in Kuwait or abroad and it can acquire or join these agents.
13. Managing activities related to review and supervision of group investment systems "Investment Manager".

In all cases, the company is required to conduct all its activities in accordance with Islamic Sharia Laws. The company is not allowed, under any circumstances, to conduct any of its activities mentioned above in a way that exposes the company, direct or indirect, to conduct its activities contrary to Islamic Sharia.

The address of the parent company's registered office is Al-Safat Group Headquarters, Hawalli, Beirut Street, Opposite to Al-Qadessya Club – Floor 14, P.O. Box 20133, Al Safat 13062, State of Kuwait.

The consolidated financial statements of Al Safat Investment Company K.S.C. (Closed) and its subsidiaries (the group) for the year ended 31 December 2018 were authorized for issue by the parent company's board of directors on 18 March 2019 and are subject to the approval of the Annual General Assembly of the shareholders. The shareholders of the parent company have the power to amend these consolidated financial statements at the Annual General Assembly.

2. Application of New and Revised International Financial Reporting Standards (IFRSs)

The accounting policies applied by the Company are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards:

a) New standards and amendments effective from 1 January 2018

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 Financial Instruments effective from 1 January 2018. The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarized below:

Classification and Measurement of Financial assets

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit or loss (FVPL)

Financial assets carried at amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and yield income on the principal amount outstanding

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective yield method. Yield income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

Financial assets carried at fair value through other comprehensive income (FVOCI):

Equity investments at FVOCI

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IFRS 9 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the fair values reserves as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of profit or loss. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of profit or loss unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at fair value through profit or loss

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and yield income are mandatorily required to be measured at FVTPL periodically.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of profit or loss. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of profit or loss when the right to the payment has been established.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and yield income (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Yield income is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and yield income, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of going rates.

Contractual terms that introduce a more than minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic arrangement do not give rise to contractual cash flows that are solely payment of principal and yield income. In such cases, the financial asset is measured at fair value through profit or loss.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition except, in the exceptional circumstances, when the Group acquires, disposes of, or terminates a business line.

Impairment of financial assets

The Group applies a three stage approach to measure the Expected Credit Loss (ECL) as follows:

Stage 1 : 12-months ECL

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

Stage 2 : Lifetime ECL – not credit impaired

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

Stage 3 : Lifetime ECL – credit impaired

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

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

Impact of IFRS 9 adoption

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

	Notes	Original classification under IAS 39	New Classification under IFRS 9	Original Carrying amount under IAS 39	Remeasurement ECL	Reclassification	New carrying amount under IFRS 9
				KD	KD	KD	KD
Financial Assets							
Available for sale investments	a & b	AFS	FVOCI	14,379,149	-	1,621,082	16,000,231
Debtors and other debit balances	c	Loans and Receivables	Amortised Cost	3,157,001	(76,396)	-	3,080,605
Due from related parties	d	Loans and Receivables	Amortised Cost	573,893	(4,344)	-	569,549
Financial assets at fair value through profit or loss	e	FVTPL	FVOCI	1,863,200	-	(1,621,082)	242,118
Financial assets at fair value through profit or loss		FVTPL	FVTPL	1,316,792	-	-	1,316,792
Term deposits		Loans and Receivables	Amortised Cost	235,000	-	-	235,000
Cash and cash equivalents		Loans and Receivables	Amortised Cost	4,910,945	-	-	4,910,945
Total financial assets				**26,435,980**	**(80,740)**	**-**	**26,355,240**
Financial liabilities							
Wakala investment		Loans and Receivables	Amortised Cost	20,999,424	-	-	20,999,424
Accounts payable and other liabilities		Loans and Receivables	Amortised Cost	2,903,269	-	-	2,903,269
Due to related parties		Loans and Receivables	Amortised Cost	1,000	-	-	1,000
Notes payable		Loans and Receivables	Amortised Cost	7,379	-	-	7,379
Due to banks		Loans and Receivables	Amortised Cost	54,981	-	-	54,981
Total financial liabilities				**23,966,053**	**-**	**-**	**23,966,053**

a. These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

b. These equity securities represent investments that the Group intends to hold for the short term for trading purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVTPL with all gains and losses recognized in profit or loss.

c. Account receivables and other assets that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of KD 76,396 in the allowance for impairment over these receivables was recognized in opening retained earnings at 1 January 2018 on transition to IFRS 9.

d. Due from related parties that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of KD 4,344 in the allowance for impairment over these related parties was recognized in opening retained earnings at 1 January 2018 on transition to IFRS 9.

e. Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. At 1 January 2018, as a result of adoption of IFRS 9, the Group has made an irrevocable election to recognize changes in fair value through other comprehensive income rather than profit or loss as these are strategic investments and the Group considered this to be more relevant.

f. There were no effect on classification and measurement of financial liabilities.

IFRS 15 - Revenue from contracts with customers

The Group has adopted IFRS 15: Revenue from Contracts with Customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. This standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The application of this standard did not result any changes in accounting policies for the Group and it did not have material effect on the financial statements of the Group.

Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions

This standard will be effective for annual periods beginning on or after 1 January 2018, the amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments did not have material impact to the Group’s consolidated financial statements.

Amendments to IAS 40 – Transfers of Investment Property

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

These amendments did not have material impact to the Group's consolidated financial statements.

Annual Improvements to IFRS – 2014 – 2016 Cycle

These annual improvements are effective for annual periods beginning on or after 1 January 2018 and they did not have a material impact on the Group's consolidated financial statements. They include:

IFRS 1 – First-time Adoption of International Financial Reporting Standards

The amendments delete certain short-term exemptions in IFRS 1 because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable.

IAS 28 – Investments in Associates and Joint Ventures

The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at Fair Value Through Profit or Loss (FVTPL) is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

In respect of the option for an entity that is not an Investment Entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

The amendments are applied retrospectively and earlier application is permitted.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange of rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

b) Standards and interpretations issued but not effective

IFRS 16 - Leases

This standard will be effective for annual periods beginning on or after 1 January 2019. This standard will be replacing IAS 17 "Leases" and will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term.

These amendments are not expected to have material impact to the Group's consolidated financial statements.

3. Significant accounting policies

3.1 Basis of preparation and compliance statement

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, as modified for use by the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRSs except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK's requirement for a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities. These rates are applied on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period.

The consolidated financial statements are prepared under historical convention except for financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and investment properties which are measured at fair value.

The financial statements are prepared in Kuwaiti Dinars (KD) which is the principal currency of the Parent Company.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except for those disclosed in note 2.

3.2 Basis of consolidation

The consolidated financial statements comprise of the Parent Company and its subsidiaries drawn up to 31 December 2018.

Where the Parent Company has control over an investee, it is classified as a subsidiary. The Parent Company controls an investee if all three of the following elements are present:

- power over the investee;
- exposure to variable returns from the investee; and
- the ability of the investor to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Parent Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Parent Company considers all relevant facts and circumstances, including:

- The size of the Parent Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the Parent Company and by other parties;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Intercompany balances and transactions, including intercompany profits or losses and unrealized profits and losses are eliminated in full on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of amount of those interests at the date of original business combination and the non-controlling entity's share of changes in equity since the date of the combination. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated statement of profit or loss.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities (i.e. reclassified to the consolidated statement of profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

The consolidated financial statements include the following subsidiaries:

Name of subsidiary	Principal activity	Place of incorporation	Proportion of ownership interest and voting power held		Net asset value	
			December 31		December 31	
			2018	2017	2018	2017
					KD	KD
Al Safat Holding Company K.S.C.(Closed)	Business management	Kuwait	100 %	100 %	9,562,787	10,766,078
Safat House for General Trading Company W.L.L.	General Trading	Kuwait	80 %	80 %	81,308	82,108
Al Safat for Consultancy K.S.C. (Closed)	Consultancy	Kuwait	96 %	96 %	101,751	113,131
Dar Al Safat General Trading Company W.L.L.	General Trading	Kuwait	100 %	100 %	157,419	212,332
The Roots Brokerage – Egypt	Services	Egypt	60 %	60 %	232,759	249,229

During the year, the Group received dividends in the amount of KD 50,064 from The Roots Brokerage – Egypt.

On 1 July 2017, Al Safat Holding Company K.S.C. (Closed) (100% subsidiary) acquired 38.44% of Safat Industries Holding Company K.S.C. (Closed) making the total shareholding of the company at 63.79% which resulted in the reclassification from investments in associate to consolidated subsidiary. During the previous year, the Group carried out a Purchase Price Allocation exercise for the acquisition of shares in Safat Industries Holding Company K.S.C. (Holding) (indirect subsidiary company) that resulted in gain on bargain purchase in the amount of KD 2,784,366 which is included in the consolidated statement of profit or loss.

All the subsidiaries financial statements (except Al Safat for Consultancy K.S.C. (Closed) and Dar Al Safat General Trading Company W.L.L. and The Roots Brokerage - Egypt) were consolidated based on management accounts prepared by the parent company for the year ended 31 December 2018, since the dates of financial statements of some companies are different from that of the consolidated financial statements of the Group.

During the year, Carpet Industries (a subsidiary of Safat Holding Company) reduced its capital from KD 2,240,000 (Two Million Two Hundred and Forty Thousand Kuwaiti Dinars) to KD 1,140,000. (One Million One Hundred and Forty Thousand Kuwaiti Dinars) in the amount of KD 1,100,000 of share capital and that is by cancelling 11,000,000 shares of the Company with the return of the nominal value of the shareholders. The amount of reduction in the amount of KD 1,100,000 has been paid during previous years through related parties.

3.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred or assumed by the Group to the former owners of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally expensed as incurred. At the acquisition date, the identifiable assets acquired and liabilities assumed and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in the consolidated statement of profit or loss.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognize amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in consolidated statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated statement of profit or loss where such treatment would be appropriate if that interest was disposed of.

3.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Properties in the course of construction are carried at cost, less any recognized impairment loss. Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on prospective basis. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred.

Significant improvements and replacements of assets are capitalized. The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in consolidated statement of profit or loss in the period in which they occur.

3.5 Investment properties

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

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in the consolidated statement of profit or loss under "change in fair value of investment properties".

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

3.6 Rights of use of property

Leasehold rights acquired are measured on initial recognition at cost. Following initial recognition, leasehold rights are carried at cost less any accumulated amortization and any impairment losses.

Leasehold rights are amortized over their useful economic life and assessed for impairment whenever there is an indication that the leasehold rights may be impaired. The amortization period and the amortization method for leasehold rights is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on leasehold rights is recognized in the consolidated statement of profit or loss.

The right of use is considered unlimited due to prevailing market norms that support its renewal on an ongoing basis and accordingly, its cost is not amortized.

The useful life of the right of use is reviewed to ensure that there are no events or circumstances that determine its useful life. If such events or circumstances are established, the carrying amount of the right of use is amortized from the date of the events and the circumstances that led to the determination of its useful life.

Gains or losses arising from derecognition of use right of use are measured as the difference between the net disposal proceeds and the carrying amount of the right and are recognized in the consolidated statement of profit or loss when the asset is derecognized.

3.7 Goodwill

Goodwill represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the statement of profit or loss on disposal.

The group's policy for goodwill arising on the acquisition of an associate is described at note 3.9 below.

3.8 Intangible assets

Intangible assets with a finite useful life that are separately acquired and acquired are stated at cost less any accumulated impairment losses or impairment losses, if any. Amortization is calculated on a straight-line basis over the expected useful life.

The useful life and amortization methods are reviewed at the end of each financial year. The change in estimates is accounted for from the beginning of the financial year in which the change occurs.

Intangible assets with indefinite useful lives that are acquired separately are stated at cost less any impairment losses, if any.

Intangible assets are written off on disposal or when there is no future benefit from the use. The gain or loss on sale is measured as the difference between net sales proceeds and the carrying amount of the asset sold and subsequently recognized in the statement of comprehensive income.

3.9 Investment in associate

An associate is an entity over which the group has significant influence that is neither a subsidiary nor an interest in a joint venture. 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 results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the group's share of the statement of profit or loss and other comprehensive income of the associate. When the group's share of losses of an associate exceeds the group's interest in that associate, the group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in consolidated statement of profit or loss.

The requirements of IFRS 9 are applied to determine whether it is necessary to recognize any impairment loss with respect to the group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the group's consolidated financial statements only to the extent of interests in the associate that are not related to the group.

The associate's financial statements are prepared either to the parent company's reporting date or to a date not earlier than three months of the parent company's reporting date. Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group. Where practicable, adjustments are made for the effect of significant transactions or other events that occurred between the reporting date of the associates and the parent company's reporting date.

3.10 Inventories

Inventories are held at lower of cost and net realizable value. Raw material cost is determined on a weighted average cost basis. The cost of finished goods and goods in process includes direct materials, direct labor, fixed and variable manufacturing overhead, and other costs incurred in bringing inventories to their present location and condition. Net realizable value is the estimated selling prices less all the estimated costs of completion and costs necessary to make the sale.

3.11 Impairment of tangible and intangible assets

At each financial position date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of profit or loss.

3.12 Recognition of financial assets and financial

Financial assets and financial liabilities are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

3.13 Classification and measurement of financial assets

The Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

Business model assessment

The Group determines its business model at the level that best reflects how 1t manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

Contractual terms that introduce a more than infinitival exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

The Group classifies its financial assets upon initial recognition into the following categories:

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

Financial assets carried at amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and charge for expected credit losses are recognised in the consolidated statement of profit or loss. Any gain or loss on de-recognition is recognized in the consolidated statement of profit or loss.

Financial assets carried at fair value through other comprehensive income (FVOCI):

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis. Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on de-recognition and are not recognised in the consolidated statement of profit or loss. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of profit or loss unless they clearly represent a recovery of part of the cost of the investment. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at fair value through profit or loss:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognized in the consolidated statement of profit or loss. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of profit or loss when the right to the payment has been established.

3.14 Impairment of financial assets

The application of IFRS 9 resulted significant changes in the way the Group accounts for impairment of financial assets by substituting the realised loss model as per IAS 39 to expected credit loss model as per IFRS 9. This requires the Group to make provision for ECL for all debt instruments, which are not carried at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the impairment loss of the financial assets carried at amortised cost is reversed at the subsequent periods.

The financial assets at amortised cost consist of receivables and other debit balances and cash and cash equivalents.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.
- The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12 month ECLs:
- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities, bank balances, and term deposits (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure; using the simplified approach, loss allowances for receivables and other debit balances at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 180 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to receivables and other debit balances, including contract assets, are presented separately in consolidated statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents item comprise of current accounts at banks and term deposits mature within three months from the date of deposit, cash on hand, and cash with investment portfolios.

Receivables and other debit balances

Note (33 b) provides further detail about the calculation of ECLs related to receivables, related parties, and contract assets on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past 3-5 years. The Group performed the calculation of ECL rates for its customers.

Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, geographic region and industry, delinquency status, age of relationship and type of product purchased where applicable.

Actual credit loss experience was adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group’s view of economic conditions over the expected live of the receivables.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

3.15 Financial liabilities

The group's financial liabilities include wakala investments, accounts payables and other liabilities, notes payable, and due to banks and due to related parties.

Wakala payables

Wakala payables are recognised initially at fair value, net of transactions cost incurred. Wakala payables are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the payables using the effective cost of payables.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost any difference between the proceeds (net of transaction costs); and the recoverable amount is recognized in the consolidated statement of income over the term of the borrowings using the effective yield method.

Offset

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 rights to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.16 Assets held for sale

Assets and disposal groups are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets classified as non-current asset held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.17 Related parties

Related parties are senior shareholders of the Group, directors, key management personnel, their immediate family members and companies controlled or controlled by the parent company. In the normal course of business and with the approval of the Group's management, transactions were made with those related parties.

3.18 Investment in modaraba

Investment in modaraba is recorded at cost and the permanent impairment in the investment is charged directly to consolidated statement of profit or loss.

3.19 Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realized 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 gain on sale of treasury shares 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.

3.20 Provisions

A provision is recognized in the consolidated statement of financial position when the group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

3.21 Provision for staff indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labour Law and employment contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the financial position date, and approximates the present value of the final obligation.

3.22 Foreign currency translation

The consolidated financial statements are presented in Kuwaiti Dinar, which is also the functional currency of the Parent Company.

Transactions and balances

Transactions in currencies other than the group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of transactions. At each consolidated statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the consolidated statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated statement of profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated statement of profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in consolidated statement of profit or loss and other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in consolidated statement of profit or loss and other comprehensive income.

Group companies

The assets and liabilities of the group's foreign operations are expressed in KD using exchange rates prevailing at the consolidated statement of financial position date. Income and expense items are translated into the group's presentation currency at the average rate over the reporting period. Exchange differences are recognized in the consolidated statement of profit or loss and other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to statement of profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate.

3.23 Revenue recognition

Revenue from contracts with customers is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria apply to each category of revenue:

Sale of goods

Revenue from sale of goods is recognized when performance obligation is satisfied and control is transferred to the customer. Revenue is measured at the fair value of consideration received or receivable at the time of transfer, net of returns, trade discounts and volume rebates.

Rendering of services

Revenue from services is recognized when the performance obligations is satisfied and control is transferred to customer.

Dividends

Dividend income is recognised when the right to receive payment is established.

Fees and Commissions

Fees and commission income are recognized at the time the related services are provided.

Rental income

Rental income from investment properties is recognized on a straight line basis over the lease period.

Profit margin on deposits

Profit margin on Islamic deposits is calculated on the accrual basis and is recognized in the statement of profit or loss and other comprehensive income in the period incurred.

3.24 Finance costs

Finance costs are calculated on the accrual basis and are recognized in the consolidated statement of profit or loss in the period in which it is incurred.

3.25 Fiduciary assets

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

3.26 Dividends

Dividends are recognized as a liability in the group's consolidated financial statements in the period in which the dividends are approved by the shareholders.

3.27 Share of Kuwait Foundation for the Advancement of Science and Zakat

Kuwait Foundation for Practical Advancement and Zakat The fees / taxes imposed on the parent company are fixed at profit for the year less deductible deductions in accordance with the applicable financial laws in this regard in the State of Kuwait. In accordance with the current tax / tax laws, the cumulative loss is not permitted and there are no material differences between the tax / liability bases of the assets and liabilities and their carrying amounts for the purposes of the financial statements.

Shares	Tax / ratio
1% of net profit less deductible deductions	Kuwait Foundation for Advancement of Science
1% of net profit less deductible deductions	Zakat

3.28 Segment information

The segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments used by the Group's management to allocate and assesses performance are consistent with the internal report provided to the Chief Operating Decision Maker. The operating segment exhibiting similar economic characteristics product and services, class of customers where appropriate are aggregated and reported as reportable segments.

3.29 Contingent liabilities and assets

A contingent liability is disclosed when there is a possible obligation to be confined by a future event that is outside the contract of the group or where a present obligation may, require an outflow of economic resources.

3.30 Significant accounting judgements and estimation uncertainty

Accounting judgements

In the process of applying the group's accounting policies, management has used judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

The useful life of tangible assets

The Group retains the estimated useful life at which tangible assets are depreciated. The Group's management is satisfied that the estimated useful lives of these assets are appropriate.

Impairment of associates

Determining whether the carrying value of the associate that includes goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of goodwill

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

Impairment of debtors and other receivables

The Group reviews receivables and other assets on a periodic basis to assess any indicators of impairment and whether the provision for impairment should be recorded in the consolidated statement of income. Such estimates are necessary on the basis of several factors that require different degrees of uncertainty and therefore the actual results may differ from the estimates resulting in changes to those provisions.

Impairment of inventories

Inventories are stated at the lower of cost and net realizable value. When the goods become obsolete or obsolete, their recoverable amount is estimated. For large amounts, estimation is made individually. Amounts that are not considered to be significant are assessed collectively and are allocated based on the type of inventory and the length of time outstanding according to historical selling rates.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of unquoted equity investments

- Valuation of unquoted equity investments is normally based on one of the following recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

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

4. Property, plant and equipment

	Freehold land	Buildings on freehold land	Buildings on leased land	Buildings improvements	Machinery and equipment	Furniture, fixtures and computers	Vehicle	Total
	KD	KD	KD	KD	KD	KD	KD	KD
Cost								
Balance at 1 January 2018	1,595,698	2,626,277	2,031,768	193,886	5,570,600	1,839,827	193,193	14,051,249
Additions	-	-	13,501	17,565	435,878	80,536	8,526	556,006
Transferred to investment properties (note 5)	(1,595,698)	(2,639,402)	-	-	-	-	-	(4,235,100)
Disposals	-	-	(2,000)	-	(8,195)	(461)	(7,150)	(17,806)
Foreign exchange differences	-	13,125	-	-	320	3,339	-	16,784
Balance at 31 December 2018	-	-	2,043,269	211,451	5,998,603	1,923,241	194,569	10,371,133
Accumulated depreciation and impairment								
Balance at 1 January 2018	-	438,441	1,471,993	154,038	3,692,475	1,557,712	121,235	7,435,894
Annual depreciation	-	52,453	50,879	10,678	157,305	78,649	22,633	372,597
Disposals	-	-	(2,000)	-	(8,190)	(442)	(6,078)	(16,710)
Transferred to investment properties (note 5)	-	(493,409)	-	-	-	-	-	(493,409)
Foreign exchange differences	-	2,515	-	-	241	2,810	-	5,566
Balance at 31 December 2018	-	-	1,520,872	164,716	3,841,831	1,638,729	137,790	7,303,938
Net book value								
31 December 2018	-	-	522,397	46,735	2,156,772	284,512	56,779	3,067,195
Depreciation rate (year)		2-5	2-5	10	8-20	8-33.3	20-33.3	

Buildings are constructed on a leased land from Government of Kuwait (note 6).

As at 31 December 2018, the Group transferred freehold land and buildings on freehold land with a total carrying value of KD 3,741,691 to investment properties (note 5).

Depreciation expenses have been charged as follows:

	2018	2017
	KD	KD
General and administrative expenses	**182,719**	166,037
Cost of revenue	**189,878**	170,290
	372,597	336,327

	Freehold land	Buildings on freehold land	Buildings on leased land	Buildings improvements	Machinery and equipment	Furniture, fixtures and computers	Vehicle	Total
	KD	KD	KD	KD	KD	KD	KD	KD
Cost								
Balance at 1 January 2017	1,595,698	2,668,033	96,804	192,437	2,675,261	1,413,609	103,391	8,745,233
Additions	-	-	37,636	1,449	55,961	25,814	15,650	136,510
Acquisition through business combination	-	-	1,897,328	-	2,840,399	409,124	93,802	5,240,653
Disposals	-	-	-	-	-	-	(19,650)	(19,650)
Foreign exchange differences	-	(41,756)	-	-	(1,021)	(8,720)	-	(51,497)
Balance at 31 December 2017	1,595,698	2,626,277	2,031,768	193,886	5,570,600	1,839,827	193,193	14,051,249
Accumulated depreciation and impairment								
Balance at 1 January 2017	-	392,078	72,571	143,895	971,692	1,084,754	48,639	2,713,629
Annual depreciation	-	52,759	32,171	10,143	146,208	74,721	20,325	336,327
Acquisition through business combination	-	-	1,367,251	-	2,575,195	403,689	68,585	4,414,720
Disposals	-	-	-	-	-	-	(16,314)	(16,314)
Foreign exchange differences	-	(6,396)	-	-	(620)	(5,452)	-	(12,468)
Balance at 31 December 2017	-	438,441	1,471,993	154,038	3,692,475	1,557,712	121,235	7,435,894
Net book value								
31 December 2017	1,595,698	2,187,836	559,775	39,848	1,878,125	282,115	71,958	6,615,355

5. Investment properties

Investment properties represent buildings on freehold land in the State of Lebanon. Details of the investment properties are as follows:

	2018	2017
	KD	KD
Freehold land	**2,041,982**	-
Buildings on freehold land	**1,950,469**	-
	3,992,451	-

The movement on investment properties is as follows:

	2018	2017
	KD	KD
Transferred from property, plant and equipment (note 4)	**3,741,691**	-
Change in fair value transferred to revaluation reserve	**250,760**	-
	3,992,451	-

As at 31 December 2018, the Group transferred freehold land and buildings on freehold land with a total carrying value of KD 3,741,691 to investment properties (note 4).

The fair value of the investment properties KD 3,992,451 as at 31 December 2018 is based on independent valuations using the market comparative method in which concentrated on recent transactions in the real estate market and compared the prices of similar real estate properties in terms of specifications, area of land. Contents, area of the building, age of building, condition of the building, percentage of occupancy, recurring expenses, capitalization methods with necessary adjustment to arrive at the market value of the investment property.

6. Right of use property

	2018	2017
	KD	KD
Cost		
Balance at 31 December	24,971,366	16,761,575
Addition through purchases	-	1,900,000
Additions through business combinations	-	6,309,791
	24,971,366	24,971,366
Accumulated amortization		
Balance at 31 December	6,008,996	5,149,541
Annual amortization	859,455	859,455
	6,868,451	6,008,996
Net book value		
31 December	18,102,915	18,962,370

Right of use property as at 31 December 2018 includes payment made and expenses incurred on a Build, Operate and Transfer ("B.O.T.") project awarded to the group during the year 2005. The group's B.O.T. project is constructed on land leased from a third party for a period of twenty five years under a renewable usufruct agreement (note 25).

Right of use property also includes right of use of land from state of Kuwait for a period of 25 years with option to renew.

7. Goodwill

Goodwill resulted from acquisition of the following company:

	2018	2017
	KD	KD
Al-Assriya Printing Press Publishing and Distribution Company W.L.L. (indirect subsidiary)	**1,470,500**	1,550,265
	1,470,500	1,550,265

The management of the Group performed assessment of goodwill to determine whether there is impairment in value or not based on internal valuation report.

During the year, the Group performed assessment of goodwill and determined impairment loss of KD 79,765 which was included in the consolidated statement of profit or loss (note 27).

8. Investment in associates

The group's shareholding in associate companies is as follows:

Associate company name	**Place of incorporation**	**Ownership interest and voting rights**		**Carrying value**		**Activities**
		2018	2017	**2018**	2017	
		(%)	(%)	KD	KD	
Asia Holding Company K.S.C. (Holding)	Kuwait	**21.70**	21.70	843,200	1,229,512	Business Management
Senergy Holding Company K.P.S.C.	Kuwait	**20.88**	-	3,322,636	-	Business Management
Dana Al-Safat Real Estate Company K.S.C. (Closed) (Under liquidation) (note 16 (c))	Kuwait	**-**	24.09	-	1	Real Estate
Al-Safat Media for Advertising & Publicity K.S.C. (Closed) (Cancelled records from Ministry of Commerce and Industry)	Kuwait	**-**	27.00	-	1	Advertising and Promotion
				4,165,836	1,229,514	

All above associates are measured using equity method.

As at 5 December 2018, the Group purchased shares of Senergy Holding Company K.P.S.C. making the total shareholding of the Group at 20.88%. This has resulted significant influence on investee company's operating activity which required the reclassification from financial assets at fair value through other comprehensive income to investments in associate. The valuation report of Senergy Holding Company K.P.S.C. has been prepared by an independent valuator based on consolidated financial information as at 30 September 2018. The Group valued the assets and liabilities acquired which resulted gain on bargain price purchase as follows:

	KD
Fair value of net identifiable assets	15,915,295
Percentage of equity holding	20.88%
Groups share of net asset acquired	3,322,636
Purchase consideration of associate	(166,596)
Transferred from fair value through other comprehensive income to associate	(1,102,726)
Fair value at acquisition and amount paid for additional shares	(1,269,322)
Gain on bargain price purchase	2,053,314
Fair value reserve transferred to retained earnings upon acquisition	323,833

All financial information from associates are based on audited financial statements as at 31 December 2018.

Summarized financial statements of the group's associates is set out below:

	2018	2017
	KD	KD
Total assets	**26,144,026**	6,838,680
Total liabilities	**(6,055,619)**	(31,176)
Net assets	**20,088,407**	6,807,504
Group's share of net assets of associates	**4,165,836**	1,229,512
Share of revenues and results in the associates:		
Revenues	**11,800**	10,450
Net loss	**(106,548)**	(1,487,348)
Other comprehensive loss for the year	**(260,989)**	(93,132)
Group's share of results of associates	**(23,121)**	(375,932)

9. Available for sale investments

	2018	2017
	KD	KD
Quoted Local securities	-	2,286,929
Quoted Foreign securities	-	6,423,995
Unquoted Local securities	-	5,398,152
Unquoted Foreign securities	-	270,073
	-	14,379,149

The reclassification effect on the adoption of IFRS 9 is disclosed in (notes 2 (a)).

The quoted and unquoted local securities include investments with related parties in the amount of KD Nil (2017: KD 2,285,326) and KD Nil (2017: KD 4,260,548) (note 12).

As at 31 December 2017, the management carried out a review of the carrying value of its quoted and unquoted available for sale investments and determined that an impairment loss has occurred on these assets and as a consequence recognized this in the consolidated statement of profit or loss from the other comprehensive income amounting to KD 346,727 (note 27).

Available for sale investments with a fair value of KD Nil as at 31 December 2018 (2017: KD 4,302,409) are pledged against wakala investment.

10. Financial assets at fair value through other comprehensive income

	2018	2017
	KD	KD
Quoted Local securities	**1,532,754**	-
Quoted Foreign securities	**3,783,420**	-
Unquoted Local securities	**5,272,399**	-
Unquoted Foreign securities	**538,503**	-
	11,127,076	-

The reclassification effect on the adoption of IFRS 9 is disclosed in (notes 2 (a)).

The valuation methods for unquoted securities are disclosed in note (33 c).

The quoted and unquoted local securities include investments with related parties in the amount of KD 1,532,750 (2017: KD Nil) and KD 4,126,669 (2017: KD Nil) (note 12).

Financial assets at fair value through other comprehensive income of KD 2,533,909 as at 31 December 2018 (2017: KD Nil) are pledged against wakala investment (note 23).

11. Accounts receivable and other debit balances

	2018	2017
	KD	KD
Refundable deposits	**18,839**	17,405
Prepaid expenses	**127,768**	287,207
Project advance	**465,265**	450,265
Provision for project advance	**(450,265)**	(450,265)
Accrued income and dividend	**1,519,946**	1,292,837
Other receivables	**9,570,832**	9,097,782
Provision for other receivables and accrued income	**(7,348,734)**	(7,538,230)
	3,903,651	3,157,001

Accrued income and dividend include income from pledge against wakala investment amounting to KD 1,419,878 as at 31 December 2018 (2017: KD 1,110,136).

The movement of provision of other receivable and accrued income is as follows:

	2018	2017
	KD	KD
Opening balance	**7,538,230**	7,095,265
Impact on adoption of IFRS 9 (note 2 (c))	**76,396**	-
Charged for the year (note 26)	**37,044**	196,434
Provision for rentals (note 25)	**5,514**	-
Additions through business combination	**-**	929,897
Provision written off	**(309,450)**	(683,366)
Transferred from a related party	**1,000**	-
Ending balance	**7,348,734**	7,538,230

12. Related parties transactions

Related parties represent associated companies, major shareholders, directors and executive officers of the group, their families and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions approximate arms length terms and are approved by the group's management.

Balances and transactions between the Parent Company and its subsidiaries, have been eliminated on consolidation and are not disclosed in this note. The related parties balances and transactions included in the consolidated financial statements are as follows:

	2018	2017
	KD	KD
Transactions during the year		
Key management personnel's salaries and benefits	**171,487**	138,669
Associate companies – Management fees	**5,017**	3,970
Other related parties – Management fees	**9,788**	8,608
Committees bonus (note 28)	**36,000**	-
	222,292	151,247
Due from :		
Other related parties	**134,372**	579,122
Less: provision	**(12,498)**	(5,229)
	121,874	573,893
Available for sale investments (note 9)	**-**	6,545,874
Financial assets at fair value through other comprehensive income (note 10)	**5,659,419**	-
Investments at fair value through statement of profit or loss (note 14)	**226,335**	1,628,139
Due to:		
Other related parties	**-**	1,000

Amounts due from / to related parties do not include any interest and they are due upon demand.

	2018	2017
Off-financial position:		
Managed portfolios	**10,837,920**	10,113,219

The movement of provision on due from related parties is as follows:

	2018	2017
	KD	KD
Opening balance	5,229	44,062
Impact on adoption of IFRS 9 (note 2 (d))	4,344	-
Charged for the year (note 26)	3,925	-
Transferred from a related party	(1,000)	-
Provision written off	-	(38,833)
Ending balance	12,498	5,229

13. Investment in modaraba

	2018	2017
	KD	KD
Investment in modaraba	1,182,209	-

On 14 February 2018, the Parent Company signed a morabaha investment contract in an amount of Egyptian Pounds 70,000,000 as per Islamic Sharia rules with one of the specialized companies in Arab Republic of Egypt for a period of five years which is renewable for a period not exceeding seven years. The annual return is expected to be 2% less than the Egyptian Central Bank discount rate which is equivalent to 17.25% as at 31 December 2018

14. Financial assets at fair value through statement of profit or loss

	2018	2017
	KD	KD
Financial assets		
Quoted investments		
Financial services sector	**1,332**	271,873
Banks sector	**44,413**	-
Real estate sector	**512,141**	347,699
Industrial sector	**717,790**	873,263
Services sector	**119,491**	189,397
Food sector	**70,523**	273,090
Oil and gas sector	**-**	150,339
Technology sector	**-**	89,105
	1,465,690	2,194,766
Foreign securities	**-**	839,597
Local securities	**21,350**	-
Managed portfolio	**2,683**	145,629
	1,489,723	3,179,992

Quoted investments and managed funds include investments with related parties in the amount of KD 226,335 (2017: KD 1,628,139) (note 12).

15. Cash and cash equivalent

	2018	2017
	KD	KD
Cash on hand	22,194	14,591
Cash at bank	3,487,775	3,616,789
Short term Islamic deposit	264,330	1,279,565
	3,774,299	4,910,945
Less: Due to bank	(24,473)	(54,981)
Cash and cash equivalent in consolidated statement of cash flow	3,749,826	4,855,964

The effective yield rate of the short term Islamic deposit which is due in three months from deposit date is 9% (2017: 9%) per annum.

16. Assets held for sale

a) During the year, the Group disposed Safat Holding Company Bahrain B.S.C (Closed) which was previously classified as assets held for sale for a total consideration of at BD 1,100,000 which is equivalent to KD 875,266 (2017: KD 884,625) and recognized a loss of KD 9,359 in the consolidated statement of profit or loss.

	2018	2017
	KD	KD
Assets		
Investment in an associate	-	885,581
Cash and cash equivalent	-	3,546.
Assets held for sale	-	889,127
Liabilities		
Creditors and other credit balances	-	4,502.
Liabilities related to assets held for sale	-	4,502.
Net assets held for sale	-	884,625

The summary of the results of operations relating to discontinued operations is as follows:

	2018	2017
	KD	KD
General and administrative expenses	-	(565)
Loss on foreign currency translation	(9,359)	-
Other income	-	1,439
Net profit of discontinued operations	(953,9)	874

b) During the prior year, the Board of Directors of one of the subsidiaries decided to sell and terminate operations at Gulf Powder Coating Manufacturing Co. W.L.L. As a result, the assets relating to this Company were classified as held for sale and discontinued operations.

The principal assets and liabilities of Gulf Powder Coating Manufacturing Co. W.L.L classified as held for sale are as follows:

	2018	2017
	KD	KD
Assets		
Inventory	-	91,879
Debtors and debit balances	-	37,629
Cash and cash equivalent	-	10
Assets held for sale	-	129,518
Liabilities		
Creditors and other credit balances	-	346,187
Due to related parties	-	217,808
Indemnity	-	2,588
Liabilities related to assets held for sale	-	566,583
Net Liabilities held for sale	-	(437,065)

During the year, the Group written off KD 437,065 of net liabilities directly related to assets held for sale relating to a subsidiary. According to management opinion, these liabilities have been written off because the subsidiary has settled the debts with the creditors and there are no cases against the Group relating to these liabilities. This has resulted a profit of the same amount and is included in the consolidated statement of profit or loss.

c) The Group's interest in Dar Al Huda is based on audited financial statements as at 31 December 2018. The liquidation of Dar Al Huda Holding Company KSC (Closed) and Dana Al-Safat Real Estate Company K.S.C. (Closed) has not been completed until the date of preparation of the consolidated financial statements.

	2018	2017
	KD	KD
Dana Al-Safat Real Estate Company K.S.C. (Closed) (Under Liquidation) (note 8)	1	-
Dar Al Huda Holding Company K.S.C. (Closed) (Under Liquidation)	316,880	266,845
	316,881	266,845

During the year, the Dar Al Huda Holding Company K.S.C. (Closed) (Under Liquidation) realized a gain of KD 50,035 (2017: loss KD 10,016).

17. Share capital

	2018	2017
	KD	KD
The authorised, issued and fully paid up share capital comprise of: 256,939,400 (2017: 256,939,400) shares at a nominal value of 100 fils each and all in cash	25,693,940	25,693,940

18. Share premium

The share premium arises from the excess of the issued share price and the nominal value of the shares. The share premium account is not available for distribution.

19. Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association and memorandum, 10% of the net profit for the year before contributions to KFAS, Zakat and Directors' Remuneration is required to be transferred to statutory reserve until the reserve totals 50% of the paid-up share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

20. Voluntary reserve

In accordance with the Companies Law and the Parent Company's Articles of Association and memorandum, 10% of the net profit for the year before contributions to KFAS, Zakat and Directors' Remuneration is required to be transferred to voluntary reserve. Such annual transfer can be discontinued by a resolution of shareholders in the Annual General Assembly meeting upon recommendation by the Board of Directors. There is no restriction on distribution of this reserve.

21. Treasury shares

	2018	2017
Number of shares (No's)	**803,011**	803,011
Percentage of issued shares (%)	**0.31**	0.31
Cost (KD)	**307,393**	307,393

These shares were acquired based on an authorization granted to the Board of Directors by the shareholders and in accordance with Ministerial Decrees No.10 of 1987 and No. 11 of 1988. Reserves equivalent to the cost of treasury shares held are not distributable.

22. Other reserves

	Fair value reserve	Fair value reserve from financial assets at fair value through other comprehensive income	Fair value reserve of associate	Revaluation reserve of investment properties	Foreign currency translation reserve	Total
	KD	KD	KD	KD	KD	KD
Balance at 31 December 2016	5,362,835	-	-	-	(467,827)	4,895,008
Other comprehensive loss for the year	(11,948,525)	-	-	-	(18,332)	(11,966,857)
Total comprehensive loss for the year	(11,948,525)	-	-	-	(18,332)	(11,966,857)
Balance at 31 December 2017	(6,585,690)	-	-	-	(486,159)	(7,071,849)
Impact on adoption of IFRS 9	6,585,690	(6,552,719)	-	-	-	32,971
Balance at 1 January 2018 (Restated)	-	(6,552,719)	-	-	(486,159)	(7,038,878)
Other comprehensive (loss) / income for the year	-	(2,847,949)	(260,989)	194,258	27,027	(2,887,653)
Total comprehensive (loss) / income for the year	-	(2,847,949)	(260,989)	194,258	27,027	(2,887,653)
Realised income from sale of financial assets at fair value through other comprehensive income	-	(56,061)	-	-		(56,061)
Balance at 31 December 2018	-	(9,456,729)	(260,989)	194,258	(459,132)	(9,982,592)

23. Wakala investment

The balance wakala investment – Qatar National Bank in the amount of KD 21,107,286 (2016: KD 20,999,424) represents net amount recorded in Group's books. Based on independent legal council's opinion, the Group stopped on 1 January 2012 recording contracted costs accrued and recorded in the books during prior years. The Group also deducted the contracted cost already paid for wakala investment contract from the principal of the wakala. A legal case has been filed by the Qatar National Bank against the group to recover the due amounts.

On 27 January 2016, an appeals court judgement No. 2701 / 2013 commercial / 12 was issued which obligates the Group to pay amount of 360 Million Qatari Riyals or its equivalent in KD 29,996,712 and accrued interest at the rate 12% per annum from 1 June 2010 till full payment.

Based on independent legal councils' opinion, the Group management did not record the financial effect of this judgement in its consolidated financial statements in the amount of KD 39,806,585 as at balance sheet date. This is based on Group having reasons likely to be accepted by the court upon appeal to supreme court, which is already filed. It is also likely that the supreme court will accept reasons provided for the cancellation of accrued interest, which will reduce obligation significantly, if not eliminate altogether, and adjudicate the return of principal only (shares of Al Qudra Holding Company). The financial effect of this judgement is to increase accumulated losses as at 31 December 2018 by KD 39,806,585 and increase wakala payables by same amount as at that date.

The effect of this judgement is recorded as part of contingent liabilities of the Group (note 31). The consolidated financial statements of the Group do not include any effect relating to settlement of contingent liabilities previously stated above.

On 6 April 2016, the court ordered to temporarily halt (stop) implementation of the appealed judgement until decision on appeal.

On 21 March 2018, the appeals court accepted to temporally halt regarding the appeals court judgement No. 2701 / 2013 Commercial / 12 to return the case to experts administration and that is to reconcile the accounts between parties based on wakala investment contract subject to profit or loss.

Wakala investment with a carrying value of KD 2,533,909 is secured by the parent company's financial assets at fair value through other comprehensive income (note 10).

24. Accounts payable and other liabilities

	2018	2017
	KD	KD
Trade payables	**2,719,117**	2,202,007
Provision for legal cases (note 26)	**138,300**	132,000
Accrued expenses	**162,267**	264,161
Provision for leave	**163,650**	165,199
Dividend payable	**2,616**	36,432
KFAS	**16,567**	5,983
Zakat	**7,587**	33,671
Others	**1,183**	63,816
	3,211,287	2,903,269

25. Net rental gain from right of use property

	2018	2017
	KD	KD
Rental income from right of use property	**1,498,046**	1,273,330
Amortisation of right of use property	**(812,585)**	(812,585)
Provision of rent receivables (note 11)	**(5,514)**	-
Right of use property expenses	**(526,003)**	(448,317)
	153,944	12,428

These represent rental income and related expenses from the right of use property (note 6).

26. Reversal of provisions / (provisions)

	2018	2017
	KD	KD
Provision for receivables and other assets (note 11)	**(37,044)**	(196,434)
Provision for related parties	**(3,925)**	-
Reversal of provision of wakala receivable and Islamic finance	**-**	291,953
Provision for legal cases (note 24)	**(6,300)**	(132,000)
Reversal of provision for slow moving items	**194,250**	-
Provision for slow moving inventory	**(15,074)**	(137,000)
	131,907	(173,481)

27. Impairment losses

During the year, the management has carried out impairment testing on a variety of assets to assess the recoverability of these assets. Summarized below are the impairment losses recognized as at year end.

	2018	2017
	KD	KD
Goodwill (note 7)	**79,765**	-
Available for sale investments (note 9)	**-**	346,727
	79,765	346,727

28. General and administrative expenses

	2018	2017
	KD	KD
Staff costs	**1,471,947**	1,583,872
Legal and professional fees	**166,179**	116,195
Rent	**27,067**	7,853
Depreciation and amortisation	**229,586**	212,907
Committees bonus (note 12)	**42,000**	-
Others	**513,488**	359,363
	2,450,267	2,280,190

29. Earnings per share (Basic and diluted) attributable to owners of the parent company (fils)

Basic and diluted earnings per share is computed by dividing profit attributable to owners of the parent company by the weighted average number of shares outstanding during the year, less treasury shares.

The Parent Company had no outstanding dilutive potential shares.

	2018	2017
Profit for the year attributable to owners of the parent company (KD)	**1,149,042**	1,028,125
Weighted average number of shares less treasury shares (shares)	**256,136,389**	256,136,389
Earnings per share (Basic and diluted) (fils)	**4.49**	4.01

30. Fiduciary assets

Third party funds managed by the parent company and assets held in trust or in a fiduciary capacity and related liabilities are not treated as the group's assets or liabilities and accordingly are not included in these consolidated financial statements. Total fiduciary assets as at the financial position date amounted to KD 17,718,301 as at 31 December 2018 (2017: KD 19,305,529).

31. Commitments and contingencies

	2018	2017
	KD	KD
Contracted cost for past due wakalas as at 31 December (note 23)	**39,806,585**	36,021,957
Letter of guarantees and letter of credits	**235,264**	210,596
	40,041,849	36,232,553

Operating lease commitments

At 31 December, future minimum lease commitments were as follows:

	2018	2017
	KD	KD
Not less than one year	360,000	360,000
Later than one year but not less than five years	1,440,000	1,440,000
More than five years but not less than twenty years	2,880,000	3,240,000

32. Annual general assembly

The annual general assembly meeting of shareholders held on 3 April 2018 approved the consolidated financial statements for the year ended 31 December 2017. It also approved non-distribution of dividend for the years then ended.

33. Capital management and financial risks

a. Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

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

Gearing ratio:

The gearing ratio at year end as follows:

	2018	2017
	KD	KD
Wakala investment	**21,107,286**	20,999,424
Notes payable	**55,779**	7,379
Due to banks	**24,473**	54,981
Investment in modaraba	**(1,182,209)**	-
Term deposits	**-**	(235,000)
Cash and cash equivalents	**(3,774,299)**	(4,910,945)
Net debt	**16,231,030**	15,915,839
Total equity	**28,731,940**	31,577,018
Net debt to equity ratio	**56 %**	50 %

b. **Financial risks**

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group credit policy and exposure to credit risk are monitored on an ongoing basis. The group seeks to avoid undue concentration of risks with individuals or group of customers in specific locations or business through diversification of lending activities. It also obtains security when appropriate.

Risk of impairment of financial assets

Financial assets exposed to impairment include "accounts receivable and other debit balances" and "bank balances".

Accounts receivable and other debit balances

The Group adopts the simplifies approach in accordance with IFRS 9 to measure ECLs through using provision for ECLs based on the period of ECLs for all accounts receivable.

Accounts receivable are consolidated based on characterizations of the mutual credit risk and its maturity in order to measure ECLs. Accordingly, the Group's management believes that ECLs rate on accounts receivable represent a reasonable approximation of actual results of customer default in the subsequent periods.

On this basis, the provision for ECLs on accounts receivable as at 31 December 2018 (on the impact of the application of IFRS 9) has been determined as follows:

31 December 2018:

Ageing of receivables	Total carrying amount	Weighted average of loss rate	Credit impairment
	KD		KD
Less than 90 days	758,696	0.5%	3,793
From 91 to 120 days	600,010	1.5%	9,000
From 121 to 180 days	460,083	4.0%	18,403
From 181 to 270 days	252,908	10%	25,291
From 271 to 365 days	275,851	25%	68,963
More than 365 days	7,223,284	100%	7,223,284
	9,570,832		7,348,734

As at 1 January 2018, the Group recognised an additional allowance for ECLs of KD 76,396 as a result of application of IFRS 9 (Note 2 (c)).

Accounts receivable are written off when there is no reasonable expectation of recovery. Indicators include lack of a reasonable expectation of recovery, among other matters, e.g. the failure of the customer to subscribe to a payment plan with the group and lack to make contractual payments for more than 365 days except for the contractual retentions.

While other receivables are also subject to the requirements of impairment losses in IFRS 9, the impairment loss is insignificant.

Cash and bank balances

Cash and bank balances are also subject to the requirements of ECLs in IFRS 9, Cash is placed with high credit rating financial institutions. Therefore, the Group's management believes that the impairment loss of cash and bank balances is insignificant.

Credit risk exposure

The carrying values for financial assets represent the maximum exposure to credit risks. The maximum net exposure to credit risk for assets categories at the reporting date was as follows:

	2018	2017
	KD	KD
Cash at banks	**3,752,105**	4,896,354
Accounts receivable and other debit balances (excluding advance payments to suppliers and prepaid expenses)	**3,775,883**	2,869,795
	7,527,988	7,766,149

Credit concentration risk

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by charge in economic, political or other conditions. Concentration indicates the relative sensitivity of the Group's performance to developments affecting in particular industry or geographical location.

Analysis of Group's financial assets that are exposed to credit risk by geographic segment and business sector is as follows:

	2018	2017
	KD	KD
Geographical sector:		
Kuwait	**41,648,160**	39,789,887
Middle East	**12,369,656**	17,190,308
	54,017,816	56,980,195

	2018	2017
	KD	KD
Sector:		
Real estate	**16,731,247**	17,414,036
Investment	**20,838,274**	21,023,340
Services	**126,124**	128,012
Industrial	**16,322,171**	18,414,807
	54,017,816	56,980,195

Market risk

(i) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. There is a risk of losses due to exchange rate fluctuations and the group does not hedge foreign currency exposure.

At 31 December, the group had the following significant exposures denominated in foreign currencies:

	2018 Equivalent	2017 Equivalent
	KD	KD
US Dollars	**1,182,253**	1,803,000
Qatari Riyal	**(21,107,286)**	(20,999,424)
UAE Dirhams	**5,277,383**	7,682,394
Egyptian Pound	**1,937,439**	1,801,053
Lebanese Lira	**4,263,615**	4,091,560
Saudi Riyal	**509,078**	839,597
Bahraini Dinar	**-**	884,624
Net assets denominated in foreign currency	**(7,937,518)**	(3,897,196)

The table below analyze the effect of a 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at 31 December 2018 and 2017, with all other variables held constant on the consolidated statement of profit or loss and equity. A negative amount in the table reflects a potential net reduction in consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	**Change in currency rate in**	**2018**		2017	
		Effect on profit	**Effect on equity**	**Effect on profit**	**Effect on equity**
	%	**KD**	**KD**	KD	KD
USD	±5	**58,691**	**421**	83,321	6,829
QAR	±5	**(1,055,364)**	**-**	(1,049,971)	-
AED	±5	**74,698**	**189,171**	62,920	321,200
EGP	±5	**84,391**	**12,481**	71,128	18,925
Lebanese Lira	±5	**213,181**	**-**	204,578	-
Saudi Riyal	±5	**25,454**	**-**	41,980	-
Bahraini dinar	±5	**-**	**-**	-	44,231

(ii) Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in equity prices. Financial instruments, which potentially subject the group to equity price risk, consist principally of investments at fair value through statement of profit or loss, available for sale investments and investment in an associate. The group manages this risk by diversifying its investments on the basis of the pre-determined asset allocations across various categories, continuous appraisal of market conditions and trends and management estimate of long and short term changes in fair value.

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

	Change in equity price	Effect on profit	Effect on equity	Change in equity price	Effect on profit	Effect on equity
	2018	**2018**	**2018**	2017	2017	2017
	KD	**KD**	**KD**	KD	KD	KD
Kuwait	**+5 %**	**282,778**	**340,258**	+5 %	178,495	384,254
Middle East	**+5 %**	**199,623**	**216,096**	+5 %	41,980	334,703

(iii) Interest rate risk

Interest rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group has no profit bearing assets, and has interest bearing liabilities represented in term loans, murabaha payables, due to banks and notes payable. The Group is exposed to interest rate risk with respect to its borrowings. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings. The Board has established levels of interest rate risk by setting limits on the profit rate gaps for stipulated periods.

Provisions are monitored on a regular basis and hedging strategies used to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the result for the year to a reasonably possible change in profit rates of the Group borrowings +1% and –1% (2017: +1% and –1%) retrospectively from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition and rates.

	2018	2017
	+1%	+1%
	KD	KD
Result for the year	194,767	195,472

There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. The group's main liquidity risk is from wakala payables and to limit this risk, management has rescheduled the majority of its wakala payables and is confident that they will be able to subsequently renew the due dates again. Management manages assets with liquidity in mind, and monitors liquidity on a daily basis. For liquidity profile of financial assets and liabilities as at 31 December (note 35).

c. Fair value of financial instruments

i) Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets are determined as follows:

- The fair values of financial assets (quoted equity securities) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of financial assets (unquoted funds) are determined based on prices from observable current market transactions.
- The fair values of other financial assets (unquoted equity securities) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using market data that are unobservable.

ii) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

31 December 2018	Level 1	Level 3	Total
	KD	KD	KD
Financial assets at fair value through profit or loss			
Quoted equities	1,468,373	-	1,468,373
Unquoted equities	-	21,350	21,350
Financial assets at fair value through other comprehensive income			
Quoted local and foreign equities	5,316,174	-	5,316,174
Unquoted local and foreign equities	-	5,810,902	5,810,902
Total	6,784,547	5,832,252	12,616,799

31 December 2018	Level 1	Level 3	Total
	KD	KD	KD
Financial assets at fair value through profit or loss			
Quoted equities	2,340,395	-	2,340,395
Unquoted equities	-	839,597	839,597
Available-for-sale investments			
Quoted local and foreign equities	8,710,924	-	8,710,924
Unquoted local and foreign equities	-	5,668,225	5,668,225
Total	11,051,319	6,507,822	17,559,141

Reconciliation of Level 3 fair value measurements of financial assets as follows:

31 December 2018	**Investment at fair value through profit or loss**	**Available for sale Investments**
	KD	**KD**
Beginning balance	839,597	5,668,225
Total profit or loss		
Transfer from financial assets at fair value through profit or loss to financial assets at fair value through other comprehensive income	(839,597)	839,597
Transfer from financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss	20,750	(20,750)
Other comprehensive statement of income	-	(463,114)
Statement of profit and loss	600	-
Net sale	-	(213,056)
Closing balance	21,350	5,810,902

31 December 2017	**Investment at fair value through profit or loss**	**Available for sale Investments**
	KD	**KD**
Beginning balance	-	19,497,626
Transfer to level 1	-	(18,080,281)
Transfer to associate	-	3,443,839
Total profit or loss		
Addition through business combination	992,148	1,098,873
In other comprehensive income	-	(291,832)
In profit or loss	(152,551)	-
Closing balance	839,597	5,668,225

34. Segment information

An operating segment is a component of an entity that engages in business activities from which it earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to allocate resources to the segment and to assess its performance, and for which discrete financial information is available.

a) Reportable segments

The group considers business units that provide specific products and services to constitute reportable segment. Since group's activities mainly relate to investment management, only one reportable segment is identified.

b) Geographical areas

The group conducts its business activities mainly in State of Kuwait. Financial information about geographical areas for the year ended 31 December are set out below:

	Kuwait	Others	Total
31 December 2018	**KD**	**KD**	**KD**
Net revenue	3,072,690	938,562	4,011,252
Segment results	1,285,251	(31,096)	1,254,155
Segment assets	41,648,160	12,369,656	54,017,816
Segment liabilities	3,974,106	21,311,770	25,285,876
31 December 2017			
Net revenue	2,406,504	613,389	3,019,893
Segment results	592,528	9,617	602,145
Segment assets	39,789,887	17,190,308	56,980,195
Segment liabilities	4,221,991	21,181,186	25,403,177

Others geographical segment includes, United Arab Emirates, Qatar, Bahrain, Saudi Arabia and Egypt.

35. Maturity analysis of assets and liabilities

The group's maturity profile set out below is based on the remaining period at the financial position date to the contractual maturity date. In the case of financial instruments that do not have a contractual maturity date, the maturity is based on management's estimate of time period in which the asset will be collected or disposed and the liability settled.

	Past due but not paid	Up to 1 year	Over 1 year	Total
At 31 December 2018	KD	KD	KD	KD
Assets				
Financial assets at fair value through other comprehensive income	-	-	11,127,076	11,127,076
Accounts receivable and other assets (except prepaid expenses)	-	3,775,883	-	3,775,883
Due from related parties	-	121,874	-	121,874
Financial assets at fair value through profit or loss	-	1,489,723	-	1,489,723
Investment in mudaraba	-	1,182,209	-	1,182,209
Cash and cash equivalent	-	3,774,299	-	3,774,299
Assets held for sale	-	316,881	-	316,881
Total assets	-	10,660,869	11,127,076	21,787,945
Liabilities				
Provision for staff indemnity	-	-	887,051	887,051
Wakala investment	21,107,286	-	-	21,107,286
Accounts payable and other liabilities	-	3,211,287	-	3,211,287
Notes payable	-	55,779	-	55,779
Due to bank	-	24,473	-	24,473
Total liabilities	21,107,286	3,291,539	887,051	25,285,876

At 31 December 2017	Past due but not paid	Up to 1 year	Over 1 year	Total
	KD	KD	KD	KD
Assets				
Available for sale investments	-	-	14,379,149	14,379,149
Accounts receivable and other assets (except prepaid expenses)	-	2,869,795	-	2,869,795
Due from related parties	-	573,893	-	573,893
Investments at fair value through profit or loss	-	3,179,992	-	3,179,992
Term deposits	-	235,000	-	235,000
Cash and cash equivalent	-	4,910,945	-	4,910,945
Assets held for sale	-	1,285,490	-	1,285,490
Total assets	-	13,055,115	14,379,149	27,434,264
Liabilities				
Provision for staff indemnity	-	-	866,039	866,039
Wakala investment	20,999,424	-	-	20,999,424
Accounts payable and other liabilities	-	2,903,269	-	2,903,269
Due to related party	-	1,000	-	1,000
Notes payable	-	7,379	-	7,379
Due to bank	-	54,981	-	54,981
Total liabilities	20,999,424	2,966,629	866,039	24,832,092