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 2018

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 2018

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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 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Matter

The consolidated financial statements for the year ended 31 December 2017 were audited by another auditor, who expressed a qualified opinion on those financial statements on 31 March 2018 due to insufficient provision for doubtful debts amounting to KD 9,635,371.

Key Audit Matter

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)
State of Kuwait

Report on the Audit of Consolidated Financial Statements (Continued)

Key Audit Matter (continued)

IFRS 9 Adoption, Expected Credit Losses ("ECL")	How the scope of our audit responded to the risk
As at 31 December 2018, the Group had reported for a gross carrying amounts of contract receivables and trade receivables of KD 66,605,055 and KD 17,670,776, respectively and the related reported provision amounted of KD 8,575,649 and 2,853,497 (Note 11 and 12 respectively). The adoption of the new standard IFRS 9 requires significant management judgment in developing and implementing new accounting models to measure the expected credit losses. The Group utilised "the simple 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 2-c,a,ii, 3.7, 11, 12 and 33) 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 adoption of the new accounting standards 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 made in the consolidated financial statements in relation to adoption of the new accounting standard (Note 2-c,a,ii, 3.7, 11, 12 and 33).

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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 2018 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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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)

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 2018 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: 31 March 2019

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

Consolidated statement of financial position
As at 31 December 2018

	Notes	2018 KD	2017 KD
ASSETS			
Non-current assets			
Property, plant and equipment	5	25,808,465	31,085,999
Financial assets at fair value through other comprehensive income	6	5,739,031	-
Available for sale investments	7	-	5,736,746
Investment in associates	8	68,711,612	69,276,116
		100,259,108	106,098,861
Current assets			
Inventories	9	50,290,947	40,173,268
Contract assets	10	2,606,371	-
Gross amount due from customers for contract work		-	1,752,249
Contract receivables	11	58,029,406	62,376,371
Trade receivables and other debit balances	12	28,951,035	26,080,164
Due from related parties	13	2,836,946	2,570,752
Financial assets at fair value through profit or loss		4,234	5,463
Cash and cash equivalents	14	848,952	3,494,146
		143,567,891	136,452,413
Total assets		243,826,999	242,551,274
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 reserve		2,223,931	2,223,931
Foreign currency translation reserve		115,055	81,103
Fair value reserve from financial assets at fair value through other comprehensive income		313,105	-
Change in fair value reserve		-	310,820
Accumulated losses		(1,672,279)	(2,802)
Equity attributable to shareholders of the Parent Company		25,568,584	27,201,824
Non-controlling interests		7,444,650	6,652,852
Total equity		33,013,234	33,854,676
LIABILITIES			
Non-current liabilities			
Provision for end of service indemnity		5,076,895	4,204,438
Term loans	20	77,281,956	67,547,447
		82,358,851	71,751,885
Current liabilities			
Term loans	20	29,110,786	38,786,627
Due to banks	21	20,715,624	18,261,264
Notes payable	22	23,593,284	13,412,297
Finance lease obligations	23	754,738	7,979,034
Contract liabilities	10	1,348,673	-
Advance payments from contract customers		-	1,002,745
Trade payables and other payables	24	38,441,014	43,409,303
Due to related parties	13	14,490,795	14,093,443
		128,454,914	136,944,713
Total liabilities		210,813,765	208,696,598
Total equity and liabilities		243,826,999	242,551,274

The accompanying notes on pages 11 to 63 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 2018

	Notes	2018 KD	2017 KD
Revenues	25	119,962,528	109,537,654
Cost of revenues	26	(93,557,214)	(85,038,942)
Gross profit		26,405,314	24,498,712
Other operating income		481,298	508,810
General and administrative expenses	27	(13,285,118)	(11,577,745)
Provision for expected credit losses	28	(1,605,193)	(4,392,654)
Provision for slow moving inventories	9	(365,590)	(185,389)
Profit from operations		11,630,711	8,851,734
Unrealised loss from financial assets at fair value through profit or loss		(1,229)	(311)
Share of results of investment in associates	8	(564,504)	(146,755)
Impairment loss on available for sale investments		-	(20,476)
Gain on disposal of property, plant and equipment		6,668	57,226
Other income		559,704	1,040,269
Interest income		41,818	21,510
Finance costs		(9,998,311)	(9,381,102)
Profit for the year before contribution to National Labor Support Tax (NLST)		1,674,857	422,095
National Labor Support Tax		(80,440)	(23,075)
Profit for the year		1,594,417	399,020
Attributable to:			
Shareholders of the Parent Company		428,028	(244,554)
Non-controlling interests		1,166,389	643,574
		1,594,417	399,020
Basic and diluted earnings / (loss) per share attributable to the shareholders of the Parent Company (fils)	29	2.59	(1.48)

The accompanying notes on pages 11 to 63 form an integral part of these consolidated financial statements.

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

	2018 KD	2017 KD
Profit for the year	1,594,417	399,020
Other comprehensive income / (loss) items:		
Items that may be reclassified subsequently to the consolidated statement of income:		
Changes in fair value of available for sale investments	-	1,194
Change in foreign currency translation	40,312	(42,736)
Items that will not be reclassified subsequently to the consolidated statement of income:		
Changes in fair value of financial assets at fair value through other comprehensive income	2,285	-
Total other comprehensive income / (loss) for the year	42,597	(41,542)
Total comprehensive income for the year	1,637,014	357,478
Attributable to:		
Shareholders of the Parent Company	464,265	(283,884)
Non-controlling interests	1,172,749	641,362
	1,637,014	357,478

The accompanying notes on pages 11 to 63 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 2018

	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	Retained earnings / (accumulated losses)	Total	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
As at 1 January 2017	17,296,224	7,877,292	(1,381,525)	17,230	554,248	324,297	2,223,931	121,627	309,626	-	241,752	27,584,702	6,011,490	33,596,192
Profit for the year	-	-	-	-	-	-	-	-	-	-	(244,554)	(244,554)	643,574	399,020
Total other comprehensive (loss) / income for the year	-	-	-	-	-	-	-	(40,524)	1,194	-	-	(39,330)	(2,212)	(41,542)
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	-	(40,524)	1,194	-	(244,554)	(283,884)	641,362	357,478
Purchase of treasury shares	-	-	(98,994)	-	-	-	-	-	-	-	-	(98,994)	-	(98,994)
As at 31 December 2017	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
As 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 2-c,a,ii)	-	-	-	-	-	-	-	-	(310,820)	310,820	(2,097,505)	(2,097,505)	(380,951)	(2,478,456)
As 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
As 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

The accompanying notes on pages 11 to 63 form an integral part of these consolidated financial statements.

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

	Notes	2018 KD	2017 KD
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year		1,594,417	399,020
Adjustments:			
Depreciation	5	2,506,295	2,378,890
Impairment loss on available for sale investments		-	20,476
Provision for expected credit losses	28	1,605,193	4,392,654
Provision for slow moving inventories	9	365,590	185,389
Recovery from provision for slow moving inventories	9	(134,106)	(214,895)
Unrealised loss from financial assets at fair value through profit or loss		1,229	311
Gain on disposal of property, plant and equipment		(6,668)	(57,226)
Share of results of investment in associates	8	564,504	146,755
Interest income		(41,818)	(21,510)
Finance costs		9,998,311	9,381,102
Provision for end of service indemnity		1,192,905	1,187,545
		17,645,852	17,798,511
Changes in operating assets and liabilities:			
Inventories		(10,349,163)	(17,593,550)
Contract assets		(854,122)	-
Gross amount due from customers for contract work		-	(2,482,465)
Contract receivables		1,246,891	(5,355,198)
Trade receivables and other debit balances		(3,854,446)	(3,001,315)
Due from related parties		(266,194)	(373,324)
Contract liabilities		345,928	-
Advance payments from contract customers		-	(1,600,396)
Trade payables and other payables		(183,955)	6,155,589
Due to related parties		397,352	840,402
Cash generated from / (used in) operations		4,128,143	(5,611,746)
Employees' end of service benefits paid		(320,448)	(347,243)
Net cash flows generated from / (used in) operating activities		3,807,695	(5,958,989)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(2,321,624)	(2,919,988)
Purchase of investments available for sale		-	(11,804)
Proceed from disposal of property, plant and equipment		277,989	120,561
Interest income received		41,818	21,510
Net cash flows used in investing activities		(2,001,817)	(2,789,721)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from term loans		23,783,100	29,838,164
Settlement from term loans		(23,724,432)	(21,711,349)
Net movement of due to banks		2,454,360	2,679,921
Net movement of notes payable		10,180,987	6,254,201
Net movement of finance lease obligations		(7,187,088)	697,033
Purchase of treasury shares		-	(98,994)
Finance costs paid		(9,998,311)	(9,381,102)
Net cash flows (used in) / generated from financing activities		(4,491,384)	8,277,874
Net decrease in cash and cash equivalents		(2,685,506)	(470,836)
Foreign currency translation adjustments		40,312	(42,736)
Cash and cash equivalents at the beginning of the year		3,494,146	4,007,718
Cash and cash equivalents at the end of the year	14	848,952	3,494,146
Non-cash transactions			
Purchase of property, plant and equipment through finance lease obligations		(1,517,173)	(5,020,324)
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	-
Additions of property, plant and equipment through transfer from investment properties	5	-	(2,320,000)

The accompanying notes on pages 11 to 63 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 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 subsidiary (together referred to as "the Group") (Note 3.3).

The consolidated financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors' on 31 March 2019 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 2018

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 2018:

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

a) New standards, interpretations and amendments effective from 1 January 2018 (Continued)

Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions
The amendments are effective for annual periods beginning on or after 1 January 2018, the amendments address three main areas:
- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The adoption of these amendments did not have any material impact to the Group.

Amendments to IFRS 4 – Insurance contracts (Applying IFRS 9 financial instruments)
The amendments is effective for annual periods beginning on or after 1 January 2018, the amendments address concerns arising from implementing the new standard IFRS 9 (Financial instruments), before implementing IFRS 17, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The adoption of these amendments did not have any material impact to the Group.

IFRS 9 - Financial Instruments
The standard is effective for annual periods beginning on or after 1 January 2018, replaces the existing guidance in IAS 39: Financial Instruments: Recognition and Measurement. IFRS 9 specifies how an entity should classify and measure its financial instruments and includes a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

For the application of IFRS 9 and its effects, kindly refer to Note (2 - C) below.

IFRS 15 - Revenue from contracts with customers
The standard is effective for annual periods beginning on or after 1 January 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces the following existing standards and interpretations upon its effective date:
- IAS 18 – Revenue,
- IAS 11 – Construction Contracts,
- IFRIC 13 – Customer Loyalty Programs,
- IFRIC 15 – Agreements for the Construction of Real Estate,
- IFRIC 18 – Transfers of Assets from Customers, and,
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services.

For the application of IFRS 15 and its effects, kindly refer to Note (2 - C) below.

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

a) New standards, interpretations and amendments effective from 1 January 2018 (Continued)

IFRIC 22 - Foreign Currency Transactions and Advance Consideration
The interpretation is effective for annual periods beginning on or after 1 January 2018 and clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

This interpretation did not have any material impact to the Group.

Amendments to IAS 40 Investment Property – Transfers of Investment Property
The amendments are effective for annual periods beginning on or after 1 January 2018 and clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The adoption of these amendments did not have any material impact to the Group.

Annual Improvements to IFRSs 2014 – 2016 Cycle

Amendments to IAS 28 – Investment in Associates and Joint Ventures
The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted.

The amendments clarify that:

a) An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

b) If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent.

The adoption of these amendments did not have any material impact to the Group.

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

b) Standards and interpretations issued but not effective

The following new and amended IASB Standards have been issued but are not yet effective, and have not been adopted by the Group:

IFRS 16 - Leases
This standard will be effective for annual periods beginning on or after 1 January 2019. This standard will be replacing IAS 17 "Leases" and will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The new standard does not significantly change the accounting for leases for lessors. Early application is permitted provided that IFRS 15 is applied on the same date.

The Group are currently assessing the impact of IFRS 16 and plan to adopt the new standard on the required effective date.

IFRS 17 – Insurance Contracts
This standard will be effective for annual periods beginning on or after 1 January 2022 and replaces IFRS 4 - Insurance Contracts. The new standard applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. 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.

This standard is not expected to have any material impact to the Group.

Amendments to IFRS 9: Prepayment features with negative compensation
The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. Under IFRS 9, a debt instrument can be measured at amortized 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 the 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 are not expected to have any material impact 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 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 are not expected to have any material impact to the Group.

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

IFRS 3 – Business Combinations
The amendments apply to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2019, with early application permitted. The amendments clarify that, obtaining control of a business that is a joint operation is 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.

IFRS 11 – Joint Arrangements
The amendments apply to transactions in which it obtains joint control on or after the first annual reporting period beginning on or after 1 January 2019, with early application permitted. A party 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.

IAS 23 – Borrowing Costs
The amendments will be effective for annual periods beginning on or after 1 January 2019 with early application permitted. 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. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

These amendments are not expected to have any material impact to the Group.

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

c) Application of new standards effective from 1 January 2018

The Group has adopted IFRS 9 "Financial Instruments" (see (A) below) and IFRS 15 "Revenue from Contracts with Customers" (see (B) below) from 1 January 2018 as follow:

a. ***IFRS 9: Financial Instruments***

IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial items. This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

i. Classification and measurement of the financial assets and liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and financial assets available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below:

Under IFRS 9, on adoption, the financial asset is classified as measured at amortised cost, fair value through other comprehensive income – debt investments, fair value through other comprehensive income, equity investments or fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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

c) Application of new standards effective from 1 January 2018 (Continued)

a. IFRS 9: Financial Instruments (Continued)

i. Classification and measurement of the financial assets and liabilities (Continued)

The following table and accompanying notes show reconciliation of original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for each category of financial assets and financial liabilities of the Group as at 1 January 2018:

	Notes	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9	Impact on adoption of IFRS 9
				KD	KD	KD
Financial assets						
Equity securities	a	Available-for-sale	FVOCI – equity instrument	5,736,746	5,736,746	-
Equity securities	b	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	5,463	5,463	-
Gross amount due from customers for contract work		Loans and receivables	Amortised cost	1,752,249	1,752,249	-
Contract receivables	c	Loans and receivables	Amortised cost	62,376,371	59,897,915	(2,478,456)
Trade receivables and other debit balances (excluding prepayments)		Loans and receivables	Amortised cost	21,608,577	21,608,577	-
Due from related parties		Loans and receivables	Amortised cost	2,570,752	2,570,752	-
Cash and cash equivalents		Loans and receivables	Amortised cost	3,494,146	3,494,146	-
				97,544,304	95,065,848	
Financial liabilities						
Term loans		Amortised cost	Amortised cost	106,334,074	106,334,074	-
Due to banks		Amortised cost	Amortised cost	18,261,264	18,261,264	-
Notes payable		Amortised cost	Amortised cost	13,412,297	13,412,297	-
Finance lease obligations		Amortised cost	Amortised cost	7,979,034	7,979,034	-
Trade payables and other payables (excluding advances)		Amortised cost	Amortised cost	42,204,617	42,204,617	-
Due to related parties		Amortised cost	Amortised cost	14,093,443	14,093,443	-
				202,284,729	202,284,729	

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

c) Application of new standards effective from 1 January 2018 (Continued)

a. IFRS 9: Financial Instruments (Continued)

i. Classification and measurement of the financial assets and liabilities (Continued)

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

b) These equity securities represent investments that the Group intends to hold for the short term for trading purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at fair value through profit or loss. The relative profit or loss will be recognised in consolidated statement of income.

c) Contract receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of KD 2,097,505 related to the Parent Company in the expected credit losses over these receivables was recognised in the Parent Company opening accumulated losses at 1 January 2018 on transition to IFRS 9. There are no contract receivables were recognised at 1 January 2018 on the adoption of IFRS 15.

ii. Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

IFRS 9 requires the Group to make a provision for the loss of ECL for all financial instruments, which are not carried at fair value through profit or loss.

The financial assets at amortised cost consist of, "contract assets", "contract receivables", "trade receivables other debit balances", "due from related parties" and "cash and cash equivalents".

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional expected credit losses as follows.

	Amount
	KD
Provision for expected credit losses as at 31 December 2017	
Additional impairment recognised at 1 January 2018 on:	
Contract receivables (Note 11)	2,478,456

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

c) Application of new standards effective from 1 January 2018 (Continued)

a. IFRS 9: Financial Instruments (Continued)

iii. Transition

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss.
- The designation of certain investments in equity instruments not held for trading as at fair value through other comprehensive income.

b. IFRS 15: Revenue from Contracts with Customers

IFRS 15, effective for annual periods beginning on or after 1 January 2018, provides a single comprehensive framework for determining the revenue recognition, size and timing of realisation. IAS 18 "Revenue", IAS 11 "Construction Contracts" and related Interpretations, Interpretations 13, 15 and 18 and the Interpretation of the Standing Interpretations Committee 31. It introduces a new verification model based on the principle of control and the use of five Steps to be used on all contracts with customers.

The five steps of this model are:

- Define the contract with the customer.
- Define the performance obligations contained in the contract.
- Set the transaction price.
- Distributing the transaction price to the performance obligations contained in the contracts.
- Revenue recognition when the entity meets performance obligations.

The Group's revenues that fall within the scope of IFRS 15 are represented by the following:

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.

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

c) Application of new standards effective from 1 January 2018 (Continued)

b. IFRS 15: Revenue from Contracts with Customers (Continued)

Contracting services:
Revenue from engineering and construction service contracts are recognised over time using the percentage of completion method which in line with the recognition criteria required by IFRS 15 and accordingly, the Group has determined that over time recognition criteria remains appropriate for their engineering and construction service contracts.

Rendering of services
Revenue from rendering of services are recognised over time, the Group has determined that overtime recognition criteria remains appropriate for rendering of services.

Adoption of IFRS 15 by the Group on 1 January 2018 had no material impact on the Group's consolidated financial statements as at 31 December 2017 and the consolidated financial statements for the year ended 31 December 2018.

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

This consolidated financial statement for the year ended 31 December 2018 includes the Parent Company and its subsidiaries (together referred to as the "Group").

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Basis of consolidation (continued)

Subsidiaries (investees) are those enterprises controlled by the Parent Company. Control is achieved when the Parent Company:
- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Parent Company reassess 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 listed above.

When the Parent Company has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:
- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Parent Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in consolidated statement of comprehensive income from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiary. All inter-company balances and transactions, including inter-company profits and unrealised profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Consolidated statement of income and each component of other comprehensive income are attributed to the shareholders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognised directly in equity and attributable to shareholders of the Parent Company. If the Group loses control over a subsidiary, it:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Basis of consolidation (continued)

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in consolidated statement of income; and
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to consolidated statement of income or retained earnings as appropriate.

The consolidated financial statement includes 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 %		Country of incorporation	Principal activities
	2018	2017		
	%	%		
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 statement includes the financial statements of Arabi Company W.L.L. and its subsidiaries as follows:

Name of the subsidiary	Voting rights and equity interest %		Country of incorporation	Principal activities
	2018	2017		
	%	%		
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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Basis of consolidation (continued)

(**) 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 2018 has been recognised based on their management accounts.

Summarised financial information of material non-controlling interest
The total non-controlling interests as at 31 December 2018 is KD 7,444,650 (2017: KD 6,652,852) mainly related to Arabi Enertech Company K.S.C. (Closed) amounting to KD 7,750,644 (2017: KD 6,965,206).

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	2018	2017
Arabi Enertech Company K.S.C. (Closed)	Kuwait	26.92%	26.92%

Accumulated balance of material non-controlling interest:

Name of subsidiary	2018	2017
	KD	KD
Arabi Enertech Company K.S.C. (Closed)	7,750,644	6,965,206

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):

	2018	2017
	KD	KD
Non-current assets	20,396,922	26,934,471
Current assets	115,646,576	111,539,409
Non-current liabilities	(48,134,580)	(43,369,047)
Current liabilities	(58,287,833)	(68,395,072)
Total equity		
Attributable to:		
Shareholders of the Parent Company	21,870,441	19,744,555
Non-controlling interest	7,750,644	6,965,206

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Property, plant and equipment

The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Property, plant and equipment, (except freehold and leasehold lands) are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in consolidated statement of income.

When a freehold and leasehold lands is revalued, any increase in the carrying amount arising on revaluation is credited directly to equity under the revaluation surplus.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified in the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 leasehold land	20
Machinery and heavy equipment	5
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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

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 cash-generating units (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

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 comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

3.6 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 realizable 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 realizable value.

3.7 Financial assets

The Group has adopted for the first time on 1 January 2018 IFRS 9 Financial Instruments issued in July 2014. The requirement of IFRS 9 represents a material change from IAS 39 Financial Instruments: Recognition and measurement. The new standard introduces significant changes in the accounting for financial assets and certain aspects of accounting for financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets (continued)

Initial measurement and Classification

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.

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".

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets (continued)

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

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 comprehensive 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 profit or loss. Any gain or loss on derecognition is recognised in consolidated statement of comprehensive 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 comprehensive income.
Equity investments at fair value through other comprehensive income	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss 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 comprehensive 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets (Continued)

Impairment of financial assets

The "expected credit loss" model is based on contractual cash flows due under the contract and all cash flows that the Group expects to receive. The shortfall is subtracted roughly to the original effective interest rate of the asset.

Impairment losses on financial assets carried at amortised cost are reversed in subsequent periods if the amount of the impairment loss is reduced and the decrease can be objectively related to an event occurring after the impairment is recognised.

In accordance with IFRS 9, provisions for losses are measured on any of the following grounds:

- Expected 12-month credit losses: these are the expected credit losses arising from potential default events during the 12-month period following the reporting date; and
- Expected credit losses over the life of the instrument: These are the expected credit losses arising from all possible default events over the life of the instrument.

The Group measures the provision for loss in the amount equivalent to the expected credit losses over the life of the instrument, except for the following, which is measured in terms of the expected 12-month credit loss:

- Bank balances and short-term deposit (i.e., risk of default occurring after the life expectancy of a financial instrument) that have not increased substantially since initial recognition.

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

In determining whether the credit risk of a financial asset has increased substantially since the initial recognition and in assessing the expected credit losses, the Group considers reasonable information that can be substantiated and considered relevant and available without significant costs or efforts. This includes both qualitative and quantitative information and analysis based on the Group's historical experience, published credit assessment and exploratory information.

The Group assumes that the credit risk of a financial asset has increased substantially if its maturity exceeds 90 days.

The Group considers that the financial asset is impaired in the following cases:

- It is unlikely that the borrower will pay its credit obligations to the entire group without the Group taking action such as the realisation of securities (if any), or
- The maturity of the financial asset is over 365 days.

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)

3.7 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 comprehensive income.

Contract receivables and trade receivables
Note 33 provides further details on the calculation of expected credit losses relating to contract receivables and trade receivables when IFRS 9 is applied. The Group takes into consideration the model and some assumptions used to calculate credit losses expected as key sources of uncertainty.

Accrued 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 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 2018 amounting to KD 8,575,649 and KD 2,853,497 (31 December 2017: KD 5,475,575 and KD 1,869,922) (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 33).

Contract assets
Contract assets are reported for a carrying amount of KD 2,606,371 as of 31 December 2018 (KD 1,752,249 as of 31 December 2017) (Note 10). The Group's adoption of IFRS 9 impairment model "ECL" as of 1 January 2018 has not had any material impact on contract assets balance as at 31 December 2018 and as at 1 January 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets (Continued)

Impairment of financial assets (continued)

Impairment presentation (continued)

Due from related parties
Due from related parties are reported for a carrying amount of KD 2,836,946 as of 31 December 2018 (KD 2,570,752 as of 31 December 2017) (Note 13). The Group's adoption of IFRS 9 impairment model "ECL" as of 1 January 2018 has not had any material impact on due from related parties balance as at 31 December 2018 and as at 1 January 2018.

The Group recognised a total expected credit losses as at 31 December 2018 amounting to KD 2,001,724 (31 December 2017: 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.

3.8 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)

3.9 Financial liabilities

Financial liabilities within the scope of IFRS 9 are classified as either financial liabilities at fair value through profit or loss or amortised cost, where appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Recognition and initial measurement
Initial recognition of financial liabilities is recognised in the consolidated statement of financial position when the entity becomes a party to the contractual provisions of the financial instruments. When an entity's financial liabilities are initially recognised, the classification depends on the purpose of acquisition of the financial liability and is determined at initial recognition.

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

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

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 comprehensive 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 comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 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.

3.11 Provision for end of service indemnity

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

Concerning the Kuwaiti national staff, the Group makes subscriptions to the General Organisation 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.

3.12 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.

3.13 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 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 comprehensive income.

3.15 Revenues

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.

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 G 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:

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)

3.15 Revenues (Continued)

Contracting services:
Revenue from engineering and construction service contracts are recognised over time using the percentage of completion method which in line with the recognition criteria required by IFRS 15 and accordingly, the Group has determined that over time recognition criteria remains appropriate for their engineering and construction service contracts.

Rendering of services
Revenue from rendering of services are recognised over time, the Group has determined that over time recognition criteria remains appropriate for rendering of services.

Other income
Other income is recognised on an accrual basis.

3.16 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 comprehensive 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.

3.17 Leases

Valuation
Leasehold lands are measured on initial recognition at cost. The useful life of the leasehold lands is assessed to be either finite or indefinite. Leasehold lands with finite life are amortised over the expected period of benefits and tested for impairment whenever there is an indication that the leasehold lands may be impaired.

If the carrying value of the leasehold lands is more than the recoverable amount, the leasehold lands are considered impaired and is written down to its recoverable amount. The excess of carrying value over recoverable amount is recognised in the consolidated statement of comprehensive income.

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. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Where the Group is the lessor- operating lease:
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 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.

3.19 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.

3.20 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.

3.21 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 JUDGEMENTS AND ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The Group has used judgment and estimates principally in, but not limited.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Significant accounting judgements

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

Classification of financial assets and liabilities
Management decides on acquisition of financial assets whether they should be classified as financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income. The Group classifies financial assets as carried at fair value through profit or loss if they are acquired primarily for the purpose of short term profit making.

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).

Provision for 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 or 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.

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainty and assumptions

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

Useful lives of property, plant and equipment
The Group's management determines the estimated useful lives and the related depreciation for property, plant and equipment. Group's management increased the depreciation charge where the useful lives are lower than previously estimated lives. The Group eliminates or writes down obsolete or non-strategic assets which have been disposed or sold.

Impairment of tangible assets
The Group reviews the tangible assets on a continuous basis to determine whether a provision for impairment should be recorded in the consolidated statement of comprehensive income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Provision for expected credit losses for contract receivables and trade receivables
The Group uses a dedicated matrix to calculate expected provision for 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 (i.e. by geographical location, type of product, type and valuation of the customer, coverage of letters of credit and other forms of credit insurance).

The allocation matrix is initially based on historical observable default rates of the Group. The Group will examine the matrix to adjust the historical credit loss experience with forward-looking information. For example, if expected economic conditions (i.e. GDP) are expected to deteriorate over the next year, which could lead to an increase in the number of defaults in the manufacturing sector, default rates will be adjusted. At each reporting date, historical observable default rates are updated and changes in future estimates are analysed.

An assessment of the relationship between observable historical default rates, expected economic conditions and a provision for expected credit losses is a significant estimate. The expected provision for credit losses is sensitive to changes in expected economic conditions and forecasts. The Group's experience of past credit loss and forecasting the Group's economic conditions may not be the actual default of the client in the future.

The Group determined that the application of impairment requirements under IFRS 9 on 1 January 2018 would result in an additional provision for expected credit losses of KD 2,478,456 (Note 11). Information relating to an allowance account for anticipated credit losses is disclosed for contract receivables in (Note 33).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS 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 leasehold land	Machinery and heavy equipment	Vehicles	Furniture and office equipment	Projects under construction	Total
		KD	KD	KD	KD	KD	KD
Cost							
As at 1 January 2017	978,071	7,640,649	14,164,915	4,333,022	3,465,951	4,311,964	34,894,572
Additions	-	1,425,941	4,292,374	900,168	571,737	750,092	7,940,312
Transfer from investments properties	2,200,000	120,000	-	-	-	-	2,320,000
Disposals	-	-	(151,926)	(304,531)	(119,581)	-	(576,038)
Transfer from projects under construction	-	4,591,589	-	-	-	(4,591,589)	-
Foreign currency translation	(11,295)	(561)	35,418	(5,690)	(10,199)	-	7,673
As at 31 December 2017	3,166,776	13,777,618	18,340,781	4,922,969	3,907,908	470,467	44,586,519
Additions	-	1,360,268	967,419	843,598	292,866	374,646	3,838,797
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)
As at 31 December 2018	3,172,066	15,134,777	11,658,334	5,507,427	3,599,293	845,113	39,917,010
Accumulated depreciation							
As at 1 January 2017	-	2,680,356	3,729,015	2,518,155	2,692,409	-	11,619,935
Charge of the year	-	422,093	875,299	703,248	378,250	-	2,378,890
Related to disposals	-	-	(144,806)	(281,493)	(86,404)	-	(512,703)
Foreign currency translation	-	842	27,737	(4,965)	(9,216)	-	14,398
As at 31 December 2017	-	3,103,291	4,487,245	2,934,945	2,975,039	-	13,500,520
Charge of the year	-	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)
As at 31 December 2018	-	3,583,597	4,237,709	3,533,564	2,753,675	-	14,108,545
Net book value							
As at 31 December 2018	3,172,066	11,551,180	7,420,625	1,973,863	845,618	845,113	25,808,465
As at 31 December 2017	3,166,776	10,674,327	13,853,536	1,988,024	932,869	470,467	31,085,999

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expense for the year is allocated as follows:

	2018	2017
	KD	KD
Operating costs (Note 26)	2,080,072	1,911,068
General and administrative expenses (Note 27)	426,223	467,822
	2,506,295	2,378,890

- Buildings are constructed on lands leased under renewal lease agreement from the Public Authority for Industry, State of Kuwait. The Group has mortgaged the plot amounted to KD 4,093,300 (2017: KD 4,099,390) to a local bank against term loans (Note 20).
- Freehold land amounted KD 970,098 (2017: KD 964,644) are mortgaged to a local bank against term loans. (Note 20).
- Freehold land and building constructed on leasehold land with total amount of KD 2,320,000 is registered in the name of nominees, which confirmed in writing that the Group has the beneficial ownership of those properties.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets measured at fair value through other comprehensive income include equity securities not held for trading, for which the management issued irrevocable decision on initial recognition to recognize the changes in fair value through other comprehensive income other than profit or loss as these are strategic investments and the Parent Company considers this to be more relevant. As a result of adoption of IFRS 9 as at 1 January 2018, the Parent Company elected to reclassify the investments of KD 5,736,746 from available for sale investments to financial assets at fair value through other comprehensive income (Note 2-c,a,i and Note 7).

	2018	2017
	KD	KD
Unquoted securities	5,739,031	-

Financial assets are valuated at fair value through other comprehensive income in accordance with valuation techniques disclosed in (Note 34).

7. AVAILABLE FOR SALE INVESTMENTS

	2018	2017
	KD	KD
Unquoted securities	-	5,736,746

At 1 January 2018, the Parent Company adopted IFRS 9, accordingly, it has reclassified available for sale investments at carrying value of KD 5,736,746 to financial assets at fair value through other comprehensive income (Note 2-c,a,i and Note 6).

8. INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

Name of the associate	Country of incorporation	Percentage of ownership	2018 KD	2017 KD
Health Assurance Hospital Company K.S.C.P. (Dhaman)	State of Kuwait	26%	68,711,611	69,276,115
Agricltural Environmental Projects Company W.L.L.	State of Kuwait	40%	1	1
			68,711,612	69,276,116

Following are the movement on investment in associates:

	2018 KD	2017 KD
As at 1 January	69,276,116	69,422,871
Share of results	(564,504)	(146,755)
	68,711,612	69,276,116

As at 31 December 2018, 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:

	2018 KD	2017 KD
Statement of income:		
Revenues	1,910,184	1,781,150
Expenses	(4,081,352)	(2,345,593)
Loss for the year	(2,171,168)	(564,443)
Statement of financial position:		
Non-current assets	43,029,477	28,824,591
Current assets	76,616,642	90,357,263
Total assets	119,646,119	119,181,854
Non-current liabilities	1,794,792	292,461
Current liabilities	1,932,703	799,601
Total Liabilities	3,727,495	1,092,062
Net assets	115,918,624	118,089,792

8. INVESTMENT IN ASSOCIATES (CONTINUED)

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

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:

	2018	2017
	KD	KD
Net assets of the associate	115,918,624	118,089,792
Group's effective interest in the associate's equity	26%	26%
Group's interest in net assets of the associate	30,138,842	30,703,346
Goodwill	38,572,770	38,572,770
Carrying amount of the Group's investment in the associate	68,711,612	69,276,116

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 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 32).

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

There are no contingent liabilities relating to the Group's interest in the associate.

9. INVENTORIES

	2018	2017
	KD	KD
Finished goods	48,345,771	38,738,614
Provision for obsolete and slow moving items (*)	(2,476,419)	(2,244,935)
	45,869,352	36,493,679
Goods in transit	4,421,595	3,679,589
	50,290,947	40,173,268

9. INVENTORIES (CONTINUED)

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

	2018	2017
	KD	KD
Balance at the beginning of the year	2,244,935	2,274,441
Provision charge for year	365,590	185,389
Recovery during the year	(134,106)	(214,895)
	2,476,419	2,244,935

10. CONTRACT BALANCES

	2018	2017
	KD	KD
Contract assets (*)	2,606,371	-
Contract liabilities (**)	1,348,673	-

(*) 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.

(**) Contract liabilities include advances received to render construction services. The outstanding balances of these accounts increased in 2018 due to the continuous increase in the Group's customer base.

Set out below is the movement of contract liabilities:

	2018	2017
	KD	KD
Effect of adoption IFRS 15	1,002,745	-
Received during the year	1,870,906	-
Performance obligations satisfied	(1,524,978)	-
	1,348,673	-

11. CONTRACT RECEIVABLES

	2018	2017
	KD	KD
Contract receivables	66,605,055	67,851,946
Provision for Expected credit losses (*)	(8,575,649)	(5,475,575)
	58,029,406	62,376,371

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 33).

11. CONTRACT RECEIVABLES (CONTINUED)

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

	2018 KD	2017 KD
Balance as at January 2018	5,475,575	5,414,104
Effect of adoption IFRS 9 (Note 2-c,a,ii)	2,478,456	-
Charge during the year (Note 28)	621,618	4,200,000
Written-off during the year	-	(4,138,529)
	8,575,649	5,475,575

12. TRADE RECEIVABLES AND OTHER DEBIT BALANCES

	2018 KD	2017 KD
Trade receivables	17,670,776	15,105,161
Less: provision for expect credit losses	(2,853,497)	(1,869,922)
	14,817,279	13,235,239
Retentions	4,173,562	4,603,778
Advance payment to suppliers	4,446,588	1,711,882
Refundable deposits	1,006,913	662,982
Prepaid expenses	2,005,523	2,759,705
Staff receivables	1,275,628	1,683,507
Others	1,225,542	1,423,071
	28,951,035	26,080,164

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

	2018 KD	2017 KD
Balance as at January 2018	1,869,922	1,677,268
Charge during the year (Note 28)	983,575	192,654
	2,853,497	1,869,922

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	2018 KD	2017 KD
Investment in associates	-	68,711,612	-	68,711,612	69,276,116
Due from related parties	88,579	1,884,363	2,865,728	4,838,670	4,572,476
Provision for expected credit losses				(2,001,724)	(2,001,724)
				2,836,946	2,570,752
Due to related parties	6,676,109	-	7,814,686	14,490,795	14,093,443

	2018 KD	2017 KD
Consolidated statement of income:		
Finance costs	390,000	357,817

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:

	2018 KD	2017 KD
Salaries and short term benefits	292,000	260,440
End of service benefits	20,910	20,910

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

The amounts due to shareholders carry an interest rate of 6.5% (2017: 6.5%) per annum.

14. CASH AND CASH EQUIVALENTS

	2018 KD	2017 KD
Cash at banks	489,552	1,150,712
Cash on hand	247,215	273,067
Short term deposit (less than three months from the placement date)	112,185	2,070,367
	848,952	3,494,146

The average effective interest rate on short term deposit as at 31 December 2018 was 2% per annum (31 December 2017: 1.1% per annum).

15. SHARE CAPITAL

	2018	2017
	KD	KD
Authorised and issued shares: 172,962,242 (2017: 172,962,424) 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

	2018	2017
Number of treasury shares	7,966,743	7,966,743
Percentage of ownership	4.61%	4.61%
Market value (KD)	525,805	677,173
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.

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 2017: from 2.5% to 4% per annum) over the Central Bank of Kuwait discount rate.

Collaterals
Terms loans are secured against of the followings;

- 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 Group's properties (Note 5),
- Promise to mortgage the entire 26% ownership of investment in associate (Note 8).

Presented below maturity profile of term loans as follows:

	2018	2017
	KD	KD
Non-current portion	77,281,956	67,547,447
Current portion	29,110,786	38,786,627
	106,392,742	106,334,074

21. DUE TO BANKS

Due to banks represent facilities granted by local banks carrying interest rates ranging from 2.5% to 4% (31 December 2017 from 2.5% to 4%) over the Central Bank of Kuwait discount rate.

Due to banks includes a balance amounting of KD 1,170,857 (2017: KD 1,238,279) which is granted to the Group by local bank, carrying an interest rates 5.5% (2017: 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 and are due within 6 months, carrying an interest rates ranging from 2.5% to 4% (31 December 2017 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 2017 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

	2018	2017
	KD	KD
Trade payables	7,749,296	15,013,213
Provision for leaves	2,405,512	2,187,681
Advance from customers	1,195,707	1,204,686
Retention	220,282	269,979
Staff payables	301,158	211,360
Accrued expenses and others	5,041,059	2,994,384
Others (*)	21,528,000	21,528,000
	38,441,014	43,409,303

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")).

The Group is currently under negotiation on settlement of this balance.

25. REVENUES

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, contract duration and timing of revenue recognition.

	For the year ended 31 December 2018		
Segments	**Services / constructions**	**Trading**	**Total**
	KD	KD	KD
Type of revenue			
Services and maintenance	45,415,994	-	45,415,994
Constructions	19,321,508	-	19,321,508
Manpower supply	5,307,147	-	5,307,147
Sale of goods	-	49,917,879	49,917,879
	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
	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
	70,044,649	49,917,879	119,962,528

25. REVENUES (CONTINUED)

Disaggregation of revenue from contracts with customers (continued)

Segments	For the year ended 31 December 2018		
	Services / constructions	Trading	Total
Contract duration			
Short-term contracts	2,576,733	49,917,879	52,494,612
Long-term contracts	67,467,916	-	67,467,916
	70,044,649	49,917,879	119,962,528
Timing of revenue recognition			
Services/goods transferred at a point in time	5,307,147	49,917,879	55,225,026
Services transferred over time	64,737,502	-	64,737,502
	70,044,649	49,917,879	119,962,528

Segments	For the year ended 31 December 2017		
	Services / constructions	Trading	Total
	KD	KD	KD
Type of revenue			
Services and maintenance	43,172,010	-	43,172,010
Construction	18,256,462	-	18,256,462
Manpower supply	4,976,648	-	4,976,648
Sale of goods	-	43,132,534	43,132,534
	66,405,120	43,132,534	109,537,654
Type of customer			
Government	59,764,608	4,313,253	64,077,861
Non-government	6,640,512	38,819,281	45,459,793
	66,405,120	43,132,534	109,537,654
Primary geographical markets			
State of Kuwait	66,405,120	29,955,263	96,360,383
GCCs	-	13,177,271	13,177,271
	66,405,120	43,132,534	109,537,654
Contract duration			
Short-term contracts	2,442,846	43,132,534	45,575,380
Long-term contracts	63,962,274	-	63,962,274
	66,405,120	43,132,534	109,537,654
Timing of revenue recognition			
Services/goods transferred at a point in time	4,976,648	43,132,534	48,109,182
Services transferred over time	61,428,472	-	61,428,472
	66,405,120	43,132,534	109,537,654

25. REVENUES (CONTINUED)

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.

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 storage units and warehouses 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 REVENUES

	2018	2017
	KD	KD
Staff costs	23,645,593	21,170,552
Materials usage	46,004,803	36,165,678
Subcontractors costs	10,598,585	12,955,065
Technical services fees	1,113,563	576,200
Rent	2,399,814	2,429,857
Depreciation (Note 5)	2,080,072	1,911,068
Rental equipment	1,942,761	1,880,945
Bank charges	1,454,725	1,343,054
Fuel expenses	793,250	784,342
Maintenance and insurance	732,961	783,294
Professional fees	96,818	42,301
Travel expenses	618,920	472,553
Others	2,075,349	4,524,033
	93,557,214	85,038,942

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
	KD	KD
Staff costs	8,088,520	6,762,621
Rent	845,079	742,364
Professional fees	408,546	298,569
Sales commissions	682,641	440,718
Depreciation (Note 5)	426,223	467,822
Bank charges	19,996	62,250
Travel expenses	19,325	3,183
Subscriptions fees	117,706	66,258
Communications	24,412	21,138
Maintenance and insurance	36,230	81,190
Printing and stationary	12,247	7,225
Others	2,604,193	2,624,407
	13,285,118	11,577,745

28. PROVISION FOR EXPECTED CREDIT LOSSES

	2018	2017
	KD	KD
Contract receivables (Note 11)	621,618	4,200,000
Trade receivables and other debit balances (Note 12)	983,575	192,654
	1,605,193	4,392,654

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

Basic and diluted earnings / (loss) per share is computed by dividing profit / (loss) 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.

	2018	2017
Profit /(loss) for the year Attributable to Shareholders of the Parent Company (KD)	428,028	(244,554)
Weighted average number of outstanding shares during the year excluding treasury shares (shares)	164,995,499	165,548,133
Basic and diluted earnings / (losses) per share (fils)	2.59	(1.48)

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 29 May 2018 approved the consolidated financial statements for the year ended 31 December 2017 and approved no distribution of dividends for the year ended 31 December 2017.

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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Segment revenues	51,764,143	49,707,737	49,917,879	43,132,534	48,486	78,736	19,321,508	18,256,462	121,052,016	111,175,469
Segment profit/ (loss)	4,326,664	2,410,602	1,660,260	1,344,598	(4,414,940)	(3,386,298)	22,433	30,118	1,594,417	399,020
Assets	116,150,967	120,902,070	42,406,547	37,445,923	72,019,140	72,063,494	13,205,991	12,139,787	243,826,999	242,551,274
Liabilities	106,096,531	110,819,763	27,523,367	21,014,671	76,272,557	75,626,770	921,310	1,235,394	210,813,765	208,696,598

32. 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:

	2018	2017
	KD	KD
Capital commitments		
Purchase of investment in associate (Note 8)	29,990,000	29,990,000
	29,990,000	29,990,000
Contingent liabilities		
Letters of credit	1,619,110	1,116,078
Letters of guarantees	75,422,141	74,035,405
Letters of acceptance	278,785	613,023
	77,320,036	75,764,506

33. RISK MANAGEMENT

Financial risk management

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to market risk, credit risk and liquidity risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through Group's strategic planning process. No changes were made in the risk management objectives, policies or processes during the year ended 31 December 2018.

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.

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 1,170,857 (2017: KD 1,238,279) (Note 21) and on finance lease obligation amounted of KD 754,738 (2017: KD 7,979,034) (Note 23), since it carries a non-floating interest rate.

33. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Market risk (continued)

Interest rate risk (continued)

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 comprehensive income and equity (through the impact on floating rate borrowings).

	31 December 2018		
	Increase / (decrease) in interest rate	**Balance**	**Effect on consolidated statement of comprehensive income and equity**
	%	KD	KD
Term loans	± 0.5%	106,392,742	531,964
Due to banks	± 0.5%	19,544,767	97,724
Notes payable	± 0.5%	23,593,284	117,966

	31 December 2017		
	Increase / (decrease) in interest rate	**Balance**	**Effect on consolidated statement of comprehensive income and equity**
	%	KD	KD
Term loans	± 0.5%	106,334,074	531,670
Due to banks	± 0.5%	17,022,985	85,115
Notes payable	± 0.5%	13,412,297	67,061

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.

33. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Market risk (continued)

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 between foreign currencies and Kuwaiti Dinar (There is no impact on other comprehensive income).

	2018		2017	
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%	163,890	±5%	177,703
British pound	±5%	690	±5%	2,606
Euro	±5%	48,256	±5%	10,594
UAE Dirhams	±5%	8,394	±5%	6,038
Indian Rupee	±5%	304	±5%	705
Japanese Yen	±5%	103	±5%	-
Bahraini Dinar	±5%	265	±5%	375
Swiss Franc	±5%	-	±5%	597

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 cash at banks, other debit balances and contract receivable. The Group's cash are placed with high credit rating financial institutions. The Group's contract receivables are presented net of allowance for expected credit losses.

33. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Credit risk (continued)

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 deposits 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.

	2018	2017
	KD	KD
Financial assets		
Contract assets	2,606,371	-
Gross amount due from customers for contract work	-	1,752,249
Contract receivables	58,029,406	62,376,371
Trade receivables and other debit balances (excluding prepayments)	22,498,924	21,608,577
Due from related parties	2,836,946	2,570,752
Cash equivalents	601,737	3,221,079
	86,573,384	91,529,028

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 "Cash equivalents".

<u>Contract receivables</u>
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.

33. 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.

33. 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 2018 and 1 January 2018 (on the impact of application of IFRS 9) as follows:

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

1 January 2018:

As at 1 January 2018, the Group recognised an additional allowance for ECLs of KD 2,478,456 as a result of application of IFRS 9 (Note 2-c,a,ii).

33. 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 2018 and 1 January 2018 (on the impact of application of IFRS 9) as follows:

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.

1 January 2018:

The Group's adoption of IFRS 9 impairment model "ECL" as of 1 January 2018 has not had any material impact on trade receivables balances. (Note 2-c,a,ii).

33. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Credit risk (continued)

Impairment risk on financial assets (continued)

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

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 cash equivalents is insignificant.

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 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	17,937,580	89,677,302	118,788,088
Due to banks	-	-	20,715,624	-	20,715,624
Notes payable	-	-	23,593,284	-	23,593,284
Finance lease obligations	-	-	754,738	-	754,738
Trade payables and other payables (excluding advances)	-	-	37,245,307	-	37,245,307
Due to related parties	-	-	14,490,795	-	14,490,795
	5,202,342	5,970,864	114,737,328	89,677,302	215,587,836

33. RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

Liquidity risk (continued)

	31 December 2017				
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
	KD	KD	KD	KD	KD
Term loans	6,931,496	7,955,459	23,899,672	78,206,392	116,993,019
Due to banks	-	-	18,261,264	-	18,261,264
Notes payable	-	-	13,412,297	-	13,412,297
Finance lease obligations	-	-	7,979,034	-	7,979,034
Trade payables and other payables (excluding advances)	-	-	42,204,617	-	42,204,617
Due to related parties	-	-	14,093,443	-	14,093,443
	6,931,496	7,955,459	119,850,327	78,206,392	212,943,674

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:

	2018	2017
	KD	KD
Gearing ratio		
Term loans	106,392,742	106,334,074
Due to banks	20,715,624	18,261,264
Notes payable	23,593,284	13,412,297
Finance lease obligations	754,738	7,979,034
Total borrowings	151,456,388	145,986,669
Less: cash and cash equivalents	(848,952)	(3,494,146)
Net debt	150,607,436	142,492,523
Equity attributable to shareholders of the Parent Company	25,568,584	27,201,824
Total capital invested	176,176,020	169,694,347
Gearing ratio	85.49%	83.97%

34. 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.

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 2018 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.

	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

	Level 1	**Level 3**	**Total**
	KD	KD	KD
31 December 2017			
Available for sale investments:			
Unquoted securities	-	5,736,746	5,736,746
Financial assets at fair value through profit or loss			
Quoted securities	5,463	-	5,463
	5,463	5,736,746	5,742,209

34. FAIR VALUE MEASUREMENT (CONTINUED)

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

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.

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 observable, the instrument is included in level 2.

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.

Reconciliation of level 3 fair value measurements:

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

	2017
	KD
Available for sale investments	
At 1 January	5,740,225
Changes in fair value	(1,194)
At 31 December	5,739,031

35. 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 Parent Company's consolidated financial statements. Hence, no provisions related to those lawsuits were recorded in the Parent Company's records as of the date of the accompanying consolidated financial statements.

36. COMPARATIVE FIGURES

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