ANNUAL REVIEW **2016**

شركة الصناعات المتحدة
United Industries Company

Dar al-Athar al-Islamiyyah, one of Kuwait's leading cultural organizations, was created to manage activities related to The al-Sabah Collection. The collection includes one of the world's finest assemblages of arts from the Islamic world. The collection consists of over 30,000 priceless objects, including manuscripts, scientific instruments, carpets, fabrics, jewelry, ceramics, ivory, metalwork and glass from countries such as Spain, India, China and Iran.

This year, the annual reports of KIPCO Group companies each feature a different piece of woven textile from The al-Sabah Collection. The images used within the reports reflect KIPCO's commitment to protecting and promoting Kuwait's heritage, while helping to build the nation's future.

The item pictured here (LNS 11 T) is a panel of brocaded velvet with metal thread, featuring the popular "tiger stripes and leopard spots" motif, also referred to as çintamani, with Chinese cloud bands in the interstices. The item was made in Turkey in the mid 16th century CE. The image is reproduced with the kind permission of The al-Sabah Collection, Dar al-Athar al-Islamiyyah.

H.H. Sheikh Sabah
Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh Nawaf
Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait

This year, the annual reports of KIPCO Group companies each feature a key woven textile from Dar al-Athar al-Islamiyyah - one of the world's finest collections of Islamic art. These images are reproduced with the kind permission of The al-Sabah Collection, Dar al-Athar al-Islamiyyah.

Contents

Executive Summary

Executive Summary 2016

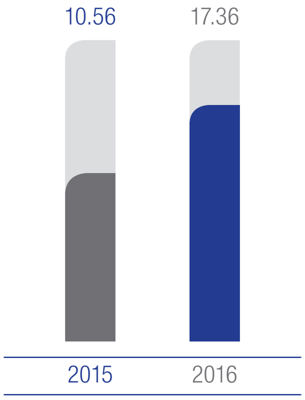
United Industries Company

Established in 1979; United Industries Company (UIC) focuses on investing in the industrial and healthcare sectors, with a portfolio of investments that consists of Qurain Petrochemical Industries Company (QPIC) – one of Kuwait's largest investor in the petrochemical & industries sectors- as well as Advanced Technology Company (ATC) which pioneers in the medical supplies industry.

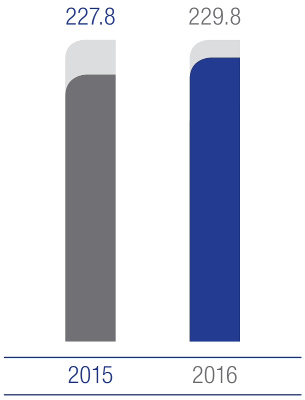
Business & Financial Highlights

- Income from Associates increased by 8% due to the enhanced performance from associate companies, QPIC and ATC.
- 132% increase in Dividend income to KD 1.0 million generated from AFS investments.
- Total assets increased by 1% to reach KD 230 million due to increase in long-term investments during the year and higher share of results from associates.
- Net profits for the year at KD 7.75 (EPS 17.36 fils) increased by 64% over last year.

Net profit
KD million



Earnings Per Share
Fils



Assets
KD million

Shareholders' equity
KD million

Financial Performance

United Industries Company	2012	2013	2014	2015	2016
Income Statement Highlights (KD Million)					
Operating Income	4.39	6.02	11.68	10.70	14.90
Income from divestment of long term investments	0.00	0.24	1.61	(0.40)	(0.21)
Gain airising on an associate becoming a subsidiary	-	-	-	-	-
Operating expenses	(5.50)	(10.81)	(3.85)	(5.59)	(6.94)
Relating to discontinued operations (net of related expense)	11.54	39.38	-	-	-
Net profit (loss) for the year	10.43	34.83	9.44	4.71	7.75
Minority Interest	7.09	6.75	-	-	-
Net profit (loss) attributable to equity holders of parent company	3.35	28.08	9.44	4.71	7.75
Financial Statement Highlights (KD Million)					
Total assets	217	170	196	228	230
Investments	139	161	194	226	228
Term loans	63	40	64	102	97
Group equity	137	128	129	123	121
Profitability					
Earnings per share (fils)-Restated	7	63	21	10.56	17.36
Return on average assets	4.7%	18.0%	4.9%	2.2%	3.4%
Return on average equity	7.7%	26.3%	7.1%	3.7%	6.3%
Capital					
Group equity / Total assets	62.9%	75.2%	65.8%	53.9%	52.6%
Debt / Group equity	46.2%	62.1%	49.8%	82.6%	80.4%
Liquidity & Bussiness Indicators					
Investments / Total assets	64.1%	94.9%	99.1%	99.1%	99.1%
Liquid assets / Total assets	3.2%	5.1%	0.9%	0.8%	0.8%

Board of Directors

Board of Directors

Sheikh Khalifa Al Abdullah Al-Jaber Al-Sabah
Chairman

Sheikh Sabah Mohammed Abdulaziz Al-Sabah
Vice Chairman & Acting CEO

Mr. Sadoun Abdullah Ali
Board Member

Mr. Jarrah Waleed Mohammed Al Naser
Board Member

Mr. Abdul Salam Mohamed Al-Bahar
Board Member

Chairman's Message

Chairman’s Message

Dear shareholder,

On behalf of myself and my fellow members of the board, it is my pleasure to present to you United Industries Company (UIC) annual report for the fiscal year ending December 31, 2016, to review major developments, year achievements and the financial statements.

On behalf of myself and my fellow members of the board, it is my pleasure to present to you United Industries Company (UIC) annual report for the fiscal year ending December 31, 2016, to review major developments, year achievements and the financial statements. During 2016, the company was able to prove its ability to withstand the ongoing challenges the world is facing, underpinned by its successful and conservative strategy, which focuses on enhancing shareholders’ equity in the forefront of our efforts.

The company continued during the year to monitor the performance of its operating investments in view of the set plans, and in line with the broad strategy of the company, the nature and the prospects of our investments, with the aim of improving operating results and increasing revenues.

During the year in review, the company posted KD 7.75 million in net profits representing an EPS of 17.36 fils versus KD 4.71 million, representing an increase of 64 per cent and mainly owing to increased share of income from our associates.

In view of the posted results, the Board of Directors recommended the distribution of 5 per cent in cash dividends, or 5 fils per share. This recommendation is subject to the approval of pertinent authorities and the General Assembly.

Appreciation and Gratitude Note

I would like to express my appreciation and sincere gratitude to members of the board, executive management and to all our valued shareholders for their trust and support. We hope to continue to prosper and succeed with our plans. On a personal note, I would like to assure you that the management is committed to drive growth and improve the results, which we sincerely hope will rise to your expectations.

Sincerely,

Sheikh Khalifa Al Abdullah Al-Jaber Al-Sabah
Chairman

Dear shareholder,

The year in review continued facing the many economical and geopolitical challenges the world was facing over the past few year and thus, the management of the company has focused its efforts on improving the operational performance of our associate companies, despite the declining operational levels across the globe and in line with our commitment to maximize shareholders equity.

The management also throughout the year continued to closely monitor and asses local and international growth opportunities and expansion plans required to improve revenues in view of the company's future plans.

Financial Performance

Consolidated Income Statement

Net profits for year ending 31, December 2016 amounted to KD 7.75 and was 64 per cent over last year's net profit of KD 4.71 million. Earnings per share amounted to 17.36 fils/share, versus last year's EPS of 10.56 Fils/Share. The main two contributors to this year's higher net profit is due to the following;

- Share of profit from associates increased by 8 per cent to KD 10.7 million versus KD 9.9 million last year.
- Dividend income during the year increased by 132 per cent to KD 1.0 million.

Balance Sheet as on 31, December 2016

- Total Assets increased by 1 per cent to KD 230 million versus KD 228 million the last year.
- Cash and Current Assets decreased by 5 per cent to KD 1.8 million compared to last year KD 1.9 million.
- Long-term investments increased by 1 per cent to KD 228 million compared to 226 million due to higher share of results from associates.
- Amounts payable increased by 29 per cent to KD 4.6 million due to accrued expenses and interest.
- Total borrowings decreased by 4 per cent to KD 97.3 million compared to last year KD 101.6 million.

Company Investments

Qurain Petrochemical Industries Company (QPIC)

QPIC was established in 2004 with a paid-up capital of KD110 million and was listed on Kuwait Stock exchange in 2007. QPIC is one of the largest local private investors within the petrochemical and industrial sectors. QPIC's investments portfolio includes Equate Petrochemicals (Equate), The Kuwait Olefins Company (TKOC), Kuwait Aromatics (KARO) within the Petrochemical sector. QPIC also owns substantial stakes in National Petroleum Services Company (NAPESCO) in the oil services industry, United Oil Projects (UOP) in the chemicals sector, as well as Saudia Dairy & Foodstuff Company (SADAFCO) in food industries.

Advanced Technology Company (ATC)

A public Kuwaiti shareholding company, established in 1981 with the aim of providing world class services and products to the medical sector in Kuwait and the region; hospitals, medical staff, doctors, specialized labs, medical devices and other value added services. Pioneer in its segment; the company is one of the major supplier for 95% of the medical sector in Kuwait.

Future Outlook

The company looks forward to maintain the current level of performance in the future years to come, underpinned by the capabilities available in the company. The management will continue to drive growth, improve results and to seek the best available solutions and alternatives to move forward all its operating investments. The management remains optimistic that all challenges hindering the progress of all business sectors will be resolved, to create a more favorable business environment, through better implementation of government development projects, increased capital spending and sound legislations which comes in line with the optimistic tune that economic activity is expected to improve further in 2017.

United Industries Company K.S.C.C. & Subsidiaries Consolidated Financial Statements 31 December 2016

Contents

INDEPENDENT AUDITORS› REPORT TO THE SHAREHOLDERS OF UNITED INDUSTRIES COMPANY K.S.C. (CLOSED)

Report on the Audit of Consolidated Financial Statements

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

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

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

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

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

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.

Building a better
working world

INDEPENDENT AUDITORS› REPORT TO THE SHAREHOLDERS OF
UNITED INDUSTRIES COMPANY K.S.C. (CLOSED) (continued)
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

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

5 March 2017
Kuwait

Consolidated Income Statement

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
INCOME			
Share of results from associates	6	9,888,331	9,949,392
Realised loss on sale of financial assets available for sale		(278,478)	(396,850)
Loss on sale of investment in an associate	6	(206,981)	-
Net gain on fair valuation of previously held equity interest in acquiree	6	4,014,370	-
Dividend income		1,030,279	443,193
Interest income		3,417	26,478
Other income		238,290	284,965
		14,689,228	10,307,178
EXPENSES			
General and administrative expenses		1,315,048	1,389,171
Impairment loss on financial assets available for sale		414,770	-
Interest expense		5,168,829	4,103,046
OPERATING EXPENSES		6,898,647	5,492,217
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), ZAKAT AND DIRECTOR'S FEES		7,790,581	4,814,961
KFAS		-	31,215
Zakat		-	30,455
Directors' fees		40,000	40,000
PROFIT FOR THE YEAR		7,750,581	4,713,291

The attached notes 1 to 14 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Profit for the year		7,750,581	4,713,291
Other comprehensive income:			
Items that are or may be reclassified to consolidated statement of income:			
Financial assets available for sale:			
- Net changes in fair value of financial assets available for sale		(3,606,066)	(2,644,234)
- Net loss on sale of financial assets available for sale transferred to consolidated statement of income	5	(278,478)	(396,850)
- Impairment loss on financial assets available for sale transferred to consolidated statement of income	5	414,770	-
Share of other comprehensive loss from associates	6	(3,861,860)	882,245
Transfer to consolidated statement of income on partial sale of investment in an associate	6	(84,165)	-
Other comprehensive loss for the year		(7,415,799)	(2,158,839)
Total comprehensive income for the year		334,782	2,554,452

The attached notes 1 to 14 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 KD	2015 KD
ASSETS			
Current assets			
Cash and bank balances	4	1,799,543	1,888,559
Other assets and prepayments		2,701	9,830
Due from related parties	7	9,268	-
Total current assets		1,811,512	1,898,389
Non-current assets			
Financial assets available for sale	5	28,838,749	37,435,984
Investment in associates	6	199,150,094	188,546,141
Office equipment		3,469	3,424
Total non-current assets		227,992,312	225,985,549
TOTAL ASSETS		229,803,824	227,883,938
LIABILITIES AND EQUITY			
LIABILITIES			
Current liabilities			
Due to related parties	7	7,275,343	3,693
Other liabilities	8	4,062,311	3,153,832
Interest bearing loans	9	97,300,000	61,550,000
Total current liabilities		108,637,654	64,707,525
Non-current liabilities			
Interest bearing loans	9	-	40,000,000
Employees' end of service benefits		42,610	156,551
Total non-current liabilities		42,610	40,156,551
Total liabilities		108,680,264	104,864,076
EQUITY			
Share capital	10	49,546,875	49,546,875
Share premium	10	7,591,193	7,591,193
Treasury shares	10	(5,067,052)	(5,067,052)
Statutory reserve	10	15,647,165	14,868,107
Voluntary reserve	10	15,647,165	14,868,107
Treasury shares reserve		1,929,152	1,929,152
Employees' share option reserve		144,484	144,484
Cumulative changes in fair values		1,676,590	9,434,326
Foreign currency translation reserve		2,783,496	2,496,341
Other reserves		774,217	719,435
Retained earnings		30,450,275	26,488,894
Total equity		121,123,560	123,019,862
TOTAL LIABILITIES AND EQUITY		229,803,824	227,883,938

Sheikh Sabah Mohammed Abdul Aziz Al-Sabah
Vice Chairman & Acting CEO

The attached notes 1 to 14 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
OPERATING ACTIVITIES			
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) , Zakat and Director's fees		7,790,581	4,814,961
Adjustments for:			
Share of results from associates	6	(9,888,331)	(9,949,392)
Realised loss on sale of financial assets available for sale		278,478	396,850
Dividend income		(1,030,279)	(443,193)
Interest income		(3,417)	(26,478)
Loss on sale of investment in an associate	6	206,981	-
Gain on fair valuation of previously held equity interest in acquire	6	(4,014,370)	-
Other income		(237,984)	(278,089)
Impairment loss on financial assets available for sale		414,770	-
Provision for employees' end of service benefits		12,750	29,223
Depreciation		1,105	1,539
Interest expense		5,168,829	4,103,046
		(1,300,887)	(1,351,533)
Changes in operating assets and liabilities:			
Other assets and prepayments		7,129	(5,738)
Due from / to related parties		7,262,381	3,297
Accounts payable and other liabilities		764,895	789,464
Cash generated from (used in) operations		6,733,518	(564,510)
Taxation paid		-	(61,670)
Directors' remuneration paid		(40,000)	(40,000)
Employees' end of service benefits paid		(126,691)	(56,024)
Net cash flows from (used in) operating activities		6,566,827	(722,204)
INVESTING ACTIVITIES			
Purchase of investment available for sale		(1,523,050)	(39,898,017)
Purchase of office equipment		(1,149)	(604)
Acquisition of additional interest in associates	6	(13,554,000)	(96,710)
Proceeds from sale of investment in an associate	6	13,554,000	-
Dividend income received		1,030,279	443,193
Dividend received from associates	6	3,680,068	3,899,571
Proceeds from sale of financial assets available for sale		1,557,263	11,924,802
Interest income received		3,417	26,478
Net cash flows from (used in) investing activities		4,746,828	(23,701,287)
FINANCING ACTIVITIES			
Net movement in interest bearing loans		(4,250,000)	37,300,000
Finance cost paid		(4,938,195)	(3,603,163)
Dividends paid		(2,233,582)	(8,843,733)
Net cash flows (used in) from financing activities		(11,421,777)	24,853,104
NET (DECREASE) INCREASE IN CASH AND BANK BALANCES		(108,122)	429,613
Cash and bank balances at 1 January		1,746,732	1,317,119
CASH AND BANK BALANCES AT 31 DECEMBER	4	1,638,610	1,746,732

The attached notes 1 to 14 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Total Equity										
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Treasury shares reserve	Employees' share option reserve	Cumulative changes in fair values	Foreign currency translation reserve	Other reserve	Retained earnings	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
As at 1 January 2016	49,546,875	7,591,193	(5,067,052)	14,868,107	14,868,107	1,929,152	144,484	9,434,326	2,496,341	719,435	26,488,894	123,019,862
Profit for the year	-	-	-	-	-	-	-	-	-	-	7,750,581	7,750,581
Other comprehensive (loss) income for the year	-	-	-	-	-	-	-	(7,757,736)	287,155	54,782	-	(7,415,799)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(7,757,736)	287,155	54,782	7,750,581	334,782
Dividends (note 10)	-	-	-	-	-	-	-	-	-	-	(2,231,084)	(2,231,084)
Transfer to reserves	-	-	-	779,058	779,058	-	-	-	-	-	(1,558,116)	-
As at 31 December 2016	49,546,875	7,591,193	(5,067,052)	15,647,165	15,647,165	1,929,152	144,484	1,676,590	2,783,496	774,217	30,450,275	121,123,560

	Total Equity										
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Treasury shares reserve	Employees' share option reserve	Cumulative changes in fair values	Foreign currency translation reserve	Other reserve	Retained earnings	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
As at 1 January 2015	49,546,875	7,591,193	(5,067,052)	14,392,778	14,392,778	1,929,152	144,484	13,237,013	852,493	719,435	31,650,598	129,389,747
Profit for the year	-	-	-	-	-	-	-	-	-	-	4,713,291	4,713,291
Other comprehensive (loss) income for the year	-	-	-	-	-	-	-	(3,802,687)	1,643,848		-	(2,158,839)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(3,802,687)	1,643,848		4,713,291	2,554,452
Dividends (note 10)	-	-	-	-	-	-	-	-	-	-	(8,924,337)	(8,924,337)
Transfer to reserves	-	-	-	475,329	475,329	-	-	-	-	-	(950,658)	-
As at 31 December 2015	49,546,875	7,591,193	(5,067,052)	14,868,107	14,868,107	1,929,152	144,484	9,434,326	2,496,341	719,435	26,488,894	123,019,862

The attached notes 1 to 14 form part of these consolidated financial statements.

Notes to
The Consolidated
Financial Statements

1 CORPORATE INFORMATION

The consolidated financial statements of United Industries Company K.S.C. (Closed) (the "parent company") and its subsidiaries (together, the "group") were authorised for issue by the Board of Directors on 5th March 2017. The Shareholders' General Assembly has the power to amend these consolidated financial statements after issuance. The parent company was listed on the Kuwait Stock Exchange until 28 December 2014 and was incorporated on 28 March 1979 with the following activities:

- To participate and subscribe in industrial companies and other companies with activities that are supplementary or related to the parent company's activities, to finance and manage such companies and trade in their shares.
- Manufacturing and trading in carpets, furniture, paints and other supplementary industries.
- Investing surplus funds in portfolios and funds managed by specialised firms.
- Providing technical and economical consultancy services relating to industrial investments.
- Incorporation, marketing and management of investment funds specialised in industrial sector and service sector supporting the industrial sector in the State of Kuwait and abroad.
- Development of industrial projects and areas.
- Establishment of or participation in industrial projects.

The registered address of the parent company is at P.O. Box 25821, Safat 13119, State of Kuwait.

The ultimate parent company is Kuwait Projects Company Holding K.S.C.P. (the "ultimate parent company") which is listed on the Kuwait Stock Exchange.

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of certain financial assets available for sale.

The consolidated financial statements are presented in Kuwaiti Dinars, which is also the functional currency of the parent company.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of compliance

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

Change in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the adoption of the amendments to IFRSs relevant to the Group. The adoption of these amendments has no significant impact on the consolidated financial statements of the Group.

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

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

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries including special purpose entities. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

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

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated statement of income
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the group had directly disposed of the related assets or liabilities

The subsidiaries of the group are as follows:

Name of Subsidiary	Country of Incorporation	Ownership interest as at 31 December	
		2016	2015
Directly held			
Kuwait National Industrial Projects Company K.S.C. (Closed) ("KNIP")	Kuwait	99.95%	99.95%
United Gulf Industries Company W.L.L ("UGI")	Saudi Arabia	95.00%	95.00%
Held through KNIP			
Eastern Projects General Trading Company W.L.L.	Kuwait	99.00%	99.00%

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date and the resulting gain / loss is included in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 - Financial Instruments: Recognition and Measurement either in consolidated statement of income or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is remeasured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the consideration transferred over the group's share of the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of income.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognised:

Gain on sale of financial assets

Gain on sale of financial assets is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognised at the time of the sale.

Dividend income

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

Interest income

Interest income is recorded using the effective interest rate on a time apportionment basis.

Taxation

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

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

National Labour Support Tax ("NLST")

The parent company calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. As per the Law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST is deducted from the profit for the year.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the parent company in accordance with the Ministry of Finance resolution No. 58 of 2007.

Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the group operates.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities

Financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, or financial assets available for sale as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The group classifies its financial assets as “cash and bank balances”, “other assets and prepayments”, “due from related parties” and “financial assets available for sale”. The group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Cash and bank balances

Cash and bank balances in the consolidated statement of financial position comprise cash at banks and on hand.
For the purpose of the consolidated statement of cash flows, cash and bank balances consist of cash, as defined above, net of bank overdraft and balances in restricted bank accounts.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Doubtful debts are written off when there is no possibility of recovery.

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale, or are not classified as financial assets at fair value through profit or loss, financial assets held to maturity or loans and receivables.

After initial recognition, financial assets available for sale are measured at fair value with gains and losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in the consolidated statement of income. Financial assets whose fair value cannot be reliably measured are carried at cost, less impairment losses, if any.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (CONTINUED)

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value less any impairment loss previously recognised in the consolidated statement of income;

(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

(c) For assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income) is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

The group classifies its financial liabilities as “due to related parties”, “interest bearing loans”, “accounts payables” and certain “other liabilities”.

Accounts payable and other liabilities

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

Interest bearing loans

After initial recognition, interest bearing loans are subsequently measured at amortised cost using the EIR method, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the borrowings. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (CONTINUED)

Derecognition of financial assets and liabilities

Financial assets

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

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

When the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Financial liabilities

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

Offsetting

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

Investment in associates

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (CONTINUED)

Investment in associates (CONTINUED)

The group's investments in its associate are accounted for using the equity method.

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

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

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

The financial statements of the associate are prepared for the same reporting period as the group. When necessary, adjustments are made to bring the accounting policies in line with those of the group.

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

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

Impairment of non-financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (CONTINUED)

Impairment of non-financial assets (CONTINUED)

An assessment is made at each reporting date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income. Reversal of impairment losses is recognised in the consolidated statement of income.

Employees' end of service benefits

Provision is made for amounts payable to employees under the Kuwaiti Labour Law and employee contracts and applicable law in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the reporting date, and approximates the present value of the final obligation.

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 shareholders' equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Foreign currencies translation

The group's consolidated financial statements are presented in KD, which is also the parent company's functional currency. For each entity, the group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of income reflects the amount that arises from using this method.

Transactions in foreign currencies are initially recorded by the group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (CONTINUED)

Foreign currencies translation (CONTINUED)

Differences arising on settlement or translation of monetary items are recognised in consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the group's net investment in a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their statements of consolidated statement of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to consolidated statement of income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Other reserve

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

Fair values

The group measures financial instruments, such as financial assets available for sale at each reporting date.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (CONTINUED)

Fair values (CONTINUED)

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

The group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets available for sale, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (CONTINUED)

Fair values (CONTINUED)

Involvement of external valuers is decided upon annually by the management. Selection criteria include regulatory requirements, market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the group's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Contingencies

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

Significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The group has used judgment and estimates principally in, but not limited to, the classification of financial assets, the determination of impairment provisions and valuation of unquoted equity investments and investment properties.

Judgments

Classification of investments

Management decides on acquisition of financial assets whether it should be classified as financial assets at fair value through profit or loss or financial assets available for sale. The group classifies financial assets at fair value through profit or loss if they are acquired primarily for the purpose of short term profit making.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments and estimates (CONTINUED)

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

All other financial assets are classified as available for sale.

Estimates

Impairment of investment in an associate

After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

With respect to Qurain Petrochemical Industries Company K.S.C.P., the group prepared cash flow forecasts derived from the most recent financial budgets approved by the management for the next five years. The rate used to discount the forecast cash flows is 8.31% (2015: 8.38 %).

The recoverable amount calculated based on the above assumptions did not result in any impairment of associate (2015: Nil).

Impairment of financial assets

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

Impairment of other receivables

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments and estimates (CONTINUED)

Fair value measurements of financial instruments

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

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments

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

IFRS 15: Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 Construction contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The group is in the process of evaluating the effect of IFRS 15 on the group's consolidated financial statements and does not expect any significant impact on adoption of this standard.

4 CASH AND BANK BALANCES

	2016 KD	2015 KD
Cash in hand and at banks	1,759,792	1,621,602
Cash in portfolios with local financial institutions	39,751	266,957
Cash and bank balances	1,799,543	1,888,559
Less: balances in restricted bank accounts	(160,933)	(141,827)
Cash and bank balances in the consolidated statement of cash flows	1,638,610	1,746,732

5 FINANCIAL ASSETS AVAILABLE FOR SALE

	2016 KD	2015 KD
Quoted equity securities	18,601,454	22,823,165
Unquoted equity securities	10,237,295	14,612,819
	28,838,749	37,435,984

During the year, the group has recorded an unrealised loss of KD 3,606,066 (2015: KD 2,644,234) against quoted equity investments in the consolidated statement of comprehensive income.

Management has performed a detailed review of its quoted equity securities to assess whether impairment has occurred in the value of these investments. Based on specific information, management recorded an impairment loss of KD 414,770 (2015: KD Nil) in the consolidated statement of income for the year ended 31 December 2016 due to a significant and prolonged decline in the fair value of the investments.

As of 31 December 2016, unquoted equity investments amounting to KD 10,237,295 (2015: KD 14,612,819) were carried at cost less impairment, due to the lack of reliable measure of their fair value.

6 INVESTMENT IN ASSOCIATES

Name of Associate	Country of Incorporation	Percentage of Ownership 2016	Percentage of Ownership 2015	Principal Activities
Qurain Petrochemical Industries Company K.S.C.P (QPIC) *	Kuwait	31.20%	31.12%	Business activities relating to chemical, petrochemical and other derivative materials.
Advanced Technology Company K.S.C.P (ATC) **	Kuwait	19.31%	29.07%	Business activities relating to trading in medicines and medi-cal devices.
Overland Real Estate Company W.L.L. (Overland)	Kuwait	36.21%	-	Business activities relating to real estate

The movement in the carrying amount of investment in associates during the year is as follows:

	2016 KD	2015 KD
As at 1 January	188,546,141	181,239,276
Net additions including transfer from financial assets available for sale (a)	21,968,370	96,710
Disposal (b)	(13,747,490)	-
Change in effective interest in an associate due to treasury share changes	120,835	278,089
Share of results	9,888,331	9,949,392
Share of other comprehensive income	(3,861,860)	882,245
Transfer to consolidated statement of income on sale of an associate	(84,165)	-
Dividends received	(3,680,068)	(3,899,571)
As at 31 December	199,150,094	188,546,141

Investment in associates amounting to KD 101,265,541 (31 December 2015: 98,017,734) are pledged against loans from a related party (note 9).

6 INVESTMENT IN ASSOCIATES (CONTINUED)

a) During the year, the Parent Company acquired 16.91% equity interest of Overland Real Estate Company W.L.L. (“OREC”) from its Ultimate Parent Company for a purchase consideration of KD 13,554,000 (Note 7). As a result of this acquisition, the group’s equity interest in OREC has increased to 36.21%. Accordingly, OREC became an associate of the group and is accounted for in accordance with IAS 28: Investments in Associates and Joint Ventures (“IAS 28”).

The group fair valued its existing interest in OREC, which was previously classified as financial assets available for sale, and transferred to investment in associate using the net book value at the date of transfer which is equal to its fair value. This resulted in a net gain of KD 4,014,370 which is recognized in the consolidated statement of income.

b) During the year, the group sold its 9.76% equity interest in Advance Technology Company K.S.C.P (“ATC”) to a related party for a sale consideration of KD 13,554,000 (Note 7). Due to this transaction, the group’s equity interest in ATC was reduced to 19.31%. At 31 December 2016, the group continues to classify ATC as an associate in accordance with the requirements of IAS 28. This resulted in a net loss of KD 206,981 which is recognized in the consolidated statement of income.

*The market value of investment in Qurain Petrochemical Industries Company K.S.C.P as at 31 December 2016 is KD 74,646,415 (2015: KD 61,015,331).

**The market value of investment in Advanced Technology Company K.S.C.P as at 31 December 2016 is KD 26,653,717 (2015: KD 40,116,600).

6 INVESTMENT IN ASSOCIATES (CONTINUED)

The following table illustrates summarised financial information of the group's investments in its associates:

	QPIC KD	ATC KD	Overland KD	2016 KD	2015 KD
Associates' statement of financial position:					
Current assets	87,100,478	134,452,254	2,454,944	224,007,676	179,048,709
Non-current assets	461,266,198	33,522,586	182,390,520	677,179,304	495,866,430
Current liabilities	(31,676,082)	(90,420,926)	(92,241,822)	(214,338,830)	(115,707,278)
Non-current liabilities	(83,849,663)	(30,697,182)	(20,734,763)	(135,281,608)	(88,293,953)
Total equity	432,840,931	46,856,732	71,868,879	551,566,542	470,913,908
Non-controlling interests	(111,679,608)	-	(4,047,326)	(115,726,934)	(102,431,423)
Net assets	321,161,323	46,856,732	67,821,553	435,839,608	368,482,485
Share of associates' statement of financial position	100,214,535	9,050,045	24,561,540	133,826,120	113,800,111
Goodwill	46,670,257	18,653,717	-	65,323,974	74,746,030
	146,884,792	27,703,762	24,561,540	199,150,094	188,546,141
Share of the associates' revenue and results:					
Income	183,189,938	99,166,401	20,266,015	302,622,354	278,311,184
Profit for the year	44,806,919	6,003,126	575,413	51,385,458	42,589,962
Total Comprehensive Income	22,447,093	6,130,549	5,451,329	34,028,971	47,294,579
Contingent Liabilities and commitments	5,839,466	88,169,195	-	94,008,661	86,038,193
Group's share of the profit for the year	9,343,421	1,368,386	(823,476)	9,888,331	9,949,392
Dividens received during the year	3,245,496	434,572	-	3,680,068	3,899,571

In accordance with International Accounting Standard 36 "Impairment of assets", management has performed a detailed impairment exercise in respect of the associate to determine whether there is any objective evidence that its investment in an associate is considered impaired. As a result of the exercise, the management has concluded that no impairment provision is considered necessary in the consolidated statement of income.

7 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. the ultimate parent company, major shareholders, associates, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the group's management. Related party transactions and balances consist of the following:

	Ultimate Parent Company KD	Associates KD	Other Related Parties KD	Total 2016 KD	Total 2015 KD
Consolidated statement of income:					
Interest income	-	-	3,417	3,417	23,451
Management fee expense (included in general and administrative expenses)	-	12,000	-	12,000	12,000
Interest expense	69,949	-	5,098,880	5,168,829	4,103,046
Loss on sale of investment in an associate (Note 6b)	-	-	206,981	206,981	-
Consolidated statement of financial position:					
Bank balances and short term deposits	-	-	1,733,069	1,733,069	1,594,879
Financial assets available for sale	-	-	-	-	4,400,000
Due from related parties	-	-	9,268	9,268	-
Due to related parties	7,273,841	-	1,502	7,275,343	3,693
Interest bearing loans (Note 9)	-	-	97,300,000	97,300,000	101,550,000
Other transactions:					
Acquisition of additional interest in an associate (Note 6a)	13,554,000	-	-	13,554,000	-
Partial disposal of an investment in an Associate (Note 6b)	-	-	13,554,000	13,554,000	-

Key management compensation:

Remuneration paid or accrued in relation to key management personnel was as follows:

	2016 KD	2015 KD
Salaries and other short-term benefits	32,843	32,974
Employees end of service indemnity	3,814	4,141
	36,657	37,115

Related party transactions are subject to approval in the annual general assembly of the shareholders.

8 OTHER LIABILITIES

	2016 KD	2015 KD
Accrued interest	1,180,386	949,950
Dividends payable	457,648	460,146
Accrued expenses	193,011	199,448
Other payables	2,231,266	1,544,288
	4,062,311	3,153,832

9 INTEREST BEARING LOANS

	2016 KD	2015 KD
Long term loan borrowed from a local related party bank which carried interest of %2.5 over the Central Bank of Kuwait discount rate. This loan is repayable on 15 December 2017.	40,000,000	40,000,000
Term loan borrowed from a local related party bank which carried interest of %2.5 over the Central Bank of Kuwait discount rate. This loan is repayable on 15 May 2017.	29,000,000	29,000,000
Revolving loan borrowed from a local related party bank which carried interest of %2 over the Central Bank of Kuwait discount rate. This loan is repayable on 15 May 2017.	28,300,000	32,550,000
	97,300,000	101,550,000

All the above loans are pledged against investment in associates (Note 6).

The following table shows the current and non-current portions of the group’s loan obligations:

	2016 KD	2015 KD
Current portion	97,300,000	61,550,000
Non-current portion	-	40,000,000
	97,300,000	101,550,000

10 SHARE CAPITAL, RESERVES AND DIVIDENDS

a) Share capital

Authorised, issued and paid-up capital consists of 495,468,750 shares (2015: 495,468,750 shares) of 100 fils per share (2015: 100 fils per share) fully paid in cash.

b) Share premium

Share premium represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution.

10 SHARE CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

c) Treasury shares

	2016	2015
Number of shares	49,251,897	49,251,897
Percentage of issued shares	9.94%	9.94%

The treasury shares are accounted for using the weighted average cost method and amount to KD 5,067,052. No market value of shares is available as the Company is not listed.

d) Statutory reserve

As required by the Companies law, as amended, and the parent company's articles of association, 10% of the profit of the parent company before contribution to KFAS, NLST, Zakat and directors' fees has been transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

e) Voluntary reserve

As required by the parent company's articles of association, 10% of the profit for the year of the parent company before contribution to KFAS, NLST, Zakat and directors' fees has been transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the parent company's Shareholders' General Assembly upon a recommendation by the board of directors.

f) Dividends

On 19 April 2016, the shareholders at the Annual General Assembly of the Parent Company, approved a cash dividend of 5 fils per share (2014: 20 fils per share) amounting to KD 2,231,084 (2014: KD 8,924,337).

On 5th March 2017, the board of directors of the parent company recommended a cash dividend of KD 2,231,084 (5 fils per share) in respect of the year ended 31 December 2016 (2015: 5 fils). This proposal is subject to approval by the shareholders at the annual general assembly of the parent company.

10 SHARE CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

g) Other comprehensive income

The disaggregation of changes of other comprehensive income by each type of reserve in equity is shown below:

2016	Cumulative changes in fair values	Foreign currency translation reserve	Other reserves	Attributable to equity holders of the parent company	Total
	KD	KD	KD	KD	KD
Financial assets available for sale:					
- Net unrealised loss	(3,469,774)	-	-	(3,469,774)	(3,469,774)
Share of other comprehensive income from an associate	(4,287,962)	287,155	54,782	(3,946,025)	(3,946,025)
	(7,757,736)	287,155	54,782	(7,415,799)	(7,415,799)

2015	Cumulative changes in fair values	Foreign currency translation reserve	Other reserves	Attributable to equity holders of the parent company	Total
	KD	KD	KD	KD	KD
Financial assets available for sale:					
- Net unrealised loss	(3,041,084)	-	-	(3,041,084)	(3,041,084)
Share of other comprehensive income from an associate	(761,603)	1,643,848	-	882,245	882,245
	(3,802,687)	1,643,848	-	(2,158,839)	(2,158,839)

11 CONTINGENT LIABILITIES

During the year, a tax authority in the GCC region issued a tax claim against the Parent Company in relation to previous years. The Parent Company believes that due to the complexity of the situation and ambiguity of the application of tax regulations, the ultimate outcome of the tax claim cannot presently be determined, and therefore no provision has been made in the consolidated financial statements for the year ended 31 December 2016.

11 CONTINGENT LIABILITIES (CONTINUED)

As at 31 December 2016, the group has a contingent liability amounting to KD 12,664,503 (and 31 December 2015: KD Nil) in connection with certain guarantee availed from which the management is not expecting any material liabilities to arise.

12 RISK MANAGEMENT

Risk is inherent in the group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group's principal financial liabilities comprise interest bearing loans, accounts payable, other liabilities and due to related parties. The main purpose of these financial liabilities is to raise finance for the group's operations. The group has bank balances and cash, term deposits and accounts receivable that arrive directly from its operations. The group also holds financial assets available for sale.

The main risks arising from the group's financial instruments are credit risk, liquidity risk and market risk, with the latter subdivided into interest rate risk, equity price risk and foreign currency risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the group's strategic planning process.

Risk management structure

The Board of Directors of the group is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk mitigation

As part of its overall risk management, the group uses or may choose to use derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The major risks to which the group is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value are outlined below:

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 is exposed to credit risk on bank balances and accounts receivable. The group is exposed to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

12 RISK MANAGEMENT (CONTINUED)

The group has policies and procedures in place to limit the amount of credit exposure to any counter party. The group attempts to control credit risk by monitoring credit exposures, limiting transactions with individual counterparties, and continually assessing the creditworthiness of counterparties.

Excessive risk concentration

Concentrations arise 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 changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographical location.

Liquidity risk

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

The table below summarises the maturity profile of the group's financial liabilities based on contractual undiscounted repayment obligations.

2016	Within 3 months	3 to 12 months	1 to 5 years	Total
	KD	KD	KD	KD
Due to related parties	25,343	1,250,000	6,000,000	7,275,343
Other liabilities	1,180,386	1,381,925	-	2,562,311
Interest bearing loans	1,169,625	98,246,417	-	99,416,042
Total financial liabilities	2,375,354	100,878,342	6,000,000	109,253,696

2015	Within 3 months	3 to 12 months	1 to 5 years	Total
	KD	KD	KD	KD
Due to related parties	3,693	-	-	3,693
Other liabilities	949,950	1,451,953	-	2,401,881
Interest bearing loans	1,190,219	65,120,656	42,000,000	108,310,875
Total financial liabilities	2,143,862	66,572,587	42,000,000	110,716,449

Market risk

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

12 RISK MANAGEMENT (CONTINUED)

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. It is the group›s policy to manage its interest cost using a mix of fixed and variable rate debts.

The group is exposed to interest rate risk on its interest bearing assets and liabilities (interest bearing loans and amount due to the ultimate parent company).

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant. The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the group's profit for the year, based on the floating rate financial assets and financial liabilities held at 31 December. There is no impact on other comprehensive income.

	50 basis points increase Effect on consolidated statement of income	
	2016 **KD**	**2015** **KD**
Liabilities bearing interest at floating rates	486,500	507,750

The effect of decrease in interest rates are expected to be equal and opposite to the effect of the increases shown above.

12 RISK MANAGEMENT (CONTINUED)

Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the parent company. The unquoted equity price risk exposure arises from the group's investment portfolio. The group manages this through diversification of investments in terms of geographical distribution and industry concentration.

The following table demonstrates the sensitivity to a reasonably possible change in equity indices as a result of change in the fair value of these investments, to which the group has significant exposure at 31 December:

	Market indices	
2016	**Change in equity price %**	**Effect on other comprehensive income KD**
Kuwait Stock Exchange	-5	930,073
Saudi Stock Exchange	-5	512
2015		
Kuwait Stock Exchange	-5	1,140,694
Saudi Stock Exchange	-5	464

The effect of an increase in the value of equity prices will have an equal but opposite impact on the other comprehensive income.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The group is not materially exposed to foreign currency risk as it does not hold any material financial instruments denominated in foreign currency at the reporting date.

13 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. As at the reporting date, the fair value of the group's financial assets [except for certain financial assets available for sale carried at cost (Note 5)] and financial liabilities were not materially different from their carrying values.

Fair value hierarchy

The group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: Quoted prices in active market for the same instrument.
Level 2: Quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3: Valuation techniques for which any significant input is not based on observable market data.

As at 31 December 2016, the fair values of the group's quoted financial assets available for sale amounting to KD 18,601,454 (2015: KD 22,823,165) are measured under Level 1 fair value hierarchy.

No financial instruments are measured under Level 2 and Level 3 fair value hierarchy as at 31 December 2016 (2015: Nil).

There were no transfers between the hierarchies during the year ended 31 December 2016 and 31 December 2015.

14 CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

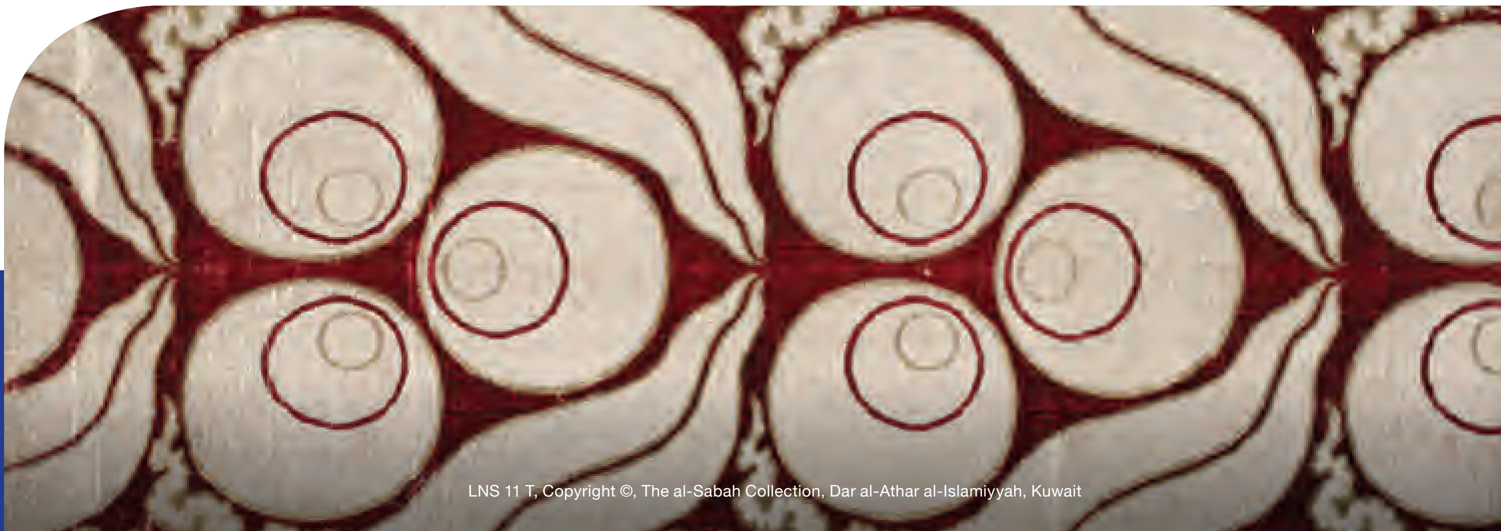
The group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years end 31 December 2016 and 31 December 2015.

The group monitors capital using a gearing ratio, which is net debt divided by total capital. The group includes within net debt, interest bearing loans less bank balances and short-term deposits and term deposits.

	2016 KD	2015 KD
Interest bearing loans	97,300,000	101,550,000
Less: cash and bank balances	(1,799,543)	(1,888,559)
Net debt	95,500,457	99,661,441
Total capital	121,123,560	123,019,862
Gearing (debt to equity) ratio	78.85%	81.01%

شركة الصناعات المتحدة
United Industries Company



How to obtain our 2016 Financial Statements:

A hard copy of the financial statements will be handed over to the shareholders who attend the General Meeting for their approval. Shareholders may request a soft copy to be sent to them by e-mail. To have this arranged, please request the same by e-mail addressing to nabil@uickw.com.

Shareholders who wish to have a hard copy of the financial statements may contact Mr. Nabil Fahmi Fayed, Administrative Affairs Manager, Tel. No. 22943236 Ext. 2041 for such arrangements.

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