

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

Interim condensed consolidated financial information
(Unaudited) and review report
For the six month period ended 30 June 2018

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

Interim condensed consolidated financial information (Unaudited) and review report
For the six month period ended 30 June 2018

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

Independent auditor's review report to the Board of Directors

Review report on interim condensed consolidated financial information

Introduction

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

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

Scope of review

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

Basis for Qualified Conclusion

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

Qualified Conclusion

Based on our review, except for the effect of the matter referred in the "Basis for Qualified Conclusion" paragraph above, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with "Interim Financial Reporting" IAS 34.

Other Matter

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




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

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

Report on other Legal and Regulatory Requirement

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



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

Kuwait: 13 August 2018

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

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

		(Audited)	
		31 December	
		2017	
	Notes	30 June 2018	30 June 2017
		KD	KD
ASSETS			
Non-current assets			
Property, plant and equipment		24,402,986	31,085,999
Financial assets at fair value through other comprehensive income	4	5,740,748	-
Available for sale investments	5	-	5,751,303
Investment properties		-	2,330,000
Investment in associates	6	69,060,453	69,276,116
		<u>99,204,187</u>	<u>106,098,861</u>
Current assets			
Inventories		51,869,806	40,173,268
Gross amount due from customers for contract work		2,520,876	1,752,249
Contracts receivables	7	50,914,349	63,208,472
Trade receivables and other debit balances		28,312,408	26,543,370
Due from related parties	8	2,234,637	3,216,792
Financial assets at fair value through profit or loss		4,838	5,463
Cash and cash equivalents		3,286,460	3,494,146
		<u>139,143,374</u>	<u>138,393,760</u>
Total assets		<u>238,347,561</u>	<u>244,492,621</u>
EQUITY AND LIABILITIES			
Equity			
Share capital		17,296,224	17,296,224
Share premium		7,877,292	7,877,292
Treasury shares	9	(1,480,519)	(1,480,519)
Treasury shares reserve		17,230	17,230
Statutory reserve		554,248	554,248
Voluntary reserve		324,297	324,297
Revaluation reserve		2,223,931	2,223,931
Foreign currency translation reserve		102,517	81,103
Fair value reserve from financial assets at fair value through other comprehensive income		314,822	-
Change in fair value reserve		-	310,820
Retained earnings / (accumulated losses)		301,006	(2,802)
Equity attributable to shareholders of the Parent Company		<u>27,531,048</u>	<u>27,201,824</u>
Non-controlling interests		7,104,059	6,652,852
Total equity		<u>34,635,107</u>	<u>33,854,676</u>
LIABILITIES			
Non-current liabilities			
Provision for end of service indemnity		4,573,463	4,204,438
Term loans	10	50,006,748	67,547,447
		<u>54,580,211</u>	<u>71,751,885</u>
Current liabilities			
Due to banks	11	17,892,441	18,261,264
Notes payable	12	13,983,366	13,412,297
Term loans	10	59,880,829	38,786,627
Finance lease obligations	13	1,357,412	8,137,988
Advance payments from contracts customers		1,248,789	1,002,745
Trade payables and accruals		38,425,215	45,191,696
Due to related parties	8	16,344,191	14,093,443
		<u>149,132,243</u>	<u>138,886,060</u>
Total liabilities		<u>203,712,454</u>	<u>210,637,945</u>
Total equity and liabilities		<u>238,347,561</u>	<u>244,492,621</u>

The accompanying notes from 8 to 22 form an integral part of these interim condensed consolidated financial information.

Tareq Mohammad Al Maoushargi
 Chairman

Arabi Group Holding K.S.C. (Public) and its subsidiaries
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Interim condensed consolidated statement of comprehensive income (Unaudited)
For the six month period ended 30 June 2018

	Notes	Three month period ended 30 June		Six month period ended 30 June	
		2018	2017	2018	2017
		KD	KD	KD	KD
Revenues		29,871,482	28,059,529	54,838,595	51,970,623
Cost of revenues		<u>(22,574,834)</u>	<u>(22,461,172)</u>	<u>(41,348,338)</u>	<u>(41,291,306)</u>
Gross profit		7,296,648	5,598,357	13,490,257	10,679,317
Other operating income		101,400	109,783	106,500	115,304
General and administrative expenses		(3,431,339)	(2,481,514)	(6,303,641)	(4,873,455)
Depreciation		(611,022)	(620,869)	(1,258,190)	(1,122,662)
Provision for doubtful debts	7	(158,155)	(30,247)	(295,830)	(65,978)
Provision for slow moving inventories		<u>(76,005)</u>	<u>(56,575)</u>	<u>(117,657)</u>	<u>(97,449)</u>
Profit from operations		3,121,527	2,518,935	5,621,439	4,635,077
Unrealised loss from financial assets at fair value through profit or loss		(413)	(243)	(625)	(305)
Share of results of investment in associates	6	(131,121)	-	(215,663)	33,795
Gain on disposal of property, plant and equipment		14,950	4,815	17,545	26,475
Other income		140,570	220,367	383,137	359,577
Interest income		9,840	9,870	18,184	21,510
Finance costs		<u>(2,603,216)</u>	<u>(2,444,506)</u>	<u>(5,047,775)</u>	<u>(4,613,382)</u>
Profit for the period before contribution to National Labor Support Tax (NLST)		552,137	309,238	776,242	462,747
National Labor Support Tax		<u>(18,453)</u>	<u>(6,819)</u>	<u>(27,158)</u>	<u>(14,360)</u>
Profit for the period		<u>533,684</u>	<u>302,419</u>	<u>749,084</u>	<u>448,387</u>
Attributable to:					
Shareholders of the Parent Company		293,372	54,396	303,808	56,653
Non-controlling interests		<u>240,312</u>	<u>248,023</u>	<u>445,276</u>	<u>391,734</u>
		<u>533,684</u>	<u>302,419</u>	<u>749,084</u>	<u>448,387</u>
Basic and diluted earnings per share attributable to the shareholders of the Parent Company (fils)	14	<u>1.78</u>	<u>0.33</u>	<u>1.84</u>	<u>0.34</u>

The accompanying notes from 8 to 22 form an integral part of these interim condensed consolidated financial information.

**Arabi Group Holding K.S.C. (Public) and its subsidiaries
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Interim condensed consolidated statement of comprehensive income (Unaudited)
For the six month period ended 30 June 2018

	Three month period ended		Six month period ended	
	30 June		30 June	
	2018	2017	2018	2017
	KD	KD	KD	KD
Profit for the period	533,684	302,419	749,084	448,387
Other comprehensive income:				
<i>Items that may be reclassified subsequently to the interim condensed consolidated statement of income:</i>				
Change in foreign currency translation	40,836	(3,968)	27,345	(26,487)
<i>Items that will not be reclassified subsequently to the interim condensed consolidated statement of income</i>				
Changes in fair value of financial assets at fair value through other comprehensive income	-	-	4,002	-
Total other comprehensive income / (loss) for the period	<u>40,836</u>	<u>(3,968)</u>	<u>31,347</u>	<u>(26,487)</u>
Total comprehensive income for the period	<u>574,520</u>	<u>298,451</u>	<u>780,431</u>	<u>421,900</u>
Attributable to:				
Shareholders of the Parent Company	332,446	48,809	329,224	32,326
Non-controlling interests	242,074	249,642	451,207	389,574
	<u>574,520</u>	<u>298,451</u>	<u>780,431</u>	<u>421,900</u>

The accompanying notes from 8 to 22 form an integral part of these interim condensed consolidated financial information.

Arabi Group Holding K.S.C. (Public) and its subsidiaries
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Interim condensed consolidated statement of changes in equity (Unaudited)

For the six month period ended 30 June 2018

	Equity attributable to shareholders of the Parent Company													
	Share capital	Share premium	Treasury shares	Treasury shares	Statutory reserve	Voluntary reserve	Revaluation reserve	Foreign currency translation reserve	Fair value reserve from financial assets at fair value through other comprehensive income	Cumulative change in fair value	Retained earnings / (accumulated losses)	Total	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance as at 1 January 2017	17,296,224	7,877,292	(1,381,525)	17,230	554,248	324,297	2,223,931	121,627	-	309,626	241,752	27,584,702	6,011,490	33,596,192
Profit for the period	-	-	-	-	-	-	-	-	-	-	56,653	56,653	391,734	448,387
Total other comprehensive loss for the period	-	-	-	-	-	-	(20,742)	-	-	-	-	(20,742)	(5,745)	(26,487)
Total comprehensive income for the period	-	-	-	-	-	-	(20,742)	-	-	-	56,653	35,911	385,989	421,900
Purchase of treasury shares	-	-	(59,633)	-	-	-	-	-	-	-	-	(59,633)	-	(59,633)
Balance as at 30 June 2017	17,296,224	7,877,292	(1,441,158)	17,230	554,248	324,297	2,223,931	100,885	-	309,626	298,405	27,560,980	6,397,479	33,958,459
Balance as at 31 December 2017 ("as previously stated")	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	2,223,931	81,103	-	310,820	(2,802)	27,201,824	6,652,852	33,854,676
Impact of adoption of IFRS 9 at 1 January 2018 (Note 2)	-	-	-	-	-	-	-	-	310,820	(310,820)	-	-	-	-
Balance as at 1 January 2018 ("restated")	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	2,223,931	81,103	310,820	(2,802)	(2,802)	27,201,824	6,652,852	33,854,676
Profit for the period	-	-	-	-	-	-	-	-	-	-	303,808	303,808	445,276	749,084
Total other comprehensive income for the period	-	-	-	-	-	-	21,414	-	4,002	-	-	25,416	5,931	31,347
Total comprehensive income for the period	-	-	-	-	-	-	21,414	-	4,002	-	303,808	329,224	451,207	780,431
Balance as at 30 June 2018	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	2,223,931	102,517	314,822	-	301,006	27,531,048	7,104,059	34,635,107

The accompanying notes from 8 to 22 form an integral part of these interim condensed consolidated financial information.

Arabi Group Holding K.S.C. (Public) and its subsidiaries
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Interim condensed consolidated statement of cash flows (Unaudited)
For the six month period ended 30 June 2018

	Notes	For the six month period ended	
		30 June	
		2018	2017
		KD	KD
Cash flows from operating activities:			
Profit for the period		749,084	448,387
<i>Adjustments:</i>			
Depreciation		1,258,190	1,122,661
Provision for doubtful debts	7	295,830	65,978
Provision for slow moving inventory		117,657	97,449
Unrealised loss from financial assets at fair value through profit or loss		625	305
Gain on disposal of property, plant and equipment		(17,545)	(26,475)
Share of results of investment in associates	6	215,663	(33,795)
Interest income		(18,184)	(21,510)
Finance costs		5,047,775	4,613,382
Provision for end of service indemnity		481,505	435,512
		<u>8,130,600</u>	<u>6,701,894</u>
<i>Changes in operating assets and liabilities :</i>			
Inventories		(11,814,195)	(24,438,650)
Gross amount due from customers from contract work		(768,627)	(1,107,388)
Contracts Receivables		12,204,123	13,184,675
Trade receivables and other debit balances		(1,974,868)	2,424,883
Due from related parties		982,155	(451,604)
Advance payments from contracts customers		246,044	483,997
Trade payables and accruals		(1,982,147)	9,067,913
Due to related parties		2,250,748	297,432
Cash generated from operations		<u>7,273,833</u>	<u>6,163,152</u>
Employees' end of service benefits paid		(112,480)	(96,632)
Net cash flows generated from operating activities		<u>7,161,353</u>	<u>6,066,520</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment		(520,749)	(4,225,697)
Purchase of investments available for sale		-	(7,076)
Proceed from disposal of property, plant and equipment		39,322	45,720
Interest income received		18,184	21,510
Net cash flows used in investing activities		<u>(463,243)</u>	<u>(4,165,543)</u>
Cash flows from financing activities:			
Net movement of term loans		3,553,503	4,942,397
Net movement of due to banks		(368,823)	2,104,121
Net movement of notes payable		571,069	2,520,261
Net movement of finance lease obligations		(5,635,184)	(6,604,775)
Purchase of treasury shares		-	(59,633)
Finance costs paid		(5,047,775)	(4,613,382)
Net cash flows used in financing activities		<u>(6,927,210)</u>	<u>(1,711,011)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(229,100)</u>	<u>189,966</u>
Foreign currency translation adjustments		21,414	(26,487)
Cash and cash equivalents at the beginning of the period		<u>3,494,146</u>	<u>4,007,718</u>
Cash and cash equivalents at the end of the period		<u>3,286,460</u>	<u>4,171,197</u>
Non-cash transactions			
Purchase of property, plant and equipment through finance lease obligations		<u>(408,989)</u>	<u>-</u>
Disposals of property, plant and equipment through settlements of trade payables and accruals		<u>4,784,334</u>	<u>-</u>
Disposals of property, plant and equipment through settlements of finance lease obligations		<u>1,554,381</u>	<u>-</u>

The accompanying notes from 8 to 22 form an integral part of these interim condensed consolidated financial information.

**Arabi Group Holding K.S.C. (Public) and its subsidiaries
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Notes to the interim condensed consolidated financial information (Unaudited)
For the six month period ended 30 June 2018

1. INCORPORATION AND ACTIVITIES

Arabi Group Holding K.S.C.P. (the “Parent Company”) and its subsidiaries (referred to as “the Group”) is a Kuwaiti Shareholding Company incorporated on 5 December 1982 and is listed on the Boursa - Kuwait.

The registered office of the Parent Company is P.O. Box 4090, Safat, 13041, Kuwait.

The principal activities of the Parent Company are:

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

This interim condensed consolidated financial information for the six month period ended 30 June 2018 were authorised for issue by the Board of Directors of the Parent Company on 13 August 2018.

2. BASIS OF PREPARATION

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

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

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

This is the first set of the Parent Company’s financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in (Note 2 (A and B)).

Use of judgements and estimates

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

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

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

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Notes to the interim condensed consolidated financial information (Unaudited)
For the six month period ended 30 June 2018

2. BASIS OF PREPARATION (CONTINUED)

Use of judgements and estimates (Continued)

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

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

When measuring the fair value of an asset or a liability, the Parent Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Changes in significant accounting policies

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

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

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

A) IFRS 15 Revenue from Contracts with Customers

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

The Parent Company's revenues are within the scope of IFRS 15 as represented by the following:

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Notes to the interim condensed consolidated financial information (Unaudited)
For the six month period ended 30 June 2018

2. BASIS OF PREPARATION (CONTINUED)

A) IFRS 15 Revenue from Contracts with Customers (Continued)

Manufacturing and sale of equipment products:

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

Contracting services:

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

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

B) IFRS 9 Financial Instruments

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

i. Classification and measurement of financial assets and financial liabilities

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

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

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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Notes to the interim condensed consolidated financial information (Unaudited)
For the six month period ended 30 June 2018

2. BASIS OF PREPARATION (CONTINUED)

B) IFRS 9 Financial Instruments (Continued)

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

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

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

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

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

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

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

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2. BASIS OF PREPARATION (CONTINUED)

B) IFRS 9 Financial Instruments (Continued)

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

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD	New carrying amount under IFRS 9 KD	Impact on adoption of IFRS 9 KD
Financial assets					
Equity securities	Available-for-sale	FVOCI – equity instrument	5,736,746	5,736,746	-
Equity securities	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	5,463	5,463	-
Gross amount due from customers for contract work	Loans and receivables	Amortised cost	1,752,249	1,752,249	-
Contracts receivables	Loans and receivables	Amortised cost	63,208,472	63,208,472	-
Trade receivables and other debit balances (excluding advances)	Loans and receivables	Amortised cost	23,349,649	23,349,649	-
Due from related parties	Loans and receivables	Amortised cost	3,216,792	3,216,792	-
Cash and cash equivalents	Loans and receivables	Amortised cost	3,494,146	3,494,146	-
			<u>100,763,517</u>	<u>100,763,517</u>	-
Financial liabilities					
Due to banks	Amortised cost	Amortised cost	18,261,264	18,261,264	-
Notes payable	Amortised cost	Amortised cost	13,412,297	13,412,297	-
Term loans	Amortised cost	Amortised cost	106,334,074	106,334,074	-
Finance lease obligations	Amortised cost	Amortised cost	8,137,988	8,137,988	-
Trade payables and accruals	Amortised cost	Amortised cost	45,191,696	45,191,696	-
Due to related parties	Amortised cost	Amortised cost	14,093,443	14,093,443	-
			<u>205,430,762</u>	<u>205,430,762</u>	-

ii. Impairment of financial assets

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

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

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2. BASIS OF PREPARATION (CONTINUED)

B) IFRS 9 Financial Instruments (Continued)

ii. Impairment of financial assets (Continued)

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Parent Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities, bank balances, and term deposits for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Parent Company has elected to measure loss allowances for accounts receivable and other debit balances at an amount equal to lifetime ECLs using the simplified approach.

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

The Parent Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Parent Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Parent Company in full, without recourse by the Parent Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

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

Measurement of ECLs

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

Credit-impaired financial assets

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

Presentation of impairment

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

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

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2. BASIS OF PREPARATION (CONTINUED)

B) IFRS 9 Financial Instruments (Continued)

ii. Impairment of financial assets (Continued)

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Parent Company applies the simplified approach permitted by IFRS9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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

iii. Transition

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

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

3. BASIS OF CONSOLIDATION

This interim condensed consolidated financial information for the six month period ended 30 June 2018 includes the Parent Company and its subsidiaries.

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

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3. BASIS OF CONSOLIDATION (CONTINUED)

The interim condensed consolidated financial information includes the interim condensed financial information of Arabi Group Holding K.S.C. (Public) and its subsidiaries as follows:

Name of the subsidiary	Voting rights and equity interest %			Country of incorporation	Principal activities
	(Audited)				
	30 June 2018	31 December 2017	30 June 2017		
	%	%	%		
Arabi Company W.L.L. (*)	100	100	100	State of Kuwait	General trading and contracting
Arabi Engineering and Mechanical Works Company W.L.L.	100	100	100	State of Kuwait	General trading and contracting
Arabi Enertech Company K.S.C. (Closed)	73.08	73.08	73.08	State of Kuwait	General trading and contracting
Daleel International Company W.L.L. (**)	100	100	100	State of Kuwait	IT services
Key BS JLT W.L.L. (**)	100	100	100	United Arab Emirates	IT services
Call to Connect India Private Limited (***)	-	-	60	India	IT services
Workers Equity Holding B.S.C. (Closed) (***)	-	-	60	Kingdom of Bahrain	Electronic Payroll System

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

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

Name of the subsidiary	Voting rights and equity interest %			Country of incorporation	Principal activities
	(Audited)				
	30 June 2018	31 December 2017	30 June 2017		
	%	%	%		
Gulf Services and Industrial Supplies Company	100	100	100	Oman	General Trading and Contracting
Arabi Company W.L.L.	100	100	100	Qatar	General Trading and Contracting
Altec Corporation Limited	90.03	90.03	90.03	India	General Trading and Contracting
Warba Mechanical Equipments L.L.C.	70	70	70	United Arab Emirates	General Trading and Contracting

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

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

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4. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

Financial assets are valued at fair value through other comprehensive income in accordance with valuation techniques disclosed in (Note 18).

5. AVAILABLE FOR SALE INVESTMENTS

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

At 1 January 2018, the Parent Company adopted IFRS 9, accordingly, it has reclassified available for sale investments at carrying value of KD 5,736,746 to financial assets at fair value through other comprehensive income (Note 4).

6. INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

Associates	Percentage of ownership	30 June 2018	(Audited) 31 December 2017	30 June 2017
		KD	KD	KD
Health Assurance Hospital Company K.S.C.P. (Dhaman)	26%	69,060,452	69,276,115	69,456,665
Agricultural Environmental Projects Company W.L.L.	40%	1	1	1
		<u>69,060,453</u>	<u>69,276,116</u>	<u>69,456,666</u>

The Group's share of results was recorded based on management accounts.

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6. INVESTMENT IN ASSOCIATES (CONTINUED)

Following are the movement on investment in associates:

	30 June	(Audited)	30 June
	2018	31 December	2017
	KD	KD	KD
Opening balance	69,276,116	69,422,871	69,422,871
Share of results	(215,663)	(146,755)	33,795
	<u>69,060,453</u>	<u>69,276,116</u>	<u>69,456,666</u>

7. CONTRACTS RECEIVABLES

	30 June	(Audited)	30 June
	2018	31 December	2017
	KD	KD	KD
Contracts receivables	57,841,564	69,839,857	61,545,579
Provision for doubtful debts	(6,927,215)	(6,631,385)	(6,443,238)
	<u>50,914,349</u>	<u>63,208,472</u>	<u>55,102,341</u>

Movement in the provision for doubtful debts is as follows:

	30 June	(Audited)	30 June
	2018	31 December	2017
	KD	KD	KD
At the beginning of the period/year	6,631,385	6,377,260	6,377,260
Charge during the period/year	295,830	262,499	65,978
Recovery during the period/year	-	(8,374)	-
	<u>6,927,215</u>	<u>6,631,385</u>	<u>6,443,238</u>

8. RELATED PARTIES DISCLOSURES

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

	30 June	(Audited)	30 June
	2018	31 December	2017
	KD	KD	KD
<i>Interim condensed consolidated statement of financial position:</i>			
Due from related parties	2,234,637	3,216,792	3,736,863
Finance lease obligations	300,000	700,000	-
Due to related parties	16,344,191	14,093,443	14,037,429

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8. RELATED PARTIES DISCLOSURES (CONTINUED)

Compensation of key management personnel of the Parent Company:

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

	<u>30 June 2018</u>	<u>30 June 2017</u>
	KD	KD
<i>Interim condensed consolidated statement of income:</i>		
Salaries and short term benefits	135,500	124,500
End of service benefits	22,440	21,165

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

9. TREASURY SHARES

	<u>30 June 2018</u>	(Audited) <u>31 December 2017</u>	<u>30 June 2017</u>
Number of treasury shares	7,966,743	7,966,743	7,523,433
Percentage of ownership	4.61%	4.61%	4.35%
Market value (KD)	549,705	677,173	662,062
Cost (KD)	1,480,519	1,480,519	1,441,158

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

10. TERM LOANS

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

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

Presented below maturity profile of term loans as follows:

	<u>30 June 2018</u>	(Audited) <u>31 December 2017</u>	<u>30 June 2017</u>
	KD	KD	KD
Non-current portion	50,006,748	67,547,447	66,937,384
Current portion	59,880,829	38,786,627	29,607,497
	<u>109,887,577</u>	<u>106,334,074</u>	<u>96,544,881</u>

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11. DUE TO BANKS

Balance, represents overdraft facilities carrying interest rates ranging from 2.5% to 4% (31 December 2017 from 2.5% to 4% and 30 June 2017 from 2.5% to 4%) per annum over the Central Bank of Kuwait discount rate. The fair values of due to banks approximate their carrying value as of 30 June 2018.

12. NOTES PAYABLE

This item represents notes payable resulted from commercial transactions and are due within 6 months, carrying an interest rates ranging from 2.5% to 4% (31 December 2017 from 2.5% to 4% and 30 June 2017 from 2.5% to 4%) per annum over the Central Bank of Kuwait discount rate. The fair value of notes payable approximate its carrying amount as at 30 June 2018.

13. FINANCE LEASE OBLIGATIONS

This item represents the balance of finance lease obligations which granted to the Parent Company by local financial institutions, carrying an interest rates ranging from 6.5% to 8% (31 December 2017 from 6.5% to 8% and 30 June 2017 from 6.5% to 8%) per annum. These obligations were granted to the Parent Company against personal guarantee of the shareholders.

14. BASIC AND DILUTED EARNINGS PER SHARE

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

The Parent Company had no outstanding dilutive shares.

	Three months ended		Six months ended	
	30 June		30 June	
	2018	2017	2018	2017
Profit for the period				
Attributable to shareholders of the Parent Company (KD)	<u>293,372</u>	<u>54,396</u>	<u>303,808</u>	<u>56,653</u>
Weighted average number of outstanding shares during the period excluding treasury shares (shares)	<u>164,995,499</u>	<u>165,438,809</u>	<u>164,995,499</u>	<u>165,787,070</u>
Basic earnings per share (fils)	<u>1.78</u>	<u>0.33</u>	<u>1.84</u>	<u>0.34</u>

15. ANNUAL GENERAL ASSEMBLY MEETING

The Annual General Assembly meeting of the Parent Company shareholders held on 29 May 2018 approved the consolidated financial statements for the year ended 31 December 2017 and approved no distribution of dividends for the year ended 31 December 2017.

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16. CONTINGENT LIABILITIES

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

	30 June	(Audited)	30 June
	2018	31 December	2017
	<u>KD</u>	<u>KD</u>	<u>KD</u>
Documentary letters of credit	1,812,645	1,116,078	5,380,558
Letters of guarantees	78,809,353	74,035,405	70,479,753
Letters of acceptance	408,154	613,023	106,123
	<u>81,030,152</u>	<u>75,764,506</u>	<u>75,966,434</u>

17. SEGMENT INFORMATION

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

- Oil and gas
- Retail
- Investments
- Construction

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

	Oil and gas		Retail		Investment		Construction		Total	
	30 June		30 June		30 June		30 June		30 June	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>
Segment revenues	32,041,828	33,111,309	20,911,767	17,244,284	-	-	1,885,000	1,615,030	54,838,595	51,970,623
Segment profit	1,655,526	1,463,051	1,087,874	646,054	(2,016,139)	(1,679,103)	21,823	18,385	749,084	448,387
Assets	130,713,992	122,145,382	46,409,229	40,299,577	48,667,028	53,979,579	12,557,312	12,348,884	238,347,561	228,773,422
Liabilities	102,348,705	96,383,172	24,102,376	19,822,501	65,415,245	66,938,036	11,846,128	11,671,254	203,712,454	194,814,963

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18. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

As of 30 June 2018 the fair values of financial instruments approximate their carrying amounts. The management of the Parent Company has assessed that fair value of financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these financial instruments.

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

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

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
	KD	KD	KD
30 June 2018			
<i>Financial assets at fair value through other comprehensive income:</i>			
Unquoted securities	-	5,740,748	5,740,748
<i>Financial assets at fair value through profit or loss</i>			
Quoted securities	4,838	-	4,838
	<u>4,838</u>	<u>5,740,748</u>	<u>5,745,586</u>
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
	KD	KD	KD
31 December 2017 (Audited)			
<i>Available for sale investments:</i>			
Unquoted securities	-	5,736,746	5,736,746
<i>Financial assets at fair value through profit or loss</i>			
Quoted securities	5,463	-	5,463
	<u>5,463</u>	<u>5,736,746</u>	<u>5,742,209</u>
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
	KD	KD	KD
30 June 2017			
<i>Available for sale investments:</i>			
Unquoted securities	-	5,751,303	5,751,303
<i>Financial assets at fair value through profit or loss</i>			
Quoted securities	5,469	-	5,469
	<u>5,469</u>	<u>5,751,303</u>	<u>5,756,772</u>

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18. FAIR VALUE MEASUREMENT (CONTINUED)

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

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

19. LEGAL CLAIMS

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

20. COMPARATIVE FIGURES

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