

**Arabi Group Holdings – K.S.C.P  
Kuwait**

**Independent Auditor's Report and  
Consolidated Financial Statements  
Year Ended 31 December 2017**



**Crowe Horwath™**

**Horwath Al-Muhanna & Co.**  
*Certified Accountants*  
Member Crowe Horwath International

<u>Contents</u>	<u>Pages</u>
Independent Auditor’s Report	1-4
Consolidated Statement of Financial Position	5
Consolidated Statement of Income	6
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements	10 - 43

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Arabi Group Holdings K.S.C.P.

### Report on the Audit of the Consolidated Financial Statements

#### Qualified Opinion

We have audited the consolidated financial statements of Arabi Group Holdings K.S.C.P. (‘the Company’) and its subsidiaries (together called ‘the Group’), which comprise the consolidated statement of financial position as at 31 December 2017, 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, except for the effect of the matters in the Basis of Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, 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 Qualified Opinion

Trade and other receivables include certain receivable from customers amounting to KD 9,635,371 which are undisputed and past due but not impaired. There is a provision for doubtful debts amounting to KD 2,940,833 against these receivables. In our opinion, the provisions for these balances are insufficient and therefore we have not been able to determine whether any adjustments may be necessary on these balances.

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 (‘the IESBA Code’), and we have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### Emphasis of matter

We draw attention to note 2.4 to the consolidated financial statements regarding the receivables from contract customers which are under legal dispute and the receivable for work executed but waiting customer acceptance. The Group management is of the opinion that the carrying amount of these receivables will be recovered in full and are not impaired. The consolidated financial statements for the year ended 31 December 2017 does not include any adjustments that might results from uncertainties regarding the outcome of Court judgments and acceptance and completion of the contracts.

We draw attention to note 20 to the consolidated financial statements towards funds availed through a third party for Group’s investment in an associate for which settlement arrangement with third party is under negotiation.

### **Other matter**

The consolidated financial statements of the company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 30 March 2017.

### **Key Audit Matters**

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

#### *Revenue recognition on construction contracts involves significant judgment*

The constructions contract is complex and exposes the Group to various business and financial reporting risks. The recognition of revenue and the estimation of the outcome of construction contracts require significant management judgment, in particular with respect to estimation the cost to complete and the amounts of variation orders to be recognized. In addition, significant management judgment is required to assess the consequences of various legal proceedings in respect of construction contracts. Reference is made to note 2.4 of the Consolidated Financial Statements: Critical accounting judgments and key sources of estimation uncertainty policies: Revenue recognition and recoverability from contract customers – trade receivables and contract in progress.

We identified revenue from construction contracts as a significant risk, requiring special audit consideration. Our audit procedures included an evaluation of the significant judgments' made by management, amongst others based on an examination of the associated contracts documentation and discussion on the status of contracts under progress with finance and technical staff of the Group. We also tested the controls that the Group has put in place over its process to record contract costs and contract revenues and the calculation of the stage of completion. Furthermore, we discussed the status of legal proceedings in respect of construction contracts, examined various documents in this respect and obtained lawyers' letters.

### **Other information**

Management is responsible for the other information. The other information comprises the information included in the Group's annual report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the 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 audit report.

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

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

If, based on the work we have performed on the other information that we have 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 the Consolidated Financial Statements**

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.


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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the statements 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 regulation, as amended, and by the 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 violation of the Companies Law No. 1 of 2016 and its executive regulation, as amended, nor of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Group or on its consolidated financial position.



---

**Rabea Saad Al-Muhanna**  
Licence No. 152 A  
Horwath Al-Muhanna & Co.

Kuwait  
31 March 2018

## Arabi Group Holdings – K.S.C.P

Kuwait

## Consolidated Statement of Financial Position as at 31 December 2017

	Note	2017 KD	2016 KD
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	6	3,494,146	4,007,718
Trade and other receivables	7	89,751,842	81,261,424
Investment at fair value through profit or loss	8	5,463	5,774
Due from related parties	9	3,116,792	2,719,716
Contract in progress – due from customers	10	1,752,249	3,378,807
Inventories	11	40,173,268	22,550,212
		<u>138,293,760</u>	<u>113,923,651</u>
<b>Non-current assets</b>			
Investments available for sale	8	5,736,746	5,744,227
Investment in associates	12	69,276,116	69,422,871
Investment properties	13	-	2,330,000
Investments in unconsolidated subsidiaries	14	100,000	565,543
Property and equipment	15	31,085,999	23,274,637
		<u>106,198,861</u>	<u>101,337,278</u>
<b>Total assets</b>		<u>244,492,621</u>	<u>215,260,929</u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Bank overdrafts and promissory notes	17	31,673,561	22,739,439
Trade facilities	18	8,137,988	2,420,631
Due to related parties	19	14,093,443	13,739,997
Trade and other payables	20	46,194,441	41,193,375
Term loans –Current portion	21	70,464,687	51,841,851
		<u>170,564,120</u>	<u>131,935,293</u>
<b>Non-current liabilities</b>			
Term loans - Non-current portion	21	35,869,387	46,365,408
Post employment benefits	22	4,204,438	3,364,036
		<u>40,073,825</u>	<u>49,729,444</u>
<b>Equity</b>			
<b>Attributable to the parent company's shareholders</b>			
Share capital	23	17,296,224	17,296,224
Share premium	23	7,877,292	7,877,292
Statutory reserve	23	554,248	554,248
Voluntary reserve	23	324,297	324,297
Treasury share reserve		17,230	17,230
Revaluation reserve	23	2,223,931	2,223,931
Foreign currency translation adjustments		81,103	121,627
Fair valuation reserve		310,820	309,626
Retained (losses) / earnings		(2,802)	241,752
Treasury shares	24	(1,480,519)	(1,381,525)
		<u>27,201,824</u>	<u>27,584,702</u>
<b>Non-controlling interests</b>		<u>6,652,852</u>	<u>6,011,490</u>
<b>Total equity</b>		<u>33,854,676</u>	<u>33,596,192</u>
<b>Total liabilities and equity</b>		<u>244,492,621</u>	<u>215,260,929</u>

The accompanying notes are an integral part of these consolidated financial statements



Tareq Mohammed Al Maoushargi  
Chairman

Arabi Group Holdings – K.S.C.P

Kuwait

Consolidated Statement of Income for the year ended 31 December 2017

	Note	2017 KD	2016 KD
Sales		43,132,534	38,248,043
Contract revenue		<u>66,405,120</u>	<u>59,834,416</u>
		<u>109,537,654</u>	<u>98,082,459</u>
Cost of sales	25	(5,497,682)	(26,969,602)
Contract costs	25	<u>(79,541,260)</u>	<u>(42,587,099)</u>
		<u>(85,038,942)</u>	<u>(69,556,701)</u>
<b>Gross profit</b>		<b>24,498,712</b>	<b>28,525,758</b>
General and administrative expenses	25	(11,035,933)	(10,260,080)
Depreciation	15	(467,822)	(582,962)
Provision for doubtful debts	26	(262,499)	(3,427,745)
Provision for slow moving inventories	11	<u>(185,389)</u>	<u>(163,411)</u>
<b>Profit from operations</b>		<b>12,547,069</b>	<b>14,091,560</b>
Unrealized (loss) / gain from investments at fair value through profit or loss		(311)	116
Share of results from associates	12	(146,755)	118,101
Loss from investment properties	13	(10,000)	(20,000)
Share of results from unconsolidated subsidiaries		-	13,769
Gain on sale of unconsolidated subsidiary		103,428	-
Impairment losses	27	(4,600,796)	(3,883,534)
Other income	28	1,976,178	1,333,950
Interest expenses		<u>(9,381,102)</u>	<u>(8,643,717)</u>
<b>Profit before contribution to KFAS, Zakat, NLST and directors remuneration</b>		<b>487,711</b>	<b>3,010,245</b>
Directors remuneration reversed / (provided)	35	30,000	(30,000)
KFAS		(22,556)	(38,527)
Zakat		(73,060)	(53,411)
National Labour Support Tax (NLST)		<u>(23,075)</u>	<u>(49,382)</u>
<b>Profit for the year</b>		<b><u>399,020</u></b>	<b><u>2,838,925</u></b>
Attributable to:			
Equity holders of the parent company		(244,554)	345,020
Non-controlling interest		<u>643,574</u>	<u>2,493,905</u>
		<u>399,020</u>	<u>2,838,925</u>
Basic and diluted (loss) / earning per share for the year (fils)	29	<u>(1.47)</u>	<u>2.08</u>

The accompanying notes are an integral part of these consolidated financial statements



Arabi Group Holdings – K.S.C.P

Kuwait

Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

	2017 KD	2016 KD
<b>Profit for the year</b>	<b>399,020</b>	<b>2,838,925</b>
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified subsequently to consolidated statement of income</i>		
Changes in fair value of available for sale investment	1,194	(63,368)
Impairment loss on investment available for sale transferred to the consolidated statement of income	-	2,406,701
Change in foreign currency translation	(42,736)	23,339
<b>Other comprehensive income for the year</b>	<b>(41,542)</b>	<b>2,366,672</b>
<b>Total comprehensive income for the year</b>	<b>357,478</b>	<b>5,205,597</b>
<b>Attributable to:</b>		
Equity holders of the parent company	(283,884)	2,420,368
Non-controlling interest	641,362	2,785,229
	<b>357,478</b>	<b>5,205,597</b>

The accompanying notes are an integral part of these consolidated financial statements

Arabi Group Holdings – K.S.C.P  
Kuwait

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

*Attributable to the parent company's shareholders*

	Share capital		Share premium		Statutory reserve		Voluntary reserve		Treasury shares reserve		Revaluation reserve		Foreign currency translation adjustments		Fair valuation reserve		Retained earnings / (losses)		Treasury shares		Sub total		Non-controlling interests		Total Equity			
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	
Balance at 1 January 2017	17,296,224	7,877,292	554,248	324,297	17,230	2,223,931	121,627	309,626	241,752	(1,381,525)	27,584,702	6,011,490	33,596,192															
Total comprehensive 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)															
<b>Balance at 31 December 2017</b>	<b>17,296,224</b>	<b>7,877,292</b>	<b>554,248</b>	<b>324,297</b>	<b>17,230</b>	<b>2,223,931</b>	<b>81,103</b>	<b>310,820</b>	<b>(2,802)</b>	<b>(1,480,519)</b>	<b>27,201,824</b>	<b>6,652,852</b>	<b>33,854,676</b>															
Balance at 1 January 2016	16,472,594	7,877,292	502,614	502,614	17,230	2,223,931	98,968	(1,743,063)	593,679	(1,381,525)	25,164,334	2,015,052	27,179,386															
Issue of bonus shares note 23	823,630	-	-	(229,951)	-	-	-	-	(593,679)	-	-	-	-															
Total comprehensive income for the year	-	-	-	-	-	-	22,659	2,052,689	345,020	-	2,420,368	2,785,229	5,205,597															
Transfer to reserves	-	-	51,634	51,634	-	-	-	-	(103,268)	-	-	-	-															
Contribution by non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-															
<b>Balance at 31 December 2016</b>	<b>17,296,224</b>	<b>7,877,292</b>	<b>554,248</b>	<b>324,297</b>	<b>17,230</b>	<b>2,223,931</b>	<b>121,627</b>	<b>309,626</b>	<b>241,752</b>	<b>(1,381,525)</b>	<b>27,584,702</b>	<b>6,011,490</b>	<b>33,596,192</b>															

The accompanying notes are an integral part of these consolidated financial statements

Arabi Group Holdings - K.S.C.P

Kuwait

Consolidated Statement of Cash Flows for the year ended 31 December 2017

	Note	2017 KD	2016 KD
<b>Cash flows – operating activities</b>			
Profit for the year		399,020	2,838,925
<i>Adjustments for:</i>			
Depreciation	15	2,378,890	1,855,410
Gain on sale of property and equipment	28	(57,226)	(13,051)
Loss from investment properties	13	10,000	20,000
Impairment losses	27	4,600,796	3,883,534
Unrealized gain/(loss) from investments at fair value through profit or loss		311	(116)
Share of results from associates		146,755	(118,101)
Shares of results from unconsolidated subsidiaries		-	(13,769)
Gain on sale of unconsolidated subsidiaries	14	(103,428)	-
Interest expense		<u>9,381,102</u>	<u>8,643,717</u>
<b>Operating profit before changes in working capital</b>		<b>16,756,220</b>	<b>17,096,549</b>
Increase in trade and other receivables		(8,483,693)	(23,519,454)
(Increase) / decrease in due from related parties		(397,076)	2,058,622
Increase in due from customers for contract work		(2,511,971)	(108,064)
(Increase) / decrease in inventories		(17,623,056)	2,077,456
Increase / (decrease) in trade and other payables		5,001,069	(2,819,213)
Increase in due to related parties		353,446	2,741,345
Increase in post-employment benefits		<u>840,402</u>	<u>441,655</u>
<b>Net cash used in operating activities</b>		<b>(6,064,659)</b>	<b>(2,031,104)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment – net		(7,940,312)	(4,044,493)
Proceeds from sale of property and equipment – net		120,561	3,363,306
Proceeds from sale of unconsolidated subsidiaries		127,180	-
Acquisition of investments available for sale – net		<u>(11,804)</u>	<u>(3,602,335)</u>
<b>Net cash used in investing activities</b>		<b>(7,704,375)</b>	<b>(4,283,522)</b>
<b>Cash flow from financing activities</b>			
Increase / (decrease) in bank overdrafts and promissory notes		8,934,122	(1,951,908)
Increase / (decrease) in trade facilities		5,717,357	(7,791,414)
Increase in term loans		8,126,815	23,547,350
Purchase of treasury shares		(98,994)	-
Interest paid		(9,381,102)	(8,643,717)
Contribution by non-controlling interest		<u>-</u>	<u>1,211,209</u>
<b>Net cash from financing activities</b>		<b>13,298,198</b>	<b>6,371,520</b>
Net (decrease) / increase in cash and cash equivalents		(470,836)	56,894
Effect of exchange rate changes on cash and cash equivalents		(42,736)	23,339
Cash and cash equivalents at the beginning of the year		<u>4,007,718</u>	<u>3,927,485</u>
Cash and cash equivalents at the end of the year	6	<u><b>3,494,146</b></u>	<u><b>4,007,718</b></u>

The accompanying notes are an integral part of this consolidated financial information.

## 1. Incorporation and activities of the Company

Arabi Group Holdings K.S.C.P (the Parent Company) is a Kuwaiti shareholding company incorporated on 5 December 1982 and is listed on the Kuwait Stock Exchange. The registered office of the Parent Company is P.O. Box 4090, Safat, 13041, Kuwait and its principal activities are as follows:

- 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 guaranteeing 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.

The Parent Company and its subsidiaries disclosed in note 5 are collectively referred to as “the Group” in these consolidated financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2018 and are subject to approval of shareholders at the forthcoming annual general meeting.

## 2. Basis of preparation

### 2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC).

### 2.2 Basis of measurement

These consolidated financial statements are prepared under the historical cost convention, except for the financial assets carried “at fair value through profit or loss”, “available for sale investments” and investment property which are stated at their fair value.

### 2.3 Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars (KD) which is the functional currency of the Group.

### 2.4 Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affects the application of accounting policies, as described in note 4, and the reported amounts of assets, liabilities, income and expenses, as actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

**2. Basis of preparation (continued)**

**2.4 Critical accounting judgments and key sources of estimation uncertainty (continued)**

*Judgments*

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements.

*Classification of financial instruments*

On acquisition of a financial instrument, the Group's management has to decide whether it should be classified as "fair value through profit or loss" or "available for sale". In making that judgment, management considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the consolidated statement of income or directly in equity.

*Impairment of financial and non-financial assets*

At each statement of financial position date, management assesses, whether there is any indication that trade receivables, inventories and property and equipment may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

The Group treats investments available for sale as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

*Business combinations*

To allocate the cost of a business combination, management exercises significant judgment to determine identifiable assets and liabilities and contingent liabilities whose fair value can be reliably measured, to determine provisional values on initial accounting of a business combination and to determine the amount of goodwill and the Cash Generating Unit to which it should be allocated.

*Estimation uncertainty and assumptions*

The key estimates at the statement of 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:

*Fair values – unquoted equity investments*

The valuation techniques for unquoted equity investments make use of estimates such as future cash flows, discount factors, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

**2. Basis of preparation (continued)**

**2.4 Critical accounting judgments and key sources of estimation uncertainty (continued)**

*Estimation uncertainty and assumptions (continued)*

*Impairment of financial assets*

The Group's management review periodically items classified as loans and receivables to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of 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.

*Impairment and useful lives of plant and equipment*

At each statement of financial position date, the Group's management assesses, whether there is any indication that plant and equipment may be impaired. The recoverable amount of an asset is determined based on the "value-in-use" method. This method uses estimated cash flow projections over the estimated useful life of the asset.

The Group's management determines estimated useful lives and related depreciation charge for the year. The estimate is based on product life cycle of plant and equipment. It could change significantly as a result of change in technology. Management increases the depreciation charge where the useful lives are lower than the previously estimated lives.

*Revenue recognition*

Contract revenue is measured at fair value of the consideration received or receivable. Contract revenue includes the work executed as of financial position date which is in process of acceptance from contract customers. The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events like variations from the initially agreed amount, penalties arising from delays etc. The estimates often need to be revised as events occur and uncertainties are resolved.

Further significant assumptions are required to estimate the total contracts costs and recoverable variations works that will affect the stage of completion and the contract revenue respectively. In making these estimates, management has relied on past experience and the work of specialists.

*Valuation of investment properties*

For investment properties, fair value is determined by independent registered real estate valuers which have relevant experience in the property market.

Valuation of local properties is based on the lowest of the valuations obtained from at least two independent valuers.

**2. Basis of preparation (continued)**

**2.4 Critical accounting judgments and key sources of 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 any impairment loss on the Group's investment in its associated company, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

*Impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with its accounting policy stated in note 4.9. The recoverable amounts of cash generating units are determined based on value-in-use calculations or at fair valueless costs to sell. These calculations require the use of significant estimates.

*Recoverability from contract customers – trade receivables & contract in progress*

(i) Receivables under legal dispute

The Group has receivables amounting KD 9,878,669 (2016: KD 12,176,436) from contract customers which are under legal dispute. Presently, the matters are with the Court and are under various stages. The Group's management is confident and it estimates that the carrying amount of the assets will be recovered in full and are not impaired.

(ii) Receivable for work executed but waiting customers' acceptance

The Group receivables includes a net receivables amount of KD 2,392,543 (2016: KD 1,696,543) from contract customers with respect to partly or completed contracts. The management is in the process of obtaining acceptance from the contract customers towards work executed and completing the contracts. The Group's management is confident and it estimates that the carrying amount of the assets will be recovered in full and is not impaired.

With respect to the above total receivables of KD 12,271,212 (2016: KD 13,872,979); KD 11,219,797 (2016: KD 11,279,018) is included in trade receivables and KD 1,051,415 (2016: KD 2,593,961) is included in contract in progress.

*Liquidity risk*

The Group's current liabilities exceeded its current assets by KD 32,270,360. The management expects that the short term loan amounting KD 51,467,719 (note 21) can be renewed annually and plans rescheduling of certain borrowings, so that the Group can meet its funding requirement.

### 3. Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the Group has applied amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an annual accounting period that begins on or after 1 January 2017.

#### 3.1 New and amended IFRSs that have been applied in the current year

##### *IAS 7 Disclosure Initiative – Amendments to IAS 7*

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Application of amendments have no material impact on disclosure provided by the Group.

##### *Annual improvements 2014-2016 cycle: Amendments to IFRS 12*

The amendments clarify the principle in IFRS 12 that when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sale in accordance with IFRS 5, the entity is not required to disclose summarised financial information for that subsidiary, joint venture or associate. This amendment has no impact on the consolidated financial statements of the Group.

#### 3.2 New and amended standards issued but not yet effective

The following standards and Interpretations have been issued but are not yet effective, and have not yet been adopted by the Group:

##### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but comparative information is not compulsory. The adoption of this standard will have an effect on the classification and measurement of the Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group plans to adopt the new standard on the required effective date. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.



**3. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**

**3.2 New and amended standards issued but not yet effective (continued)**

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group will assess the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

*Transfers of Investment Property – Amendments to IAS 40*

The amendments 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. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will quantify the effect when the standard becomes effective.

#### 4. Summary of significant accounting policies

##### 4.1 Business Combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition is measured as the fair values of the assets given, equity interest issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The acquisition related costs are expensed when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at their fair values at the acquisition date. Non-controlling interest in the subsidiary acquired is recognized at the non-controlling interest's proportionate share of the acquiree's net assets.

When a business combination is achieved in stages, the previously held equity interests in the acquiree is re-measured at its acquisition-date's fair value and the resulting gain or loss is recognized in the consolidated statements of income. The fair value of the equity of the acquiree at the acquisition date is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

The Group separately recognizes contingent liabilities assumed in a business combination if it is a present obligation that arises from the past events and its fair value can be measured reliably.

And indemnification received from the seller in a business combination for the outcome of contingency or uncertainty related to all or part of a specific asset or liability that is recognized at the acquisition date at its acquisition-date's fair value is recognized as an indemnification asset at the acquisition date at its acquisition-date's fair value.

The Group uses provisional values for the initial accounting of a business combination and recognizes any adjustment to these provisional values within the measurement period which is twelve months from the acquisition date.

##### 4.2 Basis of consolidation

The Group consolidates the financial statements of the Parent Company and subsidiaries (i.e. investees that it controls) and investees controlled by its subsidiaries.

The Group controls an investee if and only if the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights and potential voting rights;

#### 4. Summary of significant accounting policies (continued)

##### 4.2 Basis of consolidation (continued)

The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date when control ceases.

Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of combination. Total comprehensive income is attributed to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary and any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Parent Company's shareholders. Non-controlling interest is presented separately in the consolidated statements of financial position and income. The non-controlling interests are classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non-controlling interest.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of subsidiaries. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognised in assets are eliminated in full. If a parent loses control of a subsidiary, it derecognises the assets (including any Goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non-controlling interests. Any investment retained is recognised at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognised in equity is transferred to the consolidated statement of income.

##### 4.3 Cash and cash equivalents

Cash in hand, cash at banks and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the statement of cash flows.

##### 4.4 Financial instruments

###### Classification

In accordance with International Accounting Standard (IAS) 39, the Group classifies its financial instruments as "investments at fair value through profit or loss", "loans and receivables" and "Investments available for sale". All financial liabilities are classified as "financial liabilities other than at fair value through profit or loss".

**4. Summary of significant accounting policies (continued)**

**4.4 Financial instruments (continued)**

**Recognition and de-recognition**

The Group recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A financial asset (in whole or in part) is de-recognized when the contractual right to the cash flows from the financial asset has expired or the Group has transferred substantially all the risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial assets to the extent of its continuing involvement in the financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A regular way purchase and sale of financial assets is recognized using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established regulations or conventions in the market place.

**Measurement**

*Financial instruments*

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added except for those financial instruments classified as “at fair value through profit or loss”.

*Financial assets at fair value through profit or loss*

Financial assets classified as “at fair value through profit or loss” are divided into two sub categories; financials assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy.

*Loans and receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. These are subsequently measured and carried at amortized cost using the effective yield method.

Cash and cash equivalents, trade and other receivables, due from related parties and contracts in progress – due from customers are classified as loans and receivables.

*Available for sale*

These are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose these investments within twelve months of the statement of financial position date. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in equity. When the “available for sale” asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to consolidated statement of income as gains or losses. Financial assets whose fair value cannot be reliable measured are carried at cost less impairment loss, if any.

#### 4. Summary of significant accounting policies (continued)

##### 4.4 Financial instruments (continued)

###### *Financial liabilities other than at fair value through profit or loss*

Financial liabilities “other than at fair value through profit or loss” are subsequently measured and carried at amortized cost using the effective yield method.

Trade facilities, bank overdrafts and promissory notes, due to related parties, trade and other payables and term loans, are classified as financial liabilities “other than at fair value through profit or loss”.

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

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

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

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

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

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

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

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers’ quotes.

**4. Summary of significant accounting policies (continued)**

**4.4 Financial instruments (continued)**

For financial instruments carried at amortized cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

Fair value of investment properties are determined by appraisers having an appropriate recognized professional qualification and recent experience in the location and category of the property being valued and also considering the ability to generate economic benefits by using the property in its highest and best use.

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

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

**Impairment of financial assets**

The Group assesses at each reporting date whether there is objective evidence that specific financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant. The main criteria that the Group uses to determine that there is objective evidence of impairment include whether there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount

The impairment loss for financial assets classified as loans and receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows including amounts recoverable from collateral and guarantees, discounted at the current market interest rate. The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income.

#### **4. Summary of significant accounting policies (continued)**

##### **4.4 Financial instruments (continued)**

In case of financial assets classified as available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in consolidated statement of income, is removed from equity and recognized in consolidated statement of income. Impairment losses on equities available for sale recognized in the consolidated statement of income are not reversed through the consolidated statement of income.

Financial assets are written off when there is no realistic prospect of recovery.

##### **4.5 Inventories**

Inventories are valued at the lower of weighted average cost and net realizable value after making due allowances for any obsolete and slow moving items.

##### **4.6 Investment in associate**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the income statement.

##### **4.7 Investment properties**

Investment properties are initially recorded at cost, being the purchase price and any directly attributable expenditure for a purchased investment property and cost at the date when construction or development is complete for a self-constructed investment property. Subsequent to initial recognition, investment properties are re-measured to fair value on an individual basis based on an external valuation by an independent valuer. Changes in fair value are taken to the consolidated statement of income.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

**4. Summary of significant accounting policies (continued)**

**4.8 Property and equipment**

Property and equipment are stated at historic cost less accumulated depreciation and accumulated impairment loss. Cost of an item of equipment comprises of acquisition cost and all directly attributable costs of bringing the assets to working condition for its intended use.

Freehold land is not depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Leasehold land	15-25
Buildings	10-25
Furniture and fixtures	3-20
Tools, equipment, computers and software	3-5
Machinery and equipment	3-15
Motor vehicles	3-5

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. The carrying amount of each item of property and equipment is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists the assets are written down to its recoverable amount and the impairment loss is recognized in the consolidated statement of income. Impairment is tested at the lowest level of the cash generating unit (CGU) to which the item belongs.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income.

Certain leasehold land and building are initially recognized at cost, and are measured after recognition at fair value based on valuations by external valuers. Fair value of buildings is further reduced by subsequent accumulated depreciation.

If an asset's carrying amount is increased as a result of revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation reserve. However, the increase shall be recognized in consolidated statement of income to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of income.

If an asset's carrying value is decreased as a result of a revaluation, the decrease shall be recognized in consolidated statement of income. However the decrease shall be debited directly to the revaluation reserve in equity to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Upon de-recognition of the asset, the revaluation reserve relating to the asset disposed off is transferred directly to retained earnings.

The management of the Group has decided to revalue assets every five years.



#### **4. Summary of significant accounting policies (continued)**

##### **4.9 Goodwill**

Goodwill arising in a business combination is computed as the excess of the aggregate of: consideration transferred; the non-controlling interests proportionate share in the recognized amounts of the acquiree's net identifiable assets at the acquisition date, if any; and in business combination achieved in stages the acquisition date fair value of the acquirer's previously held equity interest in the acquire, over the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a gain from bargain purchase and is recognized directly in the consolidated statement of income.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to each of the cash generating units for the purpose of impairment testing. Gains and losses on disposal of an entity or a part of the entity include the carrying amount of Goodwill relating to the entity of the portion sold. Goodwill is tested, at least annually, for impairment and carried at cost less accumulated impairment losses.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units for the purpose of assessing impairment of goodwill. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata, on the basis of the carrying amount of each asset in the unit. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group uses five year business plans for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the five year period. Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

##### **4.10 Post-employment benefits**

The Group is liable to make defined contributions to State Plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place where they are deemed to be employed.

The defined plan is unfunded and is based on the liability that would arise on involuntary termination of all employees on the statement of financial position date. This basis is considered to be a reliable approximation of the present value of this liability.

##### **4.11 Provision for liabilities**

Provision are recognized, when, as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation; and the amount can be reliably estimated.

**4. Summary of significant accounting policies (continued)**

**4.12 Treasury shares**

The cost of the Parent Group's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends and rights issues.

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.

**4.13 Revenue recognition**

Revenue from construction and service contracts are recognized under the percentage of completion method, measured by reference to the proportion of contract costs incurred for work performed to date bear to the estimated total contract cost. When the outcome of a contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. Full provision is made for expected future losses.

Revenue from installation contract is recognized on completion of installation.

Revenue from sale of goods is recognized upon delivery of goods to customers. Incentives from suppliers are recognized when earned.

Interest income is recognized using the effective yield method. Other income is recognized when earned.

Dividend income is recognized when the right to receive payment is established.

Operating lease income is recognized on a straight line basis over the period of the lease term.

**4.14 Accounting for leases**

*Where the Group is the lessee*

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

#### **4. Summary of significant accounting policies (continued)**

##### **4.15 Foreign currencies**

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Parent Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of income.

Translation differences on non-monetary items, such as equities classified as available for sale financial assets are included in the investment fair valuation reserve in equity.

The consolidated statement of income and cash flows of foreign operations are translated into the Parent Company's reporting currency at average exchange rates for the year and their statement of financial positions are translated at exchange rates ruling at the year end. Foreign exchange differences arising on translation are recognized directly in the statement of changes in equity.

##### **4.16 Contingencies**

Contingent assets are not recognized as an asset till realization becomes virtually certain. Contingent liabilities are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated.

##### **4.17 Segment reporting**

A business segment is a Group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environment.

**5. Subsidiaries and associates**

The principal subsidiaries are:

Subsidiary	Country of incorporation	Percentage of Ownership	
		2017	2016
Arabi Company WLL	Kuwait	100%	100%
Arabi Engineering and Mechanical Works Company WLL	Kuwait	100%	100%
Arabi Enertech Co KSCC	Kuwait	73.08%	73.08%
<b>Held through Arabi Company W.L.L.</b>			
Gulf Services & Industrial Supplies Co. L.L.C.	Oman	100%	100%
Arabi Company – Qatar W.L.L.	Qatar	100%	100%
Altec Corporation Limited (Formerly Jayakrishna Aluminium Limited)	India	90.03%	90.03%
Warba Mechanical Equipments L.L.C.	UAE	70%	70%
<b>Associate</b>			
Kuwait Health Assurance Company KSCC	Kuwait	26%	26%
Agricultural Environmental Projects Company W.L.L.	Kuwait	40%	40%

The objectives of Arabi Company WLL are: practicing all trading business of selling, purchasing, renting, leasing, importing and exporting, especially on business related to the technical equipment such as the spare parts of all machineries, vehicles, garage equipment, executing electric and mechanical contracting works, selling and purchasing lands for the Company only, and renting, leasing, and managing the same for the Company and others, landscaping and maintenance of gardens and agricultural contracting, importing industrial equipments and machines, owning shares in Kuwaiti or foreign shareholding companies, as well as owning shares or stocks in Kuwaiti or foreign limited liability companies, or participating in both types of these companies, selling of safety and security equipment and tools, packing and packaging of non food stuff and fire extinguishers (upon the approval of the Public Authority of Industry), installation and maintenance of water devices, systems, and accessories (upon the approval of the Public Authority of Industry).

The objectives of Arabi Engineering and Mechanical Works Company WLL are: selling, purchasing, importing and exporting machineries and mechanical and electrical equipment and spare parts for these machines, equipment and all other types of spare parts, technical maintenance works and generally do all the technical business that are consistent with the objectives of the Company, selling and purchasing lands and owning them for the Company only and renting, leasing, and managing them for the Company and others, and general contracting only.

0.05% of the ownership in Arabi Company WLL and 0.20% of the ownership in Arabi Engineering and Mechanical Works Company WLL are held indirectly in the name of nominees on behalf of the Parent Company. The nominees have confirmed in writing that the Parent Company is the beneficial owner of these shares in the subsidiaries.

The objectives of Arabi Enertech Co. KSCC are: construction contracting, trading in all machineries, and technical and scientific equipment for hospitals and laboratories, contracting of cooling equipment and mechanical devices and their installation and maintenance, electrical extensions contracting, contracting of cleaning cities (contracting of cleaning buildings and roads and transportation of waste and debris), transportation of valuable materials and guarding facilities, contracting of public buildings only, trading of industrial, electrical, and electronic machineries, equipment, and tools and maintenance of electrical and electronic devices, import and export and commission agent, and metal structures work (blacksmithing).

The Parent Company has consolidated financial statements of all its subsidiaries which are been audited by independent auditors for the year ended 31 December 2017 while preparing this consolidated financial statements. Total assets of the subsidiaries amounted to KD 181,579,961 as of 31 December 2017 (31 December 2016: KD 157,247,281) and the subsidiaries net profit was KD 3,817,581 for the year ended 31 December 2017 (31 December 2016: KD 10,784,751)

**6. Cash and cash equivalents**

Cash and bank balances include the following cash and cash equivalents:

	2017 KD	2016 KD
Cash on hand	273,067	278,303
Cash at banks	1,150,712	980,557
Short term deposits	<u>2,070,367</u>	<u>2,748,858</u>
	<u>3,494,146</u>	<u>4,007,718</u>

The effective interest rate on short term deposit was 1% (2016: 1%) per annum

**7. Trade and other receivables**

	2017 KD	2016 KD
Trade receivables	82,974,941	75,189,828
Provision for doubtful debts	<u>(6,631,385)</u>	<u>(6,377,260)</u>
	76,343,556	68,812,568
Retentions receivables	4,603,779	3,294,988
Deposits and prepayments	2,700,022	2,846,375
Others	<u>6,104,485</u>	<u>6,307,493</u>
	<u>89,751,842</u>	<u>81,261,424</u>

Reconciliation of provision for impairment of trade and other receivables:

	2017 KD	2016 KD
At beginning of the year	6,377,260	5,651,132
Charge for the year (note 26)	262,499	853,874
Written off	-	(132,824)
Others	<u>(8,374)</u>	<u>5,078</u>
At end of the year	<u>6,631,385</u>	<u>6,377,260</u>

The Group does not hold any collateral as security. Refer note 33 for aging analysis of past due but not impaired receivables.

Part of the trade receivables are assigned as collateral for borrowings and facilities provided by the banks.

**8. Investments**

	2017 KD	2016 KD
<b>Investments at fair value through profit &amp; loss:</b>		
Quoted securities held for trading	<u>5,463</u>	<u>5,774</u>
<b>Investments available for sale:</b>		
Unquoted securities	<u>5,736,746</u>	<u>5,744,227</u>

Unquoted investments of KD 491,961 (2016: KD 500,633) are carried at cost less impairment loss as their fair value cannot be reliably measured. Management has recognised KD 20,476 (2016: KD 3,687,570) as impairment loss in the consolidated statement of income for some of the investments since the fair value was considered as significantly below their cost.

**9. Due from related parties**

	2017 KD	2016 KD
Due from related parties	5,118,516	5,237,397
Less: Provision for doubtful debts	<u>(2,001,724)</u>	<u>(2,517,681)</u>
	<u>3,116,792</u>	<u>2,719,716</u>

Due from related parties represents short term interest free receivables from related parties.

Reconciliation of provision for impairment of due from related parties:

	2017 KD	2016 KD
At beginning of the year	2,517,681	5,197,505
Charge for the year (note 26)	-	2,573,871
Reversal / written off	<u>(515,957)</u>	<u>(5,253,695)</u>
At end of the year	<u>2,001,724</u>	<u>2,517,681</u>

**10. Contract in progress – due from customers**

	2017 KD	2016 KD
Contract costs incurred to date	202,154,807	151,164,241
Recognized profit	<u>38,708,022</u>	<u>24,162,768</u>
	240,862,829	175,327,009
Progress billings	<u>(238,446,468)</u>	<u>(171,284,090)</u>
Due from customers	2,416,361	4,042,919
Less: Provision for losses	<u>(664,112)</u>	<u>(664,112)</u>
	<u>1,752,249</u>	<u>3,378,807</u>

Reconciliation of provision for impairment of due from contract customers:

	2017 KD	2016 KD
At beginning of the year	664,112	664,112
At end of the year	<u>664,112</u>	<u>664,112</u>

Contract in progress – due from customers includes a net amount of KD 1,051,415 (2016: KD 3,258,071) under legal dispute for cost escalation and other matters. The management is of the opinion that this amount is realizable and not impaired.

**11. Inventories**

	2017 KD	2016 KD
Inventories	38,738,614	18,277,342
Provision for slow moving items	<u>(2,244,935)</u>	<u>(2,274,441)</u>
	36,493,679	16,002,901
Goods in transit	<u>3,679,589</u>	<u>6,547,311</u>
	<u>40,173,268</u>	<u>22,550,212</u>

Reconciliation of provision for slow moving items is as below:

	2017 KD	2016 KD
At beginning of the year	2,274,441	2,253,017
Charge for the year	185,389	163,411
Written off	<u>(214,895)</u>	<u>(141,987)</u>
At end of the year	<u>2,244,935</u>	<u>2,274,441</u>

**12. Investment in associates**

The Group has the following investment in associates:

Associates	Percentage of ownership	2017 KD	2016 KD
Kuwait Health Assurance Company KSCP (KHAC)	26%	69,276,115	69,422,870
Agricultural Environmental Projects Company W.L.L	40%	<u>1</u>	<u>1</u>
		<u>69,276,116</u>	<u>69,422,871</u>

Movement in investment in associates are as follows:

	2017 KD	2016 KD
At beginning of the year	69,422,871	69,304,770
Share of results	<u>(146,755)</u>	<u>118,101</u>
At end of the year	<u>69,276,116</u>	<u>69,422,871</u>

**12. Investment in associates (continued)****Kuwait Health Assurance Company KSCP (KHAC) in Kuwait**

The Group has been awarded the bid to invest in the equity shares equivalent to 26% in establishing a new company – Kuwait Health Assurance Company (KHAC) in Kuwait as a strategic investor against tender issued from Kuwait Investment Authority (on behalf of the Government of Kuwait). Presently, the associate is in pre-operational phase and has not commenced its commercial operations.

The Group has further commitment of KD 29,900,000 as its capital contribution towards balance 50% uncalled and unpaid share capital whenever it is called up by KHAC.

The acquisition of KHAC was mainly funded by availing term loans from banks, funds received from related parties and through third party (note 20). The Group has promise to mortgage entire 26% its share in KHAC against loans obtained by the Group as disclosed in note 21.

The Group's share of profit from KHAC for the year has been recognized based on their audited financial statements. The shares of associate are not publicly listed on a stock exchange and hence published price quotes are not available. The assets, liabilities, revenues and profit of associate are as follows:

	<u>Assets</u> KD	<u>Liabilities</u> KD	<u>Revenue</u> KD	<u>Net profit</u> KD
31 December 2017	119,181,854	1,092,062	1,781,150	(564,443)
31 December 2016	118,897,739	243,504	3,002,625	454,235

**Agricultural Environmental Projects Company W.L.L**

The Group does not recognise its share of results in this associate because its share of losses exceeds its carrying value of investment in associate.

The assets, liabilities, revenues and loss of associate are as follows:

	<u>Assets</u> KD	<u>Liabilities</u> KD	<u>Revenue</u> KD	<u>Net (loss)/ profit</u> KD
31 December 2017	2,081,604	2,602,110	63,093	(136,391)
31 December 2016	2,159,791	2,542,656	305,049	20,542



**13. Investment properties**

	2017 KD	2016 KD
At beginning of the year	2,330,000	2,350,000
Change in fair value	(10,000)	(20,000)
Transfer to property and equipment	<u>(2,320,000)</u>	
At end of the year	<u>-</u>	<u>2,330,000</u>

During the year these investment properties were transferred to property and equipment at the fair value as on the date of change in use as commencement of owner occupation.

**14. Investment in unconsolidated subsidiaries**

<u>Name</u>	Percentage of ownership	2017 KD	2016 KD
Daleel International Co. W.L.L.	100%	-	-
Call to Connect India Private Limited	60%*	-	23,752
Workers Equity Holding – B.S.C. (Closed)	60%**	-	441,791
Mobivision Holding Company – B.S.C. (Closed)	60%	-	-
Arabi Aviation Company	100%	100,000	100,000
KEY BS JLT- WLL	100%	-	-
		<u>100,000</u>	<u>565,543</u>

The Group has not consolidated these subsidiaries since they are not material to the consolidated financial statements. The Group's share of profit from these subsidiaries has been recognised based on their management accounts.

\* Disposed during the year for a consideration of KD 127,180.

\*\* Fully impaired during the year.

15. Property and equipments

Cost	Freehold	Leasehold	Furniture and	Tools,	Machinery	Capital work	Total
	Land	land and building	fixtures and vehicles	equipment, computers and software	and motor vehicles	in progress	
	KD	KD	KD	KD	KD	KD	KD
<b>As at 1 January 2017</b>	978,071	7,640,649	3,437,744	14,195,958	4,333,022	4,311,964	34,897,408
Additions	-	1,425,941	571,683	4,292,428	900,168	750,092	7,940,312
Disposals	-	-	(119,581)	(151,926)	(304,531)	-	(576,038)
Transfer from investment properties	2,200,000	120,000	-	-	-	-	2,320,000
Transfer	-	4,591,589	-	-	-	(4,591,589)	-
Foreign currency translation adjustment	(11,295)	(561)	(10,199)	35,418	(5,690)	-	7,673
<b>As at 31 December 2017</b>	<b>3,166,776</b>	<b>13,777,618</b>	<b>3,879,647</b>	<b>18,371,878</b>	<b>4,922,969</b>	<b>470,467</b>	<b>44,589,355</b>
<b>Accumulated depreciation</b>							
<b>As at 1 January 2017</b>	-	2,680,354	2,664,746	3,759,515	2,518,156	-	11,622,771
Charge for the year	-	422,093	377,826	875,723	703,248	-	2,378,890
Disposals	-	-	(86,404)	(144,806)	(281,493)	-	(512,703)
Foreign currency translation adjustment	-	842	(9,216)	27,737	(4,965)	-	14,398
<b>At 31 December 2017</b>	-	<b>3,103,289</b>	<b>2,946,952</b>	<b>4,518,169</b>	<b>2,934,946</b>	-	<b>13,503,356</b>
<b>Net book value</b>							
<b>At 31 December 2017</b>	<b>3,166,776</b>	<b>10,674,329</b>	<b>932,695</b>	<b>13,853,709</b>	<b>1,988,023</b>	<b>470,467</b>	<b>31,085,999</b>

Notes to the Consolidated Financial Statements – 31 December 2017

15. Property and equipments (continued)

	Freehold Land		Leasehold land and building		Furniture and fixtures		Tools, equipment, computers and software		Machinery and motor vehicles		Capital work in progress		Total	
	KD		KD		KD		KD		KD		KD		KD	
Cost														
As at 1 January 2016	971,224		7,594,294		3,094,829		16,528,541		3,790,186		2,551,277		34,530,351	
Additions	-		45,672		360,447		1,230,111		646,151		1,760,687		4,043,068	
Disposals	-		-		(23,321)		(3,527,439)		(106,554)		-		(3,657,314)	
Foreign currency translation adjustment	6,847		683		5,789		(35,255)		3,239		-		(18,697)	
As at 31 December 2016	978,071		7,640,649		3,437,744		14,195,958		4,333,022		4,311,964		34,897,408	
Accumulated depreciation														
As at 1 January 2016	-		2,440,289		2,344,956		3,314,052		1,995,248		-		10,094,545	
Charge for the year	-		240,336		333,206		662,772		619,096		-		1,855,410	
Disposals	-		-		(18,959)		(188,957)		(99,143)		-		(307,059)	
Foreign currency translation adjustment	-		(271)		5,543		(28,352)		2,955		-		(20,125)	
At 31 December 2016	-		2,680,354		2,664,746		3,759,515		2,518,156		-		11,622,771	
Net book value														
At 31 December 2016	978,071		4,960,295		772,998		10,436,443		1,814,866		4,311,964		23,274,637	

Buildings are constructed on leasehold land from the Government of Kuwait. Leasehold land is held under a renewable operating lease from the Government of Kuwait. The Group revalued its certain building and lease hold land on 31 December 2014 based on two independent valuers and its value have been generally derived using market comparable method. As the significant valuation inputs used are based on unobservable market data, these are classified under level 3 fair value hierarchy. The gain on revaluation has been taken to revaluation reserve. The management of the Group decided to revalue said assets every five years. The depreciation charge for the year has been allocated as follows:

	2017	2016
	KD	KD
Cost of sales / General and administrative expenses	1,911,068	1,272,448
Others	467,822	582,962
	2,378,890	1,855,410

**16. Goodwill**

	2017 KD	2016 KD
At beginning of the year	-	195,964
Less: impairment during the year	-	(195,964)
At end of the year	-	-

**17. Bank overdrafts and promissory notes**

	2017 KD	2016 KD
Bank overdrafts	18,019,426	15,339,505
Promissory notes	13,654,135	7,399,934
	<u>31,673,561</u>	<u>22,739,439</u>

The effective interest rates on bank overdraft facilities and promissory notes were 2% to 4% per annum (2016: 2% to 4%) over the Central Bank of Kuwait discount rate except for a portion of these facilities amounting to KD 2,911,091 (2016: KD 2,980,050) that carries an effective interest rate of 2% to 7.5% (2016: 2% to 7.5%) per annum over three months LIBOR.

These facilities are secured by the personal guarantees of the shareholders, corporate guarantee of the Group and mortgage of Group's freehold land and buildings and assignment of contract proceeds in favor of the lending banks.

**18. Trade facilities**

Trade facilities represent facilities which are obtained from certain local companies and secured by the corporate guarantees. The effective interest rates on these facilities are varied from one company to another.

**19. Due to related parties**

This represents temporary advances repayable on demand.

**20. Trade and other payables**

	2017 KD	2016 KD
Trade payables	15,003,454	9,287,960
Advances from customers	2,219,135	3,811,507
Accrued staff leave	2,187,680	1,503,637
Retentions payable	269,980	324,679
Other accrued expenses	3,508,969	4,737,592
Other payables	23,005,223	21,528,000
	<u>46,194,441</u>	<u>41,193,375</u>

Other payables of KD 21,528,000 are towards funds availed from a third party for Group's investment in associate KHAC. The settlement arrangement with the third party is under negotiation.

**21. Term loans**

	2017 KD	2016 KD
<b>Current</b>		
Short term loans	64,067,636	38,347,019
Current portion of long term loans	<u>6,397,051</u>	<u>13,494,832</u>
	<u>70,464,687</u>	<u>51,841,851</u>
<b>Non current</b>		
Non current portion of long term loans	<u>35,869,387</u>	<u>46,365,408</u>
	<u>106,334,074</u>	<u>98,207,259</u>

The exposure of Group's borrowings to interest rate changes and the contractual repricing dates at the statement of financial position dates are as follows:

	2017 KD	2016 KD
Less than 6 months	65,955,406	43,341,851
6 – 12 months	4,509,282	8,500,000
Above 1 year	<u>35,869,386</u>	<u>46,365,408</u>
	<u>106,334,074</u>	<u>98,207,259</u>

The effective interest rate on short term loans which are repayable within one year was 4% to 8% per annum (2016: 4% to 8). These loans are secured by the personal guarantees of shareholders, corporate guarantees and certain receivables.

Short term loans include KD 51,467,719 which are renewed annually.

Long term loans carry an effective interest rate of 4% to 7.5% per annum (2016: 4% to 7.5%). These loans are secured by corporate and personal guarantees, assignment of shares of certain shareholders, mortgage of Group's properties, investment properties, certain contract receivables, mortgage of third party properties, term deposits of subsidiary, term deposits of related parties, part of proceeds from the receivables of subsidiaries and related parties and promise to mortgage entire 26% of Company's share of Kuwait Health Assurance Company KSCC. The portion of the loans maturing within one year from the financial position date is shown as a current liability.

**22. Post employment benefit**

	2017 KD	2016 KD
At beginning of the year	3,364,036	2,922,381
Additional provision during the year	1,187,646	978,432
Paid during the year / others	<u>(347,244)</u>	<u>(536,777)</u>
At end of the year	<u>4,204,438</u>	<u>3,364,036</u>

**23. Equity**

The authorized, issued and paid up share capital of the Company comprises of 172,962,242 shares of 100 fils each (2016: 172,962,242 shares of 100 fils each).

	<u>2017</u>	<u>2016</u>
	KD	KD
At beginning of the year	17,296,224	16,472,594
Bonus issue during the year	-	823,630
At beginning of the year	<u>17,296,224</u>	<u>17,296,224</u>

At an Extraordinary General Assembly held on 20 June 2016 the shareholders of the Parent Company resolved to amend the Articles of Association to increase the authorized share capital of the Parent Company from KD 16,472,594 (represented by 164,725,945 shares of 100 fils each) to KD 17,296,224 (represented by 172,962,242 shares of 100 fils each). This amendment was entered in the commercial register on 1 August 2016.

*Bonus issue*

At the Annual General Assembly held on 20 June 2016, the shareholders approved the Board of Directors recommendation to distribute bonus shares of 5% amounting to KD 593,679 from retained earnings and KD 229,951 from voluntary reserves to shareholders registered in the Parent Company's records as of the date of Annual General Meeting.

*Share premium*

Share premium is not distributable.

*Statutory and voluntary reserve*

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% each of the net profit for the year before board of directors' remuneration and statutory contributions is transferred to statutory reserve and voluntary reserve. Statutory reserve can be utilised for the distribution of a maximum dividend of up to 5% of the share capital in years retained earnings are insufficient for the purpose. There is no restriction on the distribution of voluntary reserve. No transfer during the year due to loss.

*Revaluation reserve*

Revaluation reserve represents the Parent Company's share of surplus arising on revaluation of one of the subsidiaries building and lease hold land. The management of the Group has decided to revalue said assets every five years.

**24. Treasury shares**

	<u>2017</u>	<u>2016</u>
Number of shares (share)	7,966,743	6,836,655
Percentage of issued shares (%)	4.61%	3.95%
Market value (KD)	677,173	444,383
Cost (KD)	1,480,519	1,381,525

**25. Cost of sales/ Contract costs/ General & administrative expenses**

	<u>2017</u>	<u>2016</u>
	KD	KD
Materials	65,640,531	50,431,654
Staff cost	24,496,776	24,050,935
Rent	739,779	785,989
Depreciation	1,911,068	1,272,448
Commission	523,722	486,444
Other operating and administrative expenses	2,762,999	2,789,311
	<u>96,074,875</u>	<u>79,816,781</u>

**26. Provision for doubtful debts**

	<u>2017</u>	<u>2016</u>
	KD	KD
Provision for trade and other receivables (note 7)	262,499	853,874
Provision for due from related parties (note 9)	-	2,573,871
	<u>262,499</u>	<u>3,427,745</u>

**27. Impairment losses**

	<u>2017</u>	<u>2016</u>
	KD	KD
Impairment loss on trade and other receivables	2,277,257	-
Impairment loss on investment available for sale (note 8)	20,476	3,687,570
Impairment loss on contract in progress due from customers	1,861,272	-
Impairment of unconsolidated subsidiary (note 14)	441,791	-
Impairment loss on goodwill (note 16)	-	195,964
	<u>4,600,796</u>	<u>3,883,534</u>

**28. Other Income**

	<u>2017</u>	<u>2016</u>
	KD	KD
Commission and discounts	269,233	277,518
Foreign exchange gain	-	14,211
Gain on sale of property and equipment	57,226	13,051
Provision no longer required and others	1,507,566	903,570
Dividend	142,153	125,600
	<u>1,976,178</u>	<u>1,333,950</u>

**29. Loss per share attributable to equity holders of the Company**

Loss per share based on the weighted average number of shares outstanding the year is as follows:

	<u>2017</u>	<u>2016</u>
(Loss)/profit attributable to equity holders of the Parent Company (KD)	<u>(244,554)</u>	<u>345,020</u>
Weighted average number of shares outstanding during the year	<u>165,413,305</u>	<u>166,125,512</u>
<b>(Loss) / earning per share – Basic and diluted (fils)</b>	<b><u>(1.47)</u></b>	<b><u>2.08</u></b>

**30. Related party transactions**

These transactions with certain related parties such as shareholders, directors, executive officers and key management of the Group, close members of their families and companies of which they are principal owners or over which they are able to exercise significant influence.

Transactions with related parties during the year other than key management compensation were mainly financing activities. Related party transactions are on terms approved by the management. Balances with related parties are disclosed in notes 9 and 19. Transactions with related parties included in the consolidated statement of income are as follows :

	<u>2017</u>	<u>2016</u>
	<u>KD</u>	<u>KD</u>
General and administration expenses	<u>26,100</u>	<u>63,000</u>
Finance charges	<u>357,817</u>	<u>359,783</u>
Key management compensation	<u>255,250</u>	<u>186,000</u>

**31. Segment information**

The Group operating segments are determined based on the reports reviewed by the chief executive function that are used for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operations segments meet the criteria for reportable segments and are follows:

- Retail operations : Consists of sale of equipment and tools.
- Engineering operations : Consists of mechanical projects and sale of related equipment.
- Electrical operations : Consists of electrical projects and sale of related equipment.

Management monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. The Group measures the performance of operating segments through measure of segment profit or loss net of taxes in management and reporting system.



### 31. Segment information (continued)

The following table presents revenue and results information regarding the Group's reportable segments.

	Retail operations	Engineering operations	Electrical operations	Unallocated items and eliminations	Total
	KD	KD	KD	KD	KD
<b>2017</b>					
Segment revenue	<u>37,447,167</u>	<u>68,566,324</u>	<u>3,541,030</u>	<u>(16,867)</u>	<u>109,537,654</u>
Segment results	<u>1,376,861</u>	<u>2,410,602</u>	<u>30,118</u>	<u>(3,418,561)</u>	<u>399,020</u>
<b>Other information</b>					
Segment assets	42,206,305	138,874,672	12,139,788	51,271,856	244,492,621
Segment liabilities	21,014,671	112,164,911	11,450,425	66,007,938	210,637,945
Capital expenditure	532,167	7,407,672	473	-	7,940,312
Depreciation	467,822	1,910,594	474	-	2,378,890
<b>2016</b>					
Segment revenue	<u>33,524,141</u>	<u>61,549,929</u>	<u>3,052,744</u>	<u>(44,355)</u>	<u>98,082,459</u>
Segment results	<u>1,367,719</u>	<u>9,386,362</u>	<u>30,670</u>	<u>(7,945,826)</u>	<u>2,838,925</u>
<b>Other information</b>					
Segment assets	39,806,757	106,705,214	10,735,310	58,013,648	215,260,929
Segment liabilities	19,949,248	83,238,155	10,076,066	68,401,268	181,664,737
Capital expenditure	326,074	3,716,994	-	-	4,043,068
Depreciation	490,804	1,363,920	686	-	1,855,410

#### Secondary reporting format – geographical segment

The Group operates primarily in countries in the Gulf Co-operation Council and therefore the revenue and assets are mainly from one geographical segment.

### 32. Contingent liabilities

The group was contingently liable in respect of the following

	2017 KD	2016 KD
Documentary letters of credit	<u>1,116,078</u>	2,108,095
Letter of guarantees	<u>74,035,405</u>	76,154,395
Letter of acceptance	<u>613,023</u>	67,892
	<u>75,764,506</u>	<u>78,330,382</u>

**32. Contingent liabilities (continued)**

The Group has guaranteed and is legally responsible to a local bank towards the following credit facilities undertaken on behalf of Agricultural Environment Projects Company W.L.L., a related party.

	2017 KD	2016 KD
Due to bank	99,919	100,479
Letter of guarantees	-	250
	<u>99,919</u>	<u>100,729</u>

**33. Financial instruments – Fair value and risk management**

In the normal course of business the Group uses financial instruments, principally cash and cash equivalents, investments at fair value through profit or loss, investments available for sale, trade and other receivables, contract in progress – due from customers, trade facilities, due from/to related parties, term loans, bank overdrafts and promissory notes and trade and other payables.

**Fair value**

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms length transaction.

The fair values of financial instruments are not significantly different from their carrying values except for certain unquoted financial instruments that are carried at cost as disclosed in note 8. The carrying value less impairment provision of trade and other receivables and trade and other payables are assumed to approximate their fair values. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. The methods and assumptions used in estimating fair values of financial instruments are disclosed in note 4.4.

**Financial risk factors**

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by the senior management under policies approved by the Board of Directors. Senior management identifies and evaluates financial risks in close co-operation with the operating units.

The significant risks that the Group is exposed to are discussed below;

**Market risk**

Market risk, comprising of equity price risk, interest rate risk and foreign exchange risk arises due to movements in equity prices of assets, interest rates and foreign currency rates respectively.

*(a) Equity price risk*

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market. The Group does not have a significant exposure to equity price risk as significant portion of the investments are unquoted.

**33. Financial instruments – Fair value and risk management (continued)**

**Market risk (continued)**

(b) Interest rate risk

Interest rate risk arises from the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from bank borrowings. Borrowings that are at variable rates expose the Group to cash flow interest risk. During 2017 and 2016, the Group's borrowings at variable rate were denominated in Kuwaiti Dinars and US Dollars.

The Group analyses its interest rate exposure by taking into consideration refinancing, renewal of existing positions and alternative financing.

At 31 December 2017, if interest rates at the date had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been lower/higher by KD 726,959 (2016: KD 573,367).

(c) Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group does not have a significant exposure to foreign exchange risk. The Group manages its foreign exchange risk by setting limits on exposures to currency and counterparty and transacting business in major currencies.

**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 to the Group to credit risk, consist principally of balance with banks, trade and other receivables, due from related parties and contract in progress – due from customers. The Group manages credit risk by maintaining accounts with local commercial banks of high credit rating. Credit risk with respect to trade and other receivables is limited as these are dispersed over a large number of customers.

The average credit period for trade and other receivables is three months. Group management has established a credit policy under which each new customer is analysed individually for creditworthiness before the payment and delivery terms and conditions are offered. Credit exposure is controlled by counter party limits that are reviewed and approved by Group management.

The Group's maximum exposure to credit risk is as flows:

	<b>2017</b>	<b>2016</b>
	<b>KD</b>	<b>KD</b>
Bank balances	<b>3,221,079</b>	3,729,415
Trade and other receivables	<b>87,051,820</b>	78,415,049
Due from related parties	<b>3,116,792</b>	2,719,716
Contract in progress – due from customers	<b>1,752,249</b>	3,378,807
<b>Total</b>	<b>95,141,940</b>	<b>88,242,987</b>

**33. Financial instruments – Fair value and risk management (continued)**  
**Credit risk (continued)**

Of the above assets KD 45,121,796 (2016: KD 42,291,125) are neither past due nor impaired and KD 50,020,144 (2016: KD 45,951,862) are past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of assets that are past due but not impaired are as follows:

	<u>2017</u>	<u>2016</u>
	KD	KD
Upto 6 months	9,026,056	6,987,393
6 months and above	40,994,088	38,964,469
	<u>50,020,144</u>	<u>45,951,862</u>

As of 31 December 2017, assets amounting to KD 10,634,833 (2016: KD 9,559,053) were impaired against which the Group carries full provision.

Receivables from contract customers amounting to KD 9,878,669 (2016: KD 12,176,436) are under legal disputes and their settlements proceeding are with the Court, and an amount of KD 2,392,543 (2016: KD 1,696,543) pertaining to certain partly completed contracts for which the management is in the process of completing the contracts and its acceptance from the contract customers towards work executed. The Group has the risk if the outcomes of Court judgments are against the Group and it is unable to complete contracts and unable to realize the payments.

**Liquidity risk**

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. Liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Parent Company's Board of Directors increases capital or borrowings based on ongoing review of funding requirements. The Parent Company's Board of Directors maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	<u>Less than 1</u>	<u>Between 1</u>	<u>Over 5 years</u>
	year	and 5 years	KD
	KD	KD	KD
<b>2017</b>			
Bank overdrafts and promissory notes	31,673,561	-	-
Trade facilities	8,137,988	-	-
Due to related parties	14,093,443	-	-
Trade and other payables	43,975,306	-	-
Term loans	73,388,841	42,023,686	8,708,508
<b>2016</b>			
Bank overdrafts and promissory notes	22,739,439	-	-
Trade facilities	2,420,631	-	-
Due to related parties	13,739,997	-	-
Trade and other payables	37,381,868	-	-
Term loans	53,905,993	49,850,262	9,472,187

### 33. Financial instruments – Fair value and risk management (continued) Liquidity risk (continued)

Liquidity risk is managed and monitored by the Group as follows:

1. Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature.
2. The Group may also arrange for short term finance to meet maturing commitments.

### 34. Capital risk management

The Group defines total capital as total shareholders' equity and debt as shown in the statement of financial position. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for its members and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There were no changes in the Group's approach to capital management during the year and group is not subject to externally imposed capital requirements.

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.

The gearing ratios at 31 December 2017 and 31 December 2016 were as follows:

	2017 KD	2016 KD
Total borrowings	146,145,623	120,946,698
Less: cash and cash equivalents (Note 6)	<u>(3,494,146)</u>	<u>(4,007,718)</u>
Net debt	142,651,477	116,938,980
Total equity	<u>33,854,676</u>	<u>27,584,702</u>
Total capital	<u>176,506,153</u>	<u>144,523,682</u>
<b>Gearing ratio</b>	<u><b>80.81%</b></u>	<u><b>80.91%</b></u>

### 35. General assembly of Shareholders

The shareholders Annual General Assembly held on 4 July 2017 approved the annual audited consolidated financial statements for the year ended 31 December 2016 except for the Board of Directors remuneration of KD 30,000. This amount is reversed during the year.

### 36. Other matters – contingent assets

The Group has submitted claims amounting to KD 18,083,450 to its contract customers who are oil sector Kuwaiti companies for additional work and variation in prices. Since these claims are not yet discussed with these companies, the possible effects of these claims are not recorded in the Group financial statements.

### 37. Comparative figures

Certain prior period amounts have been reclassified to conform with the current period presentation but with no effect on profit or equity.