

Al Kout Industrial Projects Company K.P.S.C. and its Subsidiaries

**Consolidated Financial Statements
And Independent Auditors' Report**

For the year ended 31 December 2016

**Al Kout Industrial Projects Company K.P.S.C. and its Subsidiaries
Kuwait**

**Consolidated financial statements and independent auditors' report
For the year ended 31 December 2016**

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES

Report on audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Al Kout Industrial Projects Company K.P.S.C. (the "Parent Company") and its subsidiaries (together 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.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 the ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES (Continued)**

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p>Impairment testing of investment in associate</p> <p>The carrying value of investment in associate amounted to KD 8,936,918 as of 31 December 2016. Management performs an impairment testing at the end of each reporting period to determine whether an impairment exists. The annual impairment testing of investment in associate is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgment and estimates involved in the assessment of the assumptions used to determine the recoverable amount. The recoverable amount has been derived based on value in use using the discounted forecast cash flow model.</p> <p>As disclosed in Note 6 to the consolidated financial statements, there are a number of key sensitive judgments made in determining the inputs into the impairment models which, among other, include:</p> <ul style="list-style-type: none">• Revenue growth• Pre-tax rate used to discount cash flow projections• Growth rate used to arrive at the terminal value• Weighted average cost of capital (WAAC) <p>Management has performed the impairment test. The associate's recoverable amount was determined to be KD 8,990,150 which is above the carrying value at the reporting date.</p>	<p>Our audit procedures included carrying out the following among others:</p> <ol style="list-style-type: none">1. involving our own internal valuation expert to assist in evaluating the appropriateness of the discount rate and terminal growth rate parameters;2. evaluating the appropriateness of the assumptions applied to key inputs such as revenue growth rates, operating costs, which included comparing these inputs with externally derived data as well as our own assessment based on our knowledge of the client and industry;3. performing our own sensitivity analysis, which included assessing the effect of reasonably possible reductions in growth rates and forecast cash flows to evaluate the impact on the currently estimated headroom; and4. evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions, judgments and sensitivities.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES (Continued)**

Other Information

Management is responsible for the other information. The other information comprises the report of the Board of Directors but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Parent Company's complete Annual Report, which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Parent Company's complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 International Financial Reporting Standards, 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.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES (Continued)**

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

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

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

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



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES (Continued)**

Report on other legal and regulatory requirements

Furthermore, in our opinion, proper books of accounts 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 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, its executive regulation and by the Parent Company's memorandum 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, its executive regulations, nor of the Parent Company's memorandum 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 Group or on its consolidated financial position.



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D. Ali Owaid Rukheyes
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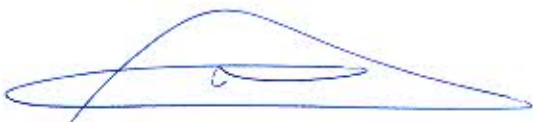
28 March 2017
Kuwait

Al Kout Industrial Projects Company K.P.S.C. and its Subsidiaries
Kuwait

Consolidated statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

	Notes	As at 31 December	
		2016	2015
Assets			
Non-current assets			
Property, plant and equipment	5	17,469,807	16,714,649
Investment in an associate	6	8,936,918	8,620,497
Available-for-sale financial asset	7	1,765,394	-
		<u>28,172,119</u>	<u>25,335,146</u>
Current assets			
Inventories	8	1,672,649	1,630,841
Trade and other receivables	9	6,796,943	5,694,973
Time deposit		-	500,000
Cash and cash equivalents	10	775,279	866,446
		<u>9,244,871</u>	<u>8,692,260</u>
Total assets		<u>37,416,990</u>	<u>34,027,406</u>
Liabilities and equity			
Liabilities			
Non-current liability			
Post-employment benefits	11	1,772,051	1,627,332
Current liabilities			
Trade and other payables	12	2,926,670	2,742,453
Short term loan	13	1,000,000	-
		<u>3,926,670</u>	<u>2,742,453</u>
Total liabilities		<u>5,698,721</u>	<u>4,369,785</u>
Equity			
Share capital	14	10,090,080	9,702,000
Statutory reserve	15	5,186,422	5,186,422
Voluntary reserve	16	5,148,415	5,148,415
Share of an associate's reserves		283,009	283,555
Foreign currency translation reserve		601,721	532,068
Fair value reserve		33,950	-
Retained earnings		10,374,672	8,805,161
Total equity		<u>31,718,269</u>	<u>29,657,621</u>
Total liabilities and equity		<u>37,416,990</u>	<u>34,027,406</u>



Fahed Y. Al-Jouan
Chairman



The notes set out on pages 11 to 38 form an integral part of these consolidated financial statements.

**Al Kout Industrial Projects Company K.P.S.C. and its Subsidiaries
Kuwait**

Consolidated statement of income

(All amounts in Kuwaiti Dinars unless otherwise stated)

	Notes	Year ended 31 December	
		2016	2015
Revenue		17,131,383	18,118,201
Cost of sales of goods		(9,538,336)	(9,662,650)
Gross profit		7,593,047	8,455,551
Selling and distribution expenses		(695,183)	(669,678)
General and administrative expenses	17	(1,542,476)	(1,475,861)
Other income		370,012	145,460
Operating profit		5,725,400	6,455,472
Finance costs		(18,552)	(18,529)
Foreign exchange gain		165,417	217,298
Share of results of an associate	6	316,967	(1,040,380)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration		6,189,232	5,613,861
Contribution to KFAS		(58,723)	(44,830)
NLST		(158,348)	(143,244)
Zakat		(60,170)	(57,298)
Board of Directors' remuneration		(73,600)	(70,000)
Profit for the year		5,838,391	5,298,489
Earnings per share (Basic and diluted) (fils)	18	57.86	52.51

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Al Kout Industrial Projects Company K.P.S.C. and its Subsidiaries
Kuwait

Consolidated statement of comprehensive income
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Year ended 31 December	
	2016	2015
Profit for the year	<u>5,838,391</u>	<u>5,298,489</u>
Other comprehensive income		
<i>Items that may be reclassified subsequently to the consolidated statement of income</i>		
Share of associate's reserves	(546)	283,555
Foreign exchange translation adjustments	69,653	200,361
Change in fair value of available-for-sale financial asset	<u>33,950</u>	<u>-</u>
Other comprehensive income for the year	<u>103,057</u>	<u>483,916</u>
Total comprehensive income for the year	<u><u>5,941,448</u></u>	<u><u>5,782,405</u></u>

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Al Kout Industrial Projects Company K.P.S.C. and its Subsidiaries
Kuwait

Consolidated statement of changes in equity
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Share capital	Statutory reserve	Voluntary reserve	Share of an associate's reserves	Foreign currency translation reserve	Fair value reserve	Retained earnings	Total equity
Balance at 1 January 2015	8,820,000	4,625,036	4,587,029	-	331,707	-	9,039,444	27,403,216
Profit for the year	-	-	-	-	-	-	5,298,489	5,298,489
Other comprehensive income for the year	-	-	-	283,555	200,361	-	-	483,916
Total comprehensive income for the year	-	-	-	283,555	200,361	-	5,298,489	5,782,405
Transfer to reserves	-	561,386	561,386	-	-	-	(1,122,772)	-
Issue of bonus shares (note 20)	882,000	-	-	-	-	-	(882,000)	-
Dividends paid during the year (note 20)	-	-	-	-	-	-	(3,528,000)	(3,528,000)
Balance at 31 December 2015	<u>9,702,000</u>	<u>5,186,422</u>	<u>5,148,415</u>	<u>283,555</u>	<u>532,068</u>	<u>-</u>	<u>8,805,161</u>	<u>29,657,621</u>
Balance at 1 January 2016	9,702,000	5,186,422	5,148,415	283,555	532,068	-	8,805,161	29,657,621
Profit for the year	-	-	-	-	-	-	5,838,391	5,838,391
Other comprehensive income for the year	-	-	-	(546)	69,653	33,950	-	103,057
Total comprehensive income for the year	-	-	-	(546)	69,653	33,950	5,838,391	5,941,448
Issue of bonus shares (note 20)	388,080	-	-	-	-	-	(388,080)	-
Dividends paid during the year (note 20)	-	-	-	-	-	-	(3,880,800)	(3,880,800)
Balance at 31 December 2016	<u>10,090,080</u>	<u>5,186,422</u>	<u>5,148,415</u>	<u>283,009</u>	<u>601,721</u>	<u>33,950</u>	<u>10,374,672</u>	<u>31,718,269</u>

The notes set out on pages 11 to 38 form an integral part of these consolidated financial statements.