Kuwait Foundry Company K.S.C.P.

FINANCIAL STATEMENTS

31 DECEMBER 2019

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Ernst & Young
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FOUNDRY COMPANY – K.S.C.P.

Report on the Audit of Financial Statements

Qualified opinion

We have audited the financial statements of Kuwait Foundry Company K.S.C.P. which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, 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 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The Company's investment in Egyptian Kuwaiti Foundry Company S.A.E., a foreign associate accounted for using the equity method, is carried at KD 1,358,508 in the statement of financial position as at 31 December 2019 (31 December 2018: KD 1,509,945), and the Company's share of loss from the associate amounting KD 288,678 included in the statement of profit or loss for the year then ended (31 December 2018: KD 205,805), and the other comprehensive income from the associate amounting to KD 137,241 included in the statement of comprehensive income for the year then ended (31 December 2018: KD 6,566) are based on management accounts, as audited financial statements are not available in respect of this associate. We were unable to obtain sufficient appropriate evidence about the carrying amount of the Company's investment in the foreign associate as at 31 December 2019 and the Company's share of loss and other comprehensive income for the year then ended. Consequently, we were unable to determine whether any adjustments to those amounts and balances were necessary.

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

Other Matter

The financial statements of the Company for the year ended 31 December 2018, were audited by another auditor who expressed a modified opinion on those statements on 18 March 2019 for the same matter above.

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

Report on the Audit of Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Valuation of unquoted investments

The Company's investment securities amounted to KD 16,470,747 representing 71% of the Company's total assets as at 31 December 2019, including unquoted equity investments of KD 15,294,219 designated at fair value through other comprehensive income (FVOCI) and categorised within Level 3 of the fair value hierarchy as disclosed in Note 24 to the financial statements.

The valuation of the Company's unquoted investments involves the use of assumptions and estimates. The key inputs used in the valuation model requires a considerable degree of judgment by management in establishing fair value and include identifying comparable public companies (peers) and determining appropriate valuation techniques.

Given the size and complexity of the valuation of unquoted equity securities and the importance of the disclosures relating to the assumptions used in the valuation, we addressed this as a key audit matter.

Our audit procedures included, among others, the following:

For valuations, which used significant both observable and unobservable inputs, we have tested the source data used in the valuations, to the extent possible, to independent sources and externally available market data to evaluate the data's relevance, completeness and accuracy.

We have evaluated the appropriateness of the model used to what we considered to be available alternative valuation methods. We also evaluated the reasonableness of the significant judgment and assumptions applied to the valuation models, including appropriateness of the comparable listed companies' selection, the pricing multiples and discounts for lack of marketability.

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

Report on the Audit of Financial Statements (continued)

Key Audit Matters (continued)

Valuation of unquoted investments (continued)

- We assessed the adequacy and the appropriateness of the Company's disclosures concerning the Company's exposure to financial instrument valuation risk, fair value measurement of investment securities and the sensitivity to changes in unobservable inputs in Note 24 to the financial statements.

Other Information included in the Company's 2019 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Company's 2019 Annual Report, other than the financial statements and our auditor's report thereon. We obtained the report of the Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FOUNDRY COMPANY – K.S.C.P. (continued)

Report on the Audit of Financial Statements (continued)

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 scepticism 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.
- 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FOUNDRY COMPANY – K.S.C.P. (continued)

Report on the Audit of Financial Statements (continued)

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

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

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 and that the financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Company's Memorandum of Incorporation, and Articles of Association that an inventory count was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Company's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2019, that might have had a material effect on the business of the Company or on its financial position.

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

29 March 2020
Kuwait

Kuwait Foundry Company K.S.C.P.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	*2019* *KD*	*2018* *KD*
ASSETS			
Non-current assets			
Property, plant and equipment	4	**321,020**	333,818
Investment in an associate	5	**1,358,508**	1,509,945
Financial assets at fair value through other comprehensive income	6	**15,294,219**	33,989,497
Loans and advances	7	**-**	1,499,903
		16,973,747	37,333,163
Current assets			
Inventories	8	**2,377,089**	2,467,434
Trade and other receivables	9	**233,510**	576,617
Loans and advances	7	**299,952**	300,013
Financial assets at fair value through profit or loss	10	**1,176,528**	1,907,720
Cash and cash equivalents	11	**2,299,991**	1,713,487
		6,387,070	6,965,271
TOTAL ASSETS		**23,360,817**	44,298,434
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**7,232,559**	15,388,423
Share premium	13	**8,026,028**	17,100,000
Statutory reserve	14	**3,616,280**	5,463,472
Voluntary reserve	14	**76,190**	211,404
Fair value reserve		**(576,058)**	4,744,249
Foreign currency translation reserve		**(1,512,066)**	(1,649,307)
Retained earnings		**4,743,612**	1,095,860
		21,606,545	42,354,101
Liabilities			
Non-current liabilities			
Employees' end of service benefits		**279,220**	1,098,501
Current liabilities			
Trade and other payables	15	**1,475,052**	520,840
Bank overdrafts		**-**	324,992
		1,475,052	845,832
Total liabilities		**1,754,272**	1,944,333
TOTAL EQUITY AND LIABILITIES		**23,360,817**	44,298,434

Ahmad Jassem Al Gumar
Chairman

Al Muthana Mohammed Al Maktoum
Chief Executive Officer

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019

	Notes	***2019*** ***KD***	*2018* *KD*
Revenue from contracts with customers		**1,906,063**	2,041,465
Cost of sales		**(1,189,268)**	(1,054,180)
GROSS PROFIT		**716,795**	987,285
Other income		**105,295**	3,465
Interest income		**210,382**	32,652
Selling and marketing expenses	16	**(45,855)**	(47,469)
General and administrative expenses	17	**(403,410)**	(500,837)
Allowance for expected credit losses on financial assets at amortised cost		**(52,343)**	(9,648)
Finance costs		**-**	(1,078)
OPERATING PROFIT		**530,864**	464,370
Share of results of an associate	5	**(288,678)**	(205,805)
Net investment income	18	**961,794**	946,497
PROFIT BEFORE TAX		**1,203,980**	1,205,062
Contribution to Kuwait Foundation for the advancement of Sciences ("KFAS")		**(12,040)**	(10,846)
National Labour Support Tax (NLST)		**(201,871)**	(19,026)
Zakat		**(65,157)**	(4,655)
Directors renumeration		**(30,000)**	(18,000)
PROFIT FOR THE YEAR		**894,912**	1,152,535
BASIC AND DILUTED EARNINGS PER SHARE	19	**10.64**	12.67

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 *KD*	*2018* *KD*
Profit for the year	**894,912**	1,152,535
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**137,241**	6,566
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Net gain on equity instruments designated at fair value through other comprehensive income	**1,420,065**	1,388,021
Total other comprehensive income for the year	**1,557,306**	1,394,587
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,452,218**	2,547,122

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Fair value reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Total KD*
As at 1 January 2019	15,388,423	17,100,000	5,463,472	211,404	4,744,249	(1,649,307)	1,095,860	42,354,101
Profit for the year	-	-	-	-	-	-	894,912	894,912
Other comprehensive income	-	-	-	-	1,420,065	137,241	-	1,557,306
Total comprehensive income	-	-	-	-	1,420,065	137,241	894,912	2,452,218
Reduction in share capital (Note 12)	(8,155,864)	-	-	-	-	-	-	(8,155,864)
Transfer of fair value reserve on derecognition of equity investments designated at FVOCI	-	-	-	-	(6,740,372)	-	6,740,372	-
Gain on disposal of equity investments at FVOCI	-	-	-	-	-	-	1,348	1,348
Cash dividends (Note 26)	-	-	-	(135,214)	-	-	(3,988,880)	(4,124,094)
Distribution of equity reserves (Note 26)	-	(9,073,972)	(1,847,192)	-	-	-	-	(10,921,164)
At 31 December 2019	**7,232,559**	**8,026,028**	**3,616,280**	**76,190**	**(576,058)**	**(1,512,066)**	**4,743,612**	**21,606,545**

The attached notes 1 to 28 form part of these financial statements.

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

	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Fair value reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Total KD*
As at 1 January 2018 as previously reported	15,388,423	17,100,000	5,342,966	275,463	3,777,313	(1,655,873)	4,552,468	44,780,760
Impact of adopting IFRS 9	-	-	-	-	(311,410)	-	(45,844)	(357,254)
Restated opening balance under IFRS 9	15,388,423	17,100,000	5,342,966	275,463	3,465,903	(1,655,873)	4,506,624	44,423,506
Profit for the year	-	-	-	-	-	-	1,152,535	1,152,535
Other comprehensive income	-	-	-	-	1,388,021	6,566	-	1,394,587
Total comprehensive income	-	-	-	-	1,388,021	6,566	1,152,535	2,547,122
Transfer of fair value reserve on derecognition of equity investments at FVOCI	-	-	-	-	(109,675)	-	109,675	-
Transfer to statutory reserve	-	-	120,506	-	-	-	(120,506)	-
Cash dividends (Note 26)	-	-	-	(64,059)	-	-	(4,552,468)	(4,616,527)
At 31 December 2018	15,388,423	17,100,000	5,463,472	211,404	4,744,249	(1,649,307)	1,095,860	42,354,101

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Notes	*2019* *KD*	*2018* *KD*
OPERATING ACTIVITIES			
Profit before tax and directors' remuneration		**1,203,980**	1,205,062
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Interest income		**(210,382)**	(32,652)
Depreciation of property, plant and equipment	4	**29,480**	29,437
Allowance for expected credit losses on financial assets at amortised cost	9	**49,245**	9,648
Dividend income		**(924,489)**	(1,029,451)
Share of results of an associate	5	**288,678**	205,805
Changes in fair value of financial assets at fair value through profit or loss		**(1,451)**	82,954
Gain on sale of financial assets at fair value through profit or loss		**(35,854)**	-
Finance costs		**-**	1,078
Provision for employees' end of service benefits		**(128,935)**	53,075
Operating profit changes in working capital		**270,272**	524,956
Working capital adjustments:			
Inventories		**90,345**	(110,640)
Trade and other receivables		**293,862**	(41,434)
Trade and other payables		**(210,683)**	(338,869)
Cash flows from operations		**443,796**	34,013
Employees' end of service benefits paid		**(690,346)**	(17,205)
Net cash flows (used in) from operating activities		**(246,550)**	16,808
INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(16,682)**	(29,259)
Proceeds from sale of financial assets at FVOCI		**20,116,691**	182,791
Proceeds from sale of financial assets at FVTPL		**768,497**	-
Purchase of financial assets at FVOCI		**-**	(968,107)
Loans and advances		**1,499,964**	146,602
Dividend income received		**924,489**	1,029,451
Interest income received		**210,382**	32,652
Net cash flows from investing activities		**23,503,341**	394,130
FINANCING ACTIVITIES			
Cash dividends paid to equity holders		**(3,855,639)**	(4,496,623)
Distribution of equity reserves		**(10,624,724)**	-
Payments to equity holders on reduction of share capital		**(7,864,932)**	-
Finance costs paid		**-**	(1,078)
Net cash flows used in financing activities		**(22,345,295)**	(4,497,701)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**911,496**	(4,086,763)
Cash and cash equivalents as at 1 January		**1,388,495**	5,475,258
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**2,299,991**	1,388,495

The attached notes 1 to 28 form part of these financial statements.

1 CORPORATE INFORMATION

The financial statements of Kuwait Foundry Company K.P.S.C. ("the Company") for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the board of directors on 29 March 2020, and the shareholders have the power to amend these financial statements at the annual general assembly meeting (AGM).

The Company is a public shareholding company, incorporated and domiciled in Kuwait and whose shares are publicly traded in Boursa Kuwait. The Company's registered office is located at Al Rai Industrial Area, Street (10), Kuwait.

The Company's primary objectives are, as follows:

- 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 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 specialised 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The financial statements have been prepared on a historical cost basis except for investment securities that are measured at fair value.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

IFRS 16 *Leases*
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 Operating Leases-Incentives and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

The Company has adopted IFRS 16 'Leases' ("IFRS 16") for the first time effective as of 1 January 2019. Management assessed that the Company has only leases of low-value assets. Therefore, the adoption of this new standard has no impact on the financial statements of the Company.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4.1 Revenue recognition
Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements since it typically controls the good before transferring them to the customer.

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

Sale of goods
Revenue from the sale of goods is recognised when control of the goods is transferred to the customer, generally on delivery of the goods.

2.4.2 Interest income
Interest income is recognised in the statement of profit or loss for all interest-bearing financial instruments using the effective interest method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.3 Taxation

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

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

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

2.4.4 Dividend income
Dividend income is recognised when the right to receive payment is established.

2.4.5 Dividend distribution
The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company.

- Interim dividends to shareholders are recognised when declared by the directors after obtaining the necessary pre-approvals.
- Final dividends are recognised when the distribution is authorised when it is approved by the shareholders at the AGM.

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

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

The Company classifies all other assets as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.7 Property, plant and equipment

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

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

▸ Building on a leasehold land	20 years
▸ Machinery, equipment and tools	10 years
▸ Operation patterns	5-6 years
▸ Motor vehicles	3-5 years
▸ Furniture and office equipment	4-5 years

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

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

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

2.4.8 Inventories

Inventories are valued at the lower of cost and net realisable value after providing allowances for any obsolete or slow-moving items. Costs comprise direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Write-down is made for obsolete and slow-moving items based on their expected future use and net realisable value.

2.4.9 Investment in an associate

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 Company's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date.

The statement of profit or loss reflects the Company's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.9 Investment in an associate (continued)

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the profit or loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4.10 Financial instruments - initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and initial measurement

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

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

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

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

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

Subsequent measurement

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

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

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

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Impairment
The Company recognises allowance for Expected Credit Losses (ECL) for all debt instruments not held at fair value through profit or loss as follows:

- Trade and other receivables and bank balances
- Loans and advances

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

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

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

ii) Financial liabilities

Initial recognition and measurement
The Company's financial liabilities include trade and other payables.

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

Subsequent measurement
For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost

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

Financial liabilities at amortised cost

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Financial instruments - initial recognition and subsequent measurement (continued)

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.4.11 Impairment of non-financial assets

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

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

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

2.4.12 Employees' end of service benefits

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

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

2.4.13 Provisions

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.14 Foreign currencies

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

Transactions and balances

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

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

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

2.4.15 Contingencies

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

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

2.4.16 Segment information

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

2.4.17 Fair value measurement

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

- In the principal market for the asset or liability, 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.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.17 Fair value measurement (continued)

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Significant judgements

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

Classification of financial assets

The Company determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Company also applies judgment to assess if there is a change in business model in circumstances when the assets with in that business model are realised differently than the original expectations.

3.2 Estimates and assumptions

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

Useful lives of depreciable assets

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

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimates and assumptions (continued)

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- An earnings multiple;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

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

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

4 PROPERTY, PLANT AND EQUIPMENT

	Building on a leasehold land KD*	*Machinery, equipment and tools KD*	*Operation patterns KD*	*Motor vehicles KD*	*Furniture and office equipment KD*	*Total KD*
Cost						
As at 1 January 2018	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)
At 31 December 2018	2,081,390	4,471,060	1,244,684	124,564	141,099	8,062,797
Additions	-	2,210	12,256	-	2,216	16,682
Disposals	-	-	(42,146)	-	(12,609)	(54,755)
At 31 December 2019	**2,081,390**	**4,473,270**	**1,214,794**	**124,564**	**130,706**	**8,024,724**
Depreciation						
As at 1 January 2018	1,785,147	4,433,030	1,231,284	115,564	140,096	7,705,121
Depreciation charge for the year	1,681	11,156	13,400	1,553	1,647	29,437
Disposals	-	-	-	-	(5,579)	(5,579)
At 31 December 2018	1,786,828	4,444,186	1,244,684	117,117	136,164	7,728,979
Depreciation charge for the year	1,681	6,863	12,256	3,015	5,665	29,480
Disposals	-	-	(42,146)	-	(12,609)	(54,755)
At 31 December 2019	1,788,509	4,451,049	1,214,794	120,132	129,220	7,703,704
Net book value						
At 31 December 2019	**292,881**	**22,221**	-	**4,432**	**1,486**	**321,020**
At 31 December 2018	294,562	26,874	-	7,447	4,935	333,818

4 PROPERTY, PLANT AND EQUIPMENT (continued)

* The Company`s building is constructed on a leasehold land granted by the Public Authority of Industry (PAI), which will expire on 1 November 2021. Management believes that it is reasonably certain to renew the lease for a similar term.

Depreciation included in the statement of profit or loss is allocated, as follows:

	2019	*2018*
	KD	*KD*
Cost of sales	**28,034**	28,049
General and administrative expenses (Note 17)	**1,446**	1,388
	29,480	29,437

Fair value disclosure
The Company complies with the real estate valuation procedures set out in Module 11 "Dealing in Securities" of the CMA Executive Bylaws, which requires valuations of local real estate properties classified as property, plant and equipment to be determined by at least two independent, registered and accredited real estate appraisers provided that one of them is a local bank and that the lower value is taken into account. The fair value of the leasehold land and building as at 31 December 2019 determined based on valuations carried out by the respective appraisers using the market comparison approach amounted to KD 27,796,094.

Significant increase (decrease) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis.

5 INVESTMENT IN AN ASSOCIATE

The Company has a 50% interest in Egyptian Kuwaiti Foundry Company S.A.E ("EKF"), a foreign associate primarily operating in the iron and steel industry and involved in the production of castings, brake discs and drums. The Company's interest in the foreign associate is accounted for using the equity method in the financial statements.

Summarised financial information of the foreign associate, based on management accounts, and reconciliation with the carrying amount of the investment in the financial statements are set out below:

Summarised statement of financial position of EKF:

	2019	*2018*
	KD	*KD*
Total assets	**4,985,980**	4,368,024
Total liabilities	**(2,268,965)**	(1,348,134)
Equity	**2,717,015**	3,019,890
Company's share in equity	**50%**	50%
Company's carrying amount of the investment	**1,358,508**	1,509,945

Summarised statement of profit or loss of EKF:

	2019	*2018*
	KD	*KD*
Revenue from contracts with customers	**93,378**	-
Loss for the year	**(577,356)**	(411,610)
Company's share of loss for the year	**(288,678)**	(205,805)

5 INVESTMENT IN AN ASSOCIATE (continued)

The associate had no contingent liabilities or capital commitments as at 31 December 2019 or 2018.

A reconciliation of the above summarised financial information to the carrying amount of the associate is set out below:

	2019 ***KD***	*2018* *KD*
As at 1 January	**1,509,945**	1,709,184
Share of results	**(288,678)**	(205,805)
Foreign currency translation adjustments	**137,241**	6,566
As at 31 December	**1,358,508**	1,509,945

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 ***KD***	*2018* *KD*
Quoted investments	-	18,010,714
Unquoted investments	**15,294,219**	15,978,783
	15,294,219	33,989,497

The hierarchy of determining and disclosing the fair values of the investment securities by valuation techniques is presented in Note 24.

7 LOANS AND ADVANCES

	2019 ***KD***	*2018* *KD*
Non-current		
Loan to Foulath Holding Company B.S.C.	-	1,499,903
Current		
Loan to an associate (Note 21)	**299,952**	300,013
	299,952	1,799,916

Loan to an associate

On 6 August 2017, the Company entered into an agreement with other investors to finance the associate an amount of USD 4,000,000 relating to trade purchase and working capital commitments by the associate, for which the Company's share of the loan is USD 2,000,000.

In 2017, the Company granted the associate an amount of USD 1,000,000. Subsequent to 31 December 2019, the Company advanced the remaining balance of USD 1,000,000.

A small loss allowance of KD 3,098 was recognised in relation to loans to an associate during the year (2018: KD 3,087)

For terms and conditions relating to loan to an associate, refer to Note 21.

8 INVENTORIES

	2019	*2018*
	KD	*KD*
Raw materials and spare parts	**1,088,962**	1,112,947
Finished goods	**1,288,127**	1,343,221
Goods in transit	**-**	11,266
	2,377,089	2,467,434

During the year ended 31 December 2019, KD 638,701 (2018: KD 582,223) was recognised as an expense for inventories. This is recognised in cost of sales.

9 TRADE AND OTHER RECEIVABLES

	2019	*2018*
	KD	*KD*
Trade receivables	**214,170**	169,505
Less: Allowance for expected credit losses	**(50,107)**	(862)
	164,063	168,643
Staff receivables	**42,077**	384,300
Refundable deposits	**9,483**	9,483
Prepaid expenses	**11,299**	11,722
Other receivables	**6,588**	2,469
	233,510	576,617

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

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

Note 23 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Company's trade receivables. Other classes within accounts receivable do not contain impaired assets.

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

Set out below is the movement in the allowance for expected credit losses of trade receivables:

	2019	*2018*
	KD	*KD*
At 1 January	**862**	100,000
Opening loss allowance as at 1 January 2019 - calculated under IFRS 9	**-**	(99,713)
Restated opening balance under IFRS 9	**862**	287
Allowance recognised in profit or loss during the year	**49,245**	575
At 31 December	**50,107**	862

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 ***KD***	*2018* *KD*
Unquoted investments	**1,176,528**	1,176,528
Investments funds	-	731,192
	1,176,528	1,907,720

The hierarchy of determining and disclosing the fair values of the investment securities by valuation techniques is presented in Note 24.

11 CASH AND CASH EQUIVALENTS

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

	2019 ***KD***	*2018* *KD*
Cash at banks	**2,299,991**	1,000,065
Cash held in managed portfolios	-	410,122
Short-term deposits	-	303,300
Total cash and short-term deposits	**2,299,991**	1,713,487
Bank overdrafts	-	(324,992)
Total cash and cash equivalents	**2,299,991**	1,388,495

At 31 December 2019, the Company had available KD 750,000 (31 December 2018: KD 425,008) of undrawn committed overdraft facilities.

12 SHARE CAPITAL

	Number of shares		*Authorised, issued and fully paid*	
	2019	*2018*	***2019*** ***KD***	*2018* *KD*
Shares of 100 fils each (paid in cash)	**72,325,590**	153,884,230	**7,232,559**	15,388,423

The Company's Board of Directors in their meeting held on 11 June 2019 proposed the reduction of authorised, issued and paid-up share capital of the Company from KD 15,388,423 to KD 7,232,559 and distributing the reduction amount of KD 8,155,864 to the shareholders pro-rated to their shareholding in the Company. This proposal has been approved by the shareholders at the EGM held on 28 July 2019. The capital reduction was authenticated in the commercial register on 19 August 2019 under registeration number 12194.

13 SHARE PREMIUM

This represents the difference between the nominal value of the shares issued and the subscription or issue price. The reserve is not available for distribution except in cases stipulated by the Companies Law.

For details of movement in share premium during the year, refer to Note 26.

14 RESERVES

a) Statutory reserve

In accordance with the Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before tax and directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Company's board of directors. The annual general assembly of the Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

For details of movement in the reserve during the year, refer to Note 26.

b) Voluntary reserve

In accordance with the Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before tax and directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve. In 1998, the AGM of the shareholders resolved to discontinue transfers to the voluntary reserve.

For details of movement in the reserve during the year, refer to Note 26.

15 TRADE AND OTHER PAYABLES

	2019 ***KD***	*2018* *KD*
Trade payables	**23,872**	44,090
Advances from customers	**137,619**	115,442
Accrued expenses	**50,383**	100,354
Board of Directors' remuneration	**30,000**	18,000
Kuwait Foundation for the Advancement of Sciences ("KFAS")	**72,886**	60,846
Zakat	**65,157**	4,655
National Labour Support Tax ("NLST")	**201,871**	19,026
Dividends and distributions payable	**855,827**	139,186
Other payables	**37,437**	19,241
	1,475,052	520,840

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

For explanation on the Company's liquidity risk management processes, refer to Note 23.

16 SELLING AND MARKETING EXPENSES

	2019 ***KD***	*2018* *KD*
Staff costs	**22,419**	27,642
Sales commission	**3,188**	3,885
Outlet expenses	**1,280**	1,840
Other expenses	**18,968**	14,102
	45,855	47,469

17 GENERAL AND ADMINISTRATIVE EXPENSES

	2019	*2018*
	KD	*KD*
Staff costs	**324,568**	391,844
Professional fees	**16,375**	8,000
Depreciation of property, plant and equipment (Note 4)	**1,446**	1,388
Portfolio management fees	**12,266**	25,419
Maintenance expenses	**1,939**	2,148
Other expenses	**46,816**	72,038
	403,410	500,837

18 NET INVESTMENT INCOME

	2019	*2018*
	KD	*KD*
Dividend income	**924,489**	1,029,451
Changes in fair value of financial assets at fair value through profit or loss	**1,451**	(82,954)
Gain on sale of financial assets at fair value through profit or loss	**35,854**	-
	961,794	946,497

19 BASIC AND DILUTED EARNINGS PER SHARE (EPS)

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

	2019	*2018*
Profit for the year (KD)	**894,912**	1,152,535
Weighted average number of shares outstanding during the year (shares)	**84,102,087**	90,933,524
Basic and diluted earnings per share (Fils)	**10.64**	12.67

In accordance with International Accounting Standard IAS 33: "Earnings Per Share", the prior year comparative information has been restated as a result of the reduction in share capital (Note 12). EPS for year ended 31 December 2018 was 7.49 fils before the retrospective adjustment to the weighted average number of shares following the reduction in share capital.

20 COMMITMENTS AND CONTINGENCIES

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

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

	2019	*2018*
	KD	*KD*
Future minimum lease payments:		
Within one year	**44,474**	33,355
After one year but not more than five years	**25,943**	47,686
	70,417	81,041

Contingent liabilities
At 31 December 2019 the Company had contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 22,150 (2018: KD 22,150).

21 RELATED PARTY DISCLOSURES

The Company's related parties include its associates and joint ventures, major shareholders, entities under common control, directors and executive officers of the Company, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Company's management.

The following table shows the aggregate value of transactions and outstanding balances with related parties:

	2019	*2018*
	KD	*KD*
Statement of financial position		
Loans and advances *	**299,952**	300,013
Statement of profit or loss		
Revenue from contracts with customers	**32,715**	37,330

Terms and conditions of transactions with related parties
Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Company recognised a provision for expected credit losses of KD 3,098 (2018: KD 3,087) relating to amounts owed by the associate.

Transactions with key management personnel
Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The aggregate value of transactions and outstanding balances related to key management personnel were as follows.

	Transaction values for the year ended 31 December		*Balance outstanding as at 31 December*	
	2019	*2018*	***2019***	*2018*
	KD	*KD*	***KD***	*KD*
Salaries and other short-term benefits	**352,418**	289,649	**16,320**	-
Post-employment benefits	**19,379**	37,158	**44,430**	834,417
	371,797	326,807	**60,750**	834,417

The Board of Directors of the Company proposed a directors' remuneration of KD 30,000 for the year ended 31 December 2019 (2018: KD 18,000). This proposal is subject to the approval of the shareholders at the AGM of the Company.

22 SEGMENT INFORMATION

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

- Manufacturing: which represents the manufacturing of iron and other metal products.
- Investment: which represents the Company's investments in securities and investment units to utilise the Company's financial surplus.

The following tables present revenue and profit information for the Company's operating segments for the year ended 31 December 2019 and 31 December 2018, respectively:

	Manufacturing KD	***Investment KD***	***Unallocated KD***	***Total KD***
As at 31 December 2019				
Total assets	**2,871,654**	**18,129,207**	**2,359,956**	**23,360,817**
Total liabilities	**198,928**	**-**	**1,555,344**	**1,754,272**
Year ended 31 December 2019				
Revenue	**1,906,063**	**1,172,176**	**259,706**	**3,337,945**
Segment profit (loss)	**716,777**	**883,498**	**(705,363)**	**894,912**
Depreciation	**(28,034)**	**-**	**(1,446)**	**(29,480)**
Share of results of an associate	**-**	**(288,678)**	**-**	**(288,678)**
Other disclosures:				
Investment in an associate	**-**	**1,358,508**	**-**	**1,358,508**

	Manufacturing KD	*Investment KD*	*Unallocated KD*	*Total KD*
As at 31 December 2018				
Total assets	2,968,419	39,906,660	1,423,355	44,298,434
Total liabilities	328,897	324,992	1,290,444	1,944,333
Year ended 31 December 2018				
Revenue	2,041,465	946,497	36,117	3,024,079
Segment profit (loss)	939,816	740,692	(527,973)	1,152,535
Depreciation	(28,049)	-	(1,388)	(29,437)
Share of results of an associate	-	(205,805)	-	(205,805)
Other disclosures:				
Investment in an associate	-	1,509,945	-	1,509,945

Geographical information
The Company derives revenue from the transfer of goods at a point in time and predominantly in Kuwait.

The majority of the Company's non-current assets are located in Kuwait, except for investment in an associate of KD 1,358,508 and unquoted equity securities of KD 14,941,369 which are domiciled in Arab Republic of Egypt and the Kingdom of Bahrain, respectively.

23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk.

The Company's Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. No significant changes were made in the risk management objectives and policies during the years ended 31 December 2019 and 31 December 2018. The management of the Company reviews and agrees policies for managing each of these risks which are summarised below:

23.1 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

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

	2019	*2018*
	KD	*KD*
Trade receivables	**164,063**	168,643
Other receivables	**69,447**	407,974
Loans and advances	**299,952**	1,799,916
Cash and short-term deposits	**2,299,991**	1,713,487
	2,833,453	4,090,020

Trade receivables

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment. At 31 December 2019, 59% (2018: 35%) of the Company's trade receivables are covered by letters of credit and other forms of credit insurance. These credit enhancements obtained by the Company resulted in a decrease in the ECL of KD 40,000 as at 31 December 2019 (2018: KD 67,000).

23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

23.1 Credit risk (continued)

Trade receivables (continued)

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

	Trade receivables				
		Days past due			
	Current KD	*<90 days KD*	*91-180 days KD*	*>180 days KD*	*Total KD*
31 December 2019					
Expected credit loss rate	-	**17%**	**30%**	**43%**	
Estimated gross carrying amount at default	**41,621**	**83,433**	**18,426**	**70,690**	**214,170**
Estimated credit loss	-	**(14,030)**	**(5,512)**	**(30,565)**	**(50,107)**

		Days past due			
	Current KD	*<90 days KD*	*91-180 days KD*	*>180 days KD*	*Total KD*
31 December 2018					
Expected credit loss rate	-	-	1%	0.65%	
Estimated gross carrying amount at default	30,200	40,899	30,892	67,514	169,505
Estimated credit loss	-	-	(420)	(442)	(862)

Cash and cash equivalents and term deposits

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

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

Other receivables

Other receivables are considered to have a low risk of default and management believes that the counterparties have a strong capacity to meet contractual cash flow obligations in the near term. As a result, the impact of applying the expected credit risk model at the reporting date was immaterial.

23.2 Liquidity risk

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

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

23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

23.2 Liquidity risk (continued)

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

At 31 December 2019	***Less than 3 months***	***3 to 12 months***	***More than 12 months***	***Total***
	KD	***KD***	***KD***	***KD***
Accounts payable and accruals*	**20,342**	**873,737**	-	**894,079**

At 31 December 2018	*Less than 3 months*	*3 to 12 months*	*More than 12 months*	*Total*
	KD	*KD*	*KD*	*KD*
Accounts payable and accruals*	40,922	156,286	-	197,208

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

23.3 Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign currency exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market. Financial instruments affected by market risk include managed funds.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short-term changes in fair value.

23.3.1 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Company's investment portfolio.

The Company's listed and non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to non-listed investments at fair value was KD 16,470,747. Sensitivity analyses of these investments have been provided in Note 24.

23.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial instruments, which potentially subject the Company to interest rate risk, consist principally of cash and cash equivalents and term deposits. The Company's terms deposits are short-term in nature and yield interest at commercial rates. Therefore, the Company believes there is minimal risk of significant losses due to interest rate fluctuations.

As at the reporting date, the Company does not hold interest bearing liabilities.

23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

23.3 Market risk (continued)

23.3.3 Foreign currency risk

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

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

Exposure to currency risk

The Company incurs foreign currency risk on dealing with certain financial assets and that are denominated in a currency other than Kuwaiti Dinar. The currency giving rise to this risk is primarily US Dollar. At the reporting date, the Company's net exposure in foreign currency in US Dollar is KD 1,000,000 (2018: KD 1,000,000).

Foreign exchange rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in exchange rates, with all other variables constant.

		Effect on profit	
Currency	***Change in exchange rate***	***2019 KD***	*2018 KD*
US Dollars	**5%**	**15,150**	112,221

24 FAIR VALUE MEASUREMENT

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

- In the principal market for the asset or liability; 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 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.

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

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

24 FAIR VALUE MEASUREMENT (continued)

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

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

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Valuation methods and assumptions

The following methods and assumptions were used to estimate the fair values:

Listed investment in equity securities

Fair values of publicly traded equity securities are based on quoted market prices in an active market for identical assets without any adjustments. The Company classifies the fair value of these investments as Level 1 of the hierarchy.

Unlisted equity investments

The Company invests in private equity companies that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Company uses a market-based valuation technique for the majority of these positions. The Company determines comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate trading multiple for each comparable company identified. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the investee company to measure the fair value. The Company classifies the fair value of these investments as Level 3.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Fair value measurement using			
31 December 2019	***Quoted prices in active markets (Level 1) KD***	***Significant observable inputs (Level 2) KD***	***Significant unobservable inputs (Level 3) KD***	***Total KD***
Assets measured at fair value:				
Financial assets at FVTPL:				
Unquoted equity securities	-	-	**1,176,528**	**1,176,528**
	-	-	**1,176,528**	**1,176,528**
Financial assets at FVOCI:				
Unquoted equity securities	-	-	**15,294,219**	**15,294,219**
	-	-	**15,294,219**	**15,294,219**
Investment securities (at fair value)	-	-	**16,470,747**	**16,470,747**

24 FAIR VALUE MEASUREMENT (continued)

31 December 2018	*Fair value measurement using*			
	Quoted prices in active markets (Level 1) KD	*Significant observable inputs (Level 2) KD*	*Significant unobservable inputs (Level 3) KD*	*Total KD*
Assets measured at fair value:				
Financial assets at FVTPL:				
Unquoted equity securities	-	-	1,176,528	1,176,528
Unquoted fund	-	731,192	-	731,192
	-	731,192	1,176,528	1,907,720
Financial assets at FVOCI:				
Quoted equity securities	18,010,714	-	-	18,010,714
Unquoted equity securities	-	-	15,978,783	15,978,783
	18,010,714	-	15,978,783	33,989,497
Investment securities (at fair value)	18,010,714	731,192	17,155,311	35,897,217

There were no transfers between any levels of the fair value hierarchy during 2019 or 2018.

Other financial assets and liabilities
For all other financial assets and liabilities, management assessed that the carrying value is an approximation of fair value.

Reconciliation of Level 3 fair values
The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

31 December 2019	***Non-listed equity investments***		
	Financial assets at FVOCI KD	***Financial assets at FVTPL KD***	***Total KD***
As at 1 January 2019	**15,978,783**	**1,176,528**	**17,155,311**
Remeasurement recognised in OCI	**(684,564)**	**-**	**(684,564)**
Remeasurement recognised in profit or loss	**-**	**-**	**-**
As at 31 December 2019	**15,294,219**	**1,176,528**	**16,470,747**

31 December 2018	*Non-listed equity investments*		
	Financial assets at FVOCI KD	*Financial assets at FVTPL KD*	*Total KD*
As at 1 January 2018 as previously reported (Audited)	-	1,240,720	1,240,720
Reclassifications on adoption of IFRS 9	16,256,025	-	16,256,025
IFRS 9 transition adjustment	(311,410)	-	(311,410)
Remeasurement recognised in OCI	34,168	-	34,168
Remeasurement recognised in profit or loss	-	(64,192)	(64,192)
As at 31 December 2018	15,978,783	1,176,528	17,155,311

24 FAIR VALUE MEASUREMENT (continued)

Description of significant unobservable inputs to valuation of financial assets:
The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis are as shown below:

FVOCI	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Unquoted securities	Market multiple approach	Sector PBV multiple	0.81 - 0.88 (0.81)	10% increase / (decrease) in the Sector PBV multiple would result in an increase / (decrease) in fair value by KD 181,714
		DLOM	15% - 40%	10% increase / (decrease) in the DLOM would result in an (decrease) / increase in fair value by KD 1,319,262

* Discount for lack of marketability ("DLOM") represents the amounts that the Company has determined that market participants would take into account when pricing the investments.

25 CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 2018. Capital represents equity attributable to equity holders of the Company and is measured at KD 21,606,545 as at 31 December 2019 (2018: KD 42,354,101).

26 DISTRIBUTIONS MADE AND PROPOSED

	31 December	
	2019 KD	*2018 KD*
Cash dividends and distributions to the equity holders of the Company		
Dividends on ordinary shares declared and paid:		
Final dividends for 2018: 8 fils per share (2017: 30 fils per share) *	**1,231,074**	4,616,527
Interim dividends for 2019: 40 fils per share (2018: Nil) **	**2,893,020**	-
	4,124,094	4,616,527
Proposed dividends on ordinary shares:		
Proposed cash dividend for 2019: 15 fils per share (2018: 8 fils per share) ***	**1,084,883**	1,231,074
Distribution of equity reserves ****	**10,921,164**	-

26 DISTRIBUTIONS MADE AND PROPOSED (continued)

* The Company's Board of Directors in their meeting held on 18 March 2019 proposed cash dividends of 8 fils per share (aggregating to KD 1,231,074) for the year ended 31 December 2018 through partially utilising the retained earnings and voluntary reserve amounting to KD 1,095,860 and KD 135,214, respectively. This proposal has been approved by the shareholders at the AGM held on 13 May 2019 (2017: 30 fils per share aggregating to KD 4,616,527).

** The Company's Board of Directors in their meeting held on 5 September 2019 proposed a half yearly cash dividend of 40 fils per share (aggregating to KD 2,893,020). This proposal has been approved by the shareholders at the AGM held on 30 September 2019.

*** The aggregate amount of the proposed dividend is subject to the approval of shareholders at the AGM and is expected to be paid after the AGM date out of the retained earnings at 31 December 2019, but not recognised as a liability at year end.

**** The Company's Board of Directors in their meeting held on 11 June 2019 proposed distributing equity reserves of KD 10,921,164 through partially utilising the statutory reserve and share premium amounting to KD 1,847,192 and KD 9,073,972, respectively. This proposal has been approved by the shareholders at the AGM held on 28 July 2019.

27 DEPRECIATION, STAFF COSTS, LEASE PAYMENTS AND COST OF INVENTORIES

	2019 ***KD***	*2018* *KD*
Included in cost of sales:		
Depreciation	**28,034**	28,049
Staff costs	**274,180**	268,188
Expense relating to short-term leases	**42,143**	39,876
Costs of inventories recognised as an expense	**638,701**	582,223
Included in administrative expenses:		
Depreciation	**1,446**	1,388
Staff costs	**324,568**	391,844
Included in selling and marketing expenses:		
Staff costs	**22,419**	27,642

28 SUBSEQUENT EVENT

Subsequent to the reporting date, the coronavirus (COVID-19) outbreak has resulted in significant drop in demand for goods and services and supply chain disruptions due to factory shutdowns. There is also high volatility in the financial markets worldwide. The existing and anticipated effects of the outbreak of COVID-19 on the global economy and financial markets is expected to continue to evolve. The scale and duration of these developments remain uncertain at this stage but could negatively impact the Company's financial performance, cash flows and financial position. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements.