Arabi Group Holding K.S.C. (Public) and its subsidiaries
State of Kuwait

Consolidated financial statements and independent auditor’s report
For the financial year ended 31 December 2019

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For the financial year ended 31 December 2019

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ARABI GROUP HOLDING K.S.C. (PUBLIC)
State of Kuwait

Report on the Audit of Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Arabi Group Holding K.S.C. (Public) (the "Parent Company") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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)* together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with 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.

Emphasis of Matter
We draw your attention to (Note 7) of the consolidated financial statements, which describes the effect of the Group's representation lost in the Board of Directors in the associate Company (equity accounted investee) during the subsequent period. The management believes that the Group still has the right to exert a significant influence over the associate through other means, and accordingly the Group continues to apply the equity method in accounting for the investment. Our opinion is not modified in respect of this matter.

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ARABI GROUP HOLDING K.S.C. (PUBLIC)
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Report on the Audit of Consolidated Financial Statements (Continued)

Key Audit Matters (continued)

IFRS 9, Expected Credit Losses ("ECL")	How the scope of our audit responded to the risk
As at 31 December 2019, the Group had reported for a gross carrying amounts of contract receivables and trade receivables of KD 77,248,192 and KD 19,047,499 respectively, and the related reported provision for ECL amounted of KD 9,840,440 and KD 3,665,522 (Note 11 and 12 respectively). The Group utilised "the simplified approach" for contracts and trade receivables according to implementation of IFRS 9. Under the simplified approach the provision combines the historical loss rate with forward-looking assumptions which take management's view of the future of the customers, along with other factors, into account. Refer to (Note 11, 12 and 34) to the consolidated financial statements for its related disclosure.	Audit procedures performed by us included carrying out the following procedures and other matters: • Evaluated the key decisions made by the Group with respect to accounting policies, estimates and judgments in relation to impairment model ("ECL") requirements of IFRS 9 and assessed their appropriateness based on our understanding of the Group's business and its operations; • We compared the impairment model for contracts and trade receivables developed by management to that required by IFRS 9 and reviewed the reasonableness of the methodology in comparison with accepted best practice; • We also tested the arithmetical accuracy of the model; • Evaluated the adequacy and appropriateness of disclosures in relation to impairment model ("ECL") requirements of IFRS 9 made in the consolidated financial statements (Note 11, 12 and 34).

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ARABI GROUP HOLDING K.S.C. (PUBLIC)
State of Kuwait

Report on the Audit of Consolidated Financial Statements (Continued)

Key Audit Matters (continued)

Impairment assessment of investment in associates	How the scope of our audit responded to the risk
The Group's investments in associates include an associate at carrying amount of KD 67,569,513, representing 24.8% of the total assets of the Group. Investment in associate is accounted for under the equity method of accounting. At the end of each reporting date, the Group assessed the operating value of the associate to determine whether there is objective evidence that the investment in associate is impairment. It has been concluded that the recoverable value of the associate is higher than its carrying value at date of the consolidated financial statements. The recoverable amount of investment in associate is determined based on value-in-use calculations. This part was significant for our audit, as the audit process is complex and depends on significant judgments and estimates that are affected by the unexpected future market conditions or economic circumstances, especially those related to estimate of future cash flows projections, terminal value, growth rate and appropriate discount rates. There are number of main significant judgments taken in determining inputs for impairment model, which include: – Annual revenue growth rate. – Pre-tax rate used for deducting the projected future cash flows. – Growth rate used to arrive at the terminal value. Refer to (Note 7) to the consolidated financial statements for its related disclosures.	Audit procedures performed by us included carrying out the following procedures and other matters: • We have engaged our valuation experts to evaluate the valuation appropriateness of the discount rates applied and the qualitative and quantitative assessment factors used; • Valuation of appropriateness of the applied projections on key inputs such as sales volume, revenue growth rates and operating costs which included comparison of such inputs to data derived from external sources, in addition to our assessment based on our knowledge of the customer and segment; • Carrying out a 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 value in use; • Evaluated the adequacy and appropriateness of the disclosure in (Note 7) to the consolidated financial statements, including disclosures related to key estimates, judgments and sensitivity.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ARABI GROUP HOLDING K.S.C. (PUBLIC)
State of Kuwait

Report on the Audit of Consolidated Financial Statements (Continued)

Other Information
Management is responsible for the other information. Other information consists the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not 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 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 obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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

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

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

Auditor's Responsibilities for the Audit of 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 based on these consolidated financial statements.

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Report on the Audit of Consolidated Financial Statements (Continued)

Auditor's Responsibilities for the Audit of 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 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.

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

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ARABI GROUP HOLDING K.S.C. (PUBLIC)
State of Kuwait

Report on other Legal and Regulatory Requirement

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 the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies' Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies' Law No. 1 of 2016, and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2019 that might have had a material effect on the business of the Group or its consolidated financial position.

Qais M. Al Nisf
License No. 38 "A"
BDO Al Nisf & Partners

Kuwait: 14 May 2020

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Consolidated statement of financial position
As at 31 December 2019

	Notes	2019 KD	2018 KD
ASSETS			
Non-current assets			
Property, plant and equipment	5	30,508,735	25,708,465
Investment in associates	7	67,569,514	68,711,612
Financial assets at fair value through other comprehensive income	8	5,837,353	5,739,031
		103,915,602	100,159,108
Current assets			
Inventories	9	53,313,184	50,290,947
Contract assets	10	4,283,163	2,606,371
Contract receivables	11	67,407,752	58,029,406
Trade receivables and other debit balances	12	37,223,193	33,342,600
Due from related parties	13	4,583,449	3,935,216
Financial assets at fair value through profit or loss		4,943	4,234
Cash and cash equivalents	14	1,470,746	848,952
		168,286,430	149,057,726
Total assets		272,202,032	249,216,834
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15	17,296,224	17,296,224
Share premium	16	7,877,292	7,877,292
Treasury shares	17	(1,480,519)	(1,480,519)
Treasury shares reserve		17,230	17,230
Statutory reserve	18	554,248	554,248
Voluntary reserve	19	324,297	324,297
Revaluation surplus		8,873,775	2,223,931
Foreign currency translation reserve		108,446	115,055
Fair value reserve from financial assets at fair value through other comprehensive income		313,105	313,105
Accumulated losses		(3,314,147)	(1,672,279)
Equity attributable to shareholders of the Parent Company		30,569,951	25,568,584
Non-controlling interests		8,485,740	7,444,650
Total equity		39,055,691	33,013,234
LIABILITIES			
Non-current liabilities			
Provision for end of service indemnity		5,891,073	5,076,895
Term loans	20	84,505,703	77,281,956
Lease liabilities	6	428,584	-
		90,825,360	82,358,851
Current liabilities			
Term loans	20	38,968,872	33,408,604
Lease liabilities	6	46,070	-
Due to banks	21	12,080,586	10,974,210
Notes payable	22	30,916,687	29,036,880
Finance lease obligations	23	262,754	754,738
Contract liabilities	10	1,459,031	1,348,673
Trade payables and other payables	24	43,039,237	43,830,849
Due to related parties	13	15,547,744	14,490,795
		142,320,981	133,844,749
Total liabilities		233,146,341	216,203,600
Total equity and liabilities		272,202,032	249,216,834

The accompanying notes on pages 12 to 78 form an integral part of these consolidated financial statements.

Tareq Mohammad Al Maoushargi
Chairman

Arabi Group Holding K.S.C. (Public) and its subsidiaries
State of Kuwait

Consolidated statement of income
For the year ended 31 December 2019

	Notes	2019 KD	2018 KD
Revenue from contracts with customers	25	104,746,478	119,962,528
Cost of revenue	26	(78,685,707)	(93,557,214)
Gross profit		26,060,771	26,405,314
Other operating income		556,748	481,298
General and administrative expenses	27	(13,025,949)	(13,285,118)
Provision for expected credit losses	28	(2,079,879)	(1,605,193)
Provision for obsolete and slow moving inventories	9	(257,059)	(365,590)
Profit from operations		11,254,632	11,630,711
Gain on disposal of property, plant and equipment		30,301	6,668
Impairment losses	5	(748,434)	-
Share of results of investment in associates	7	(1,142,098)	(564,504)
Unrealised gain/(loss) from financial assets at fair value through profit or loss		709	(1,229)
Other income		402,162	559,704
Interest income		-	41,818
Finance costs		(10,438,825)	(9,998,311)
(Loss)/profit for the year before contribution to National Labor Support Tax (NLST)		(641,553)	1,674,857
National Labor Support Tax		(35,768)	(80,440)
(Loss)/profit for the year		(677,321)	1,594,417
Attributable to:			
Shareholders of the Parent Company		(1,641,868)	428,028
Non-controlling interests		964,547	1,166,389
		(677,321)	1,594,417
Basic and diluted (loss)/earnings per share attributable to the shareholders of the Parent Company (fils)	29	(9.95)	2.59

The accompanying notes on pages 12 to 78 form an integral part of these consolidated financial statements.

Arabi Group Holding K.S.C. (Public) and its subsidiaries
State of Kuwait

Consolidated statement of comprehensive income
For the year ended 31 December 2019

	Notes	2019 KD	2018 KD
(Loss)/profit for the year		(677,321)	1,594,417
Other comprehensive (loss)/income items:			
Items that may be reclassified subsequently to the consolidated statement of income:			
Change in foreign currency translation		(3,745)	40,312
Items that will not be reclassified subsequently to the consolidated statement of income:			
Revaluation of freehold and leasehold lands included in property, plant and equipment	5	6,723,523	-
Changes in fair value of financial assets at fair value through other comprehensive income		-	2,285
Total other comprehensive income for the year		6,719,778	42,597
Total comprehensive income for the year		6,042,457	1,637,014
Attributable to:			
Shareholders of the Parent Company		5,001,367	464,265
Non-controlling interests		1,041,090	1,172,749
		6,042,457	1,637,014

The accompanying notes on pages 12 to 78 form an integral part of these consolidated financial statements.

Arabi Group Holding K.S.C. (Public) and its subsidiaries
State of Kuwait

Consolidated statement of changes in equity
For the year ended 31 December 2019

	Equity attributable to shareholders of the Parent Company													
	Share capital	**Share premium**	**Treasury shares**	**Treasury shares reserve**	**Statutory reserve**	**Voluntary reserve**	**Revaluation reserve**	**Foreign currency translation reserve**	**Cumulative change in fair value**	**Fair value reserve from financial assets at fair value through other comprehensive income**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 31 December 2017 (“as previously stated”)	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	2,223,931	81,103	310,820	-	(2,802)	27,201,824	6,652,852	33,854,676
Impact of adoption of IFRS 9 at 1 January 2018 (Note 11)	-	-	-	-	-	-	-	-	(310,820)	310,820	(2,097,505)	(2,097,505)	(380,951)	(2,478,456)
Balance at 1 January 2018(“restated”)	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	2,223,931	81,103	-	310,820	(2,100,307)	25,104,319	6,271,901	31,376,220
Profit for the year	-	-	-	-	-	-	-	-	-	-	428,028	428,028	1,166,389	1,594,417
Total other comprehensive income for the year	-	-	-	-	-	-	-	33,952	-	2,285	-	36,237	6,360	42,597
Total comprehensive income for the year	-	-	-	-	-	-	-	33,952	-	2,285	428,028	464,265	1,172,749	1,637,014
Balance at 31 December 2018	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	2,223,931	115,055	-	313,105	(1,672,279)	25,568,584	7,444,650	33,013,234
Balance at 1 January 2019	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	2,223,931	115,055	-	313,105	(1,672,279)	25,568,584	7,444,650	33,013,234
(Loss)/profit for the year	-	-	-	-	-	-	-	-	-	-	(1,641,868)	(1,641,868)	964,547	(677,321)
Total other comprehensive income/(loss) for the year	-	-	-	-	-	-	6,649,844	(6,609)	-	-	-	6,643,235	76,543	6,719,778
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	6,649,844	(6,609)	-	-	(1,641,868)	5,001,367	1,041,090	6,042,457
Balance at 31 December 2019	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	8,873,775	108,446	-	313,105	(3,314,147)	30,569,951	8,485,740	39,055,691

The accompanying notes on pages 12 to 78 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31December 2019

	Notes	2019 KD	2018 KD
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		(677,321)	1,594,417
Adjustments:			
Depreciation	5	2,756,755	2,506,295
Impairment losses	5	748,434	-
Gain on disposal of property, plant and equipment		(30,301)	(6,668)
Provision for expected credit losses	28	2,079,879	1,605,193
Provision for obsolete and slow moving inventories	9	257,059	365,590
Unrealised (gain)/loss from financial assets at fair value through profit or loss		(709)	1,229
Share of results of investment in associates	7	1,142,098	564,504
Interest income		-	(41,818)
Finance costs		10,438,825	9,998,311
Provision for end of service indemnity		962,180	1,192,905
		17,676,899	17,779,958
Changes in operating assets and liabilities:			
Inventories		(3,279,296)	(10,483,269)
Contract assets		(1,676,792)	(854,122)
Contract receivables		(10,643,137)	1,246,891
Trade receivables and other debit balances		(4,695,681)	(3,854,446)
Due from related parties		(648,233)	(266,194)
Contract liabilities		110,358	345,928
Trade payables and other payables		(810,934)	(573,955)
Due to related parties		634,449	397,352
Cash (used in)/generated from operations		(3,332,367)	3,738,143
Employees' end of service benefits paid		(148,002)	(320,448)
Net cash (used in)/from operating activities		(3,480,369)	3,417,695
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,094,717)	(2,321,624)
Proceeds from disposal of property, plant and equipment		66,224	277,989
Purchase of financial assets at fair value through other comprehensive income		(79,000)	-
Interest income received		-	41,818
Net cash used in investing activities		(1,107,493)	(2,001,817)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from term loans	32	29,214,608	23,783,100
Repayment of term loans	32	(16,430,593)	(23,724,432)
Repayment of lease liabilities	32	(48,488)	-
Net movement of due to banks	32	1,106,376	2,454,360
Net movement of notes payable	32	1,879,807	10,180,987
Net movement of finance lease obligations	32	(491,984)	(7,187,088)
Finance costs paid	32	(10,016,325)	(9,608,311)
Net cash from/(used in) financing activities		5,213,401	(4,101,384)
Net increase/(decrease) in cash and cash equivalents		625,539	(2,685,506)
Foreign currency translation adjustments		(3,745)	40,312
Cash and cash equivalents at the beginning of the year		848,952	3,494,146
Cash and cash equivalents at the end of the year	14	1,470,746	848,952
Non-cash transactions			
Purchase of financial assets at fair value through other comprehensive income through payables		19,322	-
Purchase of property, plant and equipment through finance lease obligations		-	(1,517,173)
Disposals of property, plant and equipment through settlements of trade payables and other payables		-	4,784,334
Disposals of property, plant and equipment through settlements of finance lease obligations		-	1,554,381

The accompanying notes on pages 12 to 78 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

Arabi Group Holding K.S.C.P. (the "Parent Company") is a Kuwaiti Shareholding Company incorporated on 5 December 1982 and is listed on the Boursa - Kuwait. The registered office of the Parent Company is P.O. Box 4090, Safat, 13041, Kuwait.

The principal activities of the Parent Company are:

- Acquisition of shares of Kuwaiti or foreign shareholding and limited liability companies as well as participation in those companies' incorporation, administration, lending and providing third party guarantees for these companies.

- Granting loans to the companies in which the Parent Company holds shares, guarantee them before third parties and in this case the contribution ratio of the holding Company in the capital of the borrowing company shall not be less than 20% at minimum.

- Acquisition of industrial rights and related intellectual properties or any other industrial trade marks or drawings and any other rights thereto, and renting thereof to other companies whether inside or outside State of Kuwait.

- Owning movables and real estate required to achieve its activities pursuant to the limits prescribed by law.

The Parent Company may have an interest to participate in any way with entities that carry on similar business activities or that may help the Parent Company achieve its objectives in the State of Kuwait or abroad. The Parent Company may also incorporate, purchase manage/or participate in incorporation of such entities or affiliate them.

The consolidated financial statements of the Parent Company and its subsidiaries (together referred to as "the Group") (Note 3.3).

The consolidated financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors' on 14 May 2020 and are subject to the approval of the General Assembly of Shareholders. The Ordinary General Assembly of the Shareholders of the Parent Company has the power to amend these consolidated financial statements after their issuance.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

a) New standards, interpretations and amendments effective from 1 January 2019

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of 1 January 2019:

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

a) New standards, interpretations and amendments effective from 1 January 2019 (Continued)

IFRS 16 - Leases
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the consolidated statement of financial position.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

a. Definition of a lease
Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

b. As a lessee
As a lessee, The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly the entire risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of use assets and lease liabilities for most of these leases – i.e. these leases are on the consolidated statement of financial position.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for the leases contract the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

a) New standards, interpretations and amendments effective from 1 January 2019 (Continued)

IFRS 16 – Leases (continued)

b. As a lessee (continued)

Leases classified as operating leases under IAS 17
Previously, the Group classified leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application: the Group applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term
- did not recognise right-of-use assets and liabilities for leases of low value assets.
- excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Leases classified as finance leases under IAS 17
The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

a) New standards, interpretations and amendments effective from 1 January 2019 (Continued)

IFRS 16 – Leases (continued)

b. As a lessee (continued)

Leases classified as finance leases under IAS 17 (continued)

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

c. Impact on consolidated financial statements

Impact on transition
The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The Group have elected to recognise the right of use assets equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. And therefore no adjustment had been recognised in the opening retained earnings on 1 January 2019. The new accounting policies are disclosed in (Note 3).

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.25%.

Measurement of lease liabilities

	Lease liabilities
	KD
Undiscounted operating lease commitments under IAS 17 as at 31 December 2018	4,287,101
Weighted average incremental borrowing rate as at 1 January 2019	5.25%
Discounted operating lease commitments as at 1 January 2019	4,050,710
Less: commitments relating to short-term leases	(3,868,805)
Add: extension options reasonably certain to be exercised	341,237
Lease liabilities recognised as at 1 January 2019	523,142

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

a) New standards, interpretations and amendments effective from 1 January 2019 (Continued)

IFRS 16 – Leases (continued)

c. Impact on consolidated financial statements (continued)

Impact on transition (continued)
The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

	Right-of-use assets
	KD
Balance at 1 January 2019	523,142
Prepared/(accrued) lease payments associated with right-of-use assets	-
Right-of-use assets recognised as at 1 January 2019	523,142

There was no impact on the opening retained earnings on 1 January 2019.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances
- The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

These amendments had no impact on the consolidated financial statements of the Group.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

a) New standards, interpretations and amendments effective from 1 January 2019 (Continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28: Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associates.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

a) New standards, interpretations and amendments effective from 1 January 2019 (Continued)

Annual Improvements to IFRSs 2015 – 2017 Cycle (issued in December 2017)

IFRS 3 – Business Combinations
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

IFRS 11 – Joint Arrangements
An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 – Income Taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in the consolidated statement of income, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

The amendments had no impact on the consolidated financial statements of the Group.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

a) New standards, interpretations and amendments effective from 1 January 2019 (Continued)

Annual Improvements to IFRSs 2015 – 2017 Cycle (issued in December 2017) (continued)

IAS 23 – Borrowing Costs
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

b) Standards and interpretations issued but not effective

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

IFRS 17 – Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (Variable fee approach).
- A simplified approach (premium allocation approach) mainly for short duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

This standard is not applicable to the Group.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

b) Standards and interpretations issued but not effective (Continued)

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:
- That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the consolidated financial statements as a whole, and
- The meaning of 'primary users of general purpose financial statements' to whom those the consolidated financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

These amendments are effective for annual reporting period beginning on or after 1 January 2020.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Revised Conceptual Framework for Financial Reporting
The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:
- Increasing the prominence of stewardship in the objective of financial reporting.
- Reinstating prudence as a component of neutrality.
- Defining a reporting entity, which may be a legal entity, or a portion of an entity.
- Revising the definitions of an asset and a liability.
- Removing the probability threshold for recognition and adding guidance on derecognition.
- Adding guidance on different measurement basis, and
- Stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

b) Standards and interpretations issued but not effective (Continued)

Revised Conceptual Framework for Financial Reporting (continued)

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The consolidated financial statements of the Group are presented in Kuwaiti Dinars ("KD"), which is the functional and presentation currency of the Group.

The consolidated financial statements of the Group are prepared under the historical cost convention. Except for freehold and leasehold lands, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, that are measured at fair value.

The preparation of consolidated financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise judgment in applying the Group's accounting policies. The areas of significant judgments and estimates made in preparing the consolidated financial statements and their effect are disclosed in (Note 4).

3.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), IFRIC interpretations as issued by the International Financial Reporting Interpretations Committee ("IFRIC") and Companies' Law No.1 of 2016, and Executive Regulations, as amended.

3.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2019 (See below). All subsidiaries have a reporting date of 31 December. 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
- The ability to use its power over the investee to affect its returns

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Basis of consolidation (Continued)

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

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

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

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

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

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

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, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Basis of consolidation (Continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the consolidated statement of income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the consolidated statement of income.

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

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

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Basis of consolidation (Continued)

Subsidiaries
The consolidated financial statements include the financial statement of Arabi Group Holding K.S.C. (Public) and its subsidiaries as follows:

Name of the subsidiary	Voting rights and equity interest % 2019	Voting rights and equity interest % 2018	Country of incorporation	Principal activities
	%	%		
Arabi Company W.L.L. (*)	100	100	State of Kuwait	General trading and contracting
Arabi Engineering and Mechanical Works Company W.L.L.	100	100	State of Kuwait	General trading and contracting
Arabi Enertech Company K.S.C. (Closed)	73.08	73.08	State of Kuwait	General trading and contracting
Daleel International Company W.L.L. (**)	100	100	State of Kuwait	IT services
Key BS JLT W.L.L. (**)	100	100	United Arab Emirates	IT services

(*) The consolidated financial statements include the financial statements of Arabi Company W.L.L. and its subsidiaries as follows:

Name of the subsidiary	Voting rights and equity interest % 2019	Voting rights and equity interest % 2018	Country of incorporation	Principal activities
	%	%		
Gulf Services and Industrial Supplies Company	100	100	Oman	General Trading and Contracting
Arabi Company W.L.L.	100	100	Qatar	General Trading and Contracting
Altec Corporation Limited	90.03	90.03	India	General Trading and Contracting
Warba Mechanical Equipments L.L.C.	70	70	United Arab Emirates	General Trading and Contracting

(**) The Group has not consolidated these subsidiaries since they are not material to the consolidated financial statement of the Group. The Group's share of (loss)/profit from these subsidiaries for the year ended 31 December 2019 has been recognised based on their management accounts.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Basis of consolidation (Continued)

Summarised financial information of material non-controlling interest
The total non-controlling interests as at 31 December 2019 is KD 8,485,740 (2018: KD 7,444,650) mainly related to Arabi Enertech Company K.S.C. (Closed) amounting to KD 8,713,540 (2018: KD 7,750,644).

Financial information of a subsidiary that has a material non-controlling interest:

Proportion of equity interest held by non-controlling interest:

Name of subsidiary	Country of incorporation and operation	2019	2018
Arabi Enertech Company K.S.C. (Closed)	Kuwait	26.92%	26.92%

Accumulated balance of material non-controlling interest:

Name of subsidiary	2019	2018
	KD	KD
Arabi Enertech Company K.S.C. (Closed)	8,713,540	7,750,644

Summarised financial information of the subsidiary:

This information is based on amounts before inter-company eliminations.

Summarised statement of financial position for Arabi Enertech Company K.S.C. (Closed):

	2019	2018
	KD	KD
Non-current assets	19,090,515	20,396,922
Current assets	141,822,953	121,036,411
Non-current liabilities	(60,279,420)	(48,134,580)
Current liabilities	(67,176,744)	(63,677,668)
Total equity	33,457,304	29,621,085
Attributable to:		
Shareholders of the Parent Company	24,743,764	21,870,441
Non-controlling interest	8,713,540	7,750,644
	33,457,304	29,621,085

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Property, plant and equipment

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

Freehold and leasehold lands is measured initially at fair value. After initial recognition, Freehold and leasehold lands is measured at fair value at the date of the revaluation less any subsequent accumulated impairment losses.

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

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

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of property, plant and equipment as follows:

	Years
Buildings constructed on freehold and leasehold lands	20
Machinery and heavy equipment	5 – 20
Vehicles	5
Furniture and office equipment	4 – 5

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

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

3.6 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 is similar to those necessary to determine control over subsidiaries. The Group's investment in its associate are accounted for using the equity method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Investment in associates (Continued)

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 OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture 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 within 'Share of result of investment in 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 the consolidated statement of income.

3.7 Inventories

Inventories are valued at the lower of cost and net realisable value after providing allowances for any obsolete or slow-moving items. Costs comprise direct materials, direct labor costs and those overheads that have been incurred in bringing the inventory to their present location and condition. Cost is determined on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Write-down is made for obsolete and slow-moving items based on their expected future use and net realisable value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

Financial assets at amortised cost
Financial assets are measured at amortised cost when both of the following conditions are met and are not classified as at fair value through profit or loss:
– Held under a business model whose objective is to retain the asset for the collection of contractual cash flows,
– Contractual terms, on certain dates, result in cash flows that are only payments of principal and interest on the principal of the outstanding debt.

Investment in debt at fair value through other comprehensive income
A debt investment is measured at fair value through other comprehensive income when both of the following conditions are met and are not classified as at fair value through profit or loss:
– To be held under a business model whose objective has been achieved through both the collection of contractual cash flows and sale of financial assets.
– Contractual terms, on certain dates, result in cash flows that are only payments of principal and interest on the principal of outstanding debt.

Investment in equity at fair value through other comprehensive income
Upon initial recognition of a non-trading equity investment, the Group can irrevocably decide to present subsequent changes in the fair value of the investment in other comprehensive income. This decision is made on the basis of each investment alone.

Investment in equity at fair value through profit or loss
All financial assets that are not classified as financial assets measured at amortised cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. The Group may at initial recognition make an irrevocable determination of a financial asset that does not meet the measurement requirements at amortised cost or fair value through other comprehensive income as a financial asset at fair value through profit or loss if that would exclude or Significantly limits any accounting differences that may arise.

A financial asset (unless it is included in a contract receivables without a material financing element initially measured at the transaction price) is initially measured at fair value plus, for an item not carried at fair value through profit or loss, transaction costs directly attributable to its acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets (Continued)

Initial recognition and measurement (continued)

Investment in equity at fair value through profit or loss (continued)

The normal purchase or sale of financial assets is recognised using either the trade date accounting or settlement date. An entity shall apply the same method regularly for all purchases and sales of financial assets classified in the same manner.

Classification
The financial assets include "financial assets at fair value through other comprehensive income", "contract assets", "contract receivables", "trade receivables and other debit balances", "due from related parties", "financial assets at fair value through profit or loss" and "cash and cash equivalents".

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

Financial assets at fair value through profit or loss	These assets are subsequently measured at fair value. Net gains and losses, including any interests or dividends income, are recognised in consolidated statement of income.
Financial assets carried at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange profits and losses and impairment are recognised in consolidated statement of income. Any gain or loss on derecognition is recognised in consolidated statement of income.
Debt investments at fair value through other comprehensive income	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in consolidated statement of comprehensive income. Other net profits and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to consolidated statement of income.
Equity investments at fair value through other comprehensive income	These assets are subsequently measured at fair value. Dividends are recognised as income in consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to consolidated statement of income.

The Group has not classified any of its financial assets as "debt investments at fair value through other comprehensive income".

Receivables
Receivables are amounts due from customers for products sold or services performed in the ordinary course of business and are recognised initially at fair value and subsequently measured at amortised cost, less provision for expected credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets (Continued)

Subsequent measurement (continued)

Effective interest rate method
The effective interest rate is a method of calculating the amortised cost of a financial asset and of allocating interest over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter year.

Cash and cash equivalents
Cash and cash equivalents includes cash at banks, cash on hand and deposits held at call with banks, they are short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets
The Group recognises an provision for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For contract assets, contract receivables and trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group has chosen to measure the provision for expected credit losses of contract receivables and trade receivables in an amount equivalent to the expected credit losses over the life of the instrument using the simplified method (Note 34).

The maximum period to be taken into account when estimating expected credit losses is the maximum contractual period during which the Group is exposed to credit risk.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets (Continued)

Impairment of financial assets (continued)

Measurement of expected credit losses
The expected credit loss is the estimated probability of credit losses. Credit losses are measured at the present value of all cash deficits (i.e., the difference between the cash flows due to the enterprise in accordance with the contract and the cash flows that the Group expects to receive). The expected credit losses are discounted at the effective interest rate of the financial asset.

Financial assets with low credit value
At the reporting date, the Group assesses whether the financial assets carried at amortised cost have been impaired. A financial asset is impaired when one or more events have a material adverse effect on the future cash flows of the financial asset.

Impairment presentation
Provision for losses on financial assets measured at amortised cost is deducted from the total carrying amount of the asset.

Expected credit losses on contract receivables and trade receivables are presented separately in the consolidated statement of income.

Contract assets
Contract assets are reported for a carrying amount of KD 4,283,163 as of 31 December 2019 (KD 2,606,371 as of 31 December 2018) (Note 10). The Group's impairment model "ECL" as of 31 December 2019 has not had any material impact on contract assets balance.

Contract receivables and trade receivables
Note 34 provides further details on the calculation of expected credit losses relating to contract receivables and trade receivables. The Group takes into consideration the model and some assumptions used to calculate credit losses expected as key sources of uncertainty.

Expected credit losses are calculated based on experience from actual credit losses over the past 3-5 years. The Group has calculated expected credit loss rates for its customers.

The ECLs on contract receivables and trade receivables are estimated using a credit matrix based on the customer's past experience and an analysis of the current consolidated financial position. These are adjusted based on the specific factors of the customers type, the general economic conditions of the industry in which the customer exercises his operating activity, at the reporting date.

The Group recognised a total expected credit losses loss as at 31 December 2019 amounting to KD 9,840,440 and KD 3,665,522 (31 December 2018: KD 8,575,649 and KD 2,853,497) (Note 11 and 12, respectively) against all amounts due to past experience indicating that these contract receivables and trade receivables, may not be fully recoverable. The risk analysis of expected customer default rate by age category of debt is shown in (Note 34).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets (Continued)

Impairment of financial assets (continued)

Impairment presentation (continued)

Due from related parties
Due from related parties are reported for a gross amount of KD 6,585,173 as of 31 December 2019 (KD 5,936,940 as of 31 December 2018) (Note 13).

The Group recognised a total expected credit losses as at 31 December 2019 amounting to KD 2,001,724 (31 December 2018: KD 2,001,724) (Note 13) against all amounts due to past experience indicating that these due from related parties may not be fully recoverable.

Bank balances and short-term deposit
Bank balances and short-term deposit are also subject to the impairment requirements of IFRS 9, where cash is placed with financial institutions with a high credit rating the identified impairment loss was immaterial.

Derecognition of financial assets
A financial asset is derecognised by the Group only when the contractual rights to the cash flows recognised from the asset expire; or when the Group transfers the financial asset and all the risks and rewards of ownership of the financial asset to another party. If the Group does not transfer or retain all the risks and rewards of ownership and continues to exercise control of the transferred asset, it recognises its asset held in the asset and any associated liability for the amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of the transferred financial asset, the Group continues to recognise the financial asset.

3.9 Contract balances

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial liabilities

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Classification
The financial liabilities include “term loans”, “lease liabilities”, “due to banks”, “notes payable”, “finance lease obligations”, “trade payables and other payables” and “due to related parties”.

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

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 using the effective yield method.

Trade payables and other payables
Trade payable and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non - current liabilities.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation is discharged, cancelled or enforced. When an existing obligation is replaced by another obligation from the same borrower on substantially different terms or the terms of the financial liability are changed substantially, such replacement or modification is treated as a derecognition of the original liability and recognition of a new obligation. The difference between the related carrying amounts is recognised in the consolidated statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Offsetting of financial instruments

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

3.12 Provision for end of service indemnity

The Group provides end of services benefits to its Non-Kuwaiti employees in accordance with the employment contracts and the Kuwaiti Labour Law. The entitlement to those benefits is based upon the employees' final salary and length of services, subject to completion of a minimum service period, and are payable to the employees on termination of their employment with the Group. The expected costs of these benefits are accrued over the period of employment.

Concerning the Kuwaiti national employees, the Group makes subscriptions to the Public Institution for Social Security being calculated as a percentage of monthly salaries of the employees. The Group's commitment is limited to such amounts of commitments which are recognised as an expense upon satisfaction of the vesting conditions by related staff. The cost is considered as part of staff costs.

The Group has no expectation of settling its employees' end of service benefits obligation within 12 months from the consolidated financial position date and, therefore, it has classified the obligation within non-current liabilities in the consolidated statement of financial position. The provision is not discounted to present value as the effect of the time value of money is not expected to be significant.

3.13 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the consideration expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3.14 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 canceled. 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 (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves, and then share premium.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Treasury shares (Continued)

Gains realised subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of share premium, 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.

Where any the Parent Company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity attributable to the Parent Company's shareholders.

3.15 Foreign currency

Functional and presentation currency
Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Kuwaiti Dinars ("KD").

Transactions and balances
Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the consolidated financial statements date.

Foreign exchange profits and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

3.16 Revenue

Revenue from contracts with customers for sales of goods or services in the ordinary course of the Group's activities is recognised in accordance with the following 5-step model:

1. Identify contracts with customers: A contract is an agreement which creates enforceable rights and obligations and sets out criteria that must be met;
2. Identify performance obligations within the contract: A performance obligation is a promise to deliver a good or a service to a customer;
3. Determine the transaction price: The transaction price is the amount to which the Group expects to be entitled in exchange for delivering the promised goods or services to a customer;
4. Allocate the transaction price to the performance obligations, if more than one;
5. Recognise revenue as and when the performance obligation(s) is/are satisfied.

Revenue is measured on the basis of the consideration that the Group expects to accrue through the contract with the customer, excluding amounts collected on behalf of the other parties. Revenue is recognised for the transfer of control over the goods or service to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Revenue (Continued)

Control shall be transferred at a specified time if none of the criteria necessary for the carriage of the goods or service is met over a period of time. The Group takes the following factors into consideration whether or not control is transferred:

- The Group has an existing right to make payments against the asset.
- The customer has a legal right in the original.
- The Group transfers the physical possession of the asset.
- The customer has significant risks and rewards to the ownership of the asset.
- The customer has accepted the asset.

The Group's revenue sources are as follows:

Rendering of services
Revenue from rendering of services is recognised over time, the Group is involved in providing services related to installation and maintenance of pipelines. Revenue from such services is recognised upon completion of services as the duration of services is generally is long in nature. The Group becomes entitled to invoice customers based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work signed by a customer internal technical assessor and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to contract receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost–to–cost method then the Group recognises a contract liability for the difference.

Contracting service
Revenue from construction is recognised over time on a cost–to–cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The Group considers that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

Manpower supply
Revenue from manpower supply is satisfied over time, as such, the Group uses input method to measure the progress of satisfaction of the performance obligation based on labour hours expended relative to the total expected inputs required in order to satisfy the performance obligation.

Sale of goods
Sales represent total invoiced amount of goods sold during the year. Revenue from sale of goods is recognised when the control over the goods is transferred to the customer. For standalone sales, that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods. Delivery occurs when the goods have been shipped to the specific location, have been purchased at store by the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Revenue (Continued)

The Group's revenue sources are as follows (continued):

Other income
Other income are recognised on an accrual basis.

Financing components

Rendering of services
There is not considered to be a significant financing component in installation and maintenance contracts with customers as the period between the recognition of revenue under the cost–to–cost method and the milestone payment is always less than one year.

Sale of goods
The Group does not have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are expensed in the consolidated statement of income in the year in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.18 Leases

Policy applicable from 1 January 2019
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. Assets and liabilities arising from a lease are initially measured on a present value basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Leases (Continued)

Policy applicable from 1 January 2019 (continued)

Group as a lessee (continued)

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are revaluated with changes in fair value being recognised in OCI.

The cost of a right-of-use asset also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The Group's lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Leases (Continued)

Policy applicable before 1 January 2019
For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met: the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

Where the Group is the lessee **-** *operating lease*
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases and were not recognised in the Group's consolidated statement of financial position. Payments made under operating leases were recognised in to the consolidated statement of income on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

3.19 Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)
The Group 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 the income from associates and subsidiaries, Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

National Labor Support Tax (NLST)
The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions 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 are deducted from the profit for the year.

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

3.20 Related parties transactions

Related parties consist of major shareholders, directors, executive officers, their close family members and companies of which they are principal owners. All related parties transactions are conducted on an arm's length basis and are approved by management.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

3.22 Contingent assets and liabilities

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

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

3.23 Segment reporting

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions are reviewed periodically. The effect of an adjustment on estimates is recognised in the period in which the adjustment is made and in the future period if the adjustment affects future periods. The following estimates are for the future and may result in significant risk of material changes to the assets and liabilities over the next financial years.

Significant accounting judgments
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group included the renewal period as part of the lease term for leases of leasehold lands with shorter non-cancellable period (i.e., five years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on operations if the leased asset is not readily available. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Classification of financial instruments
On acquisition of a financial asset, the Group decides whether it should be classified as "at fair value through profit or loss", "at fair value through other comprehensive income" or "at amortised cost". IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets of the instrument's contractual cash flow characteristics. The Group follows the guidance of IFRS 9 on classifying its financial assets which is described in the accounting policy (Note 3).

Revenue recognition
The Group reviews periodically the timing of meeting performance obligations in contracts with customers, including significant payment terms and related revenue recognition policies (Note 25).

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainty and assumptions

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

Revaluation of freehold and leasehold lands

The Group carries its freehold and leasehold lands at revalued amounts, with changes in fair value being recognised in OCI. The freehold and leasehold lands were valued by reference to transactions involving properties of a similar nature, location and condition. The Group engaged independent valuation specialists to assess fair values as at 31 December 2019 for the freehold and leasehold lands (Note 5).

The key assumptions used to determine the fair value of the freehold and leasehold lands and sensitivity analyses are provided in (Note 35).

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Estimating the incremental borrowing rate for leases

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainty and assumptions (Continued)

Valuation of unquoted investments
Valuation of unquoted equity securities is normally based on one of the following:
- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- Earnings multiples;
- Price to book multiples;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- Underlying net asset base of the investment; or
- Other valuation models

The determination of the cash flows, earnings multiples, price to book multiples and discount factors for unquoted equity securities requires significant estimation.

Provision for obsolete and slow moving inventories
The determination of the marketability of the inventory and the factors determining the impairment of the inventory involve significant judgment.

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

Provision for expected credit losses for contract receivables and trade receivables
The Group uses a dedicated matrix to calculate provision for expected credit losses for contract receivables and trade receivables. Provision rates are based on previous days due to the aggregation of different segments of customers with similar loss patterns (ie, by geographical location, type of product, type and valuation of the customer, coverage of letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The information relating to the provision of expected credit losses for contract and trade receivables is disclosed in (Note 34).

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainty and assumptions (Continued)

Impairment of associates
After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is 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 loss as "impairment loss of investment in associate" in the consolidated statement of income.

Contingent liabilities
Contingent liabilities arise as a result of past events confirmed only by the occurrence or non-occurrence of one or more of uncertain future events that are not included in full within control of the Group. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment.

5. PROPERTY, PLANT AND EQUIPMENT

	Freehold lands	Buildings constructed on freehold and leasehold lands	Machinery and heavy equipment	Vehicles	Furniture and office equipment	Projects under construction	Total
	KD	KD	KD	KD	KD	KD	KD
Cost or valuation							
Balance at 1 January 2018	1,638,940	13,779,557	18,340,781	4,922,969	3,907,908	470,467	43,060,622
Additions	-	1,260,268	967,419	843,598	292,866	374,646	3,738,797
Disposals	-	-	(7,592,717)	(261,141)	(603,887)	-	(8,457,745)
Foreign currency translation	5,290	(3,109)	(57,149)	2,001	2,406	-	(50,561)
Balance at 31 December 2018 ("as previously stated")	1,644,230	15,036,716	11,658,334	5,507,427	3,599,293	845,113	38,291,113
Impact of adoption of IFRS 16 at 1 January 2019 (Note 6)	-	523,142	-	-	-	-	523,142
Balance at 1 January 2019 ("restated")	1,644,230	15,559,858	11,658,334	5,507,427	3,599,293	845,113	38,814,255
Additions	-	-	64,847	142,132	527,474	360,264	1,094,717
Disposals	-	(20,899)	(68,757)	(85,442)	(153,665)	-	(328,763)
Revaluation adjustment	2,126,364	4,597,159	-	-	-	-	6,723,523
Foreign currency translation	(2,751)	(2,436)	(19,661)	(1,219)	(2,850)	-	(28,917)
Balance at 31 December 2019	3,767,843	20,133,682	11,634,763	5,562,898	3,970,252	1,205,377	46,274,815
Accumulated depreciation and impairment							
Balance at 1 January 2018	-	1,577,394	4,487,245	2,934,945	2,975,039	-	11,974,623
Charge of the period	-	482,711	928,712	731,494	363,378	-	2,506,295
Related to disposals	-	-	(1,133,067)	(134,539)	(587,158)	-	(1,854,764)
Foreign currency translation	-	(2,405)	(45,181)	1,664	2,416	-	(43,506)
Balance at 31 December 2018	-	2,057,700	4,237,709	3,533,564	2,753,675	-	12,582,648
Charge of the period	-	406,574	1,069,002	924,895	356,284	-	2,756,755
Impairment losses	216,683	531,751	-	-	-	-	748,434
Related to disposals	-	(9,494)	(68,757)	(74,363)	(148,154)	-	(300,768)
Foreign currency translation	-	(1,335)	(15,808)	(1,108)	(2,738)	-	(20,989)
Balance at 31 December 2019	216,683	2,985,196	5,222,146	4,382,988	2,959,067	-	15,766,080
Net book value							
Balance at 31 December 2019	3,551,160	17,148,486	6,412,617	1,179,910	1,011,185	1,205,377	30,508,735
Balance at 31 December 2018	1,644,230	12,979,016	7,420,625	1,973,863	845,618	845,113	25,708,465

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The depreciation charged for the year is allocated as follows:

	2019	2018
	KD	KD
Cost of revenue (Note 26)	2,236,181	2,080,072
General and administrative expenses (Note 27)	520,574	426,223
	2,756,755	2,506,295

- Buildings are constructed on leasehold lands under renewal lease agreement from the Public Authority for Industry, State of Kuwait.
- The Group has mortgaged revalued leasehold lands amounted to KD 9,660,000 and buildings constructed with carrying amount of KD 249,234 (2018: revalued leasehold lands amounted to KD 5,769,316 and buildings constructed with carrying amount of KD 281,713) to a local bank against term loans (Note 20).
- The Group has mortgaged revalued freehold land amounted KD 2,200,000 and buildings constructed with carrying amount of KD 96,001 (2018: revalued freehold land amounted KD 672,164 and buildings constructed with carrying amount of KD 108,001) are mortgaged to a local banks against term loans. (Note 20).
- The Group has mortgaged revalued freehold lands amounted to KD 1,175,312 and buildings constructed with carrying amount of KD 177,109 (2018: revalued freehold lands amounted to KD 972,066 and buildings constructed with carrying amount of KD 206,995) are mortgaged to a foreign banks against term loans (Note 20).

Fair value of the freehold and leasehold lands was determined using the market comparable method. The valuations have been performed by the valuers and are based on proprietary databases of prices of transactions for freehold and leasehold lands of similar nature, location and condition. As at the dates of revaluation on 31 December 2019, the freehold and leasehold lands' fair values are based on valuations performed by independent valuers who has valuation experience for similar freehold and leasehold lands. Since this valuation was performed using a significant non-observable input, the fair value was classified as a Level 3 measurement. Fair value measurement disclosures for the revalued freehold and leasehold lands are provided in (Note 35).

6. LEASES

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year:

	Right-of-use assets	Lease liabilities
	KD	KD
Balance at 1 January 2019	523,142	523,142
Lease payments	-	(51,034)
Accretion of interest (included in finance costs)	-	2,546
Balance at 31 December 2019	523,142	474,654

6. LEASES (CONTINUED)

Set out below, are the maturity profile of lease liabilities as follows:

	Current	Non-Current	Total
	KD	KD	KD
Lease liabilities	46,070	428,584	474,654

The following are the amounts recognised the consolidated statement of income:

	2019
	KD
Interest expense on lease liabilities	2,546
Expense relating to short-term leases	4,071,917
Total amount recognised in the consolidated statement of income	4,074,463

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease term:

	Within 5 years	More than 5 years	Total
	KD	KD	KD
Extension options exercised	95,000	461,000	556,000
	95,000	461,000	556,000

7. INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

Name of the associate	Country of incorporation	Percentage of ownership	2019	2018
			KD	KD
Health Assurance Hospital Company K.S.C.P. (Dhaman)	State of Kuwait	26%	67,569,513	68,711,611
Agricltural Environmental Projects Company W.L.L.	State of Kuwait	40%	1	1
			67,569,514	68,711,612

7. INVESTMENT IN ASSOCIATES (CONTINUED)

Following are the movement on investment in associates:

	2019	2018
	KD	KD
Balance at 1 January	68,711,612	69,276,116
Share of results	(1,142,098)	(564,504)
	67,569,514	68,711,612

As at 31 December 2019, the management has reviewed its investments in associates to assess whether impairment has occurred in their value and accordingly no impairment loss has been recognised in the consolidated statement of comprehensive income. Management is not aware of any circumstances that would indicate any additional impairment in the value of these investments at the reporting date.

Health Assurance Hospital Company K.S.C.P. (Dhaman) (the "associate"):

The following table shows financial information of the Group's:

	2019	2018
	KD	KD
Statement of income:		
Revenue	1,957,336	1,910,184
Expenses	(6,350,020)	(4,081,352)
Loss for the year	(4,392,684)	(2,171,168)
Statement of financial position:		
Non-current assets	64,610,283	43,029,477
Current assets	55,713,369	76,616,642
Total assets	120,323,652	119,646,119
Non-current liabilities	6,587,398	1,794,792
Current liabilities	2,210,314	1,932,703
Total liabilities	8,797,712	3,727,495
Net assets	111,525,940	115,918,624

The following table shows a reconciliation of the financial information of the associate to the carrying amount of the Group's interest in the associates:

	2019	2018
	KD	KD
Net assets of the associate	111,525,940	115,918,624
Group's effective interest in the associate's equity	26%	26%
Group's interest in net assets of the associate	28,996,744	30,138,842
Goodwill	38,572,769	38,572,769
Carrying amount of the Group's investment in the associate	67,569,513	68,711,611

7. INVESTMENT IN ASSOCIATES (CONTINUED)

Health Assurance Hospital Company K.S.C.P. (Dhaman) (the "associate") (Continued):

The Group has been awarded the bid to invest in the equity shares equivalent to 26% in establishing a new Company (Health Assurance Hospital Company K.S.C.P. (Dhaman) (the "associate")) in State of Kuwait as a strategic investor against tender issued from Kuwait Investment Authority (on behalf on Government of Kuwait). Presently, the associate is in pre-operation phase and has not commenced its commercial operations.

The Group's share of result from investment in associate for the year ended 31 December has been recognised based on their audited financial statements. The shares of associate are not publicly listed on a stock exchange.

The Group has further commitment of KD 29,900,000 (2018: KD 29,900,000) as a capital contribution towards balance 50% uncalled and unpaid share capital, when its being called up by Health Assurance Hospital Company K.S.C.P. (Dhaman) (the "associate") (Note 33). There are no other contingent liabilities relating to the Group's interest in the associate as at 31 December 2019 and 2018.

During the subsequent period, the Group lost its representative in the Board of Directors in the associate Company (equity accounted investee). The management believes that the Group still has the right to exert a significant influence over the associate through other means, and accordingly the Group continues to apply the equity method in accounting for the investment.

Investment in associate entire shares is been promised to be pledged with local banks against term loans (Note 20).

Impairment assessment of Dhaman
Management considered the performance outlook and business operations of the CGU to determine whether the carrying amount does not exceed the recoverable amount.

The recoverable amount was estimate on the present value of the future cash flows expected to be derived from the CGU (value-in-use). The value in use calculation is determined based on reasonable and supportable assumptions concerning projections approved by management (as part of the budget).

These cash flows cover at least five-year period using an average annual revenue growth rate of 22.6% over the forecast period based on management's expectations of market development. The discount rate applied to cash flow projections is ranged from (9.02% to 12.07%) based on expected cash flow approach and cash flows beyond the forecast period are extrapolated using a 3.07% long-term growth rate.

As a results of the analysis, the recoverable amount of the entire CGU based on the value-in-use as at 31 December 2019 exceeded the carrying value of the investment. Accordingly, management did not identify an impairment loss during the year ended 31 December 2019.

7. INVESTMENT IN ASSOCIATES (CONTINUED)

Health Assurance Hospital Company K.S.C.P. (Dhaman) (the "associate") (Continued):

Impairment assessment of Dhaman (continued)

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

- Annual revenue growth rate during the forecast period.
- Discount rate.
- Long-term growth rates (terminal value) used to extrapolate cash flows beyond the forecast period.

Sensitivity to changes in assumptions
Increase/(decrease) in key assumptions would result in higher/(lower) recoverable amounts of the CGU. Changes in key assumptions may be correlated. Management believes that it is unlikely that changes in key assumptions would cause the carrying value of the CGU to exceed its recoverable amount.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	KD	KD
Unquoted securities	5,837,353	5,739,031

Financial assets at fair value through other comprehensive income amounted to KD 4,262,854 (2018: KD 4,262,854) are pledge against term loans (Note 20).

Fair value measurement disclosures for financial assets at fair value through other comprehensive income are provided in (Note 35).

9. INVENTORIES

	2019	2018
	KD	KD
Finished goods	50,446,972	48,345,771
Provision for obsolete and slow moving items (*)	(2,617,785)	(2,476,419)
	47,829,187	45,869,352
Goods in transit	5,483,997	4,421,595
	53,313,184	50,290,947

(*) Movement in the provision for obsolete and slow moving items is as follows:

	2019	2018
	KD	KD
Balance at the beginning of the year	2,476,419	2,244,935
Provision charge for year	257,059	365,590
Written off during the year	(113,439)	(136,861)
Foreign currency translation	(2,254)	2,755
	2,617,785	2,476,419

10. CONTRACT BALANCES

	2019	2018
	KD	KD
Contract assets (a)	4,283,163	2,606,371
Contract liabilities (b)	1,459,031	1,348,673

(a) This item represents the revenue earned from construction as receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to contract receivables.

(b) Contract liabilities include advances received to render construction services. The outstanding balances of these accounts increased in 2019 due to the continuous increase in the Group's customer base.

Set out below is the movement of contract liabilities:

	2019	2018
	KD	KD
Balance at 1 January	1,348,673	-
Effect of adoption IFRS 15	-	1,002,745
Received during the year	1,717,747	1,870,906
Performance obligations satisfied	(1,607,389)	(1,524,978)
	1,459,031	1,348,673

11. CONTRACT RECEIVABLES

	2019	2018
	KD	KD
Contract receivables	77,248,192	66,605,055
Provision for expected credit losses (*)	(9,840,440)	(8,575,649)
	67,407,752	58,029,406

Contract receivables are non-interest bearing and are generally on terms of 30 to 90 days.

The risk analysis of the expected customer default rate by age category of debt is shown in (Note 34).

(*) The movement in the provision for expected credit losses is as follows:

	2019	2018
	KD	KD
Balance at 1 January	8,575,649	5,475,575
Effect of adoption IFRS 9	-	2,478,456
Charge during the year (Note 28)	1,264,791	621,618
	9,840,440	8,575,649

12. TRADE RECEIVABLES AND OTHER DEBIT BALANCES

	2019	2018
	KD	KD
Trade receivables	19,047,499	17,670,776
Less: provision for expect credit losses (*)	(3,665,522)	(2,853,497)
	15,381,977	14,817,279
Retentions	5,039,866	4,173,562
Advance payment to suppliers	11,964,292	8,738,153
Refundable deposits	846,100	1,106,913
Prepaid expenses	1,796,975	2,005,523
Staff receivables	1,063,442	1,275,628
Others	1,130,541	1,225,542
	37,223,193	33,342,600

(*) The movement in the provision for expected credit losses is as follows:

	2019	2018
	KD	KD
Balance at January 2019	2,853,497	1,869,922
Charge during the year (Note 28)	815,088	983,575
Written off during the year	(849)	-
Foreign currency translation	(2,214)	-
	3,665,522	2,853,497

The risk analysis of the expected customer default rate by age category of debt is shown in (Note 34).

13. RELATED PARTIES DISCLOSURES

Related parties represent major shareholders, directors and senior management personnel of the Parent Company, and Companies controlled, or significantly influenced by such parties. The pricing policies and conditions for these transactions are approved by the Parent Company management. The significant related parties’ balances and transactions are as follows:

13. RELATED PARTIES DISCLOSURES (CONTINUED)

Consolidated statement of financial position

	Shareholders	Associates	Other related parties	2019	2018
	KD	KD	KD	KD	KD
Contract receivables	-	565,000	-	565,000	-
Due from related parties	-	1,780,416	4,804,757	6,585,173	5,936,940
Provision for expected credit losses				(2,001,724)	(2,001,724)
				4,583,449	3,935,216
Due to related parties	6,633,106	-	8,914,638	15,547,744	14,490,795

	2019	2018
	KD	KD
Consolidated statement of income		
Finance costs	422,500	390,000
Services rendered to associate Company	1,458,490	-

Compensation of key management personnel of the Parent Company
The remuneration of key management personnel of the Parent Company during the year was as follow:

	2019	2018
	KD	KD
Salaries and short term benefits	291,250	292,000
End of service benefits	28,440	20,910

The amounts due from related parties are non-interest bearing and are receivable on demand.

The amounts due to related parties are non-interest bearing and are payable on demand except for amounts due to shareholders which carries an interest rate of 6.5% (2018: 6.5%) per annum.

The related party's transaction was made on terms equivalent to those that prevail in an arm's-length transactions. These terms are substantiated by similar transactions with unrelated parties.

14. CASH AND CASH EQUIVALENTS

	2019	2018
	KD	KD
Cash at banks	1,194,786	489,552
Cash on hand	163,775	247,215
Short term deposit (less than three months from the placement date)	112,185	112,185
	1,470,746	848,952

The average effective interest rate on short term deposit as at 31 December 2019 was 2% per annum (31 December 2018: 2% per annum).

15. SHARE CAPITAL

	2019	2018
	KD	KD
Authorised and issued shares:		
172,962,242 (2018: 172,962,242) shares of 100 fils each. All shares are paid in cash	17,296,224	17,296,224

16. SHARE PREMIUM

This represents cash received in excess of the par value of the shares issued. Share premium is not available for distribution except in cases stipulated by law.

17. TREASURY SHARES

	2019	2018
Number of treasury shares	7,966,743	7,966,743
Percentage of ownership	4.61%	4.61%
Market value (KD)	2,182,888	525,805
Cost (KD)	1,480,519	1,480,519

The Parent Company's management has allotted an amount equal to treasury shares balance from the available reserves as of the financial reporting date. Such amount will not be available for distribution during treasury shares holding period.

18. STATUTORY RESERVE

As required by the Companies' Law and the Parent Company's Memorandum of Incorporation, 10% of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax, Zakat and Directors' remuneration, is transferred to statutory reserve. The Parent Company's Board of Directors may resolve to discontinue such annual transfers when the reserve exceeds 50% of the issued share capital.

18. STATUTORY RESERVE (CONTINUED)

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

No transfers to statutory reserve were done during the year as the Group has incurred accumulated losses.

19. VOLUNTARY RESERVE

In accordance with the Parent Company's Memorandum of Incorporation, 10% of the profit attributable to the Parent Company for the year before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax, Zakat and Directors' remuneration is transferred to the voluntary reserve. The Group may resolve to discontinue such annual transfers in accordance with a resolution of the Parent Company's Ordinary General Meeting based on proposal submitted by the Parent Company's Board of Directors. Voluntary reserve is shown separately within equity.

No transfers to voluntary reserve were done during the year as the Group has incurred accumulated losses.

20. TERM LOANS

Bank loans represent loans granted by local and foreign banks at an interest rate ranging from 2.5% to 4% per annum (31 December 2018: from 2.5% to 4% per annum) over the Central Bank of Kuwait's discount rate.

Collaterals
Term loans are secured against the followings collaterals:

- Shareholders personal guarantees,
- Assignment of some contract revenues,
- 43,982,797 of capital shares which related to major shareholders,
- Guarantees from related parties and subsidiaries Companies,
- Mortgage of the Group's properties (Note 5),
- Promise to mortgage the entire 26% ownership of investment in associate (Note 7),
- Financial assets at fair value through other comprehensive income (Note 8).

Presented below maturity profile of term loans as follows:

	2019	**2018**
	KD	KD
Non-current portion	84,505,703	77,281,956
Current portion	38,968,872	33,408,604
	123,474,575	110,690,560

21. DUE TO BANKS

Due to banks represent facilities granted by local banks carrying interest rates ranging from 2.5% to 4% (31 December 2018 from 2.5% to 4%) over the Central Bank of Kuwait's discount rate.

Due to banks includes a balance amounting of KD 1,350,294 (2018: KD 1,170,857) which is granted to the Group by local bank, carrying interest rates 5.5% (2018: 5.5%) per annum.

Due to banks are secured against collaterals described in (Note 20).

22. NOTES PAYABLE

This item represents notes payable resulted from commercial transactions carrying interest rates ranging from 2.5% to 4% (31 December 2018 from 2.5% to 4%) over the Central Bank of Kuwait's discount rate.

Notes payable are secured against collaterals described in (Note 20).

23. FINANCE LEASE OBLIGATIONS

This represents the balance of finance lease obligations which is granted to the Group by local financial institutions, carrying an interest rates ranging from 6.5% to 8% (31 December 2018 from 6.5% to 8%) per annum. These obligations were granted to the Group against personal guarantee of the shareholders.

24. TRADE PAYABLES AND OTHER PAYABLES

	2019	2018
	KD	KD
Trade payables	10,546,534	13,139,131
Provision for leaves	2,778,015	2,405,512
Advance from customers	1,211,810	1,195,707
Retention	110,475	220,282
Staff payables	364,190	301,158
Accrued expenses	6,500,213	5,041,059
Others (a)	21,528,000	21,528,000
	43,039,237	43,830,849

(a) This represents a non-interest bearing fund granted by a third party for financing the Group's investment in associate (Health Assurance Hospital Company K.S.C.P. ("Dhaman") (the "associate")). This fund is currently subject to judicial dispute between the parties. The legal case is still deliberate before the courts of justice.

25. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by type of revenue, type of customer, primary geographical market and timing of revenue recognition.

	For the year ended 31 December 2019		
Segments	**Oil and gas**	**Commercial**	**Total**
	KD	KD	KD
Type of revenue			
Services and maintenance	30,521,590	-	30,521,590
Construction	14,136,703	-	14,136,703
Manpower supply	3,688,386	-	3,688,386
Sale of goods	-	52,879,839	52,879,839
Others	-	3,519,960	3,519,960
Total revenue from contracts with customers	48,346,679	56,399,799	104,746,478
Type of customer			
Government	46,696,326	1,394,640	48,090,966
Non-government	1,650,353	55,005,159	56,655,512
Total revenue from contracts with customers	48,346,679	56,399,799	104,746,478
Primary geographical markets			
State of Kuwait	48,346,679	45,371,927	93,718,606
GCCs	-	11,027,872	11,027,872
Total revenue from contracts with customers	48,346,679	56,399,799	104,746,478
Timing of revenue recognition			
Services/goods transferred at a point in time	-	55,506,309	55,506,309
Services transferred over time	48,346,679	893,490	49,240,169
Total revenue from contracts with customers	48,346,679	56,399,799	104,746,478

25. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Disaggregation of revenue from contracts with customers (Continued)

	For the year ended 31 December 2018		
Segments	**Oil and gas**	**Commercial**	**Total**
	KD	KD	KD
Type of revenue			
Services and maintenance	45,415,994	-	45,415,994
Construction	19,321,508	-	19,321,508
Manpower supply	5,307,147	-	5,307,147
Sale of goods	-	49,917,879	49,917,879
Total revenue from contracts with customers	70,044,649	49,917,879	119,962,528
Type of customer			
Government	63,040,184	4,991,788	68,031,972
Non-government	7,004,465	44,926,091	51,930,556
Total revenue from contracts with customers	70,044,649	49,917,879	119,962,528
Primary geographical markets			
State of Kuwait	70,044,649	36,882,934	106,927,583
GCCs	-	13,034,945	13,034,945
Total revenue from contracts with customers	70,044,649	49,917,879	119,962,528
Timing of revenue recognition			
Services/goods transferred at a point in time	-	49,917,879	49,917,879
Services transferred over time	70,044,649	-	70,044,649
Total revenue from contracts with customers	70,044,649	49,917,879	119,962,528

Satisfaction of performance obligations in contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

25. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Satisfaction of performance obligations in contracts with customers (Continued)

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service/product	Nature and timing of satisfaction of performance obligations, including significant payment terms
Services and maintenance	Invoices for services are issued on a monthly basis and are usually payable within 30 days.
Construction	The Group builds property for customers based on their designs and on their land. Each project commences on receipt of a prepayment from a customer and its length depends on the complexity of the design.
Manpower supply	Invoices for manpower supply are issued on a monthly basis and are usually payable within 30 days.
Sale of goods	Customers obtain control of products when the goods are dispatched from the Group's warehouse. Invoices are generated and revenue is recognised at that point in time. Invoices are usually payable within 30 to 90 days. No discounts, loyalty points or returns are offered for the products.

26. COST OF REVENUE

	2019	2018
	KD	KD
Staff costs	20,915,363	23,645,593
Materials usage	43,048,987	46,004,803
Subcontractors costs	4,649,825	10,598,585
Technical services fees	259,638	1,113,563
Rent	1,941,266	2,399,814
Depreciation (Note 5)	2,236,181	2,080,072
Rental equipment	1,022,105	1,942,761
Bank charges	1,116,731	1,454,725
Fuel expenses	659,587	793,250
Maintenance and insurance	821,195	732,961
Professional fees	126,767	96,818
Travel expenses	477,774	618,920
Others	1,410,288	2,075,349
	78,685,707	93,557,214

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
	KD	KD
Staff costs	7,899,133	8,088,520
Rent	1,108,546	845,079
Professional fees	91,575	408,546
Sales commissions	625,687	682,641
Depreciation (Note 5)	520,574	426,223
Bank charges	88,475	19,996
Travel expenses	36,669	19,325
Subscriptions fees	64,271	117,706
Communications	17,357	24,412
Maintenance and insurance	72,783	36,230
Printing and stationary	10,615	12,247
Others	2,490,264	2,604,193
	13,025,949	13,285,118

28. PROVISION FOR EXPECTED CREDIT LOSSES

	2019	2018
	KD	KD
Contract receivables (Note 11)	1,264,791	621,618
Trade receivables and other debit balances (Note 12)	815,088	983,575
	2,079,879	1,605,193

29. BASIC AND DILUTED (LOSSES)/EARNINGS PER SHARE

Basic and diluted (loss)/earnings per share is computed by dividing (loss)/profit for the year attributable to the shareholders of the Parent Company by the weighted average number of shares outstanding during the year less weighted average number of treasury shares.

	2019	2018
(Loss)/profit for the year attributable to Shareholders of the Parent Company (KD)	(1,641,868)	428,028
Weighted average number of outstanding shares during the year excluding treasury shares (shares)	164,995,499	164,995,499
Basic and diluted (losses)/earnings per share (fils)	(9.95)	2.59

The Parent Company had no outstanding dilutive shares.

30. ANNUAL GENERAL ASSEMBLY MEETING

The Annual General Assembly Meeting of the Parent Company shareholders held on 12 May 2019 approved the consolidated financial statements for the year ended 31 December 2018 and approved no distribution of dividends for the year ended 31 December 2018.

31. SEGMENT INFORMATION

For management purposes the Group is organised into four major business segments. The principal activities and services under these segments are as follows:

- Oil and gas
- Retails
- Investments
- Constructions

There are no inter-segmental transactions. The following segments are reported in a manner that is more consistent with internal reporting provided to the chief operating decision maker:

	Oil and gas		**Retails**		**Investments**		**Constructions**		**Total**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Segment revenue	57,132,592	51,764,143	48,096,187	49,917,879	11,666	48,486	495,953	19,321,508	105,736,398	121,052,016
Segment profit/(loss)	3,562,522	4,326,664	1,170,308	1,660,260	(5,348,003)	(4,414,940)	(62,148)	22,433	(677,321)	1,594,417
Assets	139,257,175	121,585,156	47,660,348	42,406,547	71,846,788	72,019,140	13,437,721	13,205,991	272,202,032	249,216,834
Liabilities	127,182,043	111,486,366	29,130,355	27,523,367	76,490,758	76,272,557	343,185	921,310	233,146,341	216,203,600

32. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Reconciliation of movements of liabilities to cash flows arising from financing activities:

The changes in liabilities arising from financing activities can be reconciled with their opening balances separately from changes in those other liabilities as the follows:

	Term loans	**Lease liabilities**	**Due to banks**	**Notes payable**	**Finance lease obligations**	**Total**
	KD	KD	KD	KD	KD	KD
Balance at 1 January 2018	110,631,892	-	8,519,850	18,855,893	7,904,618	145,912,253
Proceeds	23,783,100	-	-	-	-	23,783,100
Repayments of principle	(23,724,432)	-	-	-	-	(23,724,432)
Net movement	-	-	2,454,360	10,180,987	(7,187,088)	5,448,259
Finance costs	8,192,600	-	274,853	1,057,010	83,848	9,608,311
Finance costs paid	(8,192,600)	-	(274,853)	(1,057,010)	(83,848)	(9,608,311)
	110,690,560	-	10,974,210	29,036,880	717,530	151,419,180
Non-cash						
Purchase of property, plant and equipment through finance lease obligations	-	-	-	-	(1,517,173)	(1,517,173)
Disposals of property, plant and equipment through settlements of finance lease obligations	-	-	-	-	1,554,381	1,554,381
Balance at 31 December 2018	110,690,560	-	10,974,210	29,036,880	754,738	151,456,388
Balance at 31 December 2018 ("as previously stated")	110,690,560	-	10,974,210	29,036,880	754,738	151,456,388
Impact of adoption of IFRS 16 at 1 January 2019	-	523,142	-	-	-	523,142
Balance at 1 January 2019 ("restated")	110,690,560	523,142	10,974,210	29,036,880	754,738	151,979,530
Proceeds	29,214,608	-	-	-	-	29,214,608
Repayments of principle	(16,430,593)	(48,488)	-	-	-	(16,479,081)
Net movement	-	-	1,106,376	1,879,807	(491,984)	2,494,199
Finance costs	8,562,040	2,546	188,561	1,217,390	45,788	10,016,325
Finance costs paid	(8,562,040)	(2,546)	(188,561)	(1,217,390)	(45,788)	(10,016,325)
Balance at 31 December 2019	123,474,575	474,654	12,080,586	30,916,687	262,754	167,209,256

33. CAPITAL COMMITMENTS CONTINGENT LIABILITIES

At the consolidated statement of financial position date, the Parent Company is contingently liable in respect of capital commitments and contingent liabilities are as follow:

	2019	2018
	KD	KD
Capital commitments		
Purchase of investment in associate (Note 7)	29,990,000	29,990,000
Construction contract related to property, plant and equipment	193,455	-
	30,183,455	29,990,000
Contingent liabilities		
Letters of credit	3,015,879	1,619,110
Letters of guarantees	74,197,159	75,422,141
Letters of acceptance	1,106,216	278,785
	78,319,254	77,320,036

34. RISK MANAGEMENT

Financial risk management

The Group's risk management is predominantly controlled by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as market risk: (interest rate risk, equity price risk and foreign currency risk,), credit risk and liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group generally does not use derivative financial instruments and non-derivative financial instruments and investment of excess liquidity to manage its exposure to these risks.

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 currencies. Whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

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

34. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Market risk (continued)

Interest rate risk
Financial instruments are subject to the risk of changes in value due to changes in the level of interest for its financial assets and financial liabilities carrying floating interest rates. The effective interest rates and the years in which interest bearing financial assets and liabilities are re-priced or mature are indicated in the respective notes.

The Group is not exposed on interest rate risk on a portion of due to banks amounted of KD 1,350,294 (2018: KD 1,170,857) (Note 21) and on finance lease obligation amounted of KD 262,754 (2018: KD 754,738) (Note 23), since it carries a non-floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income and equity (through the impact on floating rate borrowings).

	31 December 2019		
	Increase / (decrease) in interest rate	**Balance**	**Effect on consolidated statement of income and equity**
	%	KD	KD
Term loans	± 0.5%	123,474,575	617,373
Lease liabilities	± 0.5%	474,654	2,373
Due to banks	± 0.5%	10,730,292	53,651
Notes payable	± 0.5%	30,916,687	154,583

	31 December 2018		
	Increase / (decrease) in interest rate	**Balance**	**Effect on consolidated statement of income and equity**
	%	KD	KD
Term loans	± 0.5%	110,690,560	553,453
Due to banks	± 0.5%	9,803,353	49,017
Notes payable	± 0.5%	29,036,880	145,184

34. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Market risk (continued)

Equity price risk
Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in equity prices. Financial instruments, which potentially subject the Group to equity price risk, consist principally of financial assets at fair value through other comprehensive income. The Group manages this risk by diversifying its investments on the basis of the pre-determined asset allocations across various categories, continuous evaluation of market conditions and trends and management estimate of long and short term changes in fair value that is not exposed to significant risks.

Foreign currency risk
The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The Group has transactional currency exposure on account of purchases in currencies other than functional currency.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates, with all other variables held constant. The impact on the Group's profit is due to changes in the fair value of monetary assets and liabilities designated foreign currency.

	2019		2018	
Currency	**Increase / (decrease) against Kuwaiti Dinar**	**Effect on consolidated statement of income and equity**	**Increase / (decrease) against Kuwaiti Dinar**	**Effect on consolidated statement of income and equity**
	%	KD	%	KD
US Dollar	±5%	10,410	±5%	163,890
British pound	±5%	306	±5%	690
Euro	±5%	19,565	±5%	48,256
UAE Dirhams	±5%	2,988	±5%	8,394
Indian Rupee	±5%	252	±5%	304
Japanese Yen	±5%	-	±5%	103
Bahraini Dinar	±5%	-	±5%	265

34. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of participation in contract assets, contract receivables, trade receivables and other debit balances (excluding prepayments), due from related parties and bank balances and short-term deposit. The Group's cash are placed with high credit rating financial institutions. The Group’s contract receivables, trade receivables and due from related parties are presented net of allowance for expected credit losses.

The Group has adopted a policy of only dealing with creditworthy counterparties. The Group’s exposures are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Maximum exposure to credit risk
The Group’s exposure to credit risk from bank balances, short-term term deposit and accounts receivable arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The maximum exposure is the carrying amount as described in the consolidated statement of financial position.

	2019	2018
	KD	KD
Financial assets		
Contract assets	4,283,163	2,606,371
Contract receivables	67,407,752	58,029,406
Trade receivables and other debit balances (excluding prepayments)	23,461,926	22,598,924
Due from related parties	4,583,449	3,935,216
Bank balances and short-term deposit	1,306,971	601,737
	101,043,261	87,771,654

Impairment risk on financial assets
Financial assets at risk of impairment include “contract assets”, “contract receivables”, “trade receivables and other debit balances (excluding prepayments)”, “due from related parties” and “Bank balances and short-term deposit”.

Contract receivables
The Group applies the simplified method in accordance with IFRS 9 to measure expected credit losses using an expected loss provision based on the expected credit loss period for all contract receivables.

To measure expected credit losses, contacts receivables were collected based on the characteristics of the combined credit risk and the maturity dates. Therefore, the Group's management considers that the expected credit losses for contract receivables are a reasonable approximation of actual customer failure results in subsequent periods.

34. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Credit risk (continued)

Impairment risk on financial assets (continued)

Contract receivables (continued)

More than 75% of the Group's customers are governmental customers have been transacting with the Group for over four years, and none of these governmental customers' balances have been written off or are credit-impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, their geographic location, industry, trading history with the Group and existence of previous financial difficulties.

The Group does not require collateral in respect of contract receivables. The Group does not have contract receivables for which no loss allowance is recognised because of collateral.

34. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Credit risk (continued)

Impairment risk on financial assets (continued)

Contract receivables (continued)

On this basis, the provision for expected credit losses was determined as at 31 December 2019 and 31 December 2018 as follows:

31 December 2019:

Contract receivables	**From 0 to 30 days**	**From 31 to 90 days**	**From 91 to 180 days**	**from 181 to 365 days**	**Above 365 days**	**Total**
	KD	KD	KD	KD	KD	KD
Governmental receivables						
Contract receivables balance	11,150,147	11,377,347	10,906,086	10,184,285	17,955,952	61,573,817
Weighted average loss rate	0.15%	1.27%	4.63%	4.91%	15.17%	-
Provision for expected credit losses	16,719	144,084	505,399	500,048	2,724,362	3,890,612
Non-Governmental receivables						
Contract receivables balance	1,357,971	638,335	3,124,264	2,071,323	8,482,482	15,674,375
Weighted average loss rate	5.58%	10.74%	13.81%	37.94%	54.09%	-
Provision for expected credit losses	75,775	68,557	431,461	785,860	4,588,175	5,949,828
Total contract receivables	12,508,118	12,015,682	14,030,350	12,255,608	26,438,434	77,248,192
Provision for expected credit losses	(92,494)	(212,641)	(936,860)	(1,285,908)	(7,312,537)	(9,840,440)
	12,415,624	11,803,041	13,093,490	10,969,700	19,125,897	67,407,752

34. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Credit risk (continued)

Impairment risk on financial assets (continued)

Contract receivables (continued)

On this basis, the provision for expected credit losses was determined as at 31 December 2019 and 31 December 2018 as follows (continued):

31 December 2018:

Contract receivables	From 0 to 30 days	From 31 to 90 days	From 91 to 180 days	from 181 to 365 days	Above 365 days	Total
	KD	KD	KD	KD	KD	KD
Governmental receivables						
Contract receivables balance	11,484,384	7,043,939	3,662,055	9,687,654	16,527,136	48,405,168
Weighted average loss rate	0.35%	0.91%	1.18%	2.52%	15.67%	-
Provision for expected credit losses	40,195	64,100	43,212	244,129	2,590,195	2,981,831
Non-Governmental receivables						
Contract receivables balance	2,476,445	1,010,209	5,232,989	3,659,707	5,820,537	18,199,887
Weighted average loss rate	7.29%	10.35%	18.98%	28.68%	56.11%	-
Provision for expected credit losses	180,533	104,557	993,221	1,049,604	3,265,903	5,593,818
Total contract receivables	13,960,829	8,054,148	8,895,044	13,347,361	22,347,673	66,605,055
Provision for expected credit losses	(220,728)	(168,657)	(1,036,433)	(1,293,733)	(5,856,098)	(8,575,649)
	13,740,101	7,885,491	7,858,611	12,053,628	16,491,575	58,029,406

34. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Credit risk (continued)

Impairment risk on financial assets (continued)

Contract receivables (continued)

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

Trade receivables
The Group applies the simplified method in accordance with IFRS 9 to measure expected credit losses using an expected loss provision based on the expected credit loss period for all trade receivables.

To measure expected credit losses, trade receivables were collected based on the characteristics of the combined credit risk and the maturity dates. Therefore, the Group's management considers that the expected credit losses for trade receivables are a reasonable approximation of actual customer failure results in subsequent periods.

On this basis, the provision for expected credit losses was determined as at 31 December 2019 and 31 December 2018 as follows:

31 December 2019:

Trade receivables	**Gross amount of trade receivables**	**Weighted average loss rate**	**for Provision expected credit loss**
	KD		KD
From 0 to 60 days	6,994,485	1.82%	127,300
From 61 to 90 days	2,119,831	9.75%	206,684
From 91 to 180 days	3,093,279	6.41%	198,279
From 181 to 365 days	2,554,777	13.63%	348,216
Above 365 days	4,285,127	64.99%	2,785,043
	19,047,499		3,665,522

34. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Credit risk (continued)

Impairment risk on financial assets (continued)

Trade receivables (continued)

On this basis, the provision for expected credit losses was determined as at 31 December 2019 and 31 December 2018 as follows (continued):

31 December 2018:

Trade receivables	Gross amount of trade receivables	Weighted average loss rate	for Provision expected credit loss
	KD		KD
From 0 to 60 days	7,439,829	2.03%	151,031
From 61 to 90 days	1,691,159	8.40%	141,983
From 91 to 180 days	2,853,952	7.86%	224,383
From 181 to 365 days	2,014,489	11.83%	238,219
Above 365 days	3,671,347	57.14%	2,097,881
	17,670,776		2,853,497

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

Other debit balances, contract assets
While other debit balances, contract assets are also subject to the requirements of impairment losses in IFRS 9, the impairment loss is insignificant.

Due from related parties
Due from related parties are reported for a gross amount of KD 6,585,173 as of 31 December 2019 (KD 5,936,940 as of 31 December 2018) (Note 13).

The Group recognised a total expected credit losses as at 31 December 2019 amounting to KD 2,001,724 (31 December 2018: KD 2,001,724) (Note 13) against all amounts due to past experience indicating that these due from related parties may not be fully recoverable.

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

34. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages liquidity risk by monitoring on a regular basis that is sufficient funds are available to meet liabilities as they fall due.

The management has built an appropriate liquidity risk management framework for the management of the Group's short and medium funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate bank balances, cash and short term deposits and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets.

The table below summarises the maturity profile of the Group's undiscounted financial liabilities at the date of consolidated statement of financial position based on contractual undiscounted repayment obligations. The undiscounted cash flows of the balances due within 12 months equal its carrying value in the consolidated statement of financial position.

	31 December 2019				
	Within 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	KD	KD	KD	KD	KD
Term loans	3,702,342	5,476,223	29,790,307	100,561,787	139,530,659
Lease liabilities	3,839	11,517	30,714	428,584	474,654
Due to banks	-	-	12,080,586	-	12,080,586
Notes payable	-	-	30,916,687	-	30,916,687
Finance lease obligations	-	-	262,754	-	262,754
Trade payables and other payables (excluding advances)	-	-	41,827,427	-	41,827,427
Due to related parties	-	-	15,547,744	-	15,547,744
	3,706,181	5,487,740	130,456,219	100,990,371	240,640,511

	31 December 2018				
	Within 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	KD	KD	KD	KD	KD
Term loans	5,202,342	5,970,864	22,235,398	89,677,302	123,085,906
Due to banks	-	-	10,974,210	-	10,974,210
Notes payable	-	-	29,036,880	-	29,036,880
Finance lease obligations	-	-	754,738	-	754,738
Trade payables and other payables (excluding advances)	-	-	42,635,142	-	42,635,142
Due to related parties	-	-	14,490,795	-	14,490,795
	5,202,342	5,970,864	120,127,163	89,677,302	220,977,671

34. RISK MANAGEMENT (CONTINUED)

Capital risk management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital, issue new shares, sell some assets to reduce debt, repay loans or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

For the purpose of capital risk management, the total capital resources consist of the following components:

	2019	2018
	KD	KD
Gearing ratio		
Term loans	123,474,575	110,690,560
Lease liabilities	474,654	-
Due to banks	12,080,586	10,974,210
Notes payable	30,916,687	29,036,880
Finance lease obligations	262,754	754,738
Total borrowings	167,209,256	151,456,388
Less: cash and cash equivalents	(1,470,746)	(848,952)
Net debt	165,738,510	150,607,436
Equity attributable to shareholders of the Parent Company	30,569,951	25,568,584
Total capital invested	196,308,461	176,176,020
Gearing ratio	84.43%	85.49%

35. FAIR VALUE MEASUREMENT

Valuation techniques and assumptions applied for the purposes of measuring fair values
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

35. FAIR VALUE MEASUREMENT (CONTINUED)

Fair value measurements recognised in the consolidated statement of financial position

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.

As of 31 December 2019 the fair values of financial instruments approximate their carrying amounts. The management of the Group has assessed that fair value of financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these financial instruments.

The level within which the financial assets are classified is determined based on the lowest level of significant input to the fair value measurement.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

	Level 1	**Level 3**	**Total**
	KD	KD	KD
31 December 2019			
Financial assets at fair value through other comprehensive income			
Unquoted securities	-	5,837,353	5,837,353
Financial assets at fair value through profit or loss			
Quoted securities	4,943	-	4,943
	4,943	5,837,353	5,842,296

	Level 1	**Level 3**	**Total**
	KD	KD	KD
31 December 2018			
Financial assets at fair value through other comprehensive income			
Unquoted securities	-	5,739,031	5,739,031
Financial assets at fair value through profit or loss			
Quoted securities	4,234	-	4,234
	4,234	5,739,031	5,743,265

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

35. FAIR VALUE MEASUREMENT (CONTINUED)

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are unobservable, the instrument is included in level 3.

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		KD	KD	KD
Assets measured at fair value:				
Revalued property, plant and equipment				
Freehold lands	31 December 2019	-	-	3,551,160
Leasehold lands	31 December 2019	-	-	11,145,000

Freehold and leasehold lands fair value was determined using the market comparable method. Valuations performed are based on prices of transactions involving properties of a similar nature, location and condition. Since this valuation was performed using a significant non-observable input, the fair value was classified as a Level 3 measurement.

Changes in level 3 fair values are analysed at the end of each reporting period during the half-yearly valuation discussion between the Group's management and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

During the year, there were no transfers between level 1, level 2 and level 3.

Quantitative information about fair value measurements using significant unobservable inputs for freehold and leasehold lands

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements for freehold and leasehold lands:

	Fair value at 31 December 2019	Valuation technique	Unobservable inputs	Range of inputs (probability-weighted average) 2019	Relationship of unobservable inputs to fair value
	KD		KD	KD	
Assets measured at fair value:					
Revalued property, plant and equipment					
Freehold lands	3,551,160	Market comparable approach	Price per square meter (KD)	352 – 362 (357)	The higher the price per square meter, the higher the fair value
Leasehold lands	11,145,000	Market comparable approach	Price per square meter (KD)	404.36 – 468 (433.53)	The higher the price per square meter, the higher the fair value

35. FAIR VALUE MEASUREMENT (CONTINUED)

Reconciliation of level 3 fair value measurements:

	2019
	KD
Financial assets at fair value through other comprehensive income ("FVOCI")	
Balance at 1 January	5,739,031
Purchase of investment	98,322
Balance at 31 December	5,837,353

	2018
	KD
Financial assets at fair value through other comprehensive income ("FVOCI")	
Balance at 1 January	5,736,746
Changes in fair value	2,285
Balance at 31 December	5,739,031

	2019
	KD
Revalued property, plant and equipment (freehold and leasehold lands)	
Balance at 1 January	8,203,272
Impact of adoption IFRS 16 at 1 January 2019	523,142
Revaluation adjustment	6,723,523
Impairment losses	(748,434)
Foreign currency translation	(5,343)
Balance at 31 December	14,696,160

36. LEGAL CLAIMS

There are certain lawsuits raised by/against the Group, the results of which cannot be assessed till being finally cleared by the court. In the opinion of the Parent Company's external Legal counsel, there will be no material adverse impact on the Group's consolidated financial statements. Hence, no provisions related to those lawsuits were recorded in the Group's records as of the date of the accompanying consolidated financial statements.

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year presentation. Such reclassification did not affect previously reported (loss)/profit or equity and accordingly additional third consolidated statement of financial position is not presented.

38. SUBSEQUENT EVENTS

During the subsequent period in 2020, COVID-19 has spread across the Globe, often referred to as the coronavirus. Global efforts to contain the spread of COVID-19 have significantly impacted many businesses and the global economy. While the situation is evolving rapidly, and the full impact is not yet known, the disruption caused by the coronavirus is affecting business and consumer activities worldwide–including disruption to major financial markets, supply chains, interruption of production, limited personnel, facility and store closures, and decreased demand from both business customers and consumers.

38. SUBSEQUENT EVENTS (CONTINUED)

The Group evaluated its 31 December 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Group operation. Although such potential impact is unknown at this time. The Group has considered the effects of coronavirus are likely to be considered a non-recognised subsequent event, accordingly the consolidated financial statements have not been adjusted.

The Group is currently monitoring the situation and will take the consideration of the possible effect and impact of the COVID-19 spread, on the measurement of the fair value of FVOCI and FVPL, estimation of expected credit losses provision, impairment of non-financial assets and revaluation of freehold and leasehold lands' fair value during the year 2020.