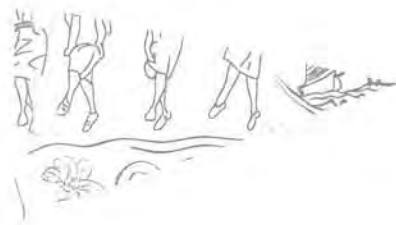

HILAL CEMENT COMPANY K.S.C.P. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HILAL CEMENT COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Hilal Cement Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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

Emphasis of Matter
We draw attention to Note 6 of the consolidated financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Group by the Kuwait Port Authority. Our opinion is not modified in respect of this matter.

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HILAL CEMENT COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of goodwill

As at 31 December 2018, the carrying value of goodwill amounted to KD 3,241,484 (2017: KD 4,179,257), representing 14% (2017: 20%) of the Group's total assets. The individual goodwill amounts have been allocated to the cash-generating unit (CGU) and is expected to benefit from synergies from the combination as disclosed in Note 7 to the consolidated financial statements.

The annual impairment testing of goodwill is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgment required in determining the assumptions to be used to estimate the recoverable amount. The Group engaged an external management expert to assist with the impairment testing.The recoverable amount of the CGUs, which is based on the higher of the value in use or fair value less cost to sell, has been derived from discounted forecast cash flow models. These models use several key assumptions, including estimates of future sales volumes, and prices, operating costs, terminal value growth rates and the weighted-average cost of capital (discount rate).

Our audit procedures included, among others, the following:

- We involved our internal valuation specialists to assist us in challenging the valuation methodology used and evaluating the appropriateness of key assumptions applied in the impairment analysis, such as the discount rate and terminal growth rate;
- We evaluated the competence, capabilities and objectivity of the external management expert;
- We validated that the cash flow projections used in the valuation and whether these are consistent with management's approved business plans. We have also compared the estimates of cash flow projections of previous periods with actual corresponding results, to assess the reasonableness of the cash flow forecasts; and
- We evaluated the adequacy of the Group's disclosures concerning goodwill in Note 7 to the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivities.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HILAL CEMENT COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Expected credit losses (ECL) for trade receivables

As at 31 December 2018, the Group has trade receivables amounted to KD 6,129,032, representing 27% of total assets.

Effective from 1 January 2018, the Group has applied the simplified approach in IFRS 9 *'Financial Instruments'* to measure ECL for trade receivables, which allows for lifetime expected credit losses to be recognised from initial recognition of the receivables. The Group determines the expected credit losses on trade receivables by using a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Trade receivables have been grouped based on shared credit risk characteristics and days past due.

Due to the significance of trade receivables and the complexity involved in the ECL calculation, this was considered as a key audit matter.

Our audit procedures included, among others, the following:

- We assessed the reasonableness of the assumptions used in the ECL calculation by comparing them with historical data adjusted for current market conditions and forward-looking information;
- We involved our internal specialists to assess the appropriateness of the methodology used by management in determining the ECL on trade receivables;
- We tested the application controls associated with the accuracy of the information included in the debtors' ageing report;
- Further, in order to evaluate the appropriateness of management judgements, we verified, on a sample basis, the customers' historical payment patterns and whether any post year-end payments had been received up to the date of completing our audit procedures; and
- We also considered the adequacy of the Group's disclosures relating to the ECL, management's assessment of the credit risk and their responses to such risks in Notes 9 and 20 to the consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HILAL CEMENT COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Valuation of inventories

The Group holds inventory in hand comprising of stock in trade, raw materials, spares and consumables. The determination of provision for old and obsolete inventories requires management to exercise judgment in identifying old and obsolete inventories and make estimates of the appropriate level of provision required. Further, the management used the work of an external expert to estimate the quantities of the stock in trade and raw materials due to the specialised nature of the industry.

Our audit procedures included, among others, the following:

- We observed physical inventory counts to ascertain the condition of inventory;
- We evaluated the objectivity, independence and expertise of the external expert;
- We reviewed the basis for the allowance by understanding and challenging the key assumptions used. In doing so, we understood the aging profile of the inventory, identification of obsolete and damaged inventories and the process for identifying specific problem inventory;
- Furthermore, we recalculated the inventory allowance based on the above key assumptions to assess the mathematical accuracy of the calculation; and
- We also considered the adequacy of the Group's disclosures relating to inventory and related allowances in Note 8 to the consolidated financial statements.

Other information included in the Group's 2018 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HILAL CEMENT COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HILAL CEMENT COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HILAL CEMENT COMPANY K.S.C.P. (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation, and Articles of Association that an inventory count was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2018, that might have had a material effect on the business of the Parent Company or on its financial position.

BADER A. AL-ABDULJADER
LICENCE NO. 207 A
EY
AL-AIBAN, AL-OSAIMI & PARTNERS

5 March 2019
Kuwait

A member firm of Ernst & Young Global Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

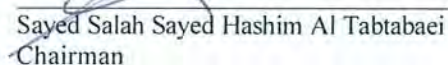
For the year ended 31 December 2018

	Notes	***2018*** ***KD***	*2017* *KD*
Sale of goods		**20,920,541**	18,228,280
Cost of goods sold		**(18,075,037)**	(16,130,005)
GROSS PROFIT		**2,845,504**	2,098,275
Other income	3	**220,855**	162,012
Other expenses		**(1,735,064)**	(1,856,963)
Allowance for expected credit losses (2017: provision for impairment of trade receivables)	9	**(220,167)**	(353,688)
Impairment of goodwill	7	**(937,773)**	(868,187)
Net foreign exchange differences		**(4,342)**	11,153
OPERATING PROFIT/(LOSS)		**169,013**	(807,398)
Finance costs		**(83,001)**	(61,550)
PROFIT/(LOSS) FOR THE YEAR BEFORE TAX AND DIRECTORS' REMUNERATION		**86,012**	(868,948)
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**-**	-
National Labour Support Tax (NLST)		**(5,544)**	-
Zakat		**(1,087)**	-
Directors' remuneration	17	**(17,082)**	(25,498)
PROFIT/(LOSS) FOR THE YEAR	4	**62,299**	(894,446)
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**62,299**	(894,446)
Attributable to:			
Equity holders of the Parent Company		**(68,748)**	(924,746)
Non-controlling interests		**131,047**	30,300
		62,299	(894,446)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	5	**(0.7) fils**	(9.1) fils

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	*2018* *KD*	*2017* *KD*
ASSETS			
Non-current assets			
Property, plant and equipment	6	**4,605,691**	3,903,861
Goodwill	7	**3,241,484**	4,179,257
Term deposits		**60,000**	-
		7,907,175	8,083,118
Current assets			
Inventories	8	**1,574,976**	1,689,326
Accounts receivable and prepayments	9	**6,293,287**	5,925,294
Cash and short-term deposits	10	**6,604,532**	5,508,659
		14,472,795	13,123,279
TOTAL ASSETS		**22,379,970**	21,206,397
EQUITY AND LIABILITIES			
Equity			
Share capital	11	**10,146,213**	10,146,213
Statutory reserve	12	**2,096,776**	2,096,776
Voluntary reserve	12	**2,096,776**	2,096,776
Accumulated losses		**(509,527)**	(373,035)
Equity attributable to the equity holders of the Parent Company		**13,830,238**	13,966,730
Non-controlling interests		**1,191,151**	1,072,187
Total equity		**15,021,389**	15,038,917
Non-current liabilities			
Loan from a related party	17	**1,082,900**	1,082,900
Employees' end of service benefits	13	**786,627**	742,405
		1,869,527	1,825,305
Current liabilities			
Bank overdrafts	10	-	31,224
Loan from a related party	17	**500,000**	-
Accounts payable and accruals	14	**4,989,054**	4,310,951
		5,489,054	4,342,175
Total liabilities		**7,358,581**	6,167,480
TOTAL EQUITY AND LIABILITIES		**22,379,970**	21,206,397



Sayed Salah Sayed Hashim Al Tabtabaei
Chairman

The attached notes 1 to 22 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Parent Company						
	Share capital KD	*Statutory reserve KD*	*Voluntary reserve KD*	*Accumulated losses KD*	*Sub-total KD*	*Non-controlling interests KD*	*Total equity KD*
Balance at 1 January 2018 as previously reported *(Audited)*	10,146,213	2,096,776	2,096,776	(373,035)	13,966,730	1,072,187	15,038,917
Transition adjustment on initial application of IFRS 9 (Note 2.3)	-	-	-	(67,744)	(67,744)	(12,083)	(79,827)
Adjusted balance as at 1 January 2018	10,146,213	2,096,776	2,096,776	(440,779)	13,898,986	1,060,104	14,959,090
Total comprehensive (loss) income for the year	-	-	-	(68,748)	(68,748)	131,047	62,299
Balance at 31 December 2018	**10,146,213**	**2,096,776**	**2,096,776**	**(509,527)**	**13,830,238**	**1,191,151**	**15,021,389**
Balance at 1 January 2017	8,455,178	2,096,776	2,096,776	2,242,746	14,891,476	1,041,887	15,933,363
Total comprehensive income for the year	-	-	-	(924,746)	(924,746)	30,300	(894,446)
Bonus shares issued (Note 11)	1,691,035	-	-	(1,691,035)	-	-	-
Balance at 31 December 2017	10,146,213	2,096,776	2,096,776	(373,035)	13,966,730	1,072,187	15,038,917

The attached notes 1 to 22 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	*2018* *KD*	*2017* *KD*
OPERATING ACTIVITIES			
Profit (loss) for the year		**62,299**	(894,446)
Adjustments to reconcile (loss)/profit for the year to net cash flows:			
Interest income	3	**(94,054)**	(63,209)
Gain on disposal of property, plant and equipment		**(30,266)**	(80)
Depreciation of property, plant and equipment	6	**974,348**	958,087
Allowance for expected credit losses (2017: Provision for impairment of trade receivables)	9	**220,167**	353,688
Impairment of goodwill	7	**937,773**	868,187
(Reversal of) provision for impairment of inventories	8	**(2,017)**	84,717
Provision for employees' end of service benefits	13	**121,321**	143,687
Finance costs		**83,001**	61,550
		2,272,572	1,512,181
Working capital adjustments:			
Inventories		**116,367**	254,628
Accounts receivable and prepayments		**(667,225)**	(853,691)
Accounts payable and accruals		**670,892**	52,995
Cash flows from operations		**2,392,606**	966,113
Interest income received		**93,292**	61,628
Employees' end of service benefits paid	13	**(77,099)**	(104,085)
Net cash flows from operating activities		**2,408,799**	923,656
INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment	6	**(1,676,940)**	(1,985)
Proceeds from disposal of property, plant and equipment		**31,028**	80
Net movement in term deposits		**-**	320,000
Net cash flows (used in)/from investing activities		**(1,645,912)**	318,095
FINANCING ACTIVITIES			
Proceeds from loan advanced from a related party		**500,000**	-
Finance costs paid		**(75,790)**	(61,550)
Net cash flows from/(used in) financing activities		**424,210**	(61,550)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,187,097**	1,180,201
Cash and cash equivalents at 1 January		**5,417,435**	4,237,234
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	**6,604,532**	5,417,435
Non-cash items excluded from the consolidated statement of cash flows:			
ECL opening balance adjustment for trade receivables (Adjusted with accounts receivable and prepayments)		**(79,827)**	-
Employees' end of service benefits transferred from other payables (Adjusted with accounts payable and accruals)		**-**	1,814
		(79,827)	1,814

The attached notes 1 to 22 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of Hilal Cement Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively, the "Group") for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 4 March 2019, and the shareholders of the Parent Company have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

The Parent Company is a public shareholding company incorporated and domiciled in Kuwait and whose shares are publicly traded on Boursa Kuwait. The registered office is located at Marzouk Tower, 19th floor, Building 3, Al-Qibla, Block 14 and its registered postal address is P.O. Box 20732, 13068, Safat, Kuwait.

The principal activities of the Parent Company are import, storage and distribution of cement and other bulk materials; establishing, operating and managing storage silos; acquiring interest in other companies engaged in similar activities; and investing surplus funds through portfolio managers in shares of investment and real estate companies.

The Parent Company is a subsidiary of Suez Cement Company S.A.E. (the "Ultimate Parent Company"), which owns 51% (2017: 51%) of its ordinary shares and is based and listed in Egypt.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ('IASB').

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements have been presented in Kuwaiti Dinars ('KD'), which is also the functional and presentation currency of the Parent Company.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting nights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognized in the consolidated statement of profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements of the Group include:

Entity	*Country of incorporation*	*Principal activities*	*% of equity interest*	
			2018	*2017*
Direct subsidiary				
Al Mahaliya Ready Mix Concrete Company W.L.L.	Kuwait	Manufacture of construction material, ready concrete and construction contracting work.	**51%**	51%
Indirect subsidiaries				
Kuwait German Ready Mix Concrete Company W.L.L. (Interest held through Al Mahaliya Ready Mix Concrete Company W.L.L.)	Kuwait	Manufacture of construction material, ready concrete and construction contracting work.	**51%**	51%
Gulf Ready Mix Concrete Company W.L.L. (Interest held through Al Mahaliya Ready Mix Concrete Company W.L.L.)	Kuwait	Manufacture of construction material, ready concrete and construction contracting work.	**51%**	51%

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations
The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has adopted IFRS 15 *'Revenue from Contracts with Customers'* and IFRS 9 *'Financial instruments'*.

The nature and the impact of each amendment is described below:

2.3.1 IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15")
The Group has adopted IFRS 15 *Revenue from Contracts with Customers* with effect from 1 January 2018 using a modified retrospective method of adoption by not restating the comparative information.

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

2.3.1 IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") (continued)
IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The overall impact assessment in application of IFRS 15 for the Group has been carried out by the management based on comprehensive analysis to evaluate implications on adopting IFRS 15 for the Group.

Sale of goods
The Group sells manufactured construction material and ready concrete. For contracts with customers in which the sale of goods are generally expected to be the only performance obligation, adoption of IFRS 15 did not have any material impact on the Group's revenue and income.

Revenue recognition from sale of goods is expected to occur at a point in time when control of the goods are transferred to the customer, generally on delivery of the goods.

Based on its assessment, the Group did not have any material impact on the application of IFRS 15 in transition to result in significant impact on its past results. Accordingly, no restatements have been made to the consolidated financial statements despite the adoption of the standard on modified retrospective approach.

2.3.2 IFRS 9 'Financial instruments' ("IFRS 9")
The Group has applied IFRS 9 and related consequential amendment to other IFRS in advance of their effective date. The date of initial application (i.e. the date on which the Group has assessed its existing financial assets) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 January 2018.

IFRS 9 introduces new requirements for a) the classification and measurement of financial assets, b) impairment for financial assets and c) general hedge accounting. Details of these new requirement as well as their impact on the Group's consolidated financial statements are described below. The Group has not entered into any derivative transactions during the year and not have any outstanding derivative as at date of initial application, hence no related disclosures are included below.

Classification and measurement of financial assets and financial liabilities
All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

- Financial assets such as accounts receivable, amounts due from a related party, term deposits and cash and cash equivalents that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost;
- There were no financial liabilities which the Group has elected to designate at fair value through profit or loss ("FVTPL") at the date of initial application of IFRS 9.

Financial liabilities previously measured at amortised cost under IAS 39 have been classified and measured under IFRS 9 at amortised cost using the effective interest rate method. There have been no changes in the classification and measurement of financial liabilities on the adoption of IFRS 9.

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model of IAS 39 with an 'expected credit loss' ('ECL') model. The new impairment model outlines a 'three stage' model ('general approach') for impairment based on the changes in credit quality since the initial recognition. Under the general approach, ECL is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition (i.e. 'good' exposures), an allowance is to be provided for credit losses that result from default events 'that are possible' within the next 12 months (a 12 month ECL – Stage 1 of the model).

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

2.3.2 IFRS 9 'Financial instruments' ("IFRS 9") (continued)

Impairment of financial assets (continued)
For those credit exposures for which there has been significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the default (a lifetime ECL – Stage 2 of the model).

Financial assets are assessed as credit impaired (Stage 3 of the model) when one or more events that have a detrimental impact on the estimated future cash flows of those assets have occurred.

An alternative to the 'general approach' is the 'simplified approach' that can be applied to trade receivables or contract assets that do not contain a significant financing component. The loss allowance should be measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime ECL.

The Group has elected to apply the simplified approach. Under the simplified approach, the Group shall apply forward looking provision matrix to calculate the impairment allowance.

For an explanation of how the Group applies the impairment requirements of IFRS 9, refer to the policy under Note 2.5 "Impairment of financial assets".

Impact of initial application of IFRS 9 on equity
The impact of this change in accounting policy relating to classification and measurement of financial assets as at 1 January 2018 is tabulated below:

	Effect on accumulated losses	*Effect on non-controlling interests*
	KD	*KD*
Closing balance under IAS 39 as at 31 December 2017 – IAS 39	(373,035)	1,072,187
Impact on recognition of ECL on trade receivables:		
Expected credit losses under IFRS 9 for trade receivables	(67,744)	(12,083)
Total impact on opening balance on initial application of IFRS 9	(67,744)	(12,083)
Opening balance under IFRS 9 on the date of initial application as at 1 January 2018	(440,779)	1,060,104

No significant changes were noted in financial liabilities as the Group classified all its financial liabilities at amortised under IAS 39 and the same classification has been carried forward under IFRS 9.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

Classification of financial assets on the date of initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39:

Financial assets	*Original classification under IAS 39*	*New classification under IFRS 9*	*Original carrying amount under IAS 39 KD*	*ECL recognised under IFRS 9 KD*	*New carrying amount under IFRS 9 KD*
Cash and short-term deposits	Loans and receivables	Amortised cost	5,508,659	-	5,508,659
Trade receivables	Loans and receivables	Amortised cost	5,797,827	(79,827)	5,718,000
Amounts due from related parties	Loans and receivables	Amortised cost	16,008	-	16,008
Other receivables	Loans and receivables	Amortised cost	64,981	-	64,981
Total financial assets			11,387,475	(79,827)	11,307,648

Hedge accounting
At the date of the initial application, the Group had no existing hedging relationships and therefore the new general hedge accounting model in IFRS 9 has no impact on the Group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards that are issued but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. This listing of standards issued is those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

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

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases (continued)
Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17. In 2019, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

Additional disclosures will be made in the consolidated financial statements when these standards, revisions and amendments become effective. The Group, however, expects no material impact from the adoption of the amendments on its financial position or performance.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over aggregate consideration transferred, then the gain is recognised in the consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed-off the goodwill associated with the operation disposed-off, is included in the carrying amount of the operation when determining the gain or loss on disposal off the operation. Goodwill disposed-off in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition applied from 1 January 2018
Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in all of its revenue arrangements since it typically controls the goods or services before transferring them to the customer.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods
Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The normal credit term is 30 to 90 days upon delivery.

In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer (if any).

(i) Variable consideration
If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group has no contracts with a right of return and volume rebates.

(ii) Significant financing component
Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good to the customer and when the customer pays for that good will be one year or less. The Group does not receive any long term advances from customers.

Revenue recognition applied up to 31 December 2017
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding discounts and rebates. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer usually on delivery of the goods.

Interest income
Interest income is presented separately from revenue from contracts with customers in included in 'other income' in the statement of profit or loss. Interest income is recognised at it accrues using the effective interest rate method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)
The Group calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

National Labour Support Tax (NLST)
The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associate, subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

Zakat
Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Dividend distribution
The Group recognises a liability to pay a dividend when the distribution is no longer at the discretion of the Group. As per the Companies Law, a distribution is authorised when it is approved by the shareholders at the AGM. A corresponding amount is recognised directly in equity.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Current versus non-current classification
The Group presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and capital work in progress are not depreciated. Following completion, capital work in progress is transferred into the relevant class of property, plant and equipment.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets, as follows:

▸ Barge	5 - 25 years
▸ Buildings	10 - 20 years
▸ Plant and machinery	7 - 15 years
▸ Furniture and equipment	3 - 5 years
▸ Motor vehicles	3 - 10 years

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)
When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in the consolidated statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Leases
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount or CGU.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. When the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Inventories
Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Stock in trade	-	purchase cost on a weighted average basis
Raw materials	-	purchase cost on a weighted average basis
Spares and consumables	-	purchase cost on a weighted average basis
Goods in transit	-	purchase cost incurred up to the reporting date

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Financial instruments – initial recognition, subsequent measurement and derecognition
In the current year, the Group has adopted IFRS 9 *Financial Instruments*. See section 2.3 for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.*

a) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

b) Classification and subsequent measurement

Financial assets

Financial assets - Policy effective from 1 January 2018 (IFRS 9)
On initial recognition, a financial asset is measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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.

All financial assets not classified at amortised cost or FVOCI as described above are measured at FVTPL.

The Group's financial assets accounts receivable, amounts due from a related party, term deposits and cash and cash equivalents which are measured at amortised cost.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

▸ 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. 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 arerecognised 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

Financial assets - Policy effective before 1 January 2018 (IAS 39)
The Group classifies its financial assets at initial recognition into the following categories and is subsequently measured in accordance with IAS 39 as:

▸ Financial assets at fair value through profit or loss	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
▸ Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
▸ Loans and receivables	Measured at amortised cost using the effective interest method.
▸ Available-for-sale financial assets (AFS)	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities
All financial liabilities are subsequently measured at amortised cost using the effective interest method.

The Group's financial liabilities include accounts payable and accruals, loan from related parties and bank overdrafts.

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

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Loan from related parties
Loan from related parties in the consolidated statement of financial position are initially recognised at the fair value less directly attributable transaction costs. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are charged as an expense as they accrue, with unpaid amounts included in "accounts payable and accruals".

c) Derecognition

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

d) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets
Policy effective from 1 January 2018 (IFRS 9)

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group applies a three stage approach to measure the expected credit loss as follows:

Stage 1: 12 months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains largely unchanged.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)
Policy effective before 1 January 2018 (IAS 39)

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

If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss.
(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
(c) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Reversal of impairment losses are recognised in the consolidated statement of profit or loss to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date.

Employees' end of service benefits
The Group provides end of service benefits to all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Further, with respect to national employees, the Group also makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Foreign currencies
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Transactions and balances
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or consolidated statement of profit or loss, respectively). Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)
In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated statement of financial position, but are disclosed when an inflow of economic benefits is probable.

Segment information
A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs cost. The operating segments used by the management of the Group to allocate resources and assess performance are consistent with the internal report provided to the Chief Operating decision maker. Operating segment exhibiting similar economic characteristic, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

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

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

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

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

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

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the amount of the asset or liability affected in future periods.

2.6.1 Significant judgements
In the process of applying the Group's accounting policies, management has made the following judgement, which have the most significant effect on the amounts recognised in the consolidated financial statements:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

2.6.1 Significant judgements (continued)

Legal proceedings
In accordance with IFRSs, the Group recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements.

Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the consolidated financial statements, could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation has been brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

2.6.2 Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of goodwill
Goodwill is tested for impairment annually. In assessing impairment, management estimates the recoverable amount of each cash-generating unit (or group of CGUs) for which the carrying amount of goodwill is allocated. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Impairment of trade receivables – effective from 1 January 2018 (IFRS 9)
The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

3 OTHER INCOME

	2018 *KD*	*2017* *KD*
Interest income	**94,054**	63,209
Gain on disposal of property, plant and equipment	**30,266**	80
Others	**96,535**	98,723
	220,855	162,012

4 PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) for the year is stated after charging:

	2018 *KD*	*2017* *KD*
Included in cost of goods sold:		
Staff costs	**1,293,417**	1,230,147
Depreciation	**529,816**	471,857
Cost of inventories recognised as an expense	**14,685,051**	12,930,655
(Reversal of) provision for impairment of inventories	**(2,017)**	84,717
Minimum lease payments recognised as an expense	**223,943**	226,357
Included in other expenses:		
Staff costs	**658,637**	660,851
Depreciation	**444,532**	486,230

5 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the profit (loss) for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted EPS are identical.

	2018 *KD*	*2017* *KD*
Loss for the year attributable to the equity holders of the Parent Company	**(68,748)**	(924,746)
	Shares	*Shares*
Weighted average number of shares outstanding during the year	**101,462,130**	101,462,130
Basic and diluted loss per share	**(0.7) fils**	(9.1) fils

6 PROPERTY, PLANT AND EQUIPMENT

	Barge *KD*	*Leasehold land* *KD*	*Buildings* *KD*	*Plant and machinery* *KD*	*Furniture and equipment* *KD*	*Motor vehicles* *KD*	*Capital work in progress* *KD*	*Total* *KD*
Cost:								
At 1 January 2018	6,346,327	268,376	2,561,089	5,865,309	474,259	4,112,252	1,015	19,628,627
Additions	-	-	-	96,774	60	731,937	848,169	1,676,940
Transfers	-	-	-	117,512	1,015	730,657	(849,184)	-
Disposals	-	-	-	(120,256)	(72,054)	(300,340)	-	(492,650)
At 31 December 2018	**6,346,327**	**268,376**	**2,561,089**	**5,959,339**	**403,280**	**5,274,506**	-	**20,812,917**
Depreciation:								
At 1 January 2018	4,629,396	-	2,177,153	5,038,279	455,843	3,424,095	-	15,724,766
Charge for the year	281,085	-	96,685	181,371	13,426	401,781	-	974,348
Relating to disposals	-	-	-	(120,256)	(72,054)	(299,578)	-	(491,888)
At 31 December 2018	**4,910,481**	-	**2,273,838**	**5,099,394**	**397,215**	**3,526,298**	-	**16,207,226**
Net book value:								
At 31 December 2018	**1,435,846**	**268,376**	**287,251**	**859,945**	**6,065**	**1,748,208**	-	**4,605,691**

6 PROPERTY, PLANT AND EQUIPMENT (continued)

	Barge KD	*Leasehold land KD*	*Buildings KD*	*Plant and machinery KD*	*Furniture and equipment KD*	*Motor vehicles KD*	*Capital work in progress KD*	*Total KD*
Cost:								
At 1 January 2017	6,346,327	268,376	2,561,089	5,864,339	474,259	4,123,182	-	19,637,572
Additions	-	-	-	970	-	-	1,015	1,985
Disposals	-	-	-	-	-	(10,930)	-	(10,930)
At 31 December 2017	6,346,327	268,376	2,561,089	5,865,309	474,259	4,112,252	1,015	19,628,627
Depreciation:								
At 1 January 2017	4,348,232	-	2,075,236	4,831,804	403,957	3,118,380	-	14,777,609
Charge for the year	281,164	-	101,917	206,475	51,886	316,645	-	958,087
Relating to disposals	-	-	-	-	-	(10,930)	-	(10,930)
At 31 December 2017	4,629,396	-	2,177,153	5,038,279	455,843	3,424,095	-	15,724,766
Net book value:								
At 31 December 2017	1,716,931	268,376	383,936	827,030	18,416	688,157	1,015	3,903,861

The depreciation included in the consolidated statement of profit or loss is allocated as follows:

	2018 KD	*2017 KD*
Cost of goods sold	**529,816**	471,857
Administrative expenses	**444,532**	486,230
	974,348	958,087

6 PROPERTY, PLANT AND EQUIPMENT (continued)

On 29 January 2009, the Parent Company received notice from Kuwait Port Authority (KPA) to vacate the premises of KPA and remove the barge with a carrying value of KD 1,435,846 (2017: KD 1,716,931) owned by the Parent Company which is moored alongside the berth owned by KPA. A verdict was issued by the Court of First Instance on 8 May 2014 in favour of the Parent Company and KPA has filed an appeal in 'Court of Appeals'. On 16 April 2017, a verdict was issued against the Parent Company and the Parent Company has filed an appeal in the 'Court of Cassation'. Based on the legal advice received, management believes that there will be no material consequent impact on Group's consolidated financial statements.

On 23 October 2014, the Parent Company received a notice from KPA requesting on the increase in rental charges. As at 31 December 2018, the management has not entered in to any of the new contract with KPA. However, a provision for rental expenses was made according to the new rates stated in the notice from KPA. Based on the legal advice, management is of the view that the new rental charges are applicable prospectively, hence no provision were made for previous periods.

Land includes leasehold land of KD 268,376 (2017: KD 268,376). Notwithstanding the contractual term of the lease, management considers that, based on market experience, the lease is renewable indefinitely, at similar nominal rates of ground rent, and with no premium payable for renewal of the lease and, consequently, as is common practice in the State of Kuwait, the leasehold land has been accounted for as freehold land.

7 GOODWILL

The carrying amount of goodwill is allocated to manufacturing units as disclosed under segment information (Note 19). The recoverable amount of the segment unit has been determined based on a value in use calculation, using cash flow projections approved by senior management covering a five-year period. The pre-tax discount rate of 11.24% (2017: 10.45%) applied to cash flow projections beyond the five year period are extrapolated using a terminal growth rate of 2.36% (2017: 3%). The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. The carrying amount of the CGU was determined to be higher than its recoverable amount and accordingly, management has recognised an impairment charge of KD 937,773 (2017: KD 868,187) in the current year. The impairment loss was fully allocated to goodwill and included in the consolidated statement of profit or loss.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

- Gross operating profit growth rate during the forecast period
- Discount rate
- Long-term growth rates (terminal value) used to extrapolate cash flows beyond the forecast period
- Inflation rates

Discount rates
Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Projected growth rates
Assumptions are based on published industry research.

Inflation rates
Estimates are obtained from published indices for the countries where the Group operates.

7 GOODWILL (continued)

Sensitivity to changes in assumptions
Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the intangible asset to exceed its recoverable amount. These are summarised below:

- A rise in the discount rate to 11.74% (i.e. +0.5%) would result in a further impairment of KD 112,088.
- A reduction in the long-term growth rate to 1.86% (i.e. -0.5%) would result in a further impairment of KD 252,435.
- A decline in the gross operating profit during the forecast period to 20% (i.e. -2%) would result in a further impairment of KD 177,054.

The above sensitivity analyses is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

8 INVENTORIES

	2018	*2017*
	KD	*KD*
Finished goods and goods for resale (at lower of cost and net realisable value)	**1,221,214**	1,396,699
Raw materials (at cost)	**218,042**	116,729
Spares and consumables (at cost)	**503,662**	520,169
Goods in transit (at cost)	**-**	25,688
	1,942,918	2,059,285
Less: provision for slow moving and obsolete inventories	**(367,942)**	(369,959)
Total inventories at the lower of cost and net realisable value	**1,574,976**	1,689,326

During 2018, KD 14,685,051 (2017: KD 12,930,655) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of goods sold.

Write-downs of inventories to net realisable value amounted to KD Nil (2017: KD 84,717). These were recognised as an expense during the year ended 31 December 2018 and included in 'cost of goods sold' in the consolidated statement of profit or loss.

The Group reversed KD 2,017 of a previous inventory write-down during the year ended 31 December 2018, as the Group sold the relevant goods that had been written down. The amount reversed has been included in 'cost of goods sold' in the consolidated statement of profit or loss.

The movements in provision for impairment of inventories based on their expected future use and net realisable value are as follows:

	2018	*2017*
	KD	*KD*
At 1 January	**369,959**	285,242
(Reversal of) provision for impairment of inventories	**(2,017)**	84,717
At 31 December	**367,942**	369,959

9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2018 *KD*	*2017* *KD*
Trade receivables	**10,169,038**	9,537,839
Less: Allowance for expected credit losses (2017: provision for impairment of trade receivables)	**(4,040,006)**	(3,740,012)
	6,129,032	5,797,827
Receivables from related parties (Note 17)	**15,228**	16,008
Prepayments, advances and deposits	**74,865**	46,478
Other receivables	**74,162**	64,981
	6,293,287	5,925,294

Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Note 20.1 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Group's trade receivables. Other classes within accounts receivable do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

Movements in the impairment allowance for trade receivables are as follows:

	2018 *KD*	*2017* *KD*
At 1 January (under IAS 39)	**3,740,012**	3,386,530
Opening loss allowance as at 1 January 2018 - calculated under IFRS 9 (Note 2.3.2)	**79,827**	-
Opening provision for impairment of trade receivables	**3,819,839**	3,386,530
Allowance recognised in profit or loss during the year	**276,612**	353,688
Reversal of impairment for trade receivables	**(56,445)**	(206)
At 31 December	**4,040,006**	3,740,012

The above comparative for impairment provisions refers to IAS 39 measurement basis which applied on incurred loss model, whereas the current year applies IFRS 9 which is on expected loss model.

10 CASH AND CASH EQUIVALENTS

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2018 *KD*	*2017* *KD*
Cash at banks and on hand	**1,484,532**	1,578,659
Term deposits	**5,120,000**	3,930,000
Total cash and short-term deposits	**6,604,532**	5,508,659
Less: Bank overdrafts	-	(31,224)
Less: Restricted deposits	-	(60,000)
Cash and cash equivalents	**6,604,532**	5,417,435

10 CASH AND CASH EQUIVALENTS (continued)

Term deposits
Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at an average effective interest rate of 2.5% (2017: 1.6%) per annum.

Restricted deposits of KD 60,000 (2017: KD 60,000) are placed with a local financial institution and have original maturities of more than three months from the date of placement. Restricted deposits are not available for use in the Group's day-to-day operations, and earn interest at an average effective interest rate of 2.5% (2017: 1.6%) per annum.

Bank overdrafts
In the prior year, the Group was granted a bank overdraft facility up to KD 150,000 with interest thereon at a rate of 2% over the Central Bank of Kuwait discount rate. The facility matures within 3 months.

11 SHARE CAPITAL AND DISTRIBUTIONS

a) Share capital

	Number of shares		*Authorised, issued and fully paid*	
	2018	*2017*	***2018***	*2017*
			KD	*KD*
Shares of 100 fils each (paid in cash)	**101,462,130**	101,462,130	**10,146,213**	10,146,213

b) Distributions made and proposed

Cash dividends

	2018	*2017*
	KD	*KD*
Proposed dividends on ordinary shares:		
Proposed cash dividend for 2018: 15 fils per share* (2017: Nil)	**1,521,932**	-

* The Board of Directors in their meeting on 4 March 2019 proposed cash dividends through distributable reserves as profit is not sufficient for the payment of such dividend. Proposed dividends on ordinary shares are subject to approval at the annual general assembly meeting and are not recognised as a liability as at 31 December 2018.

12 RESERVES

a) Statutory reserve
In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit attributable to the equity holders of the Parent Company for the year, before contribution to KFAS, NLST, Zakat and directors' remuneration shall be transferred to the statutory reserve. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital.

The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. No transfers were made during the year as the Parent Company has incurred losses for the current year.

b) Voluntary reserve
In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association a maximum of 10% of the profit for the year attributable to the equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the annual general assembly of the Parent Company upon a recommendation by the Board of Directors. There is no restriction on distribution of the voluntary reserve. No transfers were made to the voluntary reserve during the year as the Parent Company has incurred losses for the current year.

13 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision employees' end of service benefits are, as follows:

	2018 KD	*2017 KD*
As at 1 January	**742,405**	700,989
Charge for the year	**121,321**	143,687
Transferred from other payables	**-**	1,814
Employees end of service benefits paid	**(77,099)**	(104,085)
As at 31 December	**786,627**	742,405

14 ACCOUNTS PAYABLE AND ACCRUALS

	2018 KD	*2017 KD*
Trade payables	**2,675,897**	2,392,109
Amounts due to related parties (Note 17)	**802,108**	498,573
KFAS, NLST and Zakat payable	**35,600**	28,968
Accrued expenses	**1,203,739**	1,137,559
Advances from customers	**86,750**	73,812
Other payables	**184,960**	179,930
	4,989,054	4,310,951

Trade payables bear no interest and are normally settled within 90 days from the date of purchase.

For explanation on the Group's liquidity risk management processes, refer to Note 20.2.

15 CONTINGENT LIABILITIES

At 31 December 2018 the Group had contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 306,000 (2017: KD 306,000).

16 COMMITMENTS

Operating lease commitments – Group as a lessee
The Group has entered into operating lease for the leasehold land with a lease term of five years, which is renewable indefinitely, head office space for the Group and certain machinery and equipment.

At the reporting date, the future minimum rentals payable under non-cancellable operating leases is as follows:

	2018 KD	*2017 KD*
Future minimum lease payments:		
Within one year	**279,539**	130,167
After one year but not more than five years	**78,065**	11,700
	357,604	141,867

17 RELATED PARTY DISCLOSURES

Related parties represent major shareholders, key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of payment for these transactions are approved by the Parent Company's management.

The following tables show the aggregate value of transactions and outstanding balances with related parties:

Consolidated statement of profit or loss:

	2018 ***KD***	*2017* *KD*
Cost of goods sold	**7,768,739**	6,889,955
Administrative expenses	**39,553**	34,932
Finance costs	**77,680**	54,155

Consolidated statement of financial position:

	2018 ***KD***			*2017* *KD*		
	*Associate**	*Other related parties*	***Total***	*Associate**	*Other related parties*	*Total*
Amounts due from a related party						
Accounts receivable and prepayments (Note 9)	15,228	-	**15,228**	15,228	780	16,008
Amounts due to related Parties						
Accounts payables and accruals (Note 14)	-	802,108	**802,108**	-	498,573	498,573
Loan from related parties	-	1,582,900	**1,582,900**	-	1,082,900	1,082,900

* Receivables from an associate has no specified repayment terms and is repayable on demand. The investment in associate has been fully impaired in prior years.

Terms and conditions of transactions with related parties

The sales to, and purchase from related parties are made on terms approved by the management. Except for loans from related parties, outstanding balances of the year-end are unsecured, interest free and repayable on demand. For the years ended 31 December 2018 and 31 December 2017, the Group has not recorded any provision for expected credit losses relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. There have been no guarantees provided or received for any related party receivables or payables.

Loan from related parties

Loan from a related party amounting to KD 1,082,900 (31 December 2017: KD 1,082,900) carries an effective interest rate of 5% p.a. (31 December 2017: 5% p.a) and is expected to be settled more than twelve months after the reporting period.

Loan from a related party amounting to KD 500,000 (31 December 2017: Nil) carries an effective interest rate of 4.4% p.a. and is expected to be settled within one year from the reporting period.

The accrued interest on loan from related parties are included in accounts payable and accruals.

17 RELATED PARTY DISCLOSURES (continued)

Transactions with key management personnel

Key management personnel comprise of the members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions related to key management personnel were as follows:

Compensation of key management personnel of the Group	***2018*** ***KD***	*2017* *KD*
Salaries and short-term benefits	**199,578**	261,561
Employees' end of service benefits	**17,130**	69,487
	216,708	331,048

The Board of Directors of the Parent Company proposed a directors' remuneration of KD 17,082 for the year ended 31 December 2018 (2017: KD 25,498). This proposal is subject to the approval of the shareholders at the AGM of the Parent Company.

18 MATERIAL PARTLY-OWNED SUBSIDIARY

Financial information of the subsidiary that has material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name of subsidiary	***Country of incorporation and operation***	***2018***	*2017*
Al Mahaliya Ready Mix Concrete Company W.L.L. and its subsidiaries	Kuwait	**49%**	49%
Accumulated balances of material non-controlling interests		**2,524,080**	2,405,116
Profit allocated to material non-controlling interests		**131,047**	30,300

The consolidated financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations.

18 MATERIAL PARTLY-OWNED SUBSIDIARY (continued)

Summarised consolidated statement of profit or loss and other comprehensive income:

	2018 *KD*	*2017* *KD*
Sale of goods	**16,405,726**	13,355,331
Cost of goods sold	**(15,360,066)**	(12,606,208)
Other income	**126,801**	89,453
Other expenses	**(769,906)**	(661,209)
Finance costs	**(135,111)**	(115,531)
Total profit and comprehensive income	**267,444**	61,836
Attributable to non-controlling interests	**131,047**	30,300

Summarised consolidated statement of financial position:

	2018 *KD*	*2017* *KD*
Current assets	**6,463,104**	6,293,030
Non-current assets	**8,550,356**	7,409,289
TOTAL ASSETS	**15,013,460**	13,702,319
Current liabilities	**7,109,645**	6,055,461
Non-current liabilities	**2,752,632**	2,738,460
TOTAL LIABILITIES	**9,862,277**	8,793,921
TOTAL EQUITY	**5,151,183**	4,908,398
Attributable to:		
Equity holders of the Parent Company	**2,627,103**	2,503,282
Non-controlling interests	**2,524,080**	2,405,116

Summarised cash flow information:

	2018 *KD*	*2017* *KD*
Cash flows from operating activities	**969,678**	1,180,833
Cash flows (used in) from investing activities	**(1,645,852)**	80
Cash flows from (used in) financing activities	**372,100**	(115,531)
Net (decrease)/increase in cash and cash equivalents	**(304,074)**	1,065,382

19 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has two reportable segments, as follows:

- Trading units
- Manufacturing units

The Executive Management Committee is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

The following tables present revenue and profit information for the Group's operating segments for the year ended 31 December 2018 and 31 December 2017, respectively:

2018	*Trading units KD*	*Manufacturing units KD*	*Total KD*	*Adjustments and eliminations KD*	*Consolidated KD*
Segment revenue					
External customers	**7,233,422**	**13,687,119**	**20,920,541**	**-**	**20,920,541**
Inter-segment	**3,953,670**	**-**	**3,953,670**	**(3,953,670)**	**-**
Intra-segment	**-**	**2,718,607**	**2,718,607**	**(2,718,607)**	**-**
Total revenue	**11,187,092**	**16,405,726**	**27,592,818**	**(6,672,277)**	**20,920,541**
Segment expenses	**11,368,524**	**16,138,282**	**27,506,806**	**(6,672,277)**	**20,834,529**
Segment results	**(181,432)**	**267,444**	**86,012**	**-**	**86,012**
2017					
Segment revenue					
External customers	5,771,952	12,456,328	18,228,280	-	18,228,280
Inter-segment	3,610,002	-	3,610,002	(3,610,002)	-
Intra-segment	-	899,003	899,003	(899,003)	-
Total revenue	9,381,954	13,355,331	22,737,285	(4,509,005)	18,228,280
Segment expenses	10,312,738	13,293,495	23,606,233	(4,509,005)	19,097,228
Segment results	(930,784)	61,836	(868,948)	-	(868,948)

The following table presents assets and liabilities information for the Group's operating segments as at 31 December 2018 and 31 December 2017, respectively:

2018	*Trading units KD*	*Manufacturing units KD*	*Total KD*	*Adjustments and eliminations KD*	*Consolidated KD*
Segment assets	**16,722,857**	**15,013,460**	**31,736,317**	**(9,356,347)**	**22,379,970**
Segment liabilities	**2,008,713**	**9,862,277**	**11,870,990**	**(4,512,409)**	**7,358,581**
2017					
Segment assets	15,685,327	13,702,319	29,387,646	(8,181,249)	21,206,397
Segment liabilities	1,579,055	8,793,923	10,372,978	(4,205,498)	6,167,480

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, operations risk and exposure to market risk which is limited to interest rate risk and foreign exchange risk as the Group does not have equity instruments.

The Group's principal financial liabilities comprise of accounts payable and loan from related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as accounts receivable, amounts due from a related party, term deposits and cash and cash equivalents which are directly from its operations. No significant changes were made in the risk management objectives and policies during the years ended 31 December 2018 and 31 December 2017.

The management of the Parent Company is ultimately responsible for the overall risk management approach and for approving the risk strategy. The management reviews and agrees policies for managing each of these risks which are summarised below:

20.1 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities primarily trade receivables, investing activities including amounts due from a related party and from its financing activities, including deposits with banks and financial institutions.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	2018 ***KD***	*2017* *KD*
Cash and short-term deposits	**6,604,532**	5,508,659
Trade receivables	**6,129,032**	5,797,827
Other receivables	**74,162**	64,981
Amounts due from a related party	**15,228**	16,008
	12,822,954	11,387,475

Cash and short term deposits

Credit risk from balances with banks and financial institutions is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies. Further, the principal amounts of deposits in local banks (including saving accounts and current accounts) are guaranteed by the Central Bank of Kuwait in accordance with Law No. 30 of 2008 Concerning Guarantee of Deposits at Local Banks in the State of Kuwait which came into effect on 3 November 2008.

Impairment on cash and short term deposits has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and short term deposits have low credit risk based on the external credit ratings of the counterparties.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of three months for individual and corporate customers respectively.

More than 18% of the Group's customers have been transacting with the Group for over four years, and none of these customers' balances have been written off or are credit-impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, trading history with the Group and existence of previous financial difficulties.

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1 Credit risk (continued)

At 31 December 2018, the Group had 5 customers (2017: 5 customers) that owed it more than KD 374,989 each and accounted for approximately KD 4,224,790 (2017: KD 4,388,401) of all the receivables outstanding.

Comparative information under IAS 39
In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 90 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired as at 31 December 2017 is as follows:

	Neither past due nor impaired	*Past due but not impaired*			*Total*
		< 30 days	*31 – 60 days*	*> 60 days*	
	KD	*KD*	*KD*	*KD*	*KD*
2017	3,094,276	425,396	695,399	1,582,756	5,797,827

Impaired trade receivables at 31 December 2017 had a gross carrying amount of KD 9,537,839. At 31 December 2017, there was an impairment loss of KD 3,740,012 related to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances.

Expected credit loss assessment for trade receivables as at 1 January 2018 and 31 December 2018
The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 9. The Group does not hold collateral as security.

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1 Credit risk (continued)

Trade receivables (continued)

Expected credit loss assessment for trade receivables as at 1 January 2018 and 31 December 2018 (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix as at 1 January 2018 and 31 December 2018:

		Days past due				
	Current	*>30 days*	*30-60 days*	*61-90 days*	*>90 days*	*Total*
31 December 2018	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*
Expected credit loss rate	3.71%	7.53%	8.34%	7.90%	73.50%	
Estimated total gross carrying amount at default	3,348,083	567,136	721,065	386,749	5,146,005	10,169,038
Expected credit loss	**124,214**	**42,705**	**60,158**	**30,553**	**3,782,376**	**4,040,006**

		Days past due				
	Current	*>30 days*	*30-60 days*	*61-90 days*	*>90 days*	*Total*
1 January 2018	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*
Expected credit loss rate	5.00%	12.71%	12.29%	15.47%	74.76%	
Estimated total gross carrying amount at default	3,440,701	370,285	621,462	493,114	4,612,277	9,537,839
Expected credit loss	172,035	47,063	76,378	76,285	3,448,078	3,819,839

Other receivables and amount due from a related party

As at the reporting date, the majority of the Group's counterparty exposure has a low risk of default and does not include any past-due amounts. Accordingly, management identified impairment loss to be immaterial.

20.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a regular basis and periodically assess the financial viability of the receivables.

The Group's terms of sales require amounts to be paid within 30-90 days of the date of sale. Trade payables are normally settled within 30-90 days of the date of purchase. The maturity profile is monitored by the Group's management to ensure adequate liquidity is maintained.

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2 Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December, based on contractual undiscounted payments.

At 31 December 2018	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*
Loan from a related party	-	**613,790**	-	**1,082,900**	**1,696,690**
Accounts payable and accruals*	**41,826**	**3,937,370**	**35,600**	-	**4,014,796**
	41,826	**4,551,160**	**35,600**	**1,082,900**	**5,711,486**

At 31 December 2017	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*
Loan from a related party	-	108,300	-	1,082,900	1,191,200
Accounts payable and accruals*	5,707	3,420,942	28,968	-	3,455,617
Bank overdrafts	-	31,224	-	-	31,224
	5,707	3,560,466	28,968	1,082,900	4,678,041

* Accounts payable and accruals excludes provisions and advances from customers.

20.3 Operation risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

20.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. The Group's exposure to market risk is limited to interest rate risk and foreign currency risk.

20.4.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its term deposits and bank overdrafts.

Loan from related parties is set at a fixed interest rate and hence the Group is not exposed to interest rate risk.

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.4 Market risk (continued)

20.4.1 Interest rate risk (continued)
Exposure to interest rate risk
The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

	2018 KD	*2017* KD
Fixed-rate instruments		
Financial assets	**5,180,000**	3,930,000
Financial liabilities	**(1,582,900)**	(1,082,900)
	3,597,100	2,847,100
Variable-rate instruments		
Financial liabilities	**-**	(31,124)

Interest rate sensitivity
A reasonably possible change of 100 basis points in interest rates at the reporting date would have resulted in a increase in profit before tax and directors' remuneration for the year by Nil (2017: decrease in loss by KD 311). This analysis assumes that all other variables remain constant.

20.4.2 Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency).

The Group currently does not use financial derivatives to manage its exposure to currency risk. The Group manages its foreign currency risk based on the limits determined by management and a continuous assessment of the Group's open positions, current and expected exchange rate movements. The Group ensures that its net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

The following tables set out the Group's exposure to foreign currency exchange rates on monetary financial assets and liabilities at the reporting date:

	Liabilities		*Assets*	
Currency	***2018* KD**	*2017* KD	***2018* KD**	*2017* KD
US Dollar (USD)	**706,982**	35,349	**2,561**	128
Euro (EUR)	**26,187**	1,309	**-**	-

Foreign exchange rate sensitivity
The following table demonstrate the effect of a reasonably possible change in the aforementioned exchange rates, with all other variables held constant. The impact on the Group's profit/loss due to changes in the fair value of monetary assets and liabilities is as follows:

		Effect on profit/loss	
Currency	*Change in exchange rate*	***2018* KD**	*2017* KD
USD	**2%**	**14,088**	704
EUR	**2%**	**524**	26

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.4 Market risk (continued)

20.4.2 Foreign exchange risk (continued)

There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

An equivalent increase/decrease in each of the aforementioned currencies against the KD would have resulted in an equivalent but opposite impact.

21 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders' value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may review the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, loan from related parties, trade and other payables, less cash and term deposits, net of bank overdrafts. Capital represents total equity attributable to equity holders of the Parent Company.

	2018	*2017*
	KD	*KD*
Loan from related parties	**1,582,900**	1,082,900
Accounts payable and accruals	**3,698,565**	3,147,575
Less: Cash and term deposits, net of bank overdrafts	**(6,604,532)**	(5,477,435)
Net debt	**(1,323,067)**	(1,246,960)
Capital (total equity attributable to equity holders of the Parent Company)	**13,830,238**	13,966,730
Capital and net debt	**12,507,171**	12,719,770
Gearing ratio	**(10.6%)**	(9.8%)

No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

22 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of accounts receivable, amounts due from a related party, term deposits and cash and cash equivalents. Financial liabilities consist of trade and other payables, loan from related parties and bank overdrafts.

The fair values of the financial assets and liabilities are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than twelve months), management assessed that fair value approximates their carrying amounts largely due to the short-term maturities of these instruments. For amounts due from (to) related parties that have no specified repayment dates and that are receivable (payable) on demand, management assessed that the fair value is not less than their face value.