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

Interim condensed consolidated financial information (Unaudited) and review report

For the nine month period ended 30 September 2018

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

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For the nine month period ended 30 September 2018

Contents

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

Independent auditor's review report to the Board of Directors

Report on review of interim condensed consolidated financial information

Introduction
We have reviewed the accompanying interim condensed consolidated statement of financial position of Arabi Group Holding K.S.C. (Public) (the "Parent Company") and its subsidiaries (together referred to as the "Group") as at 30 September 2018, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine month period then ended. The Parent Company's management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34: Interim Financial Reporting.

Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review
We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the entity". A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion
As stated in (Note 2/B/ii) of the interim condensed consolidated financial information, IFRS 9 "Financial Instruments" is effective for annual reporting periods beginning on or after 1 January 2018. Based on the information provided to us by the management, the Parent Company is still in the process of evaluating the potential effect of the expected credit loss ("ECL") on the financial assets carried at amortised cost, as set out in IFRS 9 as well as the impact of IFRS 15, at the date of initial application and as at 30 September 2018. Consequently, we were unable to determine whether any adjustments might be necessary to the interim condensed consolidated financial information.

Qualified Conclusion
Except for the possible effects of the matters described in the "Basis for Qualified Conclusion" paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with "Interim Financial Reporting" IAS 34.

Other Matter
The consolidated financial statements for the year ended 31 December 2017 and the interim condensed consolidated financial information for the nine month period ended 30 September 2017 were audited and reviewed, respectively, by another auditor who expressed qualified opinion due to insufficient provision for doubtful debts amounting to KD 9,635,371 and unqualified conclusion, respectively, on those consolidated statements on 31 March 2018 and 14 November 2017 respectively.

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

Independent auditor's review report to the Board of Directors (Continued)

Report on other Legal and Regulatory Requirement

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of accounts of the Parent Company, except for the matter described in the "Basis for Qualified Conclusion" paragraph above. We further report that nothing has come to our attention indicating any violations of the Companies' Law No. 1 of 2016, and its Executive Regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the nine month period ended 30 September 2018, that might have had a material effect on business of the Group or its consolidated financial position.

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

Kuwait: 14 November 2018

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

Interim condensed consolidated statement of financial position (Unaudited)
As at 30 September 2018

	Notes	30 September 2018 KD	31 December 2017 (Audited) KD	30 September 2017 KD
ASSETS				
Non-current assets				
Property, plant and equipment	4	23,932,238	31,085,999	27,628,366
Investment properties		-	-	2,330,000
Investment in associates		68,947,714	69,276,116	69,456,666
Investments in financial assets at fair value through other comprehensive income	5	5,740,748	-	-
Available for sale investments	6	-	5,736,746	5,751,303
		98,620,700	106,098,861	105,166,335
Current assets				
Inventories	7	52,469,420	40,173,268	32,775,860
Gross amount due from customers for contract work		2,634,292	1,752,249	4,361,145
Contract receivables	8	51,607,582	62,376,371	53,629,719
Trade receivables and other debit balances	9	30,972,898	26,080,164	24,183,316
Due from related parties	10	3,057,339	3,216,792	3,051,160
Investments in financial assets at fair value through profit or loss		4,399	5,463	6,244
Cash and cash equivalents		3,862,268	3,494,146	3,044,598
		144,608,198	137,098,453	121,052,042
Total assets		243,228,898	243,197,314	226,218,377
EQUITY AND LIABILITIES				
Equity				
Share capital		17,296,224	17,296,224	17,296,224
Share premium		7,877,292	7,877,292	7,877,292
Treasury shares	11	(1,480,519)	(1,480,519)	(1,474,397)
Treasury shares reserve		17,230	17,230	17,230
Statutory reserve		554,248	554,248	554,248
Voluntary reserve		324,297	324,297	324,297
Revaluation reserve		2,223,931	2,223,931	2,223,931
Foreign currency translation reserve		115,742	81,103	70,594
Other equity items	12	314,822	310,820	309,626
Accumulated losses		(455,760)	(2,802)	(144,934)
Equity attributable to shareholders of the Parent Company		26,787,507	27,201,824	27,054,111
Non-controlling interests		7,215,319	6,652,852	6,556,782
Total equity		34,002,826	33,854,676	33,610,893
LIABILITIES				
Non-current liabilities				
Provision for end of service indemnity		4,832,882	4,204,438	3,994,559
Term loans	13	85,272,835	67,547,447	80,847,422
		90,105,717	71,751,885	84,841,981
Current liabilities				
Due to banks	14	20,079,979	18,261,264	18,196,362
Notes payable	15	21,316,388	13,412,297	9,151,639
Term loans	13	18,801,422	38,786,627	19,300,753
Finance lease obligations	16	293,659	7,979,034	7,165,460
Advance payments from contracts customers		1,372,748	1,002,745	1,641,547
Trade payables and accruals		39,608,613	44,055,343	38,230,517
Due to related parties	10	17,647,546	14,093,443	14,079,225
		119,120,355	137,590,753	107,765,503
Total liabilities		209,226,072	209,342,638	192,607,484
Total equity and liabilities		243,228,898	243,197,314	226,218,377

The accompanying notes from 8 to 25 form an integral part of these interim condensed consolidated financial information.

Tareq Mohammad Al Maoushargi
Chairman

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

Interim condensed consolidated statement of income (Unaudited)
For the nine month period ended 30 September 2018

		Three month period ended 30 September		Nine month period ended 30 September	
		2018	**2017**	**2018**	**2017**
	Notes	KD	KD	KD	KD
Revenues		28,328,902	22,808,897	83,167,497	74,779,520
Cost of revenues		(22,133,883)	(18,699,081)	(64,423,871)	(60,851,761)
Gross profit		6,195,019	4,109,816	18,743,626	13,927,759
Other operating income		144,676	373,603	251,176	488,907
General and administrative expenses		(3,813,130)	(3,059,506)	(10,550,968)	(8,291,698)
Provision for doubtful debts	9	(389,266)	(35,588)	(685,096)	(101,566)
Profit from operations		2,137,299	1,388,325	7,758,738	6,023,402
Unrealised (loss) / gain from investments in financial assets at fair value through profit or loss		(439)	775	(1,064)	470
Share of results of investment in associates		(112,739)	-	(328,402)	33,795
Gain on disposal of property, plant and equipment		(16,324)	13,463	1,221	39,938
Other income		153,165	621,904	536,302	981,481
Interest income		23,634	-	41,818	21,510
Finance costs		(2,835,295)	(2,315,515)	(7,883,070)	(6,928,897)
Profit for the period before contribution to National Labor Support Tax (NLST)		(650,699)	(291,048)	125,543	171,699
National Labor Support Tax		708	1,597	(26,450)	(12,763)
Profit for the period		(649,991)	(289,451)	99,093	158,936
Attributable to:					
Shareholders of the Parent Company		(756,766)	(443,339)	(452,958)	(386,686)
Non-controlling interests		106,775	153,888	552,051	545,622
		(649,991)	(289,451)	99,093	158,936
Basic and diluted earnings per share attributable to the shareholders of the Parent Company (fils)	17	(4.59)	(2.68)	(2.75)	(2.34)

The accompanying notes from 8 to 25 form an integral part of these interim condensed consolidated financial information.

Interim condensed consolidated statement of comprehensive income (Unaudited)
For the nine month period ended 30 September 2018

	Three month period ended 30 September		Nine month period ended 30 September	
	2018	**2017**	**2018**	**2017**
	KD	KD	KD	KD
(Loss) / profit for the period	(649,991)	(289,451)	99,093	158,936
Other comprehensive income / (loss):				
Items that may be reclassified subsequently to the interim condensed consolidated statement of income:				
Change in foreign currency translation	17,710	(24,876)	45,055	(51,363)
Items that will not be reclassified subsequently to the interim condensed consolidated statement of income				
Changes in fair value of investments in financial assets at fair value through other comprehensive income	-	-	4,002	-
Total other comprehensive income / (loss) for the period	17,710	(24,876)	49,057	(51,363)
Total comprehensive (loss) / income for the period	(632,281)	(314,327)	148,150	107,573
Attributable to:				
Shareholders of the Parent Company	(743,541)	(470,045)	(414,317)	(437,719)
Non-controlling interests	111,260	155,718	562,467	545,292
	(632,281)	(314,327)	148,150	107,573

The accompanying notes from 8 to 25 form an integral part of these interim condensed consolidated financial information.

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

Interim condensed consolidated statement of changes in equity (Unaudited)
For the nine month period ended 30 September 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	Other equity items	Retained earnings / (accumulated losses)	Total	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance 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
(Loss) / profit for the period	-	-	-	-	-	-	-	-	-	(386,686)	(386,686)	545,622	158,936
Total other comprehensive loss for the period	-	-	-	-	-	-	-	(51,033)	-	-	(51,033)	(330)	(51,363)
Total comprehensive (loss) / income for the period	-	-	-	-	-	-	-	(51,033)	-	(386,686)	(437,719)	545,292	107,573
Purchase of treasury shares	-	-	(92,872)	-	-	-	-	-	-	-	(92,872)	-	(92,872)
Balance as at 30 September 2017	17,296,224	7,877,292	(1,474,397)	17,230	554,248	324,297	2,223,931	70,594	309,626	(144,934)	27,054,111	6,556,782	33,610,893
Balance as at 1 January 2018	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
(Loss) / profit for the period	-	-	-	-	-	-	-	-	-	(452,958)	(452,958)	552,051	99,093
Total other comprehensive income for the period	-	-	-	-	-	-	-	34,639	4,002	-	38,641	10,416	49,057
Total comprehensive income / (loss) for the period	-	-	-	-	-	-	-	34,639	4,002	(452,958)	(414,317)	562,467	148,150
Balance as at 30 September 2018	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	2,223,931	115,742	314,822	(455,760)	26,787,507	7,215,319	34,002,826

The accompanying notes from 8 to 25 form an integral part of these interim condensed consolidated financial information.

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

Interim condensed consolidated statement of cash flows (Unaudited)
For the nine month period ended 30 September 2018

	Notes	For the nine month period ended 30 September 2018 KD	2017 KD
Cash flows from operating activities:			
Profit for the period		99,093	158,936
Adjustments:			
Depreciation	4	1,808,862	1,737,826
Provision for doubtful debts	9	685,096	101,566
Recovery of provision for doubtful debts	9	(71,512)	(12,889)
Provision for slow moving inventory	7	192,127	138,159
Unrealised loss / (gain) from investments in financial assets at fair value through profit or loss		1,064	(470)
Gain on disposal of property, plant and equipment		(1,221)	(39,938)
Share of results of investment in associates		328,402	(33,795)
Interest income		(41,818)	(21,510)
Finance costs		7,883,070	6,928,897
Provision for end of service indemnity		1,233,508	1,231,982
		12,116,671	10,188,764
Changes in operating assets and liabilities :			
Inventories		(12,488,279)	(10,363,807)
Gross amount due from customers from contract work		(882,043)	(982,338)
Contract receivables		10,768,789	6,122,703
Trade receivables and other debit balances		(5,506,318)	(3,431,529)
Due from related parties		159,453	(104,264)
Advance payments from contracts customers		370,003	(961,594)
Trade payables and accruals		337,604	5,476,562
Due to related parties		3,554,103	677,591
Cash generated from operations		8,429,983	6,622,088
Employees' end of service benefits paid		(605,064)	(601,459)
Net cash flows generated from operating activities		7,824,919	6,020,629
Cash flows from investing activities:			
Purchase of property, plant and equipment		(678,822)	(6,122,490)
Purchase of investments available for sale		-	(7,076)
Proceed from disposal of property, plant and equipment		242,546	70,873
Interest income received		41,818	21,510
Net cash flows used in investing activities		(394,458)	(6,037,183)
Cash flows from financing activities:			
Net movement of term loans		(2,259,817)	3,688,966
Net movement of due to banks		1,818,715	(3,417,321)
Net movement of notes payable		7,904,091	1,110,092
Net movement of finance lease obligations		(6,687,313)	4,744,829
Purchase of treasury shares		-	(92,872)
Finance costs paid		(7,883,070)	(6,928,897)
Net cash flows used in financing activities		(7,107,394)	(895,203)
Net increase / (decrease) in cash and cash equivalents		323,067	(911,757)
Foreign currency translation adjustments		45,055	(51,363)
Cash and cash equivalents at the beginning of the period		3,494,146	4,007,718
Cash and cash equivalents at the end of the period		3,862,268	3,044,598
Non-cash transactions			
Purchase of property, plant and equipment through finance lease obligations		(556,319)	-
Disposals of property, plant and equipment through settlements of trade payables and accruals		4,784,334	-
Disposals of property, plant and equipment through settlements of finance lease obligations		1,554,381	-

The accompanying notes from 8 to 25 form an integral part of these interim condensed consolidated financial information.

1. INCORPORATION AND ACTIVITIES

Arabi Group Holding K.S.C.P. (the "Parent Company") and its subsidiaries (referred to as "the Group") 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:

- Owning stocks and shares in Kuwaiti or non-Kuwaiti companies and participating in the establishment of such companies.
- Participating in the management of companies in which it owns shares.
- Lending money to Companies in which it owns shares, and quaranteeing third party loans in Companies where it owns 20% or more of the capital of the borrowing Company.
- Owning industrial rights such as patents, industrial trademarks, royalties, or any other related rights, and franchising them to other companies within or outside the State of Kuwait.
- Owning real estate and movable property to conduct its operations.

This interim condensed consolidated financial information for the nine month period ended 30 September 2018 were authorised for issue by the Board of Directors of the Parent Company on 14 November 2018.

2. BASIS OF PREPARATION

These interim condensed consolidated financial information have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Group's last annual financial statements as at and for the year ended 31 December 2017 ("last annual consolidated financial statements").

The interim condensed consolidated financial information does not include all of the information required for a complete set of IFRSs financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's interim condensed consolidated financial position and performance since the last annual financial statements.

In the opinion of the management all adjustments (including recurring accruals) have been included in the interim condensed consolidated financial information. The operating results for the nine month period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the year ending 31 December 2018. For further information, refer to the consolidated financial statements and notes thereto for the year ended 31 December 2017.

The interim condensed consolidated financial information has been presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the Parent Company.

This is the third set of the Group's financial statements in which IFRS 15 and IFRS 9 should be adopted. Changes to significant accounting policies are described in (Note 2 (A and B)).

2. BASIS OF PREPARATION (CONTINUED)

Use of judgements and estimates

In preparing this interim condensed consolidated financial information, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described below.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Parent Company's executive management.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments.

If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRSs, including the level in the fair value hierarchy in which the valuations should be classified. Significant valuation issues are reported to the Parent Company's audit committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

2. BASIS OF PREPARATION (CONTINUED)

Changes in significant accounting policies

Except as described below, the accounting policies applied in this interim condensed consolidated financial information are the same as those applied in the Group's financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's financial statements as at and for the year ending 31 December 2018.

The Group has initially adopted IFRS 9 Financial Instruments (see B below) from 1 January 2018 with respect to financial assets available for sale except for evaluating the potential effect of the expected credit loss ("ECL") on the financial assets carried at amortised cost and is still evaluating the potential effect of IFRS 15 Revenue from Contracts with Customers (see A below). A number of other new amendments are effective from 1 January 2018 but they do not have a material effect on the Group's interim condensed consolidated financial information.

A) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations, IFRICs 13, 15, 18, and SIC 31.

The Group didn't adopt this standard. Accordingly, no impacts on IFRS 15 have been recognised on 1 January 2018 on the Group's consolidated financial statements as at 31 December 2017 and the interim condensed consolidated financial information for the nine month period ended 30 September 2018.

Manufacturing and sale of equipment products:

Performance obligations related to the Group's manufacturing and sale equipment products are satisfied at a point in time typically on delivery of the products as the Group predominantly manufactures those products to specific orders.

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.

The other revenue types of the Group are mainly represented by net investments income which is outside the scope of IFRS 15.

B) IFRS 9 Financial Instruments

IFRS 9 sets out 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 Group didn't adopt the potential effect of the expected credit loss ("ECL") on the financial assets carried at amortised cost, as set out in standard IFRS 9. Accordingly, no any amounts are recognised for the opening balance of accumulated losses.

2. BASIS OF PREPARATION (CONTINUED)

B) IFRS 9 Financial Instruments (Continued)

i. Classification and measurement of financial assets and financial 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 of held to maturity, loans and receivables and 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 initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. 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.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a contract/trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

2. BASIS OF PREPARATION (CONTINUED)

B) IFRS 9 Financial Instruments (Continued)

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

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see i (b)). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	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 profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	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 OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 is described further below.

2. BASIS OF PREPARATION (CONTINUED)

B) IFRS 9 Financial Instruments (Continued)

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

The following table and the accompanying notes below explain the original classification categories under IAS 39 and the new classification categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

	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	Available-for-sale	FVOCI – equity instrument	5,736,746	5,736,746	-
Equity securities	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	Loans and receivables	Amortised cost	62,376,371	62,376,371	-
Trade receivables and other debit balances (excluding advances)	Loans and receivables	Amortised cost	21,608,577	21,608,577	-
Due from related parties	Loans and receivables	Amortised cost	3,216,792	3,216,792	-
Cash and cash equivalents	Loans and receivables	Amortised cost	3,494,146	3,494,146	-
			98,190,344	98,190,344	
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 accruals	Amortised cost	Amortised cost	44,055,343	44,055,343	-
Due to related parties	Amortised cost	Amortised cost	14,093,443	14,093,443	-
			204,135,455	204,135,455	

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 FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

2. BASIS OF PREPARATION (CONTINUED)

B) IFRS 9 Financial Instruments (Continued)

ii. Impairment of financial assets (Continued)

The financial assets at amortised cost consists of "gross amount due from customers for contract work", "contract receivables", "trade receivables and other debit balances", "due from related parties" and "cash and cash equivalents". The Group is still in process of evaluating the potential effect of the expected credit loss ("ECL") with respect to its contract receivables as at the date of initial application of IFRS 9.

Under IFRS 9, loss allowances are measured on either of the following bases:
- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

The Group has not determined the method of measuring impairment provisions for financial assets carried at amortised cost, because IFRS 9 has not been applied to carrying amounts on 1 January 2018. Accordingly, the Group's financial assets categories have not been re-measured in accordance with the Standard as at 1 January 2018.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.
The Group considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

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

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

2. BASIS OF PREPARATION (CONTINUED)

B) IFRS 9 Financial Instruments (Continued)

ii. Impairment of financial assets (Continued)

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

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

Impairment losses related to financial assets, including contract assets, are presented separately in the interim condensed consolidated statement of income.

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 applies the simplified approach permitted by IFRS9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The management of the Group is still in the process of evaluating the potential effect of the expected credit loss ("ECL") on the financial assets carried at amortised cost , as set out in IFRS 9.

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 initial 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 FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

3. BASIS OF CONSOLIDATION

This interim condensed consolidated financial information for the nine month period ended 30 September 2018 includes the Group and its subsidiaries.

The interim condensed financial information of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any intra-Group balances and transactions, and any realised gains, losses, expenses, income and balances arising from intra-Group transactions, are eliminated in preparing these interim condensed consolidated financial information.

3. BASIS OF CONSOLIDATION (CONTINUED)

The interim condensed consolidated financial information includes the interim condensed financial information 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
	30 September 2018	(Audited) 31 December 2017	30 September 2017		
	%	%	%		
Arabi Company W.L.L. (*)	100	100	100	State of Kuwait	General trading and contracting
Arabi Engineering and Mechanical Works Company W.L.L.	100	100	100	State of Kuwait	General trading and contracting
Arabi Enertech Company K.S.C. (Closed)	73.08	73.08	73.08	State of Kuwait	General trading and contracting
Daleel International Company W.L.L. (**)	100	100	100	State of Kuwait	IT services
Key BS JLT W.L.L. (**)	100	100	100	United Arab Emirates	IT services
Call to Connect India Private Limited (***)	-	-	60	India	IT services
Workers Equity Holding B.S.C. (Closed) (***)	-	-	60	Kingdom of Bahrain	Electronic Payroll System

The Group's share in subsidiaries has been recorded based on interim condensed financial information prepared by the management as at 30 September 2018 except for Arabi Enertech Company K.S.C. (Closed) and Arabi Company W.L.L. which are based on reviewed interim condensed financial information.

(*) The interim condensed consolidated financial information 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
	30 September 2018	(Audited) 31 December 2017	30 September 2017		
	%	%	%		
Gulf Services and Industrial Supplies Company	100	100	100	Oman	General Trading and Contracting
Arabi Company W.L.L.	100	100	100	Qatar	General Trading and Contracting
Altec Corporation Limited	90.03	90.03	90.03	India	General Trading and Contracting
Warba Mechanical Equipments L.L.C.	70	70	70	United Arab Emirates	General Trading and Contracting

(**) The Group has not consolidated these subsidiaries since they are not material to the interim condensed consolidated financial information. The Group's share of (loss) / profit from these subsidiaries for the nine month ended 30 September 2018 has been recognised based on their management accounts.

(***) During the last year the Group has fully impaired these subsidiaries.

4. PROPERTY, PLANT AND EQUIPMENT

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
Cost			
Balance at the beginning of the period / year	44,589,355	34,897,408	34,897,408
Additions	1,235,141	7,940,312	6,122,490
Transfer from investment properties	-	2,330,000	-
Disposals	(7,721,296)	(578,365)	(262,941)
	38,103,200	44,589,355	40,756,957
Accumulated depreciation			
Balance at the beginning of the period / year	13,503,356	11,622,771	11,622,771
Charged during the period / year	1,808,862	2,378,890	1,737,826
Disposals	(1,141,256)	(498,305)	(232,006)
	14,170,962	13,503,356	13,128,591
Net book value			
Balance at the end of the period / year	23,932,238	31,085,999	27,628,366

5. INVESTMENTS IN 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 recognise the changes in fair value through other comprehensive income other than profit or loss as these are strategic investments and the Group considers this to be more relevant. As a result of adoption of IFRS 9 as at 1 January 2018, the Group elected to reclassify the investments of KD 5,736,746 from available for sale investments to investments in financial assets at fair value through other comprehensive income (Note 2/B/i and Note 6).

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
Unquoted securities	5,740,748	-	-

Financial assets are valuated at fair value through other comprehensive income in accordance with valuation techniques disclosed in (Note 21).

6. AVAILABLE FOR SALE INVESTMENTS

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
Unquoted securities	-	5,736,746	5,751,303

At 1 January 2018, the Group adopted IFRS 9, accordingly, it has reclassified available for sale investments at carrying value of KD 5,736,746 to investments in financial assets at fair value through other comprehensive income (Note 5).

7. INVENTORIES

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
Finished goods and materials	49,902,958	38,738,614	26,238,159
Provision for obsolete and slow moving items (*)	(2,437,062)	(2,244,935)	(2,412,600)
	47,465,896	36,493,679	23,825,559
Goods in transit	5,003,524	3,679,589	8,950,301
	52,469,420	40,173,268	32,775,860

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

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
Balance at the beginning of the period / year	2,244,935	2,274,441	2,274,441
Provision charged during period / year	192,127	185,389	138,159
Recovery during the period / year	-	(214,895)	-
	2,437,062	2,244,935	2,412,600

8. CONTRACT RECEIVABLES

	30 September 2018 KD	31 December 2017 (Audited) KD	30 September 2017 KD
Contract receivables	57,083,157	67,851,946	59,043,824
Provision for doubtful debts	(5,475,575)	(5,475,575)	(5,414,105)
	51,607,582	62,376,371	53,629,719

9. TRADE RECEIVABLES AND OTHER DEBIT BALANCES

	30 September 2018 KD	31 December 2017 (Audited) KD	30 September 2017 KD
Trade receivables	16,030,809	15,105,161	12,345,710
Less: Provision for doubtful debts (*)	(2,483,506)	(1,869,922)	(1,765,945)
	13,547,303	13,235,239	10,579,765
Retentions	4,213,764	4,603,778	4,065,498
Advance payment to suppliers	5,459,935	1,711,882	2,447,786
Refundable deposits	1,179,330	662,982	824,436
Prepaid expenses	2,236,298	2,759,705	2,523,510
Staff receivables	1,415,818	1,683,507	1,697,568
Others	2,920,450	1,423,071	2,044,753
	30,972,898	26,080,164	24,183,316

(*) The movement in the provision for doubtful debts is as follows:

	30 September 2018 KD	31 December 2017 (Audited) KD	30 September 2017 KD
Balance at the beginning of the period / year	1,869,922	1,677,268	1,677,268
Provision charged during period / year	685,096	192,654	101,566
Recovery during the period / year	(71,512)	-	(12,889)
	2,483,506	1,869,922	1,765,945

10. 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:

10. RELATED PARTIES DISCLOSURES (CONTINUED)

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
Interim condensed consolidated statement of financial position:			
Due from related parties	3,057,339	3,216,792	3,051,160
Finance lease obligations	82,880	700,000	500,000
Due to related parties	17,647,546	14,093,443	14,079,225

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

	30 September 2018	30 September 2017
	KD	KD
Interim condensed consolidated statement of income:		
Salaries and short term benefits	203,250	189,250
End of service benefits	33,660	31,341

The amounts due from / to related parties are non-interest bearing and are recoverable / payable on demand.

11. TREASURY SHARES

	30 September 2018	31 December 2017 (Audited)	30 September 2017
Number of treasury shares	7,966,743	7,966,743	7,896,743
Percentage of ownership	4.61%	4.61%	4.57%
Market value (KD)	525,805	677,173	773,881
Cost (KD)	1,480,519	1,480,519	1,474,397

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

12. OTHER EQUITY ITEMS

	Fair value reserve from investments in financial assets at fair value through other comprehensive income	Change of fair value reserve	Total
	KD	KD	KD
Balance as at 1 January 2017	-	309,626	309,626
Balance as at 30 September 2017	-	309,626	309,626
Balance at 31 December 2017 ("as previously stated")	-	310,820	310,820
Impact of adoption of IFRS 9	310,820	(310,820)	-
Balance as at 1 January 2018 ("restated")	310,820	-	310,820
Total other comprehensive income for the period	4,002	-	4,002
Balance as at 30 September 2018	314,822	-	314,822

13. TERM LOANS

Bank loans represent loans granted by local banks and foreign bank at an interest rate ranging from 4% to 8% (31 December 2017: from 4% to 8% and 30 September 2017: from 4% to 8%) over the Central Bank of Kuwait discount rate.

Terms loans is secured against shareholders personal guarantees, assignment of some contract revenues and guarantees from related parties and mortgage of Group's properties.

Presented below maturity profile of term loans as follows:

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
Non-current portion	85,272,835	67,547,447	80,847,422
Current portion	18,801,422	38,786,627	19,300,753
	104,074,257	106,334,074	100,148,175

14. DUE TO BANKS

This item represents overdraft facilities carrying interest rates ranging from 2.5% to 4% (31 December 2017 from 2.5% to 4% and 30 September 2017 from 2.5% to 4%). The fair values of due to banks approximate their carrying value as of 30 September 2018.

15. NOTES PAYABLE

This item represent 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% and 30 September 2017 from 2.5% to 4%) over the Central Bank of Kuwait discount rate. The fair value of notes payable approximate its carrying amount as at 30 September 2018.

16. FINANCE LEASE OBLIGATIONS

This represents the balance of finance lease obligations which 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% and 30 September 2017 from 6.5% to 8%) per annum. These obligations were granted to the Group against personal guarantee of the shareholders.

17. BASIC AND DILUTED EARNINGS PER SHARE

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

	Three month ended 30 September		Nine month ended 30 September	
	2018	**2017**	**2018**	**2017**
Loss for the period Attributable to shareholders of the Parent Company (KD)	(756,766)	(443,339)	(452,958)	(386,686)
Weighted average number of outstanding shares during the period excluding treasury shares (shares)	164,995,499	165,131,419	164,995,499	165,548,133
Basic earnings per share (fils)	(4.59)	(2.68)	(2.75)	(2.34)

The Parent Company had no outstanding dilutive shares.

18. 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.

19. CONTINGENT LIABILITIES

At the interim condensed consolidated statement of financial position date, the Group is contingently liable in respect of contingent liabilities are as follow:

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
Letters of credit	1,439,832	1,116,078	6,644,254
Letters of guarantees	73,708,319	74,035,405	75,987,403
Letters of acceptance	698,896	613,023	49,124
	75,847,047	75,764,506	82,680,781

20. 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
- Retail
- Investments
- Construction

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		Retail		Investment		Construction		Total	
	30 September		30 September		30 September		30 September		30 September	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Segment revenues	48,958,377	46,767,690	32,385,337	26,591,956	-	34,265	2,654,300	2,951,710	83,998,014	76,345,621
Segment profit / (loss)	2,050,502	2,039,985	1,107,853	601,002	(3,085,460)	(2,506,448)	26,198	24,397	99,093	158,936
Assets	115,379,723	112,191,647	42,972,762	35,762,755	72,162,953	66,997,592	12,713,460	11,266,383	243,228,898	226,218,377
Liabilities	103,515,862	95,293,715	27,087,256	20,039,906	77,704,891	76,428,721	918,063	845,142	209,226,072	192,607,484

21. FAIR VALUE MEASUREMENT

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.

21. FAIR VALUE MEASUREMENT (CONTINUED)

All assets and liabilities for which fair value is measured or disclosed in the 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 30 September 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.

The financial assets measured at fair value in the interim condensed consolidated statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1	Level 3	Total
	KD	KD	KD
30 September 2018			
Investments in financial assets at fair value through other comprehensive income:			
Unquoted securities	-	5,740,748	5,740,748
Financial assets at fair value through profit or loss			
Quoted securities	4,399	-	4,399
	4,399	5,740,748	5,745,147

	Level 1	Level 3	Total
	KD	KD	KD
31 December 2017 (Audited)			
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

	Level 1	Level 3	Total
	KD	KD	KD
30 September 2017			
Available for sale investments:			
Unquoted securities	-	5,751,303	5,751,303
Financial assets at fair value through profit or loss			
Quoted securities	6,244	-	6,244
	6,244	5,751,303	5,757,547

21. FAIR VALUE MEASUREMENT (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 period / year, there were no transfers between level 1, level 2 and level 3.

22. 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 Group's external Legal counsel, there will be no material adverse impact on the Group's interim condensed consolidated financial information. Hence, no provisions related to those lawsuits were recorded in the Group's records as of the date of the accompanying interim condensed consolidated financial information.

23. COMPARATIVE FIGURES

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