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

## CONSOLIDATED FINANCIAL STATEMENTS

## 31 DECEMBER 2019

Ernst & Young
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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 2019, 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 2019, 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' *Code of Ethics for Professional Accountants (including International Independence Standards)* (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 8 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 2019, the carrying value of goodwill amounted to KD 2,104,940 (2018: KD 3,241,484), representing 15% (2018: 22%) 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 10 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 10 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 2019, the Group has trade receivables amounted to KD 5,184,290, representing 26% of total assets.

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 12 and 23 to the consolidated financial statements.

## 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 11 to the consolidated financial statements.

*Other information included in the Group's 2019 Annual Report*

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 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.

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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)**

*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.

**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 2019, 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

3 March 2020
Kuwait

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | *Notes* | ***2019 KD*** | *2018 KD* |
|---|---|---|---|
| Sale of goods | | **19,102,910** | 20,920,541 |
| Cost of sales | | **(16,772,735)** | (18,075,037) |
| **GROSS PROFIT** | | **2,330,175** | 2,845,504 |
| Other income | 5 | **440,477** | 220,855 |
| Other expenses | | **(1,844,374)** | (1,735,064) |
| Allowance for expected credit losses for trade receivables | 12 | **(856,009)** | (220,167) |
| Impairment of goodwill | 10 | **(1,136,544)** | (937,773) |
| Net foreign exchange differences | | **11,712** | (4,342) |
| **OPERATING (LOSS) PROFIT** | | **(1,054,563)** | 169,013 |
| Finance costs | | **(110,560)** | (83,001) |
| **(LOSS) PROFIT BEFORE TAX AND DIRECTORS' REMUNERATION** | | **(1,165,123)** | 86,012 |
| Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) | | **(4,971)** | - |
| National Labour Support Tax (NLST) | | **(35,637)** | (5,544) |
| Zakat | | **(2,273)** | (1,087) |
| Directors' remuneration | | **(26,196)** | (17,082) |
| **(LOSS) PROFIT FOR THE YEAR** | 6 | **(1,234,200)** | 62,299 |
| Other comprehensive income | | **-** | - |
| **TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR** | | **(1,234,200)** | 62,299 |
| **Attributable to:** | | | |
| Equity holders of the Parent Company | | **(681,102)** | (68,748) |
| Non-controlling interests | | **(553,098)** | 131,047 |
| | | **(1,234,200)** | 62,299 |
| **BASIC AND DILUTED (LOSS) EARNINGS PER SHARE (EPS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY** | 7 | **(6.71) fils** | (0.68) fils |

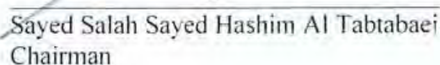
The attached notes 1 to 25 form part of these consolidated financial statements.

Hilal Cement Company K.S.C.P. and its Subsidiaries

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | *Notes* | ***2019 KD*** | *2018 KD* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **3,347,557** | 4,605,691 |
| Right-of-use assets | 9 | **715,018** | - |
| Goodwill | 10 | **2,104,940** | 3,241,484 |
| Term deposits | 13 | **60,000** | 60,000 |
| | | **6,227,515** | 7,907,175 |
| **Current assets** | | | |
| Inventories | 11 | **1,124,332** | 1,574,976 |
| Accounts receivable and prepayments | 12 | **5,322,091** | 6,293,287 |
| Cash and short-term deposits | 13 | **7,352,131** | 6,604,532 |
| | | **13,798,554** | 14,472,795 |
| **TOTAL ASSETS** | | **20,026,069** | 22,379,970 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 14 | **10,146,213** | 10,146,213 |
| Statutory reserve | 15 | **2,096,776** | 2,096,776 |
| Voluntary reserve | 16 | **574,844** | 2,096,776 |
| Accumulated losses | | **(1,190,629)** | (509,527) |
| **Equity attributable to the equity holders of the Parent Company** | | **11,627,204** | 13,830,238 |
| Non-controlling interests | | **638,053** | 1,191,151 |
| **Total equity** | | **12,265,257** | 15,021,389 |
| **Non-current liabilities** | | | |
| Lease liabilities | 9 | **388,398** | - |
| Loan from a related party | 20 | **1,082,900** | 1,082,900 |
| Employees' end of service benefits | 17 | **809,800** | 786,627 |
| | | **2,281,098** | 1,869,527 |
| **Current liabilities** | | | |
| Lease liabilities | 9 | **112,881** | - |
| Loan from a related party | 20 | **500,000** | 500,000 |
| Accounts payable and accruals | 18 | **4,866,833** | 4,989,054 |
| | | **5,479,714** | 5,489,054 |
| **Total liabilities** | | **7,760,812** | 7,358,581 |
| **TOTAL EQUITY AND LIABILITIES** | | **20,026,069** | 22,379,970 |



Sayed Salah Sayed Hashim Al Tabtabaei
Chairman

The attached notes 1 to 25 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

| | *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* |
| As at 1 January 2019 | 10,146,213 | 2,096,776 | 2,096,776 | (509,527) | 13,830,238 | 1,191,151 | 15,021,389 |
| Total comprehensive loss for the year | - | - | - | (681,102) | (681,102) | (553,098) | (1,234,200) |
| Dividends paid | - | - | (1,521,932) | - | (1,521,932) | - | (1,521,932) |
| **As at 31 December 2019** | **10,146,213** | **2,096,776** | **574,844** | **(1,190,629)** | **11,627,204** | **638,053** | **12,265,257** |
| As 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 |
| Impact of adopting IFRS 9 | - | - | - | (67,744) | (67,744) | (12,083) | (79,827) |
| Restated opening balance under IFRS 9 | 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 |
| As at 31 December 2018 | 10,146,213 | 2,096,776 | 2,096,776 | (509,527) | 13,830,238 | 1,191,151 | 15,021,389 |

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | *2019* *KD* | *2018* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| (Loss) profit before tax and after director's remuneration for the year | | **(1,191,319)** | 68,930 |
| *Adjustments to reconcile (loss) profit before tax and after director's remuneration to net cash flows:* | | | |
| Interest income | 5 | **(158,072)** | (94,054) |
| Gain on disposal of property, plant and equipment | | **(11,350)** | (30,266) |
| Depreciation of property, plant and equipment | 8 | **989,418** | 974,348 |
| Depreciation of right-of-use assets | 9 | **298,802** | - |
| Impairment of goodwill | 10 | **1,136,544** | 937,773 |
| Write back of provision for impairment of inventories | 11 | **(6,020)** | (2,017) |
| Allowance for expected credit losses | 12 | **856,009** | 220,167 |
| Provision for employees' end of service benefits | 17 | **116,903** | 121,321 |
| Finance costs | | **110,560** | 83,001 |
| Interest expense on lease liabilities | 9 | **30,380** | - |
| | | **2,171,855** | 2,279,203 |
| *Working capital adjustments:* | | | |
| Inventories | | **456,664** | 116,367 |
| Accounts receivable and prepayments | | **104,045** | (667,225) |
| Accounts payable and accruals | | **(195,847)** | 664,261 |
| Cash flows from operations | | **2,536,717** | 2,392,606 |
| Employees' end of service benefits paid | 17 | **(93,730)** | (77,099) |
| Taxes paid | | **(4,473)** | - |
| **Net cash flows from operating activities** | | **2,438,514** | 2,315,507 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 8 | **-** | (1,676,940) |
| Proceeds from disposal of property, plant and equipment | | **11,690** | 31,028 |
| Interest income received | | **153,419** | 93,292 |
| **Net cash flows from/(used in) investing activities** | | **165,109** | (1,552,620) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from loan advanced from a related party | | **-** | 500,000 |
| Finance costs paid | | **(75,342)** | (75,790) |
| Payment of principal portion of lease liabilities | 9 | **(258,750)** | - |
| Dividends paid | | **(1,521,932)** | - |
| **Net cash flows (used in)/from financing activities** | | **(1,856,024)** | 424,210 |
| **NET INCREASE IN CASH AND SHORT-TERM DEPOSITS** | | **747,599** | 1,187,097 |
| Cash and short-term deposits at 1 January | | **6,604,532** | 5,417,435 |
| **CASH AND SHORT-TERM DEPOSITS AT 31 DECEMBER** | 13 | **7,352,131** | 6,604,532 |

**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) |
| Transitional adjustment to accounts payable and accruals on adoption of IFRS 16 | 2.2 | **(729,649)** | - |
| Transitional adjustment to right-of-use assets on adoption of IFRS 16 | 2.2 | **729,649** | - |
| Transitional adjustment to accounts receivable and prepayments on adoption of IFRS 16 | 2.2 | **(15,795)** | - |

The attached notes 1 to 25 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 2019 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 3 March 2020, 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% (2018: 51%) of its ordinary shares and is based and listed in Egypt.

Information on the Group's structure is provided in Note 2.2.

## 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 2019. 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 rights 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.

## 2.2 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 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* | |
|---|---|---|---|---|
| | | | *2019* | *2018* |
| ***Direct subsidiary*** | | | | |
| Al Mahaliya Ready Mix Concrete Company W.L.L. ("Mahaliya") | Kuwait | Manufacture of construction material, ready concrete and construction contracting work. | **51%** | 51% |
| ***Indirect subsidiaries held through Mahaliya*** | | | | |
| Kuwait German 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. | Kuwait | Manufacture of construction material, ready concrete and construction contracting work. | **51%** | 51% |

## 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

**IFRS 16** ***Leases***

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the consolidated statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

**2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

***IFRS 16 Leases (continued)***

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The adoption IFRS 16 did not have impact on the accumulated losses as at 1 January 2019.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) on the consolidated statement of financial position is as follows:

| | *KD* |
|---|---|
| **ASSETS** | |
| Property, plant and equipment (Note 8) | **(268,376)** |
| Right-of-use assets (Note 9) | **1,013,820** |
| Prepayments | **(15,795)** |
| | **729,649** |
| **LIABILITIES** | |
| Lease liabilities | **729,649** |

The Group has discounted its future lease obligations using its incremental borrowing rate which is determined at 5% at the reporting date.

**a) Nature of the effect of adoption of IFRS 16**

Prior to the adoption of IFRS 16, the Group classified its leases (as lessee) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in consolidated statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

- *Leases previously accounted as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

- *Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

**2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

***IFRS 16 Leases (continued)***

**a) Nature of the effect of adoption of IFRS 16 (continued)**

The Group also applied the available practical expedients wherein it:

- Elected to use the transition practical expedient to not reassess whether a contract is or contains a lease as at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 as at 1 January 2019;
- Elected to classify the carrying amount of the leasehold land previously recognised under finance leases which were included under 'Property, plant and equipment' to Right-of-use asset as at 1 January 2019;
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease;

Based on the above, as at 1 January 2019:

- Right-of-use assets of KD 1,013,820 were recognised and presented separately in the consolidated statement of financial position. This includes the leasehold land recognised previously under finance leases of KD 268,376 that were reclassified from Property, plant and equipment.
- Additional lease liabilities of KD 729,649 were recognised and presented separately in the consolidated statement of financial position.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

| | *KD* |
|---|---|
| Operating lease commitments as at 31 December 2018 | **827,587** |
| Weighted average incremental borrowing rate as at 1 January 2019 | **5%** |
| Discounted operating lease commitments and lease liabilities as at 1 January 2019 | **729,649** |

**b) Summary of new accounting policies**

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

- *Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

- *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term which is considered to be 5 years. Right-of-use assets are subject to impairment.

## 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

***IFRS 16 Leases (continued)***

**b) Summary of new accounting policies (continued)**

- *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below KD 1,500). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

- *Significant judgement in determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional periods. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 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 new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective

**Amendments to IFRS 3*: Definition of a Business***

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

## 2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

**Amendments to IAS 1 and IAS 8*: Definition of Material***

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's 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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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 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 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.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.2 Revenue recognition**

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.

**3.3 Taxation**

*Kuwait Foundation for the Advancement of Sciences (KFAS)*

The Parent Company 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 Parent Company 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 attributable to the Parent Company subject to any disallowed items in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

**3.4 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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5 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.

### 3.6 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Leasehold 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 |

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 property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in 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 statement of profit or loss when the asset is derecognised.

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

### 3.7 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 |

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.7 Inventories (continued)

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.

### 3.8 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.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the 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 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.

### 3.9 Cash and short-term deposits

Cash and short-term deposits in the consolidated statement of financial position comprise cash on hand, non-restricted cash at banks and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and short-term deposits consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts (if any) as they are considered an integral part of the Group's cash management.

### 3.10 Term deposits

Term deposits represent deposits with banks due within three months or more from the placement date and earn interest.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.11 Financial instruments**
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**i) Financial assets**
***Recognition and initial measurement***
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

***Subsequent measurement***
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

***a) Financial assets at amortised cost (debt instruments)***
Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

***b) Financial assets at fair value through OCI (debt instruments)***
For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

***c) Financial assets designated at fair value through OCI (equity instruments)***
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.11 Financial instruments (continued)**

**i) Financial assets (continued)**
***Subsequent measurement (continued)***
***c) Financial assets designated at fair value through OCI (equity instruments) (continued)***
Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

***d) Financial assets at fair value through profit or loss***
Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes certain equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Net gains and losses, including any interest or dividend income, are recognised in statement of profit or loss.

The Group's financial assets include term deposits, cash and short-term deposits and accounts receivable which are measured at amortised cost.

***Derecognition***
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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.

**ii) Financial liabilities**

***Recognition and initial measurement***
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

***Subsequent measurement***
For purposes of subsequent measurement, financial liabilities are classified in two categories:
- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost

The Group has not designated any financial liability as at fair value through profit or loss and financial liabilities at amortised cost is more relevant to the Group.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.11 Financial instruments (continued)**

**ii) Financial liabilities (continued)**
***Subsequent measurement (continued)***

***Financial liabilities at amortised cost***
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

The Group's financial liabilities at amortised cost include lease liabilities, accounts payable and accruals and loan from related parties.

*Lease liabilities*
For accounting policy relating to measurement of lease liabilities, please refer to *IFRS 16 Leases* under Changes in Accounting Policies and Disclosures.

*Accounts payable and accruals*
Accounts payable and accruals are recognised for amounts to be paid in the future for 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".

***Derecognition***
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 statement of profit or loss.

**iii) Offsetting of financial instruments**
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.

**3.12 Impairment of financial assets**
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.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a 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 timing of the default (a lifetime ECL).

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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.13 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 the 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.

### 3.14 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.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 3.15 Foreign currencies

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or 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.

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.

### 3.16 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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.17 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.

### 3.18 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.

## 4 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.

### 4.1 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:

***Classification of financial assets***

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

***Revenue from contracts with customers involving sale of goods***

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the Group is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

***Determining the lease term of contracts with renewal and termination options – Group as lessee***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or to terminate (e.g., a change in business strategy, construction of significant leasehold improvements or significant customization to the leased asset).

## 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### 4.1 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.

### 4.2 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.

***Impairment of financial assets at amortised cost***

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.

***Useful lives of property, plant and equipment***

The management of the Group determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

***Impairment of property, plant and equipment***

A decline in the value of property, plant and equipment could have a significant effect on the amounts recognized in the consolidated financial statements. Management assesses the impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

## 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### 4.2 Estimates and assumptions (continued)

***Impairment of property, plant and equipment (continued)***

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value beyond that which would be expected from the passage of time or normal use;
- significant changes in the technology and regulatory environments;
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

***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.

***Determination of variable consideration***

Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the goods returned to the consolidated entity where the customer maintains a right of return pursuant to the customer contract or where goods or services have a variable component. Revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

***Leases - Estimating the incremental borrowing rate***

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

## 5 OTHER INCOME

| | ***2019*** | *2018* |
|---|---|---|
| | ***KD*** | *KD* |
| Interest income | **158,072** | 94,054 |
| Gain on disposal of property, plant and equipment | **11,350** | 30,266 |
| Others | **271,055** | 96,535 |
| | **440,477** | 220,855 |

## 6 (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year is stated after charging:

| | *2019* *KD* | *2018* *KD* |
|---|---|---|
| ***Included in cost of sales:*** | | |
| Staff costs | **1,256,327** | 1,293,417 |
| Depreciation of property, plant and equipment (Note 8) | **555,374** | 529,816 |
| Depreciation of right-of-use assets (Note 9) | **110,479** | - |
| Cost of inventories recognised as an expense | **13,569,215** | 14,685,051 |
| Write back of provision for impairment of inventories (Note 11) | **(6,020)** | (2,017) |
| Minimum lease payments recognised as an expense | **-** | 47,037 |
| ***Included in other expenses:*** | | |
| Staff costs | **663,906** | 658,637 |
| Depreciation of property, plant and equipment (Note 8) | **434,044** | 444,532 |
| Depreciation of right-of-use assets (Note 9) | **188,323** | - |
| Minimum lease payments recognised as an expense | **-** | 176,906 |

## 7 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the loss for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

| | *2019* | *2018* |
|---|---|---|
| Loss for the year attributable to the equity holders of the Parent Company (KD) | **(681,102)** | (68,748) |
| Weighted average number of shares outstanding during the year (shares) | **101,462,130** | 101,462,130 |
| Basic and diluted EPS (Fils) | **(6.71)** | (0.68) |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the authorisation date of these consolidated financial statements.

## 8 PROPERTY, PLANT AND EQUIPMENT

| | *Barge* *KD* | *Leasehold land* *KD* | *Buildings** *KD* | *Plant and machinery* *KD* | *Furniture and equipment* *KD* | *Motor vehicles* *KD* | *Total* *KD* |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 January 2019 *(as originally stated)* | 6,346,327 | 659,875 | 2,561,089 | 5,959,339 | 403,280 | 5,274,506 | 21,204,416 |
| Impact on adoption of IFRS 16 at 1 January 2019 (Note 2.3) | - | (659,875) | - | - | - | - | (659,875) |
| At 1 January 2019 *(restated)* | 6,346,327 | - | 2,561,089 | 5,959,339 | 403,280 | 5,274,506 | 20,544,541 |
| Disposals | - | - | - | (340) | - | (209,256) | (209,596) |
| Write-off | (254,397) | - | (20,550) | - | (1,987) | (6,100) | (283,034) |
| **At 31 December 2019** | **6,091,930** | - | **2,540,539** | **5,958,999** | **401,293** | **5,059,150** | **20,051,911** |
| **Depreciation:** | | | | | | | |
| At 1 January 2019 *(as originally stated)* | 4,910,481 | 391,499 | 2,273,838 | 5,099,394 | 397,215 | 3,526,298 | 16,598,725 |
| Impact on adoption of IFRS 16 at 1 January 2019 (Note 2.3) | - | (391,499) | - | - | - | - | (391,499) |
| At 1 January 2019 *(restated)* | 4,910,481 | - | 2,273,838 | 5,099,394 | 397,215 | 3,526,298 | 16,207,226 |
| Charge for the year | 281,085 | - | 96,685 | 173,203 | 5,655 | 432,790 | 989,418 |
| Relating to disposals | - | - | - | - | - | (209,256) | (209,256) |
| Write-off | (254,397) | - | (20,550) | - | (1,987) | (6,100) | (283,034) |
| **At 31 December 2019** | **4,937,169** | - | **2,349,973** | **5,272,597** | **400,883** | **3,743,732** | **16,704,354** |
| **Net book value:** | | | | | | | |
| **At 31 December 2019** | **1,154,761** | - | **190,566** | **686,402** | **410** | **1,315,418** | **3,347,557** |

## 8 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 2018 | 6,346,327 | 659,875 | 2,561,089 | 5,865,309 | 474,259 | 4,112,252 | 1,015 | 20,020,126 |
| 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 | 659,875 | 2,561,089 | 5,959,339 | 403,280 | 5,274,506 | - | 21,204,416 |
| Depreciation: | | | | | | | | |
| At 1 January 2018 | 4,629,396 | 391,499 | 2,177,153 | 5,038,279 | 455,843 | 3,424,095 | - | 16,116,265 |
| 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 | 391,499 | 2,273,838 | 5,099,394 | 397,215 | 3,526,298 | - | 16,598,725 |
| Net book value: | | | | | | | | |
| At 31 December 2018 | 1,435,846 | 268,376 | 287,251 | 859,945 | 6,065 | 1,748,208 | - | 4,605,691 |

The depreciation included in the consolidated statement of comprehensive income is allocated as follows:

| | ***2019*** ***KD*** | *2018* *KD* |
|---|---|---|
| Cost of sales | **555,374** | 529,816 |
| Administrative expenses | **434,044** | 444,532 |
| | **989,418** | 974,348 |

## 8 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 1,154,761 (2018: KD 1,435,846) 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 2019, 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.

** Fair value disclosure of buildings on buildings*

The Group complies with the real estate valuation procedures set out in Module 11 "Dealing in Securities" of the CMA Executive Bylaws, which require valuations of local real estate properties classified as plant, property and equipment to be determined by at least two independent, registered and accredited real estate appraised provided that one of them is a local bank and that the lower value is taken into account.

The fair value of the building as at 31 December 2019 is determined based on valuations carried out by the respective appraisers using the market comparison approach amounted to KD 575,000.

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value on a linear basis.

## 9 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

As a lessee, the Group leases properties and equipment consisting of leasehold land, office, labor camp and fuel tank and leases generally have lease terms between 1 and 5 years.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

| | *2019* *KD* |
|---|---|
| As at 1 January (Note 2.3) | 1,013,820 |
| Depreciation expense | (298,802) |
| **As at 31 December** | **715,018** |

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

| | *2019* *KD* |
|---|---|
| As at 1 January | 729,649 |
| Accretion of interest | 30,380 |
| Payments | (258,750) |
| **As at 31 December** | **501,279** |
| | |
| Non-current | 388,398 |
| Current | 112,881 |
| | **501,279** |

## 9 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

The maturity analysis of lease liabilities is disclosed in Note 23.2.

The following are the amounts recognised in profit or loss:

| | *2019* *KD* |
|---|---|
| Depreciation expense of right-of-use assets (included under "cost of sales") | 110,479 |
| Depreciation expense of right-of-use assets (included under "other expenses") | 188,323 |
| Interest expense on lease liabilities | 30,380 |
| **Total amount recognised in profit or loss** | **329,182** |

** Fair value disclosure of leasehold land*
The Group complies with the real estate valuation procedures set out in Module 11 "Dealing in Securities" of the CMA Executive Bylaws, which require valuations of local real estate properties classified as right-of-use assets to be determined by at least two independent, registered and accredited real estate appraised provided that one of them is a local bank and that the lower value is taken into account.

The fair value of the leasehold land as at 31 December 2019 is determined based on valuations carried out by the respective appraisers using the market comparison approach amounted to KD 2,830,000.

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value on a linear basis.

## 10 GOODWILL

The carrying amount of goodwill is allocated to manufacturing units as disclosed under segment information (Note 22). 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 11.70% (2018: 11.24%) applied to cash flow projections beyond the five-year period are extrapolated using a terminal growth rate of 2.35% (2018: 2.36%). 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 1,136,544 (2018: KD 937,773) in the current year. The impairment loss was fully allocated to goodwill and included in the statement of profit or loss.

**Key assumptions used in value in use calculations and sensitivity to changes in assumptions**
The calculation of the value in use is most sensitive to the following assumptions:

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

*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.

**10 GOODWILL (continued)**

*Growth rate estimates*
Assumptions are based on published industry research.

**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 12.20% (i.e. +0.5%) would result in a further impairment of KD 168,663.
- A reduction in the long-term growth rate to 1.85% (i.e. -0.5%) would result in a further impairment of KD 123,072.
- A decline in the gross operating profit during the forecast period to 13% (i.e. -2%) would result in a further impairment of KD 92,623.

The above sensitivity analyses are 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.

**11 INVENTORIES**

| | ***2019*** ***KD*** | *2018* *KD* |
|---|---|---|
| Finished goods and goods for resale | **864,661** | 1,221,214 |
| Raw materials | **122,348** | 218,042 |
| Spare parts and consumables | **499,245** | 503,662 |
| | **1,486,254** | 1,942,918 |
| Less: provision for slow moving and obsolete inventories | **(361,922)** | (367,942) |
| | **1,124,332** | 1,574,976 |

During the year ended 31 December 2019, KD 13,569,215 (2018: KD 14,685,051) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

The Group reversed KD 6,020 during the year ended 31 December 2019 (2018: KD 2,017) for a previous inventory write-down, as the Group sold the relevant goods that had been written down. The amount reversed has been included in 'cost of sales' 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:

| | ***2019*** ***KD*** | *2018* *KD* |
|---|---|---|
| At 1 January | **367,942** | 369,959 |
| Write back of provision for impairment of inventories | **(6,020)** | (2,017) |
| At 31 December | **361,922** | 367,942 |

## 12 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2019 KD | 2018 KD |
|---|---|---|
| Trade receivables | **10,080,305** | 10,169,038 |
| Less: Allowance for expected credit losses | **(4,896,015)** | (4,040,006) |
| | **5,184,290** | 6,129,032 |
| Amounts due from a related party (Note 20) | **15,228** | 15,228 |
| Prepayments, advances and deposits | **42,196** | 74,865 |
| Staff advances | **45,685** | 32,486 |
| Other receivables | **34,692** | 41,676 |
| | **5,322,091** | 6,293,287 |

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 23.1 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 allowance for expected credit losses of trade receivables are as follows:

| | 2019 KD | 2018 KD |
|---|---|---|
| At 1 January | **4,040,006** | 3,740,012 |
| Opening loss adjustment based on lifetime ECL calculated under IFRS 9 | **-** | 79,827 |
| Opening provision for impairment of trade receivables | **4,040,006** | 3,819,839 |
| Allowance for expected credit losses recognised in profit or loss | **856,009** | 220,167 |
| At 31 December | **4,896,015** | 4,040,006 |

## 13 CASH AND SHORT-TERM DEPOSITS

| | 2019 KD | 2018 KD |
|---|---|---|
| Cash at banks and on hand | **1,092,131** | 1,484,532 |
| Short-term deposits | **6,260,000** | 5,120,000 |
| **Cash and short-term deposits** | **7,352,131** | 6,604,532 |

*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% (2018: 2.5%) per annum.

Restricted deposits of KD 60,000 (2018: 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% (2018: 2.5%) per annum.

**14 SHARE CAPITAL AND DISTRIBUTIONS**

**a) Share capital**

| | *2019 and 2018* | |
|---|---|---|
| | *Number of shares* | *Authorised, issued and fully paid KD* |
| Shares of 100 fils each (paid in cash) | **101,462,130** | 10,146,213 |

**b) Distributions made and proposed**

| | *2019 KD* | *2018 KD* |
|---|---|---|
| **Cash dividends on ordinary shares declared and paid:** | | |
| Final cash dividend for 2018: 15 fils per share (2017: Nil) | **1,521,932** | - |
| **Proposed dividends on ordinary shares:** | | |
| Proposed cash dividend for the 2019: Nil (2018: 15 fils per share) | - | 1,521,932 |

**15 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.

**16 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.

## 17 EMPLOYEES' END OF SERVICE BENEFITS

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

| | *2019* *KD* | *2018* *KD* |
|---|---|---|
| As at 1 January | **786,627** | 742,405 |
| Charge for the year | **116,903** | 121,321 |
| Employees end of service benefits paid | **(93,730)** | (77,099) |
| At 31 December | **809,800** | 786,627 |

## 18 ACCOUNTS PAYABLE AND ACCRUALS

| | *2019* *KD* | *2018* *KD* |
|---|---|---|
| Trade payables | **2,391,458** | 2,675,897 |
| Amounts due to related parties (Note 20) | **752,785** | 802,108 |
| KFAS, NLST and Zakat payable | **74,008** | 35,600 |
| Accrued expenses | **1,371,067** | 1,203,739 |
| Advances from customers | **91,425** | 86,750 |
| Dividend payable | **7,269** | 7,269 |
| Other payables | **178,821** | 177,691 |
| | **4,866,833** | 4,989,054 |

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled within 90 days from the date of purchase.
- Other payables are non-interest bearing and have an average term of six months.

For explanation on the Group's liquidity risk management processes, refer to Note 23.2.

## 19 CONTINGENT LIABILITIES

As at 31 December 2019 the Group had contingent liabilities amounting to KD 156,000 (2018: KD 306,000) in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

## 20 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 comprehensive income:**

| | *Ultimate Parent Company* *KD* | *Other related parties* *KD* | *2019* *KD* | *2018* *KD* |
|---|---|---|---|---|
| Cost of sales | - | 7,461,754 | **7,461,754** | 7,768,739 |
| Administrative expenses | 37,263 | 4,601 | **41,864** | 39,553 |
| Finance costs | 79,000 | - | **79,000** | 77,680 |

**20 RELATED PARTY DISCLOSURES (continued)**

**Consolidated statement of financial position:**

| | *2019 KD* | | | | *2018 KD* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Associate ** | *Ultimate Parent Company* | *Other related parties* | ***Total*** | *Associate ** | *Ultimate Parent Company* | *Other related parties* | *Total* |
| ***Amounts due from a related party*** | | | | | | | | |
| Accounts receivable and prepayments (Note 12) | 15,228 | - | - | **15,228** | 15,228 | - | - | 15,228 |
| ***Amounts due to related parties*** | | | | | | | | |
| Accounts payables and accruals (Note 18) | - | - | 752,785 | **752,785** | - | - | 802,108 | 802,108 |
| Loan from related parties | - | 500,000 | 1,082,900 | **1,582,900** | - | 500,000 | 1,082,900 | 1,582,900 |

* Receivables from an associate have no specified repayment terms and are 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 2019 and 31 December 2018, 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 2018: KD 1,082,900) carries an effective interest rate of 5% p.a. (31 December 2018: 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 2018: KD 500,000) carries an effective interest rate of 4.4% p.a. (31 December 2018: 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.

**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* | ***2019 KD*** | *2018 KD* |
|---|---|---|
| Salaries and short-term benefits | **168,395** | 199,578 |
| Employees' end of service benefits | **18,553** | 17,130 |
| | **186,948** | 216,708 |

The Board of Directors of the Parent Company proposed a directors' remuneration of KD 26,196 for the year ended 31 December 2019 (2018: KD 17,082). This proposal is subject to the approval of the shareholders at the AGM of the Parent Company.

## 21 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*** | ***2019*** | *2018* |
|---|---|---|---|
| Al Mahaliya Ready Mix Concrete Company W.L.L. and its subsidiaries | Kuwait | 49% | 49% |
| Accumulated balances of material non-controlling interests | | **1,970,982** | 2,524,080 |
| (Loss) profit allocated to material non-controlling interests | | **(553,098)** | 131,047 |

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

**Summarised consolidated statement of comprehensive income:**

| | ***2019 KD*** | *2018 KD* |
|---|---|---|
| Sale of goods | **14,893,652** | 16,405,726 |
| Cost of sales | **(14,072,357)** | (15,360,066) |
| Other income | **22,592** | 126,801 |
| Other expenses | **(1,825,746)** | (769,906) |
| Finance costs | **(146,912)** | (135,111) |
| Total (loss) profit and comprehensive income | **(1,128,771)** | 267,444 |
| Attributable to non-controlling interests | **(553,098)** | 131,047 |

**Summarised consolidated statement of financial position:**

| | ***2019 KD*** | *2018 KD* |
|---|---|---|
| Current assets | **5,900,986** | 6,463,104 |
| Non-current assets | **8,243,614** | 8,550,356 |
| **TOTAL ASSETS** | **14,144,600** | 15,013,460 |
| Current liabilities | **7,134,469** | 7,109,645 |
| Non-current liabilities | **2,987,719** | 2,752,632 |
| **TOTAL LIABILITIES** | **10,122,188** | 9,862,277 |
| **TOTAL EQUITY** | **4,022,412** | 5,151,183 |
| Attributable to: | | |
| Equity holders of the Parent Company | **2,051,430** | 2,627,103 |
| Non-controlling interests | **1,970,982** | 2,524,080 |

## 21 MATERIAL PARTLY-OWNED SUBSIDIARY (continued)

**Summarised cash flow information:**

| | *2019* *KD* | *2018* *KD* |
|---|---|---|
| Cash flows from operating activities | **100,629** | 969,678 |
| Cash flows from (used in) investing activities | **11,350** | (1,645,852) |
| Cash flows (used in) from financing activities | **(192,544)** | 372,100 |
| Net decrease in cash and short-term deposits | **(80,565)** | (304,074) |

## 22 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 2019 and 31 December 2018, respectively:

| *2019* | ***Trading units*** *KD* | ***Manufacturing units*** *KD* | ***Total*** *KD* | ***Adjustments and eliminations*** *KD* | ***Consolidated*** *KD* |
|---|---|---|---|---|---|
| ***Segment revenue*** | | | | | |
| External customers | **7,068,962** | **12,033,948** | **19,102,910** | **-** | **19,102,910** |
| Inter-segment | **3,358,075** | **-** | **3,358,075** | **(3,358,075)** | **-** |
| Intra-segment | **-** | **2,859,704** | **2,859,704** | **(2,859,704)** | **-** |
| ***Total revenue*** | **10,427,037** | **14,893,652** | **25,320,689** | **(6,217,779)** | **19,102,910** |
| ***Segment expenses*** | | | | | |
| Cost of inventories recognized as an expense | **(8,548,366)** | **(11,238,628)** | **(19,786,994)** | **6,217,779** | **(13,569,215)** |
| Depreciation | **(601,700)** | **(686,520)** | **(1,288,220)** | **-** | **(1,288,220)** |
| Goodwill impairment | **(1,136,544)** | **-** | **(1,136,544)** | **-** | **(1,136,544)** |
| ***Segment results*** | **(36,352)** | **(1,128,771)** | **(1,165,123)** | **-** | **(1,165,123)** |

## 22 SEGMENT INFORMATION (continued)

| *2018* | | | | | |
|---|---|---|---|---|---|
| *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* | | | | | |
| Cost of inventories recognized as an expense | (9,038,928) | (12,318,400) | (21,357,328) | 6,672,277 | (14,685,051) |
| Depreciation | (439,297) | (535,051) | (974,348) | - | (974,348) |
| Goodwill impairment | (937,773) | - | (937,773) | - | (937,773) |
| *Segment results* | (181,432) | 267,444 | 86,012 | - | 86,012 |

The following table presents assets and liabilities information for the Group's operating segments as at 31 December 2019 and 31 December 2018, respectively:

| *2019* | *Trading units KD* | *Manufacturing units KD* | *Total KD* | *Adjustments and eliminations KD* | *Consolidated KD* |
|---|---|---|---|---|---|
| Segment assets | **17,520,240** | **14,144,600** | **31,664,840** | **(11,638,771)** | **20,026,069** |
| Segment liabilities | **2,359,140** | **10,122,188** | **12,481,328** | **(4,720,516)** | **7,760,812** |
| 2018 | | | | | |
| 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 |

## 23 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 lease liabilities, accounts payable and accruals, 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, term deposits and cash and short-term deposits which are directly from its operations. No significant changes were made in the risk management objectives and policies during the years ended 31 December 2019 and 31 December 2018.

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:

## 23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

### 23.1 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 and other 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:

| | *2019* *KD* | *2018* *KD* |
|---|---|---|
| Cash and short-term deposits | **7,352,131** | 6,604,532 |
| Trade receivables | **5,184,290** | 6,129,032 |
| Other receivables | **34,692** | 41,676 |
| Amounts due from a related party | **15,228** | 15,228 |
| | **12,586,341** | 12,790,468 |

***Collateral and other credit enhancements***

The Group does not have any collateral or other credit enhancements against any of the financial assets at 31 December 2019 and 31 December 2018.

***Concentration of maximum exposure to credit risk***

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group's concentration of credit risk pertains to receivable balances from the Group's 5 largest customers which account for 46% of outstanding trade receivables at 31 December 2019 (2018: 42%).

The Group considers its customers to have low credit risk as credit risk ratings assigned by international credit-rating agencies is equivalent to the globally understood definition of 'investment grade' (i.e. Baa2/ BBB and above).

***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 54% (2018: 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.

**23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**23.1 Credit risk (continued)**

***Trade receivables (continued)***
At 31 December 2019, the Group had 5 customers (2018: 5 customers) that owed it more than KD 488,645 (2018: KD 374,989) each and accounted for approximately KD 4,661,216 (2018: KD 4,224,790) of all the receivables outstanding.

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 fully provided for if 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 12. The Group does not hold collateral as security.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

| | | *Days past due* | | | | |
|---|---|---|---|---|---|---|
| ***At 31 December 2019*** | *Current KD* | *>30 days KD* | *30-60 days KD* | *61-90 days KD* | *>91 days KD* | *Total KD* |
| Expected credit loss rate | 5.65% | 6.54% | 7.72% | 10.58% | 74.89% | |
| Estimated total gross carrying amount at default | 2,495,400 | 610,851 | 453,649 | 315,777 | 6,204,628 | 10,080,305 |
| **Expected credit loss** | **141,003** | **39,942** | **35,033** | **33,418** | **4,646,619** | **4,896,015** |
| *At 31 December 2018* | | | | | | |
| 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 |

***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.

**23.2 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.

## 23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 23.2 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 2019* | *On demand* *KD* | *Less than 3 months* *KD* | *3 to 12 months* *KD* | *1 to 5 years* *KD* | *Total* *KD* |
|---|---|---|---|---|---|
| Loan from a related party | - | 559,645 | - | 1,137,045 | 1,696,690 |
| Lease liabilities | - | 29,293 | 105,968 | 423,873 | 559,134 |
| Accounts payable and accruals* | 698,640 | 3,115,252 | 74,008 | - | 3,887,900 |
| | **698,640** | **3,704,190** | **179,976** | **1,560,918** | **6,143,724** |

| *At 31 December 2018* | *On demand* *KD* | *Less than 3 months* *KD* | *3 to 12 months* *KD* | *1 to 5 years* *KD* | *Total* *KD* |
|---|---|---|---|---|---|
| Loan from a related party | - | 559,645 | - | 1,137,045 | 1,696,690 |
| Accounts payable and accruals* | 802,108 | 3,177,088 | 35,600 | - | 4,014,796 |
| | 802,108 | 3,736,733 | 35,600 | 1,137,045 | 5,711,486 |

* *excludes provisions and advances from customers.*

### 23.3 Operational 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.

### 23.4 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.

#### 23.4.1 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 loan from related parties.

Term deposits and loan from related parties are set at a fixed interest rate and hence the Group is not exposed to interest rate risk.

**23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**23.4 Market risk (continued)**

**23.4.1 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:

| | *2019* | *2018* |
|---|---|---|
| | *KD* | *KD* |
| **Fixed-rate instruments** | | |
| Financial assets | **6,320,000** | 5,180,000 |
| Financial liabilities | **(1,582,900)** | (1,582,900) |
| | **4,737,100** | 3,597,100 |
| **Variable-rate instruments** | | |
| Financial liabilities | **-** | - |

**23.4.2 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* | |
|---|---|---|---|---|
| | ***2019*** | *2018* | ***2019*** | *2018* |
| ***Currency*** | ***KD*** | *KD* | ***KD*** | *KD* |
| US Dollar (USD) | **691,598** | 706,982 | **3,869** | 2,561 |
| Euro (EUR) | **611** | 26,187 | **-** | - |

*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 loss due to changes in the fair value of monetary assets and liabilities is as follows:

| | | ***Effect on loss*** | |
|---|---|---|---|
| | ***Change in exchange rate*** | ***2019*** | *2018* |
| ***Currency*** | | ***KD*** | *KD* |
| USD | **2%** | **13,755** | 14,088 |
| EUR | **2%** | **12** | 524 |

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.

## 24 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, lease liabilities, loan from related parties, accounts payable and accruals less cash and short-term deposits. Capital represents total equity attributable to equity holders of the Parent Company.

| | *2019*<br>*KD* | *2018*<br>*KD* |
|---|---|---|
| Loan from related parties | **1,582,900** | 1,582,900 |
| Lease liabilities | **501,279** | - |
| Accounts payable and accruals | **3,404,341** | 3,698,565 |
| Less: Cash and short-term deposits | **(7,352,131)** | (6,604,532) |
| **Net debt** | **(1,863,611)** | (1,323,067) |
| Capital (total equity attributable to equity holders of the Parent Company) | **11,627,204** | 13,830,238 |
| **Capital and net debt** | **9,763,593** | 12,507,171 |
| **Gearing ratio** | **(19.1%)** | (10.6%) |

No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

## 25 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of accounts receivable, term deposits and cash and short-term deposits. Financial liabilities consist of lease liabilities, accounts payable and accruals and loan from related parties.

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.