**Kuwait Foundry Company K.P.S.C.**
State of Kuwait

Financial Statements and Independent Auditor's Report
For the year ended 31 December 2018

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## Contents

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**Independent Auditor's Report**

**To the Shareholders of Kuwait Foundry Company K.P.S.C.**
State of Kuwait

**Report on the Audit of Financial Statements**

**Qualified Opinion**

We have audited the accompanying financial statements of Kuwait Foundry Company K.P.S.C. ("Company") which comprise the statement of financial position as at 31 December 2018, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Qualified Opinion**

We draw attention to note 6 of the financial statements as at 31 December 2018 which describe the Company's investments in Egyptian Kuwaiti Foundry Company, an associate, amounting to KD 1,509,945. Further, the share of loss amounting to KD 205,805 and share of other comprehensive income amounting to KD 6,566 from this associate were included in the statements of income and comprehensive income respectively. Since we were not allowed to access the managment and auditors of this associate, we were unable to obtain sufficient appropriate audit evidence about the financial information included in the financial statements in respect of this associate. Consequently we were unable to determine whether any adjustments might be necessary in respect of this matter.

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significant in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified opinion section, we have determined the matter described below to be the key audit matter to be communicated in our report.

*Valuation of unquoted investments*

Unquoted investment securities of KD 17,155,311 as at 31 December 2018 are carried at fair value. These investments primarily represent investments in equities securities classified as fair value through other comprehensive income and fair value through profit or loss. These investments are valued using income or market approach valuation methodologies and there are key inputs to the valuation calculations which reflect management's judgement and estimates as disclosed in significant accounting policy 2.3.4, critical accounting estimates and judgements Note 4, and notes 7 and 12 to the financial statements. There is a risk that the application of an inappropriate valuation methodology and/or the use of inappropriate assumptions could result in the valuation of unquoted investment securities being materially misstated. Accordingly, audit of fair valuation of unquoted equity securities is considered as a key audit matter.

As part of our audit procedures, we tested the design and implementation of controls around the valuation of investment securities. In addition, we involved our internal valuation expert for a selected sample of investment securities and test the appropriateness of the valuation methodology used, as well as inputs used for valuation. This testing included reviewing and challenging management's assumption used in valuation (e.g. cash flow projection; growth projection; discount rate used).

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**Independent Auditor's Report (continued)**

**To the Shareholders of Kuwait Foundry Company K.P.S.C.**
State of Kuwait

**Report on the Audit of Financial Statements (continued)**

**Other Information**

Management is responsible for the other information. The other information comprises all information including the company's annual report other than the financial statements and auditor's report thereon; we obtained the Board of Directors' report prior to the date of auditor's report. We expect to receive the Company's annual report of 2018 after the date of the auditor's report.

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

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the carying amount of the investment in an associate as at 31 December 2018 and the Company's share of the results of the associate for the year. Accordingly, we were unable to conclude whether or not the other information is materially misstated with respect to this matter.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.

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**Independent Auditor's Report (continued)**

**To the Shareholders of Kuwait Foundry Company K.P.S.C.**
State of Kuwait

**Report on the Audit of Financial Statements (continued)**

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's board of directors relating to these 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 , except for the matter described in the Basis for Qualified Opinion section of our report, and that the financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016 and its Executive Regulations, as amended, or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2018 that might have had a material effect on the business of the Company or on its financial position.

**Talal Y. Al Muzaini**
**Licence No. 209A**
**Deloitte & Touche**
**Al-Wazzan & Co.**

Kuwait, 18 March 2019

## Statement of Financial Position as at 31 December 2018

| | Notes | Kuwaiti Dinars 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 333,818 | 333,996 |
| Investment in an associate | 6 | 1,509,945 | 1,709,184 |
| Investments at fair value through other comprehensive income | 7 | 33,989,497 | - |
| Available for sale investments | 8 | - | 32,877,524 |
| Loan receivable - long term | 9 | 1,499,903 | 1,642,518 |
| | | **37,333,163** | **36,563,222** |
| **Current assets** | | | |
| Inventories | 10 | 2,467,434 | 2,356,794 |
| Loan receivable - short term | 9 | 300,013 | 304,000 |
| Trade and other receivables | 11 | 576,617 | 590,675 |
| Investments at fair value through profit or loss | 12 | 1,907,720 | 1,240,720 |
| Cash and cash equivalents | 13 | 1,713,487 | 5,475,258 |
| | | 6,965,271 | 9,967,447 |
| **Total assets** | | **44,298,434** | **46,530,669** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 14 | 15,388,423 | 15,388,423 |
| Share premium | | 17,100,000 | 17,100,000 |
| Statutory reserve | 15 | 5,463,472 | 5,342,966 |
| Voluntary reserve | 15 | 211,404 | 275,463 |
| Other reserves | 16 | 3,094,942 | 2,121,440 |
| Retained earnings | | 1,095,860 | 4,552,468 |
| | | **42,354,101** | **44,780,760** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Post-employment benefits | | 1,098,501 | 1,062,631 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | 520,840 | 687,278 |
| Bank overdraft | | 324,992 | - |
| | | 845,832 | 687,278 |
| **Total liabilities** | | 1,944,333 | 1,749,909 |
| **Total equity and liabilities** | | **44,298,434** | **46,530,669** |

The accompanying notes form an integral part of these financial statements.

**Aly Mohamed Abdullatif Al Shaya**
Chairman

**Adel Abdel Rahman Rasheed Al Bader**
Vice Chairman and Chief Executive Officer

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## Statement of Income for the year ended 31 December 2018

| | Notes | Kuwaiti Dinars 2018 | Kuwaiti Dinars 2017 |
|---|---|---|---|
| Sales | | 2,041,465 | 1,687,037 |
| Cost of sales | 18 | (1,054,180) | (821,799) |
| **Gross profit** | | **987,285** | **865,238** |
| Other operating income | | 36,117 | 60,338 |
| Selling and marketing expenses | 19 | (47,469) | (44,394) |
| General and administrative expenses | 20 | (510,485) | (497,806) |
| Finance expenses | | (1,078) | (1,790) |
| **Operating profit** | | **464,370** | **381,586** |
| Company's share in an associate's results | 6 | (205,805) | (136,949) |
| Net gain from financial investments | 21 | 946,497 | 5,076,448 |
| **Net profit for the year before deductions** | | **1,205,062** | **5,321,085** |
| Board of directors remuneration | | (18,000) | (18,000) |
| Contribution to Kuwait Foundation for the Advancement of Sciences | | (10,846) | (47,890) |
| National Labour Support Tax (NLST) | | (19,026) | (122,729) |
| Zakat | | (4,655) | (47,890) |
| **Net profit for the year** | | **1,152,535** | **5,084,576** |
| **Earnings per share (fils)** | 22 | 7.49 | 33.04 |

The accompanying notes form an integral part of these financial statements.

## Statement of Comprehensive Income for the year ended 31 December 2018

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| **Net profit for the year** | **1,152,535** | **5,084,576** |
| **Items that will not be reclassified subsequently to statement of income:** | | |
| Change in fair value of investments at fair value through other comprehensive income | 1,388,021 | - |
| ***Items that may be reclassified subsequently to statement of income:*** | | |
| Change in fair value of available for sale investments | - | 2,690,882 |
| Transferred to statement of income from sale of available for sale investments | - | (6,914,543) |
| Impairment in value | - | 1,076,561 |
| Foreign exchange translation reserve of an associate | 6,566 | 44,313 |
| **Total other comprehensive income / (losses) items** | **1,394,587** | **(3,102,787)** |
| **Total comprehensive income for the year** | **2,547,122** | **1,981,789** |

The accompanying notes form an integral part of these financial statements.

## Statement of Changes in Equity for the year ended 31 December 2018

| | Kuwaiti Dinars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Treasury shares** | **Statutory reserve** | **Voluntary reserve** | **Other reserves (note 16)** | **retained earnings** | **Total** |
| **Balance as at 1 January 2017** | **15,388,423** | **17,100,000** | **(15,192)** | **4,810,858** | **1,000,000** | **6,224,227** | **(185,695)** | **44,322,621** |
| Net profit for the year | - | - | - | - | - | - | 5,084,576 | 5,084,576 |
| Other comprehensive income items | - | - | - | - | - | (3,102,787) | - | (3,102,787) |
| Total comprehensive income / (losses) for the year | - | - | - | - | - | (3,102,787) | 5,084,576 | 1,981,789 |
| Transfer to statutory reserve | - | - | - | 532,108 | - | - | (532,108) | - |
| Voluntary reserve transferred to retained earnings | - | - | - | - | (185,695) | - | 185,695 | - |
| **Transactions with owners** | | | | | | | | |
| Sale of Treasury Shares | - | - | 15,192 | - | - | - | - | 15,192 |
| Cash dividend (note 23) | - | - | - | - | (538,842) | (1,000,000) | - | (1,538,842) |
| **Balance as at 31 December 2017** | **15,388,423** | **17,100,000** | **-** | **5,342,966** | **275,463** | **2,121,440** | **4,552,468** | **44,780,760** |
| | | | | | | | | |
| **Balance as at 1 January 2018** | **15,388,423** | **17,100,000** | **-** | **5,342,966** | **275,463** | **2,121,440** | **4,552,468** | **44,780,760** |
| Effect of applying IFRS 9 (Note 2.2.1) | - | - | - | - | - | (311,410) | (45,844) | (357,254) |
| **Balance as at 1 January 2018 (Restated)** | **15,388,423** | **17,100,000** | **-** | **5,342,966** | **275,463** | **1,810,030** | **4,506,624** | **44,423,506** |
| Net profit for the year | - | - | - | - | - | - | 1,152,535 | 1,152,535 |
| Other comprehensive income items | - | - | - | - | - | 1,394,587 | - | 1,394,587 |
| Total comprehensive income for the year | - | - | - | - | - | 1,394,587 | 1,152,535 | 2,547,122 |
| Transfer to statutory reserve | - | - | - | 120,506 | - | - | (120,506) | - |
| Transfer to retained earnings on disposal of FVOCI investments | - | - | - | - | - | (109,675) | 109,675 | - |
| **Transactions with owners** | | | | | | | | |
| Cash dividend (note 23) | - | - | - | - | (64,059) | - | (4,552,468) | (4,616,527) |
| **Balance as at 31 December 2018** | **15,388,423** | **17,100,000** | **-** | **5,463,472** | **211,404** | **3,094,942** | **1,095,860** | **42,354,101** |

The accompanying notes form an integral part of these financial statements.

## Statement of Cash Flows for the Year Ended 31 December 2018

| | Notes | Kuwaiti Dinars 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit for the year | | **1,152,535** | **5,084,576** |
| *Adjustments*: | | | |
| Depreciation | 5 | 29,437 | 31,004 |
| Expected credit losses | | 9,648 | - |
| Net gains from financial investments | | (946,497) | (5,076,448) |
| Company's share in an associate's results | 6 | 205,805 | 136,949 |
| Finance expenses | | 1,078 | 1,790 |
| Interest income | | (32,652) | - |
| Post-employment benefits - provided during the year | | 53,075 | 69,401 |
| Operating profit before changes in working capital | | 472,429 | 247,272 |
| Inventories | | (110,640) | (137,568) |
| Trade and other receivables | | 119,587 | 287,920 |
| Trade and other payables | | (286,342) | 261,663 |
| Post-employment benefits - paid during the year | | (17,205) | (10,035) |
| **Net cash generated from operating activities** | | **177,829** | **649,252** |
| **Cash flows from investing activities** | | | |
| Paid for acquisition of property, plant and equipment | | (29,259) | (17,002) |
| Proceeds from sale of investments | | 182,791 | 10,235,656 |
| Loans granted during the year | | - | (1,946,518) |
| Paid for purchase of investments | | (968,107) | (1,960,893) |
| Net paid for investments in an associate | 6 | - | (465,778) |
| Cash dividends received | 21 | 1,029,451 | 724,846 |
| Interests income received | | 32,652 | - |
| **Net cash generated from investing activities** | | **247,528** | **6,570,311** |
| **Cash flows from financing activities** | | | |
| Cash dividends paid to shareholders | 23 | (4,496,623) | (1,538,842) |
| Proceeds from sale of treasury shares | | - | 15,192 |
| Bank overdraft | | 324,992 | (468,376) |
| Finance expenses paid | | (1,078) | (1,790) |
| **Net cash used in financing activities** | | **(4,172,709)** | **(1,993,816)** |
| **Net (decrease) / increase in cash and cash equivalents** | | (3,747,352) | 5,225,747 |
| **Cash and cash equivalents at beginning of the year** | | 5,475,258 | 249,511 |
| **Cash and cash equivalents at end of the year** | 13 | **1,727,906** | **5,475,258** |

The accompanying notes form an integral part of these financial statements.

## 1. Company's incorporation and objectives

Kuwait Foundry Company K.P.S.C. "the Company" was established as a closed Kuwaiti Shareholding Company under Articles of Association no. 1201/C/ Vol. 3 on 5 December 1973 and its amendments thereof. The Company is located at Al Rai Industrial Area, Street (10) - Kuwait. On 14 April 1997, the Company was listed in the Kuwait Boursa Securities.

The objectives of the Company are casting of iron and other metals, manufacturing the sanitary tools, manufacturing the accessories for sewage systems, manufacturing of casting joint for "Asbestos" pipes, manufacturing of water valves, manufacturing of water pumps, manufacturing casting accessories for Rain water drains, manufacturing casting joints for water extensions, manufacturing casting pipes by centrifugal method, manufacturing electric cables joints, manufacturing electric fuse boxes, manufacturing galvanized joints, manufacturing the mechanic instruments, manufacturing all the requirements related to casting industry, importing the materials necessary to achieve the Company objectives and all the commercial activities related to marketing and distribution of the Company products. The Company may have an interest or participate under any manner in the entities carrying out works similar to the Company objective or which may assist the Company to achieve its objectives in Kuwait or abroad. It may buy these entities or take it as its subsidiaries. The Company may invest its available excess funds through portfolios managed by specialized companies and parties. The Company may also pledge the Company's properties, provide guarantees, make loans and lend to subsidiaries, associates and companies in which the Company's ownership is 5% or more.

These financial statements were authorized for issue by the Board of Directors on 18 March 2019. The Shareholders' General Assembly may amend this financial statements after its issuance.

## 2. Bases of preparation and significant accounting policies

### 2.1 Bases of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). These financial statements have been prepared on the historical cost basis except for certain financial instruments that are re-measured at fair value, as explained in the accounting policies below.

The accounting polices used in the preparation of these financial statement are consistent with those used in the previous year as stated in note 2.2 in relation to adoption of new and revised International Financial Reporting Standards.

### 2.2 Application of new and revised International Financial Reporting Standards (IFRS)

#### 2.2.1 New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 2018, have been adopted in these financial statements.

The Company applies, for the first time, IFRS 9 Financial Instruments (as revised in July 2014) and IFRS 15 Revenue from contracts with customers ) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The impact of the initial application of these standards is disclosed as below:

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are mandatorily effective for an accounting period that begins on or after 1 January 2018. Transition provisions of IFRS 9 allow an entity not to restate comparatives. Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments:

**1) The classification and measurement of financial assets and financial liabilities, impairment of financial assets**

Details of these new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

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

In the current year, the Company has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Company's financial assets as regards their classification and measurement:

- the Company's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at FVTOCI and FVTPL. The change in fair value on these equity instruments classified as FVOCI continues to be accumulated in the investment revaluation reserve and change in fair value on instruments classified as FVTPL is adjusted against retained earnings.
- financial assets classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

**Disclosures in relation to the initial application of IFRS 9**

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

| | | | Kuwaiti Dinars | | |
|---|---|---|---|---|---|
| | **Original classification under IAS 39** | **New classification under IFRS 9** | **Original carrying amount under IAS 39** | **Additional loss allowance recognised under IFRS 9** | **New carrying amount under IFRS 9** |
| Investments - Equity Securities | AFS | FVOCI | 32,877,524 | (311,410) | 32,566,114 |
| Loan receivable | Loans and receivables | Amortised cost | 1,946,518 | (145,557) | 1,800,961 |
| Trade and other receivables | Loans and receivable | Amortised cost | 590,675 | 99,713 | 690,388 |
| Investment - Equity Securities | FVTPL | FVTPL | 1,240,720 | - | 1,240,720 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 5,475,258 | - | 5,475,258 |
| Trade and other payables | Financial liabilities at Amortised cost | Financial liabilities at Amortised cost | 687,278 | - | 687,278 |
| | | | | (357,254) | |

The following table analyses the impact of transition to IFRS 9 on shareholder's equity as at 1 January 2018:-

| | Kuwaiti Dinars | |
|---|---|---|
| | **Changes in fair value reserve** | **Retained earnings** |
| Closing balance as at 31 December 2017 under IAS 39 | 3,777,313 | 4,552,468 |
| *Impact on reclassification and re-measurements:* | | |
| Re-measurement of investments available for sale at fair value | (311,410) | - |
| Impact on recognition of expected credit losses on financial assets | - | (45,844) |
| Opening balance under IFRS 9 on date of initial application as at 1 January 2018 | 3,465,903 | 4,506,624 |

(b) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost and debt investments at fair value through other comprehensive income but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Company's accounting policies for impairment of financial assets under IFRS 9 is explained in note 2.3.4. The impact of applying IFRS 9 given in the table above.

(c) Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the classification and measurement of the Company's financial liabilities.

(d) Disclosures in relation to the initial application of IFRS 9

The Company's management has provided more extensive disclosures under IFRS 9. The Company's accounting policies for financial instruments are disclosed in detail in note 2.3.4 below.

**Impact of application of IFRS 15 Revenue from Contracts with Customers**

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is mandatorily effective for accounting period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition.

The Company's accounting policies for its revenue streams are disclosed in detail in note 2.3.9 below. Application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Company.

**IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions**

The Company does not have any share-based payment schemes hence the amendment to the standard did not impact on the financial position and or financial performance of the Company.

**IAS 40 (amendments) Transfers of Investment Property**

The Company does not have any investment property hence the amendment to the standard did not impact the financial position and or financial performance of the Company.

**Annual Improvements to IFRS Standards 2014 - 2016 Cycle**

The Company has adopted the amendments to IAS 28 included in the Annual Improvements to IFRS Standards 2014-2016 Cycle for the first time in the current year.

**Amendments to IAS 28 Investments in Associates and Joint Ventures**

The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

**IFRIC 22 Foreign Currency Transactions and Advance Consideration**

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

### 2.2.2 New and revised IFRS in issue but not yet effective and not early adopted

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| *IFRS 16 Leases* | 1 January 2019 |
| IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. | |
| Impact assessment of IFRS 16 Leases | |
| The Company is in process of assessing the impact of new requirement of IFRS 16 to recognise a right-to -use assets, on the financial statements of the Company. | 1 January 2019 |
| Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs. | |
| *IFRIC 23 Uncertainty over Income Tax Treatments* | 1 January 2019 |
| IFRIC 23 addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:<br>• Whether tax treatments should be considered collectively;<br>• Assumptions for taxation authorities' examinations;<br>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and<br>• The effect of changes in facts and circumstances. | |
| Amendments in IFRS 9 *Financial Instruments relating to prepayment features with negative compensation.* | |
| The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. | |
| Amendment to IAS 19 *Employee Benefits* relating to amendment, curtailment or settlement of a defined benefit plan | 1 January 2019 |
| Amendments in IAS 28 *Investments in Associates and Joint Ventures* relating to long-term interests in associates and joint ventures. | 1 January 2019 |
| The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28). | |

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework | 1 January 2020 |
| Amendment to IFRS 3 *Business Combinations* relating to definition of a business<br><br>The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation. | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 relating to definition of material | 1 January 2020 |
| IFRS 17 *Insurance Contracts*<br><br>The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. | 1 January 2021 |
| Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. | Effective date deferred indefinitely. Adoption is still permitted. |

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable.

## 2.3 Significant Accounting Policies

### 2.3.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are included in the statement of income in the period in which they are expensed as incurred. In situations, where it is clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of such assets beyond its originally assessed standard of performance, the expenditure is capitalized.

Depreciation is calculated based on estimated useful life of the applicable assets, except for land, on a straight line basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The residual value, useful life and depreciation method are reviewed at the end of each financial period. Any change in the estimated lives is accounted as of the beginning of the financial year in which it is occurred.

Gains or losses resulting from the disposal of property, plant and equipment is included in the statement of income being the difference between the selling price and carrying value of such assets.

### 2.3.2 Impairment of tangible assets

At the end of each reporting period, the Company reviews the tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs of disposal or value in use. Impairment losses are recognised in the consolidated statement of income for the year in which they arise. When an impairment is reversed, it is recognised to the extent of the net carrying amount had no impairment been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

### 2.3.3 Investments in associates

An associate is an entity over which the company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of business, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except for any investment classified as investment held for sale, as it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Under the equity method, an investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Company's share of the profit or loss and any other comprehensive income of the associates. When the Company's share of losses of an associate exceeds the Company's interest in that associate, (including any long-term interests that represent a part of the Company's net investment in an associate), the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Upon acquisition of an associate, any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate, recognised at the date of acquisition, is recognised as goodwill. Goodwill is included within the carrying amount of the investment in an associate. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in the statement of income.

Requirements of IFRS 9 are applied to determine whether it is necessary to recognize the impairment losses of the associates. The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with the requirements of IAS No. (36) "Impairment of Assets."

When a Company transacts with its associate, profits and losses resulting from the transactions with the associates are recognised in company's financial statement only to the extent of interests in the associate that are not related to the Company.

### 2.3.4 Financial instruments

#### 2.3.4.1 Financial instruments – applicable before 1 January 2018

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of income.

**Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), held to maturity, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. The Company has determined the classification of its financial assets as follows:

*Financial assets as fair value through profit or loss*

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gains or losses arising from remeasurement recognised in the statement of income. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. The net gain or loss recognised in the statement of income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in (note 3.3).

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, cash at banks and loan receivable) are measured at amortised cost using the effective interest method, less any impairment.

*Available for sale financial assets (AFS)*

AFS are non-derivatives financial assets not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss.

The available for sale financial assets are re-measured at fair value. The fair value is determined in the manner described in note 3.3.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of changes in fair value reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity investments are recognised in profit or loss when the Company's right to receive the dividends is established. Foreign exchange gains and losses are recognised in other comprehensive income items.

*Impairment in value*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced by making an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in the consolidated statement of income.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the statement of income for the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in the statement of income are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

*Derecognition*

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

The difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the statement of income.

**Financial liabilities**

Financial liabilities (including borrowings and trade and other payables) are recognised initially at fair value, net of transaction costs incurred and remeasured at amortised cost using the effective interest method.

*Derecognition*

The Company derecognises financial liabilities only when the Company's obligations are discharged or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of income.

*Offsetting*

Financial assets, financial liabilities and the net amount reported in the statement of financial position are only offset when there is a legally enforceable right to set off the recognised amounts and the Company intends to settle on a net basis or realise the asset and settle the liability simultaneously.

**2.3.4.2 Financial instruments – applicable after 1 January 2018**

**Classification and measurement of financial assets**

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

**Business model assessment**

The Company determines its business model at the level that best reflects how it manages group of financial assets to achieve its business objective and in order to generate contractual cash flows. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- The stated policies and objectives for the financial assets and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

**Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)**

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are SPPI, the Company considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Company classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through profit or loss (FVTPL)
- Financial assets carried at fair value through other comprehensive income (FVOCI)

**Financial assets carried at Amortised cost:**

A financial asset is carried at amortised cost if it meets both of the following conditions:

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income. Cash and cash equivalents and receivables are classified at amortized cost.

**Financial asset carried at fair value through profit or loss:**

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

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

**Financial assets carried at fair value through other comprehensive income**

Upon initial recognition, the Company may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Gains and losses on these equity instruments are never recycled to statement of income. Dividends are recognised in statement of income when the right to payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings in the statement of changes in equity.

**Reclassification of financial assets**

The Company only reclassifies its financial assets subsequent to their initial recognition upon change in business model.

**Impairment of financial assets**

The Company recognizes expected credit losses (ECL) on financial assets that are measured at amortized cost in accordance with IFRS 9.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward looking 'Expected Credit Loss' (ECL) model. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Company recognizes ECL for cash and bank balances using the general approach and uses the simplified approach for receivables as required by IFRS 9.

*General approach*

Under general approach, assets migrate through the three stages based on the change in credit quality since initial recognition. The Company incorporates forward-looking information based on expected changes in macro- economic factors in assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Financial assets with significant increase in credit risk since initial recognition, but not credit impaired, are transitioned to stage 2 from stage 1 and ECL is recognized based on the probability of default (PD) of the counter party occurring over the life of the asset. All other financial assets are considered to be in stage 1 unless it is credit impaired and an ECL is recognized based on the PD of the customer within next 12 months. Financial assets are assessed as credit impaired when there is objective evidence of impairment.

ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

*Simplified approach*

The Company applies simplified approach to measuring credit losses, which uses a lifetime expected loss allowance for all trade receivables.

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar credit risk characteristics. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

*Event of default*

The Company considers an event of default has occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, in full (without taking into account any collateral held by the Company). Irrespective of this criteria, the Company considers that a default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**Recognition and de-recognition**

A financial asset or a financial liability is recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is de-recognised when the contractual rights to receive cash flows from the financial asset has expired or the Company has transferred substantially all risks and rewards of ownership of the financial asset, or when it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset and when it no longer retains control over the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**Fair values**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The fair value measurement assumes 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 Company.

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.

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

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

Level 1- Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2- Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3- Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value of financial instruments is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost.

### 2.3.5 Inventories

Finished goods and work in progress are stated at the lower of cost or net realizable value. Cost is determined based on the weighted average cost per ton. The cost of finished goods and work in progress comprises raw materials, direct Labour, other direct costs and related indirect production overheads excluding finance costs.

Raw materials and spare parts are stated at the lower of average cost or net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

### 2.3.6 Post-employment benefits

The Company is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at termination of employment. Such payment is made on a lump sum basis at the end of an employee service. Defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of employees on the financial statement's date. The management expects that this method would result in a reliable approximation of the present value of the Company's liability.

### 2.3.7 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of economic resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the consideration expected to be required to settle the obligation using a discount rate that reflects market's assessments and the current value of money and the risks specific to the obligation.

### 2.3.8 Treasury shares

Treasury shares represent the Company's own shares that have been issued, subsequently purchased by the Company and not yet reissued or cancelled. Treasury shares are accounted for using the cost method. Under the cost method, the total cost of the shares acquired is reported as a contra account within equity. When the treasury shares are disposed gains are credited to a separate un-distributable account in equity "gain on sale of treasury shares". Any realised losses are charged to the same account to the extent of its credit balance, any additional losses are charged to retained earnings to reserves and then to premium. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and the gain on sale of treasury shares.

### 2.3.9 Revenue recognition

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the buyer specific location (delivery). Following delivery, the buyer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods the risks of obsolescence and loss in relation to the goods. A revenue is recognised by the Company when the goods are delivered to the buyer as this represents the point in time at which the right to consideration becomes unconditional.

Dividend income is recognized when the right to receive payment has been established, unless the dividends clearly represent redemption of a part of investment cost.

Interests on deposit is recognized based on effective interest rate method.

### 2.3.10 Accounting for Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Company as lessor*

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

*The Company as lessee*

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

### 2.3.11 Foreign currencies

*Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The financial statements are presented in 'Kuwaiti Dinars' (KD).

*Transactions and balances*

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses resulted from the settlement of such transactions and from the translation at year-end are recorded in the statement of income.

Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

### 2.3.12 Dividends

Dividends distribution to the Company's shareholders is recognized as liabilities in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.3.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as a part of the asset's cost, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the period in which they are incurred.

## 3. Financial risk management

### 3.1 Financial risks

The Company's activities expose it to variety of financial risks such as market risk (which include foreign currency risks, risks of change in fair value resulting from the change in interest rates, and risks of fluctuations in cash flows resulting from changes in interest rates, and market prices risks) credit risk and liquidity risk.

The Company's financial risks management objective is to make continuous evaluation for market conditions, trends and the management's judgments regarding long and short-term changes of market factors in order to reduce the potential negative impact on the Company's financial performance. The Company currently does not use hedging instruments to manage its exposure to these risks.

### a) Market risks

Market risk is the risk of loss resulting from fluctuations in the fair value or the future cash flows of financial instrument as a result of changes in market prices. Market risks comprise of foreign currency risk, interest rate risk and price risk.

The Company's key management monitors and manages its market risks by regular oversight of the market's circumstances and the change in foreign exchange, interest rates, and market prices.

*Foreign currency risk*

Foreign currency risk is the risk that the fair value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Company is exposed to foreign currency risks, mainly from the Company's dealings in financial instruments denominated in US Dollars.

Foreign currency risks are managed through the limits setted out by the company's management and through ongoing evaluation of the foreign currencies positions' movements, monitoring any changes that may negatively affect the company's financial performance.

Had the USD increase/ decrease by 5% against the Kuwaiti Dinar, the results would have been changed high / lower as follows:

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Net profit | 112,221 | 97,326 |
| Equity | 880,444 | 892,115 |

*Interest rate risks*

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 Company's assets are not materially exposed to this risk since the company has no assets that bear variable interest rate. The interest risk arises from loans and facilities that bear variable interest rate and expose the company to risk of fluctuation in cash flows resulting from changes in market interest rates. The company manages such risks through studying inputs related to interest rates and borrow loans for short term, when necessary.

**Equity price risk**

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices (other than those arising from currency risk or interest rate risk). The Company is exposed to equity price risk on its investment classified as fair value through other comprehensive income and fair value through profit or loss.

The Company manages these risks through: -

- Portfolios managed by specialized portfolio managers.
- Periodic follow-up of changes in market prices.
- Invest in companies' shares that have good financial positions that generate high operating income and dividends.

The Company has established policies to study and evaluate investment opportunities, diversifying the portfolios in order to manage the impact from long term change in fair value. The following table demonstrates the sensitivity of the changes in Kuwait index exchanges by 5% on Company's net profit with other factors held constant.

| | Kuwaiti Dinars | |
|---|---|---|
| | **Effect on equity** | |
| | **2018** | **2017** |
| Boursa Kuwait Securities | 900,536 | 831,075 |

**b) Credit risk**

Credit risk is the risk that the Company will incur a loss due to the inability of one party to the financial instrument to meet its obligation to the Company. The credit policy is monitored on an ongoing basis. The Company seeks to avoid credit concentration with individuals or group of customers in particular location or activity. The assets exposed to credit risk are cash at banks, trade receivables and loan receivables. The Company receives the guarantees from customers classified under trade receivables. The cash balances are deposited in financial institutions with good credit reputation, loan receivables exposed to credit risk is concentrated in related parties which have a good credit reputation and there are contractual agreements with those parties defining the terms of repayments. The amounts of assets exposed to credit risk are not materially different from the corresponding carrying values in the financial statements.

**Expected credit loss (ECL) measurement**

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition wherein if a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

*Significant increase in credit risk*

When determining whether the risk of default has increased significantly since initial recognition, the company considers quantitative, qualitative information and backstop indicators and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information. For customer, distributors, roaming and interconnect trade receivables significant increase in credit risk criteria does not apply since the company is using simplified approach which requires use of lifetime expected loss provision.

For amounts due from banks, the Company uses the low credit risk exemption as permitted by IFRS 9 based on the external rating agency credit grades. If the financial instrument is rated below BBB- (sub investment grade) on the reporting date, the Company considers it as significant increase in credit risk.

Financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

*Credit impaired assets*

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, there is sufficient doubt about the ultimate collectability; or the customer is past due for more than 90 days.

*Incorporation of forward looking information*

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company has performed historical analysis and identified Gross Domestic Product (GDP) of each geography in which they operate as the key economic variables impacting credit risk and ECL for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Incorporating forward-looking information increases the degree of judgement required as to how changes in GDP will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The following table contains an analysis of the maximum credit risk exposure of financial instruments for which an ECL allowance is recognized:

| | **13 Dec 18** | | | | | **1 Jan 18** |
|---|---|---|---|---|---|---|
| | **ECL staging** | | | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Simplified approach** | | |
| | | | **KD** | | | |
| | **12-month** | **Lifetime** | **Lifetime** | **Lifetime** | **Total** | **Total** |
| **Cash and bank balances (Note 13)** | 1,727,906 | - | - | - | 1,727,906 | 5,475,258 |
| Less: ECL | (14,419) | - | - | - | (14,419) | - |
| | 1,713,487 | - | - | - | 1,713,487 | 5,475,258 |
| **Trade receivables (Note 11)** | 169,505 | - | - | - | 169,505 | 265,220 |
| Less: ECL | (862) | - | - | - | (862) | (287) |
| | 168,643 | - | - | - | 168,643 | 264,933 |
| **Loan receivables (Note 9)** | 1,939,840 | - | - | - | 1,939,840 | 1,946,518 |
| Less: ECL | (139,924) | - | - | - | (139,924) | (145,557) |
| | 1,799,916 | - | - | - | 1,799,916 | 1,800,961 |

All bank balances are assessed to have low credit risk at each reporting date as most of the balance held with reputable local banking institutions.

## c) Liquidity risks

Liquidity risk is the risk that company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk management mainly represents maintaining sufficient cash and high liquid financial instruments and the availability of funding resources to meet the company's liquidity requirements. The Company monitors and manages this risk by:-

- Monitoring the maturities of financial liabilities.
- Preparing a cash annual budget to determine the liquidity required and available volumes.

All the financial liabilities are due within a year as at the date of the financial statements.

### 3.2 Capital risk management

The company manages its capital to ensure that it will be able to continue as going concerns while maximizing the return to shareholders and benefits to stakeholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders or sell assets to reduce debt. As common in the industry the company monitors the capital on the debt to equity basis.

During 2018, the company's strategy remains unchanged from 2017; which is to maintain lowest possible gearing ratio.

### 3.3 Fair value estimation

The fair value of the financial assets and liabilities is estimated as follows:

- **Level one** : Quoted prices in active markets for financial instruments.
- **Level two** : Quoted prices in an active market for similar instruments. Quoted prices for identical assets or liabilities in an inactive market. Inputs other than quoted prices of financial instruments that are observable for assets and liabilities.
- **Level three** : valuation methods, which use inputs that are not based on observable market data.

The following table explains the analysis of financial instruments recognized at fair value in accordance with above levels:

| **Financial assets** | **Fair value as at** | | **Evaluation date** | **Fair value level** | **Valuation technique(s) and Key input(s)** | **Significant unobservable input(s)** | **Relationship of unobservable inputs with fair value** |
|---|---|---|---|---|---|---|---|
| | **2018 KD** | **2017 KD** | | | | | |
| **Investments at fair value through other comprehensive income** | | | | | | | |
| Quoted shares | 18,010,714 | - | 31 December | First | Last bid price | N/A | N/A |
| Unquoted shares | 15,978,783 | - | 31 December | Third | Discounted cash flows/ market multiple model | Cash flow, discount rate, growth rate | Higher estimated cash flows and lower discount rates, results in higher fair value |
| **Available for sale investments** | | | | | | | |
| Quoted shares | - | 16,621,499 | 31 December | First | Last bid price | N/A | N/A |
| Unquoted shares | | 16,256,025 | 31 December | Third | Income approach/ market multiple model | Cash flow, discount rate, growth rate | Higher estimated cash flows and lower discount rates, results in higher fair value |
| **Investments at fair value through profit or loss** | | | | | | | |
| Unquoted shares | 176,528 | 240,720 | 31 December | Second | Recent transaction | N/A | N/A |
| Unquoted shares | 1,000,000 | 1,000,000 | 31 December | Third | Income approach/ market multiple model | Cash flow, discount rate, growth rate | Higher estimated cash flows and lower discount rates, results in higher fair value |
| Investment funds | 731,192 | - | 31 December | Second | Net value of investment unit | N/A | N/A |

The fair value of other financial assets and financial liabilities approximately equal its book value as at the financial information date.

## 4. Critical accounting estimates and judgements

In the application of the Company's accounting policies, the management is required to make judgments and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period of the revision and future periods if the revision affects future periods.

### Critical Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the assets recognised in the financial statements.

*Classification of investments in equity instruments – IAS 39 (Effective up to 31 December 2017)*

On acquisition of an investment, the Company decides whether it should be classified as "at fair value through statement of income" or "available for sale". The Company follows the guidance of IAS 39 on classifying its investments.

The Company classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at acquisition, when their fair values can be reliably estimated. All other investments are classified as "available for sale".

*Classification of investments in equity instruments - IFRS 9 (Effective from 1 January 2018)*

On acquisition of an investment, the Company decides whether it should be classified as "FVTPL" or "FVTOCI". The Company follows the guidance of IFRS 9 on classifying its investments.

The Company has designated all investments in equity instruments as at FVTOCI as these investments are strategic investments and are not held for trading.

### Sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Fair value measurements and valuation techniques*

Certain assets and liabilities of the Company are measured at fair value for the purposes of preparing the financial statements. The Company's management determines the appropriate techniques and inputs required for measuring the fair value. In determining the fair value of assets and liabilities, management uses observable market data as appropriate, in case no observable market data is available the Company uses an external valuer qualified to do the valuation. Information regarding the required valuation techniques and inputs used to determine the fair value of financial assets and liabilities is disclosed in note (3.3).

*Evidence of impairment of investments*

*Applicable from 1 January 2018*

The Company recognizes loss allowance for 'expected credit loss' (ECL) on bank balances, loan receivable and trade and other receivables. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money and reasonable and supportive information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The company applies three-stage approach to measuring expected credit losses (ECL) as follows:

**Stage 1: 12 months ECL**

The Company measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Company considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

**Stage 2: Lifetime ECL – not credit impaired**

The company measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

**Stage 3: Lifetime ECL – credit impaired**

The company measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

At each reporting date, the Company assesses whether a financial asset or group of financial assets is credit impaired. The Company considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

*Applicable before 1 January 2018*

The Company reviews its financial assets classified as "available for sale investments" and "loans and receivables" periodically to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

*Practicing control*

Investment in an associate represents investment in a foreign company amounted to KD 1,509,945 as at 31 December 2018 (KD 1,709,184 as at 31 December 2017) in which the Company's ownership percentage is 50%. The Company does not have a control on this company in terms of the decisions related to its financial statements or its operation.

*Contingent liabilities*

Contingent liabilities arise as a result of a past events confirmed only by the occurrence or non-occurrence of one or more of uncertain future events not fully within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment.

## 5. Property, plant and equipment

| | Kuwaiti Dinars | | | | | |
|---|---|---|---|---|---|---|
| | **Building & sheds** | **Machinery, equipment & tools** | **Operation patterns** | **Vehicles & transportation equipment** | **Furniture & office equipment** | **Total** |
| **Cost:** | | | | | | |
| As at 1 January 2017 | 2,081,390 | 4,498,671 | 1,219,060 | 142,560 | 139,696 | 8,081,377 |
| Additions | - | 761 | 14,365 | - | 1,876 | 17,002 |
| Disposals | - | (30,125) | (2,141) | (26,996) | - | (59,262) |
| As at 31 December 2017 | 2,081,390 | 4,469,307 | 1,231,284 | 115,564 | 141,572 | 8,039,117 |
| Additions | - | 1,753 | 13,400 | 9,000 | 5,106 | 29,259 |
| Disposals | - | - | - | - | (5,579) | (5,579) |
| As at 31 December 2018 | 2,081,390 | 4,471,060 | 1,244,684 | 124,564 | 141,099 | 8,062,797 |
| **Accumulated depreciation:** | | | | | | |
| As at 1 January 2017 | 1,783,465 | 4,449,802 | 1,219,060 | 142,560 | 138,492 | 7,733,379 |
| Deprecation on the year | 1,682 | 13,353 | 14,365 | - | 1,604 | 31,004 |
| Depreciation of disposals | - | (30,125) | (2,141) | (26,996) | - | (59,262) |
| As at 31 December 2017 | 1,785,147 | 4,433,030 | 1,231,284 | 115,564 | 140,096 | 7,705,121 |
| Deprecation on the year | 1,681 | 11,156 | 13,400 | 1,553 | 1,647 | 29,437 |
| Depreciation of disposals | - | - | - | - | (5,579) | (5,579) |
| As at 31 December 2018 | 1,786,828 | 4,444,186 | 1,244,684 | 117,117 | 136,164 | 7,728,979 |
| **Net book value:** | | | | | | |
| As at 31 December 2018 | 294,562 | 26,874 | - | 7,447 | 4,935 | 333,818 |
| As at 31 December 2017 | 296,243 | 36,277 | - | - | 1,476 | 333,996 |
| Useful lives/(year) | 20 | 10 | 5-6 | 3-5 | 4-5 | |

Buildings and sheds are constructed on a leasehold lands from the State Property Department under lease contracts which will expire in 2020. Such contracts are expected to be renewed in due course.

## 6. Investment in an associate

| | Country of incorporation | Principal activity | Ownership percentage % | 2018 KD | Ownership percentage % | 2017 KD |
|---|---|---|---|---|---|---|
| Egyptian Kuwaiti Foundry Company S.A.E | Egypt | Casting of Iron and other metals | 50% | 1,509,945 | 50% | 1,709,184 |

The movement in investment in an associate during the year is as follows:

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Balance as at 1 January | 1,709,184 | 1,336,042 |
| Company's share in an associate's results | (205,805) | (136,949) |
| Change in foreign currency translation reserve | 6,566 | 44,313 |
| Paid for increase in associate's share capital | - | 465,778 |
| | 1,509,945 | 1,709,184 |

The associate's shares are unquoted as at 31 December 2018 and 2017

The Company's shares in results of the associate is recognised as per audited financial statements for the associate as at 31 December 2018.

The investment in an associate is accounted for using equity method in these financial statements.

Summarised financial information of associate company stated below.

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Current assets | 336,203 | 237,806 |
| Non-current assets | 3,649,527 | 3,027,018 |
| Liability | (1,348,134) | (375,284) |
| Equity | (2,637,596) | (3,055,689) |
| Loss for the year | (411,610) | (273,898) |

## 7. Investments at fair value through other comprehensive income

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Quoted investments | 18,010,714 | - |
| Unquoted investments | 15,978,783 | - |
| | 33,989,497 | - |

## 8. Available for sale investments

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Quoted investments | - | 16,621,499 |
| Unquoted investments | - | 16,256,025 |
| | - | 32,877,524 |

The fair value of available for sale investments was determined based on valuation bases as set out in note 3.3

## 9. Loans receivable

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| **Non-current** | | |
| Long term loan - Foulath Holding Company B.C.S | 1,499,903 | 1,642,518 |
| **Current** | | |
| Short term loan - Loan to Associate | 300,013 | 304,000 |
| | 1,799,916 | 1,946,518 |

Long term loan represent USD 5.4 million paid to an investee with a bullet repayment during 2020.

Short term loan to associate does not have a fixed maturity and is repayable on demand.

The expected credit losses and discount on loans receivable amounted to KWD 139,924 as at 31 December 2018.

## 10. Inventories

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Raw materials and spare parts | 1,112,947 | 1,023,757 |
| Finished goods | 1,343,221 | 1,333,037 |
| Goods in transit | 11,266 | - |
| | 2,467,434 | 2,356,794 |

## 11. Trade and other receivables

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Trade receivables | 169,505 | 265,220 |
| Expected credit losses and provisions | (862) | (100,000) |
| | 168,643 | 165,220 |
| Staff receivables | 384,300 | 390,605 |
| Refundable deposits | 9,483 | 9,483 |
| Prepaid expenses | 11,722 | 18,736 |
| Suppliers' advance payments | - | 4,165 |
| Other receivables | 2,469 | 2,466 |
| | 576,617 | 590,675 |

The Company maintains bank guarantees from customers as collateral for collection, amounted to KD 209,705 as at 31 December 2018 (KD 193,755 as of 31 December 2017).

The movement on expected credit losses and provisions is as follows:-

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Balance as at 1 January | 100,000 | 100,000 |
| Effect of applying IFRS 9 (Note 2.2.1) | (99,713) | - |
| Expected credit losses during the year | 575 | - |
| Balance as at 31 December | 862 | 100,000 |

## 12. Investments at fair value through profit or loss

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Unquoted investments | 1,176,528 | 1,240,720 |
| Investment Funds | 731,192 | - |
| | 1,907,720 | 1,240,720 |

Investment at fair value has been determined based on valuation bases as set out in (note 3.3).

## 13. Cash and cash equivalents

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Cash at banks | 1,014,484 | 3,744,105 |
| Cash at investment portfolios | 410,122 | 1,731,153 |
| Term deposits (less than 3 months) | 303,300 | - |
| | 1,727,906 | 5,475,258 |
| Expected credit losses | (14,419) | - |
| | 1,713,487 | 5,475,258 |

## 14. Share capital

The authorized, issued, and fully paid up share capital is KD 15,388,423 divided into 153,884,230 shares with a nominal value of 100 fils per share. All shares are in cash.

## 15. Reserves

### Statutory reserve

In accordance with the requirements of Company's Memorandum of Incorporation, 10% of the net profit of the year before contribution to KFAS, NLST, Board of Directors' remunerations and Zakat is transferred to statutory reserve. The Company may resolve to discontinue such reserve when the reserve reaches 50% of the share capital. This reserve is not available for distribution except in the cases stipulated by Companies' Law and Company's Memorandum of Incorporation.

### Voluntary reserve

In accordance with the requirements of Company's Memorandum of Incorporation, a percentage of the net profit for the year as proposed by the Board and agreed by the shareholders General Assembly, before contribution to KFAS, NLST, Board of Directors' remunerations and Zakat is transferred to the voluntary reserve. Such transfer can be discontinued by a resolution of the General Assembly upon recommendation by the Board of Directors. This deduction has been discontinued since 1998 on the proposal of the Board of Directors and the approval of the General Assembly.

## 16. Other reserves

| | Kuwaiti Dinars | | | |
|---|---|---|---|---|
| | **General reserve** | **Fair value reserve** | **Foreign currency translation reserve** | **Total** |
| **Balance as at 1 January 2017** | 1,000,000 | 6,924,413 | (1,700,186) | 6,224,227 |
| Total other comprehensive income | - | (3,147,100) | 44,313 | (3,102,787) |
| Cash dividend | (1,000,000) | - | - | (1,000,000) |
| **Balance as at 31 December 2017** | - | 3,777,313 | (1,655,873) | 2,121,440 |
| **Balance as at 1 January 2018** | - | 3,777,313 | (1,655,873) | 2,121,440 |
| Effect of applying IFRS 9 (Note 2.2.1) | - | (311,410) | - | (311,410) |
| **Balance as at 1 January 2018 (restated)** | - | 3,465,903 | (1,655,873) | 1,810,030 |
| Total other comprehensive income | - | 1,278,346 | 6,566 | 1,284,912 |
| **Balance as at 31 December 2018** | - | 4,744,249 | (1,649,307) | 3,094,942 |

## 17. Trade and other payables

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Trade payables | 44,090 | 47,439 |
| Customers' advance payments | 115,442 | 115,823 |
| Accrued expenses and leaves | 100,354 | 107,735 |
| Dividends payable | 139,186 | 19,282 |
| Board of directors remuneration | 18,000 | 18,000 |
| Kuwait Foundation for the Advancement of Sciences | 60,846 | 120,511 |
| Other payables | 19,241 | 87,869 |
| Zakat | 4,655 | 47,890 |
| National Labour Support Tax | 19,026 | 122,729 |
| | 520,840 | 687,278 |

## 18. Cost of sales

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Raw materials and spare parts at the beginning of the year (Note 10 ) | 1,023,757 | 962,340 |
| Purchase of raw materials and spare parts during the year | 210,312 | 110,099 |
| Raw materials and spare parts at the end of the year (Note 10) | (1,112,947) | (1,023,757) |
| Cost of raw materials and used spare parts | 121,122 | 48,682 |
| <u>Operating expenses</u> | | |
| Direct wages | 255,392 | 277,959 |
| Depreciation | 27,968 | 29,249 |
| Direct industrial expenses | 18,965 | 20,850 |
| Indirect industrial expenses | 139,892 | 117,409 |
| Other operating expenses | 501,025 | 403,801 |
| | 943,242 | 849,268 |
| Total production costs | 1,064,364 | 897,950 |
| Finished goods at the beginning of the year (Note 10) | 1,333,037 | 1,256,886 |
| Finished goods at the end of the year (Note 10) | (1,343,221) | (1,333,037) |
| Cost of sales | 1,054,180 | 821,799 |

## 19. Selling and marketing expenses

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Salaries, wages and related expenses | 27,642 | 27,996 |
| Sales commission | 3,885 | 880 |
| Outlets expenses | 1,840 | 6,865 |
| Other expenses | 14,102 | 8,653 |
| | 47,469 | 44,394 |

## 20. General and administrative expenses

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Salaries, wages and related expenses | 391,844 | 403,873 |
| Depreciation | 1,388 | 1,674 |
| Maintenance expenses | 2,148 | 2,947 |
| Financial and legal consulting fees | 8,000 | 8,000 |
| Subscriptions | 7,694 | 7,694 |
| Portfolios management fees | 25,419 | 29,840 |
| Expected credit losses | 9,648 | - |
| Other expenses | 64,344 | 43,778 |
| | 510,485 | 497,806 |

## 21. Net gain from financial investments

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Investments at fair value through other comprehensive income | | |
| Cash dividends | 979,451 | - |
| Available for sale investments | | |
| Gains from sale | - | 6,914,543 |
| Cash dividends | - | 608,798 |
| Impairment | - | (1,630,343) |
| | - | 5,892,998 |
| Investment at fair value through profit or loss | | |
| Changes in fair value of investments at fair value through profit or loss | (82,954) | (932,598) |
| Cash dividends | 50,000 | 116,048 |
| | (32,954) | (816,550) |
| | 946,497 | 5,076,448 |

## 22. Earnings per share

Earnings per share are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year as follows:

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Net profit for the year | 1,152,535 | 5,084,576 |
| Weighted average number of outstanding shares (share) | 153,884,230 | 153,879,298 |
| Earnings per share (fils) | 7.49 | 33.04 |

## 23. Proposed dividends

On 5 May 2018, the General Assembly of the Company's shareholders approved the financial statements for the year ended 31 December 2017, and also approved distribution of 30% from the nominal value per share, i.e. Equivalent to 30 fils per share amounting to KD 4,616,527 by deducting from the retained earnings amount of KD 4,552,468 and KD 64,059 from the voluntary reserve to shareholders, and also approved Board of Directors remuneration for 2017 amounting to KD 18,000.

On 18 March 2019, the Board of Directors proposed the following:

- Cash dividends @ 8% from the nominal value per share, i.e. equivalent to (8 fils) per share amounting to KD 1,231,074 by deducting from the return earning amount KD 1,095,860. and KD 135,214 from the voluntary reserves to shareholders registered in the company's records as at the date of the general assembly.

- Allocating amount of KD 18,000 as Director's remuneration.

This proposal is subject to the shareholders' approval in the general assembly.

## 24. Related parties transactions

Related parties comprise of the Company's shareholders who are members in the Board of Directors, key management, executive Directors and the Companies over which the major shareholders have control. In the Company's ordinary course of business, transactions have been signed with related parties during the year. The following is the statement of these transactions and balances:

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| **Transactions** | | |
| Selling goods to major shareholders | 37,330 | 74,090 |
| Key management benefits | 326,807 | 342,667 |
| **Balances** | | |
| Post-employment benefits for key management | 834,417 | 797,259 |
| Loan to associate (Note 9) | 300,013 | 304,000 |
| Loan to investee company (Note 9) | 1,499,903 | 1,642,518 |

These transactions are subject to the approval of shareholders' General Assembly.

## 25. Segment information

The Company's activities are concentrated in two main sectors: manufacturing sector and investment sector. Revenues, assets and liabilities are measured according to the same accounting bases followed in preparation of the financial statements. The following is the segment analysis which is consistent with the internal reporting presented to management:

| | Kuwaiti Dinars | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | **Manufacturing activities** | **Investment activities** | **Unallocated items** | **Total** |
| Revenues | 2,041,465 | 740,692 | 36,117 | 2,818,274 |
| Costs and expenses | (1,101,649) | - | (564,090) | (1,665,739) |
| Segments results | 939,816 | 740,692 | (527,973) | 1,152,535 |
| Assets | 2,968,419 | 39,906,660 | 1,423,355 | 44,298,434 |

| | Kuwaiti Dinars | | | |
|---|---|---|---|---|
| | 2017 | | | |
| | **Manufacturing activities** | **Investment activities** | **Unallocated items** | **Total** |
| Revenues | 1,687,037 | 4,939,499 | 60,338 | 6,686,874 |
| Costs and expenses | (866,193) | - | (736,105) | (1,602,298) |
| Segments results | 820,844 | 4,939,499 | (675,767) | 5,084,576 |
| Assets | 2,854,534 | 39,505,099 | 4,171,036 | 46,530,669 |

## 26. Contingent liabilities

| | Kuwaiti Dinars | |
|---|---|---|
| | **2018** | **2017** |
| Letters of guarantee issued for third party | 22,150 | 22,150 |
| Unsettled portion of loan to Foulath | - | 391,651 |
| Operating lease commitments - Company as lessee | 81,041 | 112,321 |