Arabi Group Holdings – K.S.C.P
Kuwait

Interim Condensed Consolidated
Financial Information
and
Independent Auditor's Review Report
31 March 2018 (Unaudited)

Crowe Horwath™

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

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Contents

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Report on review of interim condensed consolidated financial information

To the Board of Directors of
Arabi Group Holdings K.S.C.P
Kuwait

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Arabi Group Holdings K.S.C.P (the "Parent Company") and its subsidiaries (collectively the "Group") as of 31 March 2018 and the interim condensed consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the three month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim 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 no. 4 of the interim condensed 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 Group is still in the process of evaluating the potential effect of the expected credit loss ("ECL") on the financial assets carried at amortised cost, as set out in IFRS 9, at the date of initial application and as at 31 March 2018. Consequently, we were unable to determine whether any adjustments might be necessary to the interim condensed financial information.

Qualified Conclusion

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

Emphasis of matter

We draw attention to note 3 to the interim condensed consolidated financial information regarding receivables from contract customers which are under legal dispute and contract in progress. The Group management is of the opinion that the carrying amount of assets will be recovered in full and are not impaired. The interim condensed consolidated financial information for the period ended 31 March 2018 does not include any adjustments that might results from uncertainties regarding the outcome of Court judgments and acceptance and completion of contracts.

We draw attention to note 10 to the interim condensed consolidated financial information towards funds availed through a third party for Group's investment in associate for which settlement arrangement with the third party is under negotiation.

Crowe Horwath.

Report on review of other legal and regulatory requirements

Based on our review, the interim condensed consolidated financial information is in agreement with the books of the Parent Company. We further report that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, or of the Memorandum of Incorporation and Articles of Association of the Parent Company, as amended, have occurred during the three month period ended 31 March 2018 that might have had a material effect on the business or financial position of the Parent Company.

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

17 May 2018
Kuwait

Arabi Group Holdings – K.S.C.P
Kuwait
Interim Condensed Consolidated Statement of Financial Position as at 31 March 2018 (Unaudited)

Assets	Note	31 March 2018 KD (Unaudited)	31 December 2017 KD (Audited)	31 March 2017 KD (Unaudited)
Current Assets				
Cash and cash equivalents		**3,794,261**	3,494,146	3,425,863
Trade and other receivables		**26,516,392**	26,543,370	21,330,049
Contract receivables		**60,697,667**	63,208,472	58,161,423
Investment at fair value through profit or loss	6	**5,251**	5,463	5,712
Due from related parties		**2,425,306**	3,116,792	3,295,607
Gross amount due from contract customers		**2,307,119**	1,752,249	4,476,734
Inventories		**49,185,082**	40,173,268	28,333,960
		144,931,078	138,293,760	119,029,348
Non-current assets				
Investments available for sale	6	-	5,736,746	5,751,306
Investments at fair value through other comprehensive income	6	**5,740,748**	-	-
Investment in associates	7	**69,191,574**	69,276,116	69,456,666
Investment properties		-	-	2,330,000
Investments in unconsolidated subsidiaries	8	**100,000**	100,000	565,258
Property and equipment		**30,741,494**	31,085,999	25,685,501
		105,773,816	106,198,861	103,788,731
Total assets		**250,704,894**	244,492,621	222,818,079
Liabilities and equity				
Current liabilities				
Bank overdrafts and promissory notes	9	**32,759,726**	31,673,561	23,670,985
Finance lease obligations		**7,953,315**	8,137,988	10,714,057
Due to related parties		**13,820,356**	14,093,443	13,922,681
Advance payments from contracts customers		**2,158,335**	1,002,745	2,414,724
Trade and other payables	10	**47,390,825**	45,191,696	35,937,521
Term loans –Current portion	11	**43,387,246**	70,464,687	52,881,122
		147,469,803	170,564,120	139,541,090
Non-current liabilities				
Term loans - Non-current portion	11	**64,836,381**	35,869,387	46,029,899
Post employment benefits		**4,338,123**	4,204,438	3,567,163
		69,174,504	40,073,825	49,597,062
Equity				
Attributable to the parent company's shareholder				
Share capital	12	**17,296,224**	17,296,224	17,296,224
Share premium		**7,877,292**	7,877,292	7,877,292
Statutory reserve		**554,248**	554,248	554,248
Voluntary reserve		**324,297**	324,297	324,297
Treasury share reserve		**17,230**	17,230	17,230
Revaluation reserve	13	**2,223,931**	2,223,931	2,223,931
Foreign currency translation adjustments		**63,443**	81,103	102,887
Fair valuation reserve		**(915,229)**	310,820	309,626
Retained earnings / (losses)		**1,237,685**	(2,802)	244,009
Treasury shares	14	**(1,480,519)**	(1,480,519)	(1,421,239)
		27,198,602	27,201,824	27,528,505
Non-controlling interests		**6,861,985**	6,652,852	6,151,422
Total equity		**34,060,587**	33,854,676	33,679,927
Total liabilities and equity		**250,704,894**	244,492,621	222,818,079

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

Tareq Mohammed Al Maoushargi
Chairman

Arabi Group Holdings – K.S.C.P
Kuwait
Interim Condensed Consolidated Statement of Income for the period ended 31 March 2018 (Unaudited)

	Note	3 months ended 31 March 2018 KD (Unaudited)	3 months ended 31 March 2017 KD (Unaudited)
Sales		**10,706,108**	9,260,386
Contract revenue		**14,261,005**	14,650,708
		24,967,113	23,911,094
Cost of sales		**(7,287,496)**	(7,015,882)
Contract costs		**(12,877,836)**	(12,182,071)
		(20,165,332)	(19,197,953)
Gross profit		**4,801,781**	4,713,141
Other operating income		**872,011**	109,783
General and administrative expenses		**(2,856,275)**	(2,379,837)
Depreciation		**(122,251)**	(133,974)
Provision for doubtful debts		**(137,675)**	(35,731)
Provision for slow moving inventories		**(41,652)**	(40,874)
Profit from operations		**2,515,939**	2,232,508
Unrealized loss from investments at fair value through profit or loss		**(212)**	(62)
Share of results from associates		**(84,542)**	33,795
Share of profit / (loss) of unconsolidated subsidiaries		**41,886**	(285)
Other income		**211,620**	68,533
Interest expenses		**(2,444,559)**	(2,168,876)
Profit before contribution to KFAS, Zakat and NLST		**240,132**	165,613
KFAS		**(7,030)**	(4,932)
Zakat		**(8,997)**	(7,172)
National Labour Support Tax (NLST)		**(8,705)**	(7,541)
Profit for the period		**215,400**	145,968
Attributable to:			
Equity holders of the Parent Company		**10,436**	2,257
Non-controlling interest		**204,964**	143,711
		215,400	145,968
Basic and diluted profit per share for the period (fils)	15	**0.06**	0.01

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

Interim Condensed Consolidated Statement of Comprehensive Income for the period ended 31 March 2018 (Unaudited)

	3 months ended 31 March	
	2018	2017
	KD	KD
	(Unaudited)	(Unaudited)
Profit for the period	**215,400**	145,968
Other comprehensive income:		
Items that may be reclassified subsequently to income statement		
Change in foreign currency translation	**(13,491)**	(22,519)
Items that may not be reclassified subsequently to income statement		
Changes in fair value of investments at fair value through other comprehensive income	**4,002**	-
Total comprehensive income for the period	**205,911**	123,449
Attributable to:		
Equity holders of the Parent Company	**(3,222)**	(16,483)
Non-controlling interest	**209,133**	139,932
	205,911	123,449

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

Interim Condensed Consolidated Statement of Changes in Equity for the period ended 31 March 2018 (Unaudited)

	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 (losses) / earnings	Treasury shares	Sub total	Non - controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2018 (audited)	17,296,224	7,877,292	554,248	324,297	17,230	2,223,931	81,103	310,820	(2,802)	(1,480,519)	27,201,824	6,652,852	33,854,676
Impact of adopting IFRS 9 at 1 January 2018 (Note 4)	-	-	-	-	-	-	-	(1,230,051)	1,230,051	-	-	-	-
Balance at 1 January 2018 (Restated)	**17,296,224**	**7,877,292**	**554,248**	**324,297**	**17,230**	**2,223,931**	**81,103**	**(919,231)**	**1,227,249**	**(1,480,519)**	**27,201,824**	**6,652,852**	**33,854,676**
Total comprehensive income for the period (unaudited)	-	-	-	-	-	-	**(17,660)**	**4,002**	**10,436**	-	**(3,222)**	**209,133**	**205,911**
Balance at 31 March 2018 (unaudited)	**17,296,224**	**7,877,292**	**554,248**	**324,297**	**17,230**	**2,223,931**	**63,443**	**(915,229)**	**1,237,685**	**(1,480,519)**	**27,198,602**	**6,861,985**	**34,060,587**
Balance at 1 January 2017 (audited)	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 period (unaudited)	-	-	-	-	-	-	(18,740)	-	2,257	-	(16,483)	139,932	123,449
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(39,714)	(39,714)	-	(39,714)
Balance at 31 March 2017 (unaudited)	17,296,224	7,877,292	554,248	324,297	17,230	2,223,931	102,887	309,626	244,009	(1,421,239)	27,528,505	6,151,422	33,679,927

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

Arabi Group Holdings - K.S.C.P
Kuwait
Interim Condensed Consolidated Statement of Cash Flows for the period ended 31 March 2018 (Unaudited)

	3 months ended 31 March	
	2018 KD (Unaudited)	2017 KD (Unaudited)
Cash flows – operating activities		
Profit for the period	**215,400**	145,968
Adjustments for:		
Depreciation	**647,082**	501,794
Gain on sale of property and equipment	**(2,595)**	(4,815)
Unrealized loss from investments at fair value through profit or loss	**212**	62
Share of results from associates	**84,542**	(33,795)
Shares of (gain) / loss from unconsolidated subsidiaries	**(41,886)**	285
Interest expense	**2,444,559**	2,168,876
Operating profit before changes in working capital	**3,347,314**	2,778,375
Decrease in trade and other receivables	**26,978**	1,829,374
Decrease / (increase) in contract receivables	**2,510,805**	(59,422)
Decrease / (increase) in due from related parties	**691,486**	(575,891)
Increase in due from customers for contract work	**(554,870)**	(1,097,927)
Increase / (decrease) in advance from contract customers	**1,155,590**	(191,312)
Increase in inventories	**(9,011,813)**	(5,783,748)
Increase / (decrease) in trade and other payables	**2,241,015**	(1,397,458)
Increase / (decrease) in due to related parties	**(273,087)**	182,684
Increase in post-employment benefits	**133,685**	203,127
Net cash from / (used in) operating activities	**267,103**	(4,112,198)
Cash flows from investing activities		
Purchase of property and equipment – net	**(163,934)**	(2,917,289)
Proceeds from sale of property and equipment	**2,937**	9,446
Acquisition of investements available for sale	**-**	(7,079)
Net cash used in investing activities	**(160,997)**	(2,914,922)
Cash flow from financing activities		
Increase in bank overdrafts and promissory notes	**1,086,165**	931,546
Increase in term loans	**1,889,553**	703,762
Purchase of treasury shares	**-**	(39,714)
(Decrease) / increase in finance lease obligations	**(323,659)**	7,041,066
Interest paid	**(2,444,559)**	(2,168,876)
Net cash from financing activities	**207,500**	6,467,784
Net increase / (decrease) in cash and cash equivalents	**313,606**	(559,336)
Effect of exchange rate changes	**(13,491)**	(22,519)
Cash and cash equivalents at the beginning of the period	**3,494,146**	4,007,718
Cash and cash equivalents at the end of the period	**3,794,261**	3,425,863
Non-cash transactions		
Purchase of property and equipment through finance lease obligations	**138,986**	1,252,360
Transfer from projects under constructions to property and equipment	**-**	4,554,204

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

1. Establishment 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 its 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: Arabi Company W.L.L., Arabi Engineering and Mechanical Works Company W.L.L. and Arabi Enertech Co. KSCC are collectively referred to as "the Group" in this interim condensed consolidated financial information.

This interim condensed consolidated financial information was authorized for issue by the Board of Directors on 17 May 2018.

The annual financial statements of the Group for the year ended 31 December 2017 were approved 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 presentation

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of interim condensed consolidated financial information are consistent with those used in preparation of annual financial statements for the year ended 31 December 2017, except for the changes described below arising from the adoption of IFRS 9 'Financial Instruments' effective from 1 January 2018.

The Interim condensed consolidated financial information of the Group are presented in Kuwaiti Dinars ("KD"), which is the presentational and functional currency of the Parent Company.

This interim condensed consolidated financial information does not contain all information and disclosures required for complete financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended 31 March 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 financial statements and notes thereto included in the Group's annual financial statements for the year ended 31 December 2017.

3. Critical accounting judgment and estimates

Recoverability from contract customers – contract receivables & contract in progress

(i) Contract receivables under legal dispute

The Group has receivables amount of KD 8,140,103 (31 December 2017: KD 9,878,669; 31 March 2017: KD 11,869,157) from contract customers which are under legal dispute. Presently, the matters are referred by 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 has net receivables amount of KD 2,392,543 (31 December 2017: KD 2,392,543; 31 March 2017: 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 contacts. 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.

4. Changes in accounting policies and disclosures

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.

Adoption of IFRS 15 by the Group at 1 January 2018 had no material impact on the Group's consolidated financial statements as at 31 December 2017 and the interim condensed consolidated financial information for the three month period ended 31 March 2018 as majority of the Group's revenues are within the scope of IFRS 15 as represented by the following:

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

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

Sale of goods:
Revenue from sale of goods is recognized upon delivery of goods to customers. Incentives from suppliers are recognized when earned which in line with the recognition criteria required by IFRS 15.

The other revenue types of the Group are mainly represented by investment and rental income which are outside the scope of IFRS 15.

4. Changes in accounting policies and disclosures (continued)

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 Financial Instruments effective from 1 January 2018 IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in IFRS 9 transition disclosure below.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification and Measurement of Financial assets

The Group classifies its financial assets upon initial recognition into the following categories:
- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets carried at amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:
- 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 profit on the principal amount outstanding

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective yield method. Profit or income on the principal amount, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

Financial assets carried at fair value through other comprehensive income (FVOCI):

(i) Debt Securities at FVOCI
A debt investment is carried at FVOCI if it meets both of the following conditions:
- 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 profit on the principal amount outstanding.

The Group does not have any debt investment carried at FVOCI.

(ii) Equity investments at FVOCI
Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

4. Changes in accounting policies and disclosures (continued)

IFRS 9 - Financial Instruments (continued)
Classification and Measurement of Financial assets (continued)

Financial assets carried at fair value through other comprehensive income (FVOCI) (continued):
(ii) Equity investments at FVOCI (continued)

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the fair values reserves as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of profit or loss. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of profit or loss unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at fair value through profit or loss :

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and profit are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of profit or loss. Profit income is recognised using the effective yield method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of profit or loss when the right to the payment has been established.

Reclassification of financial assets
The Group does not reclassify its financial assets subsequent to their initial recognition apart in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

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.

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.

4. Changes in accounting policies and disclosures (continued)
IFRS 9 - Financial Instruments (continued)
Impairment of financial assets (continued)

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

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

The Group has elected to measure loss allowances for contract receivable, trade and other receivables and gross amount due from contract customers 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 Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.
The Group considers a financial asset to be in default when:

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the 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 Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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

Presentation of impairment
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.
Impairment losses related to contract receivables, trade and other receivables and gross amount due from contract customers are presented separately in the interim condensed statement of income.

4. **Changes in accounting policies and disclosures (continued)**
IFRS 9 - Financial Instruments (continued)
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 Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The Group has not identified impairment requirements under IFRS 9 on 1 January 2018 and therefore no additional provisions have been recognised. The management of the Group is still in the process of evaluating the potential effect of the expected credit loss ("ECL") on the financial assets carried at amortised cost, as set out in IFRS 9.

IFRS 9 transition disclosures

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018.

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD	Re - measurement - ECL and Others KD	New carrying amount under IFRS 9 KD
Equity securities	Available for Sale	FVOCI – Equity instrument	5,736,746	-	5,736,746
Equity securities	FVTPL – Equity instrument	FVTPL – Equity instrument	5,463	-	5,463
Trade and other receivables	Loans and receivables	Amortised costs	26,543,370	-	26,543,370
Contract receivables	Loans and receivables	Amortised costs	63,208,472	-	63,208,472
Due from related parties	Loans and receivables	Amortised costs	3,116,792	-	3,116,792
Gross mount due from contract customers	Loans and receivables	Amortised costs	1,752,249	-	1,752,249

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

The following table analyses the impact of transition to IFRS 9 on reserves and retained earnings.

	Retained earnings KD	Fair valuation reserve KD
Closing balance under IAS 39 (31 December 2017)	(2,802)	310,820
Impact on reclassification and re-measurements :		
Investment in equity from available-for-sale to FVOCI (Impairment loss previously recognised in profit or loss reversed)	1,230,051	(1,230,051)
Opening balance under IFRS 9 on date of initial application on 1 January 2018	1,227,249	(919,231)

5. Subsidiaries and associates

The principal subsidiaries are:

Subsidiary	Country of incorporation	Percentage of Ownership		
		31 Mar 2018	31 Dec 2017	31 Mar 2017
Arabi Company WLL	Kuwait	**100%**	100%	100%
Arabi Engineering and Mechanical Works Company WLL	Kuwait	**100%**	100%	100%
Arabi Enertech Co KSCC	Kuwait	**73.08%**	73.08%	73.08%
Held through Arabi Company W.L.L.				
Gulf Services & Industrial Supplies Co.	Oman	**100%**	100%	100%
Arabi Company – Qatar W.L.L.	Qatar	**100%**	100%	100%
Altec Corporation Limited (Formerly Jayakrishna Aluminium Limited)	India	**90.03%**	90.03	90.03%
Warba Mechanical Equipments L.L.C.	UAE	**70%**	70%	70%
Associate				
Kuwait Health Assurance Company	Kuwait	**26%**	26%	26%
Agricultural Environmental Projects Company W.L.L	Kuwait	**40%**	40%	40%

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 Parent Company has consolidated the interim condensed financial information (unaudited) of all its subsidiaries which are reviewed by independent auditors for the three months ended 31 March 2018 while preparing this interim condensed consolidated financial information (unaudited). Total assets of the subsidiaries amounted to KD 200,727,463 as of 31 March 2018 (31 March 2017: KD 165,687,776) and the subsidiaries net profit was KD 1,100,904 for the three months ended 31 March 2018 (31 March 2017: KD 833,050).

6. Investments

	31 March 2018 KD (Unaudited)	31 December 2017 KD (Audited)	31 March 2017 KD (Unaudited)
Investments at fair value through profit & loss:			
Quoted securities held for trading	**5,251**	5,463	5,712
	5,251	5,463	5,712
Investments at fair value through other comprehensive income			
Unquoted securities	**5,740,748**	-	-
	5,740,748	-	-
Investments available for sale:			
Unquoted securities	-	5,736,746	5,751,306
	-	5,736,746	5,751,306

7. Investment in associates

The Group has the following investment in associates:

Associates	Percentage of ownership	**31 March 2018 KD (Unaudited)**	31 December 2017 KD (Audited)	31 March 2017 KD (Unaudited)
Kuwait Health Assurance Company KSCC	26%	**69,191,573**	69,276,115	69,456,665
Agricultural Environmental Projects Company W.L.L	40%	**1**	1	1
		69,191,574	69,276,116	69,456,666

Following are the movement on investment in associates:

	31 March 2018 KD (Unaudited)	31 December 2017 KD (Audited)	31 March 2017 KD (Unaudited)
Opening balance	**69,276,116**	69,422,871	69,422,871
Share of results	**(84,542)**	(146,755)	33,795
Closing balance	**69,191,574**	69,276,116	69,456,666

Kuwait Health Assurance Company KSCC (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 an associate was mainly funded by availing term loans from banks, funds received from related parties and through third party (note 10). The Group has promise to mortgage entire 26% its share in KHAC against loans obtained by the Group as disclosed in note 11.

8. Investment in unconsolidated subsidiaries

Name	Percentage of holding %	**31 March 2018 KD (Unaudited)**	31 December 2017 KD (Audited)	31 March 2017 KD (Unaudited)
Daleel International Co. W.L.L.	100%*	**-**	-	-
Call to Connect India Private Limited	60%*	**-**	-	21,912
Workers Equity Holding – B.S.C. (Closed)	60%*	**-**	-	443,346
Mobivision Holding Company – B.S.C. (Closed)	60%*	**-**	-	-
Arabi Aviation Company	100%	**100,000**	100,000	100,000
KEY BS JLT- WLL	100%*	**-**	-	-
		100,000	100,000	565,258

* Fully impaired

The Group has not consolidated these subsidiaries since they are not material to the interim condensed consolidated financial information. The Group's share of profit / (loss) from these subsidiaries for the three months ended 31 March 2018 has been recognised based on their management accounts.

9. Bank overdrafts and promissory notes

The effective interest rates on bank overdraft facilities and promissory notes were 2% to 4% per annum (31 December 2017: 2% to 4%; 31 March 2017: 2% to 4% per annum) over the Central Bank of Kuwait discount rate. A portion of these facilities amounting to KD 2,799,354 (31 December 2017: KD 2,911,091; 31 March 2017: KD 3,088,133) carries an effective interest rate of 2% to 7.5% (31 December 2017: 2% to 7.5%; 31 March 2017: 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 favour of the lending banks.

10. Trade and other payables

Trade and other payables includes KD 21,528,000 (31 December 2017: KD 21,528,000; 31 March 2017: KD 21,528,000) towards funds availed through a third party for Group's investment in associate KHAC. The settlement arrangement with third party is under negotiation.

11. Term loans

	31 March 2018 KD (Unaudited)	31 December 2017 KD (Audited)	31 March 2017 KD (Unaudited)
Current			
Short term loans	**24,455,936**	64,067,636	40,316,317
Current portion of long term loans	**18,931,310**	6,397,051	12,564,805
	43,387,246	70,464,687	52,881,122
Non current			
Noncurrent portion of long term loans	**64,836,381**	35,869,387	46,029,899
	108,223,627	106,334,074	98,911,021

11. Term loans (continued)

The effective interest rate on short term loans which are repayable within one year was 4% to 8% per annum (31 December 2017: 4% to 8%; 31 March 2017: 4% to 8% per annum). These loans are secured by the personal guarantees of shareholders, guarantees from the parent company and certain receivables.

Long term loans carry an effective interest rate of 4% to 7.5% per annum (31 December 2017: 4% to 7.5%; 31 March 2017: 4% to 7.5% per annum). These loans are secured against guarantees from the Parent Company, personal guarantee and shares of 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.

12. Equity

The authorized share capital of the Parent Company comprises of 172,962,242 shares of 100 fils each (31 December 2017: 172,962,242 and 31 March 2017: 172,962,242 shares of 100 fils each).

The issued and paid up share capital of the Parent Company comprises of 172,962,242 of 100 fils each (31 December 2017: 172,962,242 and 31 March 2017: 172,962,242 shares of 100 fils each).

13. 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.

14. Treasury shares

	31 March 2018 KD (Unaudited)	31 December 2017 KD (Audited)	31 March 2017 KD (Unaudited)
Number of shares (share)	**7,966,743**	7,966,743	7,308,033
Percentage of issued shares (%)	**4.61%**	4.61%	4.23%
Market value (KD)	**605,472**	677,173	730,803
Cost (KD)	**1,480,519**	1,480,519	1,421,239

15. Earnings per share attributable to equity holders of the Company

Earnings per share based on the weighted average number of shares outstanding the period is as follows:

	3 months ended 31 March	
	2018	2017
	KD	KD
Profit attributable to equity holders of the Parent Company	**10,436**	2,257
	Shares	Shares
Weighted average number of shares outstanding during the period	**164,995,499**	165,961,345
Earnings per share – Basic and diluted (fils)	**0.06**	0.01

16. Related party transactions

During the period ended 31 March 2018 the Group has entered into various transactions with related parties in the normal course of business including financing and other related services on terms approved by the management. Balances with related parties are disclosed in the statement of financial position. Transactions with related parties included in the condensed consolidated statement of income are as follows;

	3 months ended 31 March	
	2018	2017
	KD	KD
Key management compensation	**67,750**	62,250
General and administrative expenses	**3,000**	-
Interest expenses	**88,471**	88,471

17. 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 operational segments meet the criteria for reportable segments and are follows:

- Retail operations : Consists of sale 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.

17. Segment information (continued)

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

	Retail operations	Engineering operations	Electrical operations	Unallocated items and eliminations	Total
	KD	KD	KD	KD	KD
Three months ended 31 March 2018 (Unaudited)					
Segment revenue	**9,285,370**	**15,060,688**	**942,500**	**(321,445)**	**24,967,113**
Segment results	**323,800**	**765,064**	**12,040**	**(885,504)**	**215,400**
Three months ended 31 March 2017 (Unaudited)					
Segment revenue	8,133,602	14,900,719	879,780	(3,007)	23,911,094
Segment results	280,154	535,951	16,945	(687,082)	145,968

18. Contingent liabilities

The Group was contingently liable in respect of the following

	31 March 2018 KD (Unaudited)	31 December 2017 KD (Audited)	31 March 2017 KD (Unaudited)
Documentary letters of credit	**1,881,532**	1,116,078	1,810,916
Letters of guarantees	**73,526,768**	74,035,405	63,376,597
Letters of acceptance	**301,459**	613,023	239,925
	75,709,759	75,764,506	65,427,438

19. General Assembly of Shareholders

The Annual General Assembly of Shareholders is not held for the year ended 31 December 2017 until the date of approving these interim condensed consolidated financial information and consequently, consolidated financial statements for the year ended 31 December 2017 are not approved yet. The interim condensed consolidated financial information for the three month period ended 31 March 2018 do not include any adjustments that could have been required in case the General Assembly of shareholders do not approve the consolidated financial statements for the year ended 31 December 2017.

20. Comparative figures

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