

**Specialities Group Holding Company K.P.S.C. and Its Subsidiaries  
State of Kuwait**

**Consolidated financial statements and independent auditor's report**  
For the financial year ended 31 December 2018

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State of Kuwait**

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## **Independent auditor's report**

To the Shareholders of  
Specialities Group Holding Company K.P.S.C.  
State of Kuwait

### **Report on the Audit of the Consolidated Financial Statements**

#### *Qualified Opinion*

We have audited the consolidated financial statements of Specialities Group Holding Company K.P.S.C. ("the Parent Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated financial statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the financial year then ended, and notes to the consolidated 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" paragraph below, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Specialities Group Holding Company K.P.S.C. as at 31 December 2018, and its consolidated financial performance and cash flows for the financial year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for qualified opinion*

As disclosed in (Note No. 3.1), the consolidated financial statements of the Group include the financial information of one of the subsidiaries "Specialities Real Estate Company W.L.L. located in (Kingdom of Saudi Arabia), which was based on management accounts as at 31 December 2012. The Group's management did not record the financial information of Specialities Real Estate Company W.L.L. Subsequent to 31 December 2012, we were unable to obtain sufficient appropriate information to satisfy ourselves on the balances included in the Group's consolidated financial statements relating to such subsidiary. Consequently, we have qualified our audit opinion in this regard on the consolidated financial statements for prior years since 31 December 2013.

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other matter*

The consolidated financial statements as at 31 December 2017 were audited by another auditors who expressed qualified opinion, as shown above in "Basis for qualified opinion" paragraph on the consolidated financial statements on 14 March 2018.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of  
Specialities Group Holding Company K.P.S.C.  
State of Kuwait

### Report on the Audit of the Consolidated Financial Statements (Continued)

#### *Key Audit Matters (Continued)*

In addition to the matter described in the "Basis for qualified opinion" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

#### **Accounts receivable and other debit balances**

The Group has a material balance of accounts receivable and other debit balances represent 37% of the total assets. There are risks associated with recovery of the past due amounts. Due to the nature of the significant judgments associated with the calculation of expected credit losses, the assessment of the expected credit losses is a key element.

Our main focus is to determine the amounts recoverable from accounts receivable, as the determination of the amounts recoverable of certain trade receivables may involve making significant estimates based on several assumptions.

See (Note 2,C.A) and (Note 29) on the consolidated financial statements for the related disclosures.

#### ***Unquoted financial assets at fair value through profit or loss***

The Group has unquoted financial assets at fair value through profit or loss, which are measured at fair value using market data and unobservable significant inputs of KD 4,649,932 represent assets of level 3. These assets are significant in the context of financial position as a whole and the Group's results.

Valuation of the unquoted financial assets at fair value through profit or loss is a significant matter for our audit as it is largely based on estimations (assumptions and multiple valuation methods) include assumptions not observable in the market. The utilized valuation methods included price to carrying value, price to earnings, discounted cash flows and dividends discount models.

See (Note 13) and (Note 30) on the consolidated financial statements for the related disclosures.

#### **How our audit addressed the matter**

Our performed audit procedures included the following, among other matters:

- 1- Our review focused on reviewing the compliance with the Group's credit and collection policies and inquired whether there were changes from previous years.
- 2- We have reviewed the aging of trade receivables.
- 3- We have reviewed the form of expected credit losses used by the management to determine the impairment.
- 4- We have made test for the inputs used, whether current or historical, and reviewed the assumptions used to calculate the expected credit losses.

#### **How our audit addressed the matter**

Our performed audit procedures included the following, among other matters:

- 1- Our review focused on carrying out procedures to assess the applied techniques and multiples used for valuation of unquoted financial assets at fair value through profit or loss. As part of our audit, we used our valuation experts to help in valuation of methodologies and assumptions.
- 2- We have valued the price to carrying value, price to earnings used through measurement of the same in the comparable companies and market information. In addition, we have valued growth rates, discount rates and final growth rates for valuations that are made using the discounted cash flows.
- 3- We have valued adequacy of the disclosures on fair value in (Note 13) and (Note 30) on the consolidated financial statements, particularly completeness and accuracy of assets of level 3 and their related sensitivity.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of  
Specialities Group Holding Company K.P.S.C.

State of Kuwait

### Report on the Audit of the Consolidated Financial Statements (Continued)

#### *Other information included in the Group's annual report for the year 2018*

Management is responsible for the other information. The "Other information" section consists of the information included in the annual report of the Group for the year 2018, other than the consolidated financial statements and the auditor's report thereon. We obtained the report of the Parent Company's board of directors, prior to the date of auditor's report. We expect to obtain the remaining sections of the annual report after the date of auditor's report.

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

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

As described in the "Basis for qualified opinion" section above, the consolidated financial statements of the Group include the financial information of one of the Group's subsidiaries, SREC W.L.L. (KSA), which was based on the management accounts as at 31 December 2012. The Group did not record the financial information of SREC W.L.L. post 31 December 2012 as the management believes that the financial information of the subsidiary requires further analysis and clarification. Accordingly, we are unable to conclude whether the other information is materially misstated, with respect to this matter.

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

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

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

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

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

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



## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

To the Shareholders of  
Specialities Group Holding Company K.P.S.C.

State of Kuwait

### **Report on the Audit of the Consolidated Financial Statements (Continued)**

#### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than those resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Group's management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting. Based on the audit evidence obtained, we will determine whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we will draw attention in our auditor's report to the related disclosures in the consolidated financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions will be 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 consolidated financial statements, including the disclosures. Further, evaluate whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Parent Company or business activities through the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

Among the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore considered as a key audit matter. We disclosed these matters in our auditor's report in our audit report unless local laws or regulations preclude 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.




**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

To the Shareholders of  
Specialities Group Holding Company K.P.S.C.

State of Kuwait

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith, except for the possible effects of the matter described in "Basis for qualified opinion" paragraph above. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies' Law No. 1 of 2016, and its executive regulations as amended, and by the Parent Company's memorandum of incorporation and articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies' Law No. 1 of 2016 and its executive regulation as amended, nor of the Parent Company's memorandum of incorporation and articles of association, as amended, have occurred during the financial year ended 31 December 2018 that might have had a material effect on the business of the Parent Company or its financial position.



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**Qais M. Al Nisf**  
**License No. 38 "A"**  
**BDO Al Nisf & Partners**

**Kuwait: 21 February 2019**

**Specialities Group Holding Company K.P.S.C. and Its Subsidiaries  
State of Kuwait**

**Consolidated Statement of Financial Position  
As at 31 December 2018**

		<b>2018</b>	<b>2017</b>
	<b>Notes</b>	<b>KD</b>	<b>KD</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	1,778,086	1,954,631
Intangible assets	6	212,640	585,670
Investment properties	7	2,000,888	533,818
Investments in associates	8	4,607,838	4,652,571
Financial assets at fair value through other comprehensive income		10,788	-
Financial assets available for sale		-	10,788
Accounts receivable and other debit balances	9	3,306,072	2,413,964
		<u>11,916,312</u>	<u>10,151,442</u>
<b>Current assets</b>			
Inventories	10	1,973,321	1,870,886
Trading properties	11	2,024,154	2,210,214
Accounts receivable and other debit balances	9	9,625,079	8,920,474
Due from related parties	12	857,398	1,320
Financial assets at fair value through profit or loss	13	4,709,903	63,922
Term deposit	14	1,000,000	-
Cash and cash equivalents	15	1,839,812	6,905,841
		<u>22,029,667</u>	<u>19,972,657</u>
Assets classified as held for sale	16	1,115,137	1,306,790
		<u>23,144,804</u>	<u>21,279,447</u>
		<u>35,061,116</u>	<u>31,430,889</u>
<b>Total assets</b>			
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share Capital	17	15,000,000	15,000,000
Share premium	20	12,620,790	15,598,981
Statutory reserve	18 & 20	133,732	-
Voluntary reserve	19 & 20	133,732	-
Other components of equity	21	1,344,986	1,149,929
Treasury shares	22	(2,418,587)	(2,418,587)
Retained earnings/(accumulated losses)	20	986,315	(2,978,191)
<b>Equity attributable to shareholders of the Parent Company</b>		<u>27,800,968</u>	<u>26,352,132</u>
Non-controlling interests		231,335	247,964
<b>Total equity</b>		<u>28,032,303</u>	<u>26,600,096</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Provision for employees' end of service indemnity	23	690,687	629,219
Accounts payables and other credit balances	24	263,302	270,906
		<u>953,989</u>	<u>900,125</u>
<b>Current liabilities</b>			
Accounts payables and other credit balances	24	6,074,824	3,930,668
<b>Total liabilities</b>		<u>7,028,813</u>	<u>4,830,793</u>
<b>Total equity and liabilities</b>		<u>35,061,116</u>	<u>31,430,889</u>

The accompanying notes on pages 11 to 60 form an integral part of these consolidated financial statements.

Mr. Bassim Abdullah Al-Othman  
Chairman

Mr. Mubarak Waqayan Al-Waqayan  
CEO

**Specialities Group Holding Company K.P.S.C. and Its Subsidiaries**  
**State of Kuwait**

Consolidated Statement of Profit or Loss  
For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
<b>Continued operations</b>			
Revenues	25	22,247,648	17,103,942
Cost of revenues		(18,993,816)	(14,856,283)
<b>Gross profit</b>		<u>3,253,832</u>	<u>2,247,659</u>
Lease income		63,000	63,000
Other income		223,461	251,804
Profit on sale of property, plant and equipment		6,100	6,740
Reverse / (provision for) expected credit losses	9	267,407	(1,236,366)
Depreciation and amortization		(109,012)	(470,047)
Unrealised losses from revaluation of investment properties	7	-	(13,000)
Provision for obsolete and slow moving inventories	10	-	(265,176)
Amortisation of trading properties to net realisable value	11	(81,347)	(480,581)
Staff costs		(1,080,556)	(1,426,004)
General and administrative expenses		(604,758)	(856,499)
Selling and distribution expenses		(94,418)	(23,887)
<b>Operating profit / (loss)</b>		<u>1,843,709</u>	<u>(2,202,357)</u>
Share of results of associates	8	(80,614)	80,233
Unrealised loss on financial assets at fair value through profit or loss	13	(3,951)	(18,116)
Interest income		68,510	59,079
loss on foreign currency exchange		(150)	(11,070)
<b>Profit / (loss) for the year from continuing operations before deduction computation</b>		<u>1,827,504</u>	<u>(2,092,231)</u>
Contribution to Kuwaiti Foundation for Advancement of Sciences		(12,036)	-
National Labour Support Tax		(33,219)	-
Contribution to Zakat		(13,288)	-
Board of directors' remuneration		(25,000)	-
<b>Profit / (loss) for the year from continuing operations</b>		<u>1,743,961</u>	<u>(2,092,231)</u>
<b>Discontinuing operations</b>			
loss for the year from discontinued operations	16	(251,596)	(928,835)
<b>Profit / (loss) for the year</b>		<u><u>1,492,365</u></u>	<u><u>(3,021,066)</u></u>
Attributable to:			
The Parent Company's shareholders		1,497,164	(3,003,606)
Non-controlling interests		(4,799)	(17,460)
		<u><u>1,492,365</u></u>	<u><u>(3,021,066)</u></u>
Basic and diluted earnings / (loss) per share from the continuing operations attributable to the shareholders of the Parent Company	26	<u>12.25</u>	<u>(14.54)</u>
Basic and diluted (loss) per share from the discontinued operations attributable to the shareholders of the Parent Company	26	<u>(1.76)</u>	<u>(6.51)</u>
Basic and diluted earnings / (loss) per share attributable to shareholders of the Parent Company	26	<u>10.49</u>	<u>(21.05)</u>

The accompanying notes on pages 11 to 60 form an integral part of these consolidated financial statements.

**Specialities Group Holding Company K.P.S.C. and Its Subsidiaries  
State of Kuwait**

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
For the year ended 31 December 2018

	Notes	<u>2018</u> KD	<u>2017</u> KD
<b>Profit / (loss) for the year</b>		<u>1,492,365</u>	<u>(3,021,066)</u>
<b>Other comprehensive income / (loss)</b>			
<i>Items that will not be reclassified subsequently to the consolidated statement of profit or loss</i>			
Share of change in other comprehensive income of associates	8	-	3,611
Revaluation of lands reclassified to investment properties	21	129,169	-
<i>Items that may be reclassified subsequently to the consolidated statement of profit or loss</i>			
Exchange differences on translation of foreign operations		<u>96,673</u>	<u>(108,975)</u>
<b>Other comprehensive income / (loss)</b>		<u>225,842</u>	<u>(105,364)</u>
<b>Total comprehensive income/(loss) for the year</b>		<u><u>1,718,207</u></u>	<u><u>(3,126,430)</u></u>
<i>Attributable to:</i>			
The Parent Company's shareholders		1,717,636	(3,101,917)
Non-controlling interests		<u>571</u>	<u>(24,513)</u>
		<u><u>1,718,207</u></u>	<u><u>(3,126,430)</u></u>

The accompanying notes on pages 11 to 60 form an integral part of these consolidated financial statements.

Specialities Group Holding Company K.P.S.C. and Its Subsidiaries  
State of Kuwait

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Equity attributable to shareholders of the Parent Company									
	Share capital	Share premium	Statutory reserve	Voluntary reserve	Other components of equity (Note 21)	Treasury shares	(Accumulated losses) / retained earnings	Equity attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
<b>Balance at 1 January 2017</b>	15,000,000	17,500,000	1,981,563	473,319	1,273,655	(2,418,587)	(4,355,901)	29,454,049	272,477	29,726,526
Loss for the year	-	-	-	-	-	-	(3,003,606)	(3,003,606)	(17,460)	(3,021,066)
Other comprehensive loss for the year	-	-	-	-	(98,311)	-	-	(98,311)	(7,053)	(105,364)
Total comprehensive loss for the year	-	-	-	-	(98,311)	-	(3,003,606)	(3,101,917)	(24,513)	(3,126,430)
Adjustments to revaluation reserve (Note 21)	-	-	-	-	(25,415)	-	25,415	-	-	-
Amortisation of accumulated losses (Note 20)	-	(1,901,019)	(1,981,563)	(473,319)	-	-	4,355,901	-	-	-
<b>Balance at 31 December 2017</b>	15,000,000	15,598,981	-	-	1,149,929	(2,418,587)	(2,978,191)	26,352,132	247,964	26,600,096
15,000,000	15,598,981	-	-	-	1,149,929	(2,418,587)	(2,978,191)	26,352,132	247,964	26,600,096
<b>At 1 January 2018 ("as previously stated")</b>	-	-	-	-	-	-	(268,800)	(268,800)	(17,200)	(286,000)
Impact of adoption of IFRS 9 as at 1 January 2018 (Note 2, C, A, i)	15,000,000	15,598,981	-	-	1,149,929	(2,418,587)	(3,246,991)	26,083,332	230,764	26,314,096
<b>At 1 January 2018 ("restated")</b>	-	-	-	-	-	-	1,497,164	1,497,164	(4,799)	1,492,365
Profit for the year	-	-	-	-	220,472	-	-	220,472	5,370	225,842
Other comprehensive income for the year	-	-	-	-	220,472	-	1,497,164	1,717,636	571	1,718,207
Total comprehensive income for the year	-	-	-	-	220,472	-	(267,464)	1,450,172	5,941	1,456,113
Transfer to reserves	-	-	133,732	133,732	-	-	(267,464)	-	-	-
Adjustments to revaluation reserve (Note 21)	-	-	-	-	(25,415)	-	25,415	-	-	-
Amortisation of accumulated losses (Note 20)	-	(2,978,191)	-	-	-	-	2,978,191	-	-	-
<b>Balance at 31 December 2018</b>	15,000,000	12,620,790	133,732	133,732	1,344,986	(2,418,587)	986,315	27,800,968	231,335	28,032,303
15,000,000	12,620,790	133,732	133,732	1,344,986	(2,418,587)	986,315	27,800,968	231,335	28,032,303	

The accompanying notes on pages 11 to 60 form an integral part of these consolidated financial statements.

**Specialities Group Holding Company K.P.S.C. and Its Subsidiaries  
State of Kuwait**

**Consolidated Statement of Cash Flows**  
For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
<b>Cash flows generated from operating activities</b>			
Profit / (loss) for the year from continuing operations		1,743,961	(2,092,231)
loss for the year from discontinued operations	16	(251,596)	(928,835)
Adjustments:			
Depreciation	5	259,980	281,779
Amortization	6	35,198	373,033
Share of results of associates	8	80,614	272,902
Impairment loss of assets designated as held for sale	16	251,596	575,700
Amortisation of trading properties to net realisable value	11	81,347	480,581
Profit on sale of property, plant and equipment		(6,100)	(6,740)
Unrealised losses from revaluation of investment properties	7	-	13,000
Unrealised losses on financial assets at fair value through profit or loss	13	3,951	18,116
Reverse / (provision for) expected credit losses	9	(267,407)	1,236,366
Provision for obsolete and slow moving inventories	10	-	265,176
Interest income		(68,510)	(59,079)
Provision for employees' end of service indemnity	23	107,283	266,607
		<u>1,970,317</u>	<u>696,375</u>
<b>Changes in operating assets &amp; liabilities</b>			
Inventories		(102,435)	59,639
Accounts receivable and other debit balances		(1,615,306)	(1,934,614)
Due from related parties		(916,021)	(1,434)
Trading properties	11	104,713	1,729,725
Accounts payable and other credit balances		<u>2,136,552</u>	<u>460,327</u>
<i>Cash flows from operations</i>		<u>1,577,820</u>	<u>1,010,018</u>
Payment of employees' end of service benefits	23	(45,815)	(154,876)
Net cash flows generated from operating activities		<u>1,532,005</u>	<u>855,142</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of property, plant and equipment	5	(94,478)	(231,940)
Proceeds from sale of property, plant and equipment		40,560	6,818
Paid for purchase of financial assets through profit or loss	13	(4,649,932)	-
Paid for purchase of investment properties	7	(1,000,000)	-
Proceeds from sale of investment properties		-	149,393
Term deposit	14	(1,000,000)	-
Interest income received		68,510	39,156
Net cash flows used in investing activities		<u>(6,635,340)</u>	<u>(36,573)</u>
Net (decrease)/increase in cash and cash equivalents		(5,103,335)	818,569
Foreign currency translation Adjustments		37,306	(25,513)
Cash and cash equivalents at beginning of the year	15	<u>6,905,841</u>	<u>6,112,785</u>
Cash and cash equivalents at the end of the year	15	<u>1,839,812</u>	<u>6,905,841</u>
<b>Significant non-cash transactions</b>			
Intangible assets		337,832	-
Investment properties		(467,001)	-
Revaluation reserve		<u>129,169</u>	<u>-</u>

The accompanying notes on pages 11 to 60 form an integral part of these consolidated financial statements.

## **1. INCORPORATION AND ACTIVITY OF THE PARENT COMPANY**

Specialities Group Holding Company - K.S.C.P (the "Parent Company") was initially incorporated as a Kuwaiti Limited Liability Company on 1 October 1988. In 2006, the Parent Company changed its legal form from a Kuwaiti Limited Liability Company to a Kuwaiti Public Shareholding Company and also changed its name from Alghanim Specialities Company W.L.L. to Specialities Group Holding Company K.S.C.P. and amended its Memorandum of Incorporation accordingly. The Parent Company is Listed on Bursa Kuwait.

The Parent Company's activities are as follows:

1. Owning stocks or shares in Kuwaiti or non-Kuwaiti shareholding Companies and shares in Kuwaiti or non-Kuwaiti Limited Liability Companies or participating in the establishment of, lending to and managing of these Companies and acting as a guarantor for these Companies.
2. Granting loans to the Companies in which the Company holds shares, guarantee them before third parties and in this case the contribution ratio of the holding Company in the capital of the borrowing Company shall not be less than 20%.
3. Owning industrial equities such as patents, industrial trade-marks, royalties, or any other related rights, and franchising them to other Companies or using them inside or outside the State of Kuwait.
4. Owning movables and real estate required to achieve its activities according to applicable laws.
5. Utilisation of the financial surpluses available through investing the same in investment portfolios managed by specialised Companies.

The Group comprises the Parent Company and its subsidiaries together referred to as ("the Group"). Details of the subsidiaries are set out in (Note 3.1).

The Parent Company's registered address is Amgarah Industrial Area, block (4), plot 173, P.O. Box 23595, Safat 13096, State of Kuwait.

The consolidated financial statements were authorized for issuance by the Parent Company's Board of Directors on 21 February 2019 and are subject to the approval of the shareholders' General Assembly. The Shareholders of the Parent Company have the power to amend these consolidated financial statements after issuance at the Shareholders' Ordinary General Assembly.

### **1.1. Basis of preparation**

The consolidated financial statements have been prepared under the historical cost convention except for investment properties and financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss that are measured at fair value.

These consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is the functional and presentation currency of the Group.

### **1.2. Statement of compliance**

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and applicable requirements of the Companies Law.

The preparation of consolidated financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise judgment in applying the Group's accounting policies. The areas of significant estimates and assumptions made in preparing the consolidated financial statements and their effect are disclosed in (Note 4).

**Notes to the Consolidated Financial Statements**

For the year ended 31 December 2018

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**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)**

**a) New standards, interpretations and amendments effective from 1 January 2018**

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes resulted from implementation of the following new and amended International Financial Reporting Standards as at 1 January 2018:

*Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions*

These amendments become effective for annual periods beginning on or after 1 January 2018. These amendments address three main aspects as follows:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The application of these amendments did not have any material impact on the Group.

*Amendments to IFRS 4: Insurance Contracts (Applying IFRS 9: Financial instruments)*

These amendments become effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new IFRS 9 (Financial instruments), before implementing IFRS 17, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The application of these amendments did not have any material impact on the Group.

*IFRS 9: Financial Instruments*

This standard becomes effective for annual periods beginning on or after 1 January 2018 and replaces the existing guidance in IAS 39: Financial Instruments: Recognition and Measurement. IFRS 9 specifies how the entity should classify and measure its financial instruments and includes a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

For the initial application of IFRS 9 and its effects, kindly refer to Note (2 - C) below.

*IFRS 15 - Revenue from contracts with customers*

The standard is effective for annual periods beginning on or after 1 January 2018, and establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces the following existing standards and interpretations upon its effective date:

- IAS 18 – Revenue,
- IAS 11 – Construction Contracts,
- IFRIC 13 – Customer Loyalty Programs,
- IFRIC 15 – Agreements for the Construction of Real Estate,
- IFRIC 18 – Transfers of Assets from Customers, and,
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services.

For the initial application of IFRS 15 and its effects, kindly refer to Note (2 - C).

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2018

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**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)**

**a) New standards, interpretations and amendments effective from 1 January 2018 (Continued)**

*IFRIC 22: Foreign Currency Transactions and Advance Consideration*

The interpretation will be effective for annual periods beginning on or after 1 January 2018 and clarifies that 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 nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially Recognises the non-monetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

These interpretations did not have any material impact on the Group.

*Amendments to IAS 40: Investment Property - Transfers of Investment Property*

The amendments become effective for annual periods beginning on or after 1 January 2018 and clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intention for the use of a property does not provide evidence of a change in use.

The application of these amendments did not have any material impact on the Group.

**Annual Improvements to IFRSs 2014 – 2016 Cycle:**

*Amendments to IAS 28 – Investment in Associates and Joint Ventures*

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted.

The amendments clarify that:

- a) An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- b) If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate’s or joint venture’s interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent.

The application of these amendments did not have any material impact on the Group.

**b) Standards and interpretations issued but not effective**

The following new and amended IASB Standards have been issued but are not yet effective, and have not been applied by the Group:

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2018

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2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

b) Standards and interpretations issued but not effective (Continued)

IFRS 16 - Leases

This standard will be effective for annual periods beginning on or after 1 January 2019. This standard will be replacing IAS 17 "Leases" and will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of a lease, a lessee will Recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The new standard does not significantly change the lease accounting approach for the lessors. Early application is permitted, provided that IFRS 15 is applied on the same date.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

IFRS 17 – Insurance Contracts

This standard will be effective for annual periods beginning on or after 1 January 2021 and replaces IFRS 4 - Insurance Contracts. The new standard applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of IFRS 17 is the general model, supplemented by:

- A specific adoption for contracts with direct participation features (Variable fee approach).
- A simplified approach (premium allocation approach) mainly for short duration contracts.

These amendments are not expected to have any material impact on the Group.

Amendments to IFRS 9: Benefits of advance payment with negative compensation

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest (SPPI test) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI test regardless of any event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments are not expected to have any material impact on the Group.

Amendments to IAS 28: Long-term Investments in Associates and Joint Ventures

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. The amendments clarify that the entity applies IFRS 9 to long-term investments in the associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term investments). This classification is relevant because it implies that ECL model in IFRS 9 applies to such long-term investments.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, which are recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28: Investments in Associates and Joint Ventures.

These amendments are not expected to have any material impact on the Group.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2018

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2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

b) Standards and interpretations issued but not effective (Continued)

**Annual Improvements to IFRSs 2015-2017 Cycle (issued on December 2017)**

*IFRS 3 - Business combinations*

The amendments apply to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2019, with early application permitted. The amendments clarify that, obtaining control of a business that is a joint operation is a business combination achieved in stages, including measuring previously held investments in assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its previously held interest in the joint operations.

*IFRS 11 - Joint arrangements*

The amendments apply to transactions in which it obtains joint control on or after the first annual reporting period beginning on or after 1 January 2019, with early application permitted. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

*IAS 23 - Borrowing Costs*

These amendments will become effective for annual periods beginning on or after 1 January 2019, with early application permitted. The amendments clarify that the Group treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The Group applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the Group first applies those amendments.

These amendments are not expected to have any material impact on the Group.

c) Application of new standards effective from 1 January 2018

The Group has initially adopted IFRS 9 “Financial Instruments” (see (A) below) and IFRS 15 “Revenue from Contracts with Customers” (see (B) below) from 1 January 2018 as follow:

A- **IFRS 9: Financial Instruments**

IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

i. **Classification and measurement of the financial assets and liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale financial assets.

The adoption of IFRS 9 has not had a significant impact on the Group’s accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below:

Under IFRS 9, on initial adoption, the financial asset is classified as measured at amortised cost; at fair value through other comprehensive income – debt investments; at fair value through other comprehensive income – equity investments; or at fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

c) Application of new standards effective from 1 January 2018 (Continued)

A- IFRS 9: Financial Instruments (Continued)

i. Classification and measurement of the financial assets and liabilities (Continued)

**Classification of Financial Assets and Financial Liabilities**

The following table and accompanying notes show reconciliation of the original classification categories in accordance with IAS 39 and the new classification categories under IFRS 9 for each category of financial assets and financial liabilities of the Group as at 1 January 2018:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD	New carrying amount under IFRS 9 KD	Impact of adoption of IFRS 9 on the retained earnings KD
<b>Financial assets</b>					
Financial assets at fair value through other comprehensive income	Available for sale financial assets	Financial assets at fair value through other comprehensive income	10,788	10,788	-
Accounts receivable and other debit balances (excluding advance payments to suppliers)	Loans and receivables	Amortised cost	10,357,612	10,071,612	(286,000)
Due from related parties	Loans and receivables	Amortised cost	1,320	1,320	-
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	63,922	63,922	-
Cash and cash equivalents	Loans and receivables	Amortised cost	6,905,841	6,905,841	-
<b>Total financial assets</b>			<u>17,339,483</u>	<u>17,053,483</u>	<u>(286,000)</u>
<b>Financial liabilities</b>					
Accounts payables and other credit balances (excluding advance payments from the customers)	Amortised cost	Amortised cost	2,726,827	2,726,827	-
<b>Total financial liabilities</b>			<u>2,726,827</u>	<u>2,726,827</u>	<u>-</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

**A- IFRS 9: Financial Instruments (Continued)**

**i. Classification and measurement of the financial assets and liabilities (Continued)**

- Receivables and other debit balances that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of KD 286,000 in the allowance for impairment over these receivables was recognised in opening losses brought forward at 1 January 2018 on transition to IFRS 9. There are no accounts receivable and other debit balances were recognised at 1 January 2018 on the adoption of IFRS 15.
- The equity securities of KD 10,788 represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at fair value through other comprehensive income. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to the consolidated profit or loss.
- The equity securities of KD 63,922 represent investments that the Group intends to hold for the short term for trading purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at fair value through profit or loss. The relative profit or loss will be recognised in profit or loss.

**ii Impairment of Financial Assets**

IFRS 9 replaces the “incurred loss” model in IAS 39 with an ECL model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

**Impact of the new impairment model**

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9’s impairment requirements at 1 January 2018 results in an additional impairment allowance as follows:-

	<u>Amount (KD)</u>
<i>Provision for losses as at 31 December 2017</i>	
Additional impairment recognised at 1 January 2018 on:	
Accounts receivables and other debit balances (Note 9)	286,000

**iii Transition**

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2018

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**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

**A- IFRS 9: Financial Instruments (Continued)**

**iii. Transition (Continued)**

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss.

**B- IFRS 15: Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31.

The Group’s adoption of IFRS 15 on 1 January 2018 has not resulted in any significant impact on the Group’s consolidated financial statements as at 31 December 2017 and the consolidated financial statements for the year ended 31 December 2018, where most of the Group’s revenues that fall within the scope of IFRS 15 are represented in:

***Sale of goods***

Revenues of the Group are recognised from sale of goods typically on delivery of the goods, and issuance of the invoice to customers.

***Contract Revenue***

Contracting revenues are recognised within the implementation period using the percentage of completion method in accordance with recognition criteria required by IFRS 15. The Group determined that the recognition criteria within the implementation period are still appropriate for its contracts on construction services.

***Rendering of services***

Revenue from rendering of service are recognised within the implementation period, the Group has determined that the recognition criteria within the implementation period are still appropriate for rendering of services.

The other revenue types of the Group are mainly represented by rental income, share of result of an associate and other income, which are outside the scope of IFRS 15.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Basis of consolidation**

All amounts previously recognised in the statement of profit or loss and other comprehensive income in relation to that subsidiary are accounted for as if the Parent Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/ permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**Specialities Group Holding Company K.P.S.C. and Its Subsidiaries  
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**Notes to the Consolidated Financial Statements**

For the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Basis of consolidation (Continued)**

The consolidated financial statements include the financial statements of Specialities Group Holding Company K.P.S.C. ("the Parent Company") and its subsidiaries as follows:

Name of subsidiary	Country of incorporation	Equity interest (%)		Principal activities
		2018	2017	
Specialities Construction General Trading and Contracting W.L.L.*	State of Kuwait	99%	99%	Construction and contracting activities
Specialities Real Estate Company W.L.L.*	State of Kuwait	99%	99%	Real estate activities Trading in petrol devices and equipment and excavation and maintenance of oil wells
Specialities Energy Company W.L.L.*	State of Kuwait	99%	99%	Production of diversified construction materials
Alghanim Specialities Company W.L.L.*	State of Kuwait	99%	99%	General Trading and Contracting
Specialities Kuméx for General Trading and Contracting Company W.L.L.*	State of Kuwait	99%	99%	Real estate activities Oil & gas activities and maintenance and operation of oil wells
Specialities Real Estate Company W.L.L.**	Kingdom of Saudi Arabia	99%	99%	Manufacturing and construction
Specialities Energy Company W.L.L.	Kingdom of Saudi Arabia	73%	73%	Real estate and contracting activities
Specialities Gulf Building Company W.L.L.	Kingdom of Saudi Arabia	80%	80%	Real estate activities
Gulf Specialized Limited Company W.L.L.	Kingdom of Saudi Arabia	50%	50%	Manufacturing of cement materials, concrete materials and construction materials
Towell and Specialities Real Estate Company W.L.L.	Sultanate of Oman	70%	70%	Oil & gas activities and maintenance and operation of oil wells
Specialities Factory for Building Chemicals W.L.L.	State of Qatar	80%	80%	
Specialities Energy Company L.L.C.	UAE	70%	70%	

\* The effective ownership interest of the Group in these subsidiaries is 100%.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Basis of consolidation (Continued)**

\*\* Specialities Real Estate Company W.L.L. is a special purpose entity established in Kingdom Saudi of Arabia to hold an investment in Warehousing Projects and Logistics Company Kingdom Saudi of Arabia Warehousing Projects and Logistics Company which is classified as investment in an associate by Specialities Real Estate Company W.L.L. The consolidated financial statements of the Group for the year ended 31 December 2018 include the financial statements of Specialities Real Estate Company W.L.L. using management accounts as at 31 December 2012. The total assets and liabilities of Specialities Real Estate Company W.L.L. included in the Group's consolidated financial statements as at 31 December 2018 were KD 2,868,995 and KD 77,586 respectively. Assets of Specialities Real Estate Company W.L.L. mainly represents an investment in Warehousing Projects and Logistics Company W.L.L. Kingdom Saudi of Arabia Warehousing Projects and Logistics that has been accounted for as an investment in an associate with a carrying value of KD 2,772,801. Further, the Group did not record the financial information of Specialities Real Estate Company W.L.L. post 31 December 2012 as the management believes that the financial information of Specialities Real Estate Company W.L.L. requires further analysis and clarification. In 2013, the Group initiated a lawsuit to get access to the financial statements of Warehousing Projects and Logistics. During the year ended 31 December 2014, the court issued its verdict that the appeal judgment is accepted in favor of the Group. The judgment is under execution.

Subsidiaries are those enterprises controlled by the Parent Company. Control is achieved when the Parent Company:

- Has power over the investee.
- Is exposed, or has rights, to variable returns from its involvement with the investee.
- Has the ability to use its power to affect the investee's returns.

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three components of controls listed above.

When the Group holds a percentage less than the majority of voting rights in the investee, it shall have the power over the investee in case of its voting rights have the sufficient practical ability to direct the relevant activities of the investee. In determining the adequacy of the investee voting rights, the Group considers all relevant facts and circumstances, including:

- The Group's voting rights in proportion to distribution of the voting rights attributable to others.
- The potential voting rights held by the Company, holders of other votes or other parties.
- Rights arising from other contractual arrangements.
- Any additional facts and circumstances indicate to the financial ability of the Company to direct the relevant activities when the decision is taken, including the patterns of voting in the previous meetings of shareholders.

#### **3.2 Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred or assumed by the Group to the former stakeholders of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. Acquisition-related costs are generally recognised in consolidated statement of profit or loss as incurred. At the acquisition date, the assets and liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2 Business combinations (Continued)**

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9, or IAS 37, provisions, contingent liabilities and assets, as appropriate, with the corresponding gain or loss being recognised in the consolidated statement of profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated statement of profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in the statement of other comprehensive income are reclassified to consolidated statement of profit or loss where such treatment would be appropriate if that interest was disposed of.

**Notes to the Consolidated Financial Statements**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.3 Property, plant and equipment**

The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after these property, plant and equipment have been placed into operation, such as repairs, maintenance and inspection, are normally included in the consolidated statement of profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. When assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any profit or loss resulting from their disposal is included in the consolidated statement of profit or loss. The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Depreciation is computed on a straight-line basis over the estimated useful lives of property, plant and equipment as follows:

<u>Assets</u>	<u>Years</u>
Buildings	20
Furniture, fixture, computers	5
Plant and equipment	2 - 4
Vehicles	3

The useful life and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The property, plant and equipment items are derecognised when disposed of or when it is not expected to receive any future economic benefits from them.

**3.4 Intangible assets**

At initial recognition, acquired intangible assets are measured at cost, which represents the purchase value plus the direct costs incurred for preparation of the asset to be used in its intended purpose.

Subsequent to the initial recognition, intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for the intangible assets with finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expenses on intangible assets with finite lives are recognised in the consolidated statement of profit or loss.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.4 Intangible assets (Continued)**

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses on disposal of intangible assets are measured by the difference between the net disposal proceeds and the carrying amount of the assets, and are recognised in the consolidated statement of profit or loss on disposal.

#### **3.5 Investment properties**

Investment properties include current properties, properties under construction or redevelopment held for gaining rentals or increase in the market value or both. Investment properties are initially recognised at cost, which contains purchase price and its related transaction costs. Subsequent to initial recognition, investment properties are recognised at fair value at the financial period end date. Profits or losses arising from changes in the fair value of investment properties are included in the consolidated statement of profit or loss for the period in which they arise.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Profits or losses arising on the disposal or termination of an investment property are recognised in the consolidated statement of profit or loss.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of its development for selling purposes.

If a property being used by the owner is transferred to investment property, the Group will account for such property as per the applicable accounting policy for property, plant and equipment up to date of the usage change and transfer.

#### **3.6 Investment in associates**

Associates are those entities in which the Group have significant influence which is the power to participate in the financial and operating policy decisions of the associate. Under the equity method, investment in associates are carried in the consolidated statement of financial position at cost as adjusted for changes in the Group share of the net assets of the associate from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted as per IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6 Investment in associates (Continued)**

The Group Recognises its share in business results of the associate in the consolidated statement of profit or loss. Moreover, the Company Recognises its share of the changes in the associate's other comprehensive income in its other comprehensive income.

Losses of an associate in excess of the Group's interest in that associate (including any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised except to the extent that the Group has an obligation or has made any payments on behalf of the associate.

Any excess of the cost of acquisition over the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying value of the investment in associates. It is assessed as a part of the investment in order to determine the impairment. If the cost of acquisition is lower than the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognised immediately in the consolidated statement of profit or loss.

The Group determines, at each reporting date, whether there is an indication that the investment in the associate may be impaired through adopting the requirements of IAS 39 and determining whether it is necessary to Recognise any impairment in the investment. If any such indication exists, an impairment loss is determined for the entire carrying amount of the investment. The Group calculates the impairment amount as the difference between the recoverable amount of the associate and its carrying amount. Such amount is recognised in the consolidated statement of profit or loss. Any reversal of the impairment is recognised to the extent that the recoverable amount of the investment subsequently increases.

The Group measures and Recognises any investments held at the fair value upon loss of significant influence on the associate. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of profit or loss.

#### **3.7 Inventories**

Inventories are valued at the lower of average cost or net realizable value after providing allowances for any obsolete or slow-moving items. Inventories cost comprises 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 realizable selling 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 realizable selling value.

#### **3.8 Trading properties**

Properties acquired or being constructed for sale in the ordinary course of business, rather than to be held to generate rental income or for capital appreciation, are classified as trading properties. Trading properties are recorded on initial recognition at cost and are subsequently measured at the lower of cost or net realisable value. Cost includes freehold or leasehold rights for land, borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.8 Trading properties (Continued)**

Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date, less costs to complete and the estimated costs to sell. Net realisable value is determined based on valuation performed annually by independent professional real estate valuation experts who have the required qualifications and experience in valuing such types of properties using recognised valuation techniques.

At the end of each reporting period, if the cost of the property exceeds its net realisable value, the property is written down to its net realisable value and the difference is recognised to the consolidated statement of profit or loss. If previously recognised loss is subsequently recovered, amount of the property is increased to its net realisable value to the extent of its original cost and the increase amount is recognised in the consolidated statement of income to the extent of the previously recognised loss.

#### **3.9 Impairment of nonfinancial assets**

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually. Whenever there is an indication that the asset may be impaired, its recoverable amount is estimated.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss.

For a non-financial asset, other than goodwill, in which impairment subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss.

#### **3.10 Financial instruments**

##### **3.10.1 Financial assets**

The Group has adopted IFRS 9: Financial Instruments, issued in July 2014, for the first time on 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard introduces significant changes to the methods of accounting for financial assets and to certain aspects of accounting for the financial liabilities.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.10 Financial instruments (Continued)**

**3.10.1 Financial assets (Continued)**

*i. Classification and measurement of financial assets:*

**Financial assets at amortised cost**

The financial assets are measured at amortised cost if both of the following conditions are met and are not designated at fair value through profit or loss:

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

**Debt investment at fair value through other comprehensive income**

A debt investment is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Equity investment at fair value through other comprehensive income**

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

**Equity investment at fair value through profit or loss**

All financial assets, other than those classified as financial assets measured at amortised cost or fair value through other comprehensive income as described above, are measured at fair value through profit or loss. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as financial asset recognised at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

**Subsequent Measurement**

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at fair value through profit or loss	These assets are subsequently measured at fair value. Net profits and losses, including any interest or dividend income, are recognised in the consolidated statement of profit or loss.
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Financial assets Carried at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.
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Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial instruments (Continued)

3.10.1 Financial assets (Continued)

i. Classification and measurement of financial assets (Continued)

**Subsequent Measurement (Continued)**

Debt investments at fair value through other comprehensive income These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, profits and losses accumulated in other comprehensive income are reclassified to the consolidated statement of profit or loss.

Equity investments at fair value through other comprehensive income These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividends clearly represent a recovery of part of the cost of the investment. Other net profits and losses are recognised in other comprehensive income and are never reclassified to the consolidated statement of profit or loss.

*The Group did not have and debt investments at fair value through other comprehensive income.*

ii. Impairment of Financial Assets

IFRS 9 requires the Group to make provision for ECL for all debt instruments, which are not carried at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the impairment loss of the financial assets carried at amortised cost is reversed at the subsequent periods. (see Note 2.C.ii).

The financial assets at amortised cost consist of "accounts receivables and other debit balances", "due from related parties", "term deposit" and "cash and cash equivalents".

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.10 Financial instruments (Continued)

##### 3.10.1 Financial assets (Continued)

###### ii. Impairment of Financial Assets (Continued)

The Group has elected to measure; using the simplified approach, loss allowances for receivables and other debit balances at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 365 days past due except for the contractual retention.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

###### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

###### *Credit-impaired financial assets*

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

###### *Presentation of impairment*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to accounts receivable and other debit balances, including contract assets, are presented separately in consolidated statement of profit or loss.

###### *Cash and cash equivalents*

Cash and cash equivalents item comprises of current accounts at banks and term deposits mature within three months from the date of deposit.

###### *Deposits*

Deposits represent deposits with banks having an original maturity period of three months or more from the placement date.

**Notes to the Consolidated Financial Statements**

For the year ended 31 December 2018

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.10 Financial instruments (Continued)**

**3.10.1 Financial assets (Continued)**

**ii. Impairment of Financial Assets (Continued)**

*Accounts receivable and other debit balances*

(Note 29) provides further details about the calculation of ECLs related to accounts receivable on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past 3-5 years. The Group performed the calculation of ECL rates for its customers.

Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, geographic region and industry, delinquency status, age of relationship and type of product purchased where applicable.

Actual credit loss experience was adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the accounts receivable.

***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

**3.10.2 Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or loans. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value. Borrowings are recognised initially at fair value, net of transactions cost incurred. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In that case, fees shall be posted until the withdrawal is carried out.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

***Classification and subsequent measurement***

The Group's financial liabilities include accounts payable and other credit balances.

***Accounts payables and other credit balances***

All financial liabilities are recognised initially at fair value and in case of loans and borrowings, plus directly attributable transactions costs. The measurement of financial liabilities depends on its classification as follows:

**Notes to the Consolidated Financial Statements**

For the year ended 31 December 2018

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.10 Financial instruments (Continued)**

**3.10.2 Financial liabilities (Continued)**

*Accounts payables and other credit balances(Continued)*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Accounts payable and other liabilities are subsequently measured at amortised cost using effective interest method.

*Derecognition of financial liabilities*

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

**3.10.3 Offsetting**

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

**3.11 Discontinued operations**

Discontinued operations represent part of the Group's business, which their results and cash flows can be separated clearly from rest of the Group, which are also:

Represent substantial activity or separate geographic segment.

- Represent part of a coordinated plan to exclude substantial activity or separate geographic segment.
- Include subsidiaries acquired principally for sale subsequently.

These operations are classified as discontinued operations at sale or when classification conditions are met as discontinued operations, whichever shall first occur.

Revenues and expenses related to discontinued operations are recognised separately from revenues and expenses related to continuing operations in the consolidated statement of profit or loss until the profitability level for the period ended at the date of the financial statements and comparative periods. This is even if the Group retains non-controlling interest in the subsidiary after sale, whereas profit or loss are recognised as separate item in the consolidated statement of profit or loss.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

**3.12 Employees' end of service indemnity**

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service subject to the completion of a minimum service period in accordance with provisions of Labor Law and related contracts of employees. The expected costs of these benefits are accrued over the period of employment. This liability which is unfunded represents the amount payable to each employee as a result of termination on the reporting date.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.12 Employees' end of service indemnity (Continued)

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

#### 3.13 Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. Treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, profits are credited to a separate account in shareholders' equity "treasury shares reserve" which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves, and then share premium respectively.

Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and treasury shares reserve respectively. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Where any Group's company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity attributable to the Parent Company's shareholders.

#### 3.14 Revenue recognition

IFRS No. (15) defines revenues as "income from ordinary business activities" and a five-step accounting model for revenue arising from contracts with customers is developed. Revenue recognition requires recording the amount that reflects the consideration that the Group expects to be entitled in exchange for sale of goods or performance of services to the customers.

The model's five steps are as follows:

- Step 1: Identify the contract with the customer – A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Step 2: Identify the performance obligations in the contract – A performance obligation is a promise in a contract with the customer to transfer goods or services to the customer.
- Step 3: Determine the transaction price – The transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring promised good or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4: Allocate the transaction price to the performance obligations in the contracts – For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5: Recognise revenue when (or as) the Group satisfies the performance obligations.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.14 Revenue recognition (Continued)**

IFRS 15 requires Companies to consider the opinions, taking into account all relevant facts and circumstances in the process of applying each step of the model to contracts with their customers. The Standard also specifies method of accounting for the additional costs to obtain the contract and the costs that are directly attributable to the contract execution. The standard also requires comprehensive disclosures.

Prior to the application of IFRS 15, the Group recognised revenues at the fair value of consideration received or receivable when the goods are sold or services are rendered in the ordinary course of business of the Group net of returns, rebates and discounts. Also, the Group Recognises revenues when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Under IFRS No. (15), revenue is recognised either at a specific time or over a period of time, when (or as) the Group meets the performance obligations by selling the goods or performing the agreed upon services to its customers. The Group shall transfer control of goods or services over a period of time (and not at a specific time) upon fulfillment of any of the following criteria:

- The customer receives and consumes the benefits provided through the Group performance at the same time when the Group provided the performance, or
- The Group's performance creates or enhances an asset (e.g., work in process) that the customer controls as the asset is created or enhanced, or
- The Group's performance does not establish an asset that has an alternative usage to the Group. The Group has enforceable right in payments against the completed performance to date.

Control shall be transferred at a specific time if any of the criteria required for transferring goods or service is not met over a period of time. The following items should be considered by the Group whether or not control is transferred:

- The Group shall have immediate right in payments against the asset.
- The customer shall have a legal right in the asset.
- The Group shall transfer the physical possession to the asset.
- The customer shall have the significant risks and benefits of ownership of the asset.
- The customer shall accept the asset.

The Group Recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the consolidated statement of financial position. Similarly, if the Group satisfies the performance obligations before receiving the consideration, the Group Recognises either a contract assets or a receivables in its consolidated statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Incremental costs of obtaining a contract with a customer are capitalised when incurred as the Group expects to recover these costs and such costs would not have incurred if the contract has not been obtained. Sales commissions incurred by the Group are expensed as the amortization period of such costs is less than a year.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.14 Revenue recognition (Continued)**

Group's revenue streams arise from the following activities:

*Sale of goods*

Sales represent total invoiced amount of goods sold during the year. Revenue from sale of goods is recognised when the control over the goods is transferred to the customer. For standalone sales, that are neither customized by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods. Delivery occurs when the goods have been shipped to the specific location, have been purchased at store by the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

When such items are either customised or sold together with significant integration services, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Group has an enforceable right to payment for the work completed to date. The performance obligations are recognised over time as the customisation or integration work is performed.

When contracts involve supply of goods and installation services in exchange for a fixed fee, revenue is recognised over a period of time and is accounted for as a single performance obligation due to the high interdependence between the elements of the contract. When such contracts include after sales services, the total transaction price is allocated to each of the distinct performance obligations identifiable under the contract on the basis of the relative stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

*Rendering of services*

Revenue from maintenance contracts are recognised at specified time when the services are rendered to customers.

*Construction contracts*

Revenue from construction contracts is recognised over time on a cost-to-cost method (input method), i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Profit is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments of the contract shall be taken into consideration for the purpose of calculating the contract profits when approved by the contract owner. The expected loss of the contracts is recognised immediately in full after occurrence.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

*Interest income & expenses*

Interest income and expenses are calculated on a time proportion basis using the effective interest method. When the accounts receivable are impaired, the Group reduces the carrying amounts of such amounts to their recoverable amounts, which are estimated by the expected future cash flows discounted using the effective interest rate of the financial instrument. The discount is continued to be amortised as interest income. The interest income or accounts receivable that have permanent impairment, is recognised either when it is collected or on the basis of recovered cost as per conditions.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.14 Revenue recognition (Continued)

##### *Dividends*

Dividend income is recognised when the Group's right to receive payment is established.

##### *Leases*

Rental income is recognised when earned on a time proportion basis.

##### *Income from sale of properties*

Income from sale of properties is recognised on an accrual basis, when all the following conditions are met:

- On completion of sale transaction and signing the contracts.
- When investment of the buyer (sale value) is sufficient to indicate his commitment to pay value of the real estate as at the reporting date.
- Receivables category of the Group shall not be less than the sale in the future.
- When the Group transfer the control to the purchaser.
- If the works required for completing the building can be measured and recorded on an accrual basis easily, or if such works are not significant as for the total value of the contract.

##### *Other income and expenses*

Other income and expenses are recognised on accrual basis.

#### 3.15 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### 3.16 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Rentals payable under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also allocated on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Taxes

*Contribution to KFAS, Zakat and NLST*

Contribution to KFAS, Zakat and NLST represent levies / taxes imposed on the Parent Company at fixed percentage of profit for the year less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent levies/taxes regulations, no carry forward of losses is permitted and there are no significant differences between the levies/taxes bases of assets and liabilities and their carrying amounts for the purposes of the consolidated financial statements.

<b>Tax / statutory levy</b>	<b>Percentage</b>
Contribution to Kuwait Foundation for the Advancement of Sciences	1% of net profit, less permitted deductions.
Zakat	1% of net profit, less permitted deductions.
National Labour Support Tax	2.5% of net profit, less permitted deductions

3.18 Foreign Exchange

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The Group's consolidated financial statements have been prepared and presented in Kuwaiti Dinars, which is the Group's presentation currency.

*Transactions and balances*

Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of transactions. At each consolidated statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of consolidated financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated statement of profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated statement of profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in the consolidated statement of profit or loss and comprehensive income. For such non-monetary items, any exchange component of such profit or loss is also recognised directly in the consolidated statement of comprehensive income.

*Foreign operations*

The assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing at the statement of financial position date. Income and expense items are translated into the Group's presentation currency at the average rate over the consolidated reporting period. Exchange differences are charged / credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to consolidated statement of profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate.

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For the year ended 31 December 2018

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.19 Contingencies**

Contingent liabilities are not recognised in the financial statements unless it is probable as a result of past events that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. However, the contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic losses is remote.

Contingent assets are not recognised in the financial statements but disclosed when an inflow of economic benefits as a result of past events is probable.

**3.20 Segment information**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are disclosed in a manner consistent with the internal reporting reviewed by the chief operating decision-maker, i.e. the person being responsible for allocating resources, assessing performance and making strategic decisions on the operating segments.

**4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTY**

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

*Significant accounting judgments*

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

*Classification of financial instruments*

On acquisition of a financial asset, the Group decides whether it should be classified as "at fair value through profit or loss", "at fair value through other comprehensive income" or "at amortised cost". IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets of the instrument's contractual cash flow characteristics. The Group follows the guidance of IFRS 9 on classifying its financial assets.

*Classification of Lands*

Upon acquisition of lands, the Group classifies the land into one of the following categories, based on the intention of the management for the use of the land:

1. Properties held for trading

When the intention of the Group is to sell land in the ordinary course of business, the land is classified as property held for trading.

2. Properties under development

When the purpose of the Group is to develop the land for sale in the future, both lands and construction costs are classified as properties under development.

3. Investment properties

When the intention of the Group is to earn rentals from land or hold land for capital appreciation or if the intention is not determined, the land is classified as investment property.

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**4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTY  
(CONTINUED)**

*Estimation uncertainty and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated financial statements date, that have a significant impact causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Valuation of unquoted financial assets*

The valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of other instruments that are substantially the same.
- Earnings multiple.
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.
- Price to book value model.
- other valuation models.

The determination of the cash flows, earnings multiple, price to book value multiple and discount factors for unquoted shares requires significant estimation.

*Provision for expected credit losses for accounts receivable*

The Group uses a provision matrix to calculate ECLs for accounts receivable. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geographical region, services type, customer and type). The provision matrix is initially based on the Group's historical observed default rates.

The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

For instance, if forecast economic conditions (i.e., gross domestic product, stock market capitalisation) are expected to deteriorate over the next year which can lead to an increased number of defaults in the brokerage sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Group's accounts receivable and other debit balances is disclosed in (Note 29).

*Fair value measurement and valuation techniques*

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Group's management determines the appropriate valuation techniques and input for fair value measurement. In estimating the fair value of an asset or a liability, the management uses market observable data to the extent it is available. In case no market observable data are available, the Group shall assign an external qualified valuer to carry out the valuation process. Information about valuation techniques and input used in determining the fair value of various assets and liabilities are disclosed in (Note 30).

**4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTY  
(CONTINUED)**

*Estimation uncertainty and assumptions (Continued)*

*Revenue recognition*

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Determination whether matching the criteria of revenue recognition in accordance with IFRS 15 and the policy of revenue recognition disclosed in (Note 3.14) require significant judgments.

*Impairment of non-financial assets*

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

*Useful lives of property, plant and equipment*

As described in the accounting policies, the Group reviews the estimated useful lives over which its property, plant and equipment are depreciated. The Group's management is satisfied that the estimates of useful lives are appropriate.

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5. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Plant and equipment	Vehicles	Computers	Total
	KD	KD	KD	KD	KD	KD
Cost						
At 1 January 2017	2,108,935	679,146	1,744,063	217,342	218,278	4,967,764
Additions	12,118	88,265	67,355	14,700	49,502	231,940
Disposals	-	(377)	(102,532)	(11,750)	-	(114,659)
Foreign exchange adjustments	(38,886)	(288)	(5,209)	(297)	(205)	(44,885)
At 31 December 2017	2,082,167	766,746	1,703,677	219,995	267,575	5,040,160
Additions	-	11,069	54,161	16,184	13,064	94,478
Disposals	-	(48,000)	(9,437)	-	-	(57,437)
Foreign exchange adjustments	25,986	193	3,639	296	144	30,258
At 31 December 2018	2,108,153	730,008	1,752,040	236,475	280,783	5,107,459
Accumulated depreciation						
At 1 January 2017	595,524	618,831	1,330,217	194,902	185,920	2,925,394
Charged during the year	89,199	55,137	99,961	18,789	18,693	281,779
Related to disposals	-	(306)	(102,525)	(11,750)	-	(114,581)
Foreign exchange adjustments	(4,861)	(104)	(1,808)	(148)	(142)	(7,063)
At 31 December 2017	679,862	673,558	1,325,845	201,793	204,471	3,085,529
Charge for the year	94,109	38,527	91,205	18,612	17,527	259,980
Related to disposals	-	(18,398)	(4,579)	-	-	(22,977)
Foreign exchange adjustments	4,548	98	1,914	154	127	6,841
At 31 December 2018	778,519	693,785	1,414,385	220,559	222,125	3,329,373
Net carrying value						
At 31 December 2018	1,329,634	36,223	337,655	15,916	58,658	1,778,086
At 31 December 2017	1,402,305	93,188	377,832	18,202	63,104	1,954,631

The Group's buildings are constructed on leasehold land, that is leased from the Government of the State of Kuwait (Note 6).

The cost of revenue item includes the depreciation charged during the year 2018 of KD 186,166 (2017: KD 184,764).

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6. INTANGIBLE ASSETS

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Cost</b>		
Balance at beginning of the year	2,622,482	2,622,482
Transferred to investment properties	<u>(1,907,575)</u>	<u>-</u>
	714,907	2,622,482
<b>Accumulated amortization</b>		
Balance at beginning of the year	2,028,084	1,655,051
Charged during the year	35,198	373,033
Transferred to investment properties	<u>(1,569,743)</u>	<u>-</u>
	493,539	2,028,084
<b>Impairment losses</b>		
Balance at beginning of the year	8,728	8,728
Balance at end of the year	<u>8,728</u>	<u>8,728</u>
<b>Carrying value</b>		
Balance at end of the year	<u>212,640</u>	<u>585,670</u>

Rights of use of lands leased from the Government of the State of Kuwait are leased and amortised over a period of 20 years.

At 31 December 2018, management of the Group assessed the rights of use of leasehold lands to determine if there is any impairment in their values. As a result, the Group did not recognise any impairment loss for the years ended 31 December 2018 and 31 December 2017. Management's assessment was based on valuation performed at the reporting date by an independent professional real estate valuation expert who is specialist and has the required qualification and experience in valuing such type of assets using recognised valuation techniques.

7. INVESTMENT PROPERTIES

The movement of investment properties during the year is as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Balance at beginning of the year	533,818	696,315
Transfer from intangible assets	467,001	-
Additions*	1,000,000	-
Disposals	-	(149,393)
Unrealised losses from revaluation	-	(13,000)
Foreign currency translation adjustments	69	(104)
Balance at end of the year	<u>2,000,888</u>	<u>533,818</u>

The fair value of investment properties has been determined based on valuations performed by two independent professional real estate valuers, who are industry specialists in valuing such type of investment properties. For the properties located in the State of Kuwait, one of the valuers is a local bank and the other is a local reputable accredited valuer. The valuers used the income capitalisation approach assuming full capacity of the property which is calculated by discounting rental income generated annually by the property, assuming full capacity, using the current market discount rate, market comparison approach, in which the recent transactions in the real estate market are recorded and comparing the prices of sale of similar properties in terms of specifications, area of land, contents and area of the property and the aging and condition of the existing building as well as occupancy rates and periodic expenses and capitalisation rates used and after the application of adjustment transactions necessary to obtain the value of the market property.

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**7. INVESTMENT PROPERTIES (CONTINUED)**

For valuation purpose, the Group has selected the lower valuation. As a result, the Group has recognised an unrealised loss on fair valuation of nil (2017: KD 13,000) in the consolidated statement of profit or loss for the year.

As at December 31, investment properties are geographically allocated as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Properties located at the State of Kuwait	1,993,001	526,000
Properties located at Sultanate of Oman	7,887	7,818
	<u>2,000,888</u>	<u>533,818</u>

\* During the year, the Group purchased investment properties of KD 1,000,000 represented in the Free Trade Zone - Shuwaikh.

The Group's investment properties at the State of Kuwait are leased from the Public Authority for Industry. The contract has expired in 2018 and until the date of issuing the consolidated financial statements, the contract has not been renewed and the Group's management seeks to renew it.

**8. INVESTMENTS IN ASSOCIATES**

<u>Name of the associate</u>	<u>Country of incorporation</u>	<u>Percentage of holding</u>		<u>Balance</u>	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
		%	%	KD	KD
Kuwait International Advanced Industries Company K.S.C. (Closed)	State of Kuwait	25%	25%	1,835,037	1,915,651
Warehousing Projects and Logistics Company W.L.L.	Kingdom of Saudi Arabia	50%	50%	2,772,801	2,736,920
				<u>4,607,838</u>	<u>4,652,571</u>

The movement of investments in associates during the year is as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Balance at beginning of the year	4,652,571	6,849,774
Share of results of associates - A	(80,614)	(272,902)
Share of associates' other comprehensive income (other comprehensive losses) (Note 21)	-	3,611
Transferred to assets classified as held for sale (Note 16)	-	(1,882,376)
Foreign currency translation adjustments	35,881	(45,536)
Balance at end of the year	<u>4,607,838</u>	<u>4,652,571</u>

A. The following table shows the share of results of associates:

	<u>2018</u>	<u>2017</u>
	KD	KD
Share of business results of Kuwait International Advanced Industries Company K.S.C.*	(80,614)	80,233
Share of business results of Equipment Holding Company K.S.C.P. (Note 16)	-	(353,135)
	<u>(80,614)</u>	<u>(272,902)</u>

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8. INVESTMENTS IN ASSOCIATES (CONTINUED)

As at 31 December 2018, the management has reviewed its investments in associates to assess whether impairment has occurred in their value and accordingly no impairment loss has been recognised in the consolidated statement of profit or loss. Management is not aware of any circumstances that would indicate any additional impairment in the value of these investments at the reporting date.

\* The Group's share of results have been determined based on the financial information of Kuwait International Advanced Industries Company K.S.C. (Closed) until 30 September 2018.

The following table shows financial information of the Group's associates:

2018	Kuwait International Advanced Industries Company K.S.C. (Closed) KD	Warehousing Projects and Logistics Company W.L.L. KD	Total KD
<b>Statement of profit or loss:</b>			
Revenues	4,279,230	-	4,279,230
Loss for the year	(322,456)	-	(322,456)
<b>Statement of financial position:</b>			
Non-current assets	4,509,696	10,483,268	14,992,964
Current assets	2,502,165	558,658	3,060,823
Total assets	7,011,861	11,041,926	18,053,787
Non-current liabilities	482,358	34,001	516,359
Current liabilities	1,474,750	3,462,323	4,937,073
Total Liabilities	1,957,108	3,496,324	5,453,432
Net assets	5,054,753	7,545,602	12,600,355
<b>2017</b>	Kuwait International Advanced Industries Company K.S.C. (Closed) KD	Warehousing Projects and Logistics Company W.L.L. KD	Total KD
<b>Statement of profit or loss:</b>			
Revenues	3,489,084	-	3,489,084
Profit for the year	320,932	-	320,932
<b>Statement of financial position:</b>			
Non-current assets	4,794,010	10,383,586	15,177,596
Current assets	2,720,863	553,333	3,274,196
Total assets	7,514,873	10,936,919	18,451,792
Non-current liabilities	293,670	33,678	327,348
Current liabilities	1,843,997	3,429,401	5,273,398
Total Liabilities	2,137,667	3,463,079	5,600,746
Net assets	5,377,206	7,473,840	12,851,046

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8. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table shows a reconciliation of the financial information of the associate to the carrying amount of the Company's interest in the associates:

<u>2018</u>	<u>Kuwait International Advanced Industries Company K.S.C. (Closed) KD</u>	<u>Warehousing Projects and Logistics Company W.L.L. KD</u>	<u>Total KD</u>
Net assets of the associate	5,054,753	7,545,602	12,600,355
Group's effective interest in the associate's equity	25%	50%	-
Group's interest in net assets of the associate	1,263,688	3,772,801	5,036,489
Impairment losses of associates	-	(1,000,000)	(1,000,000)
Goodwill	571,349	-	571,349
Carrying amount of the Group's investment in the associate	<u>1,835,037</u>	<u>2,772,801</u>	<u>4,607,838</u>
	<u>Kuwait International Advanced Industries Company K.S.C. (Closed) KD</u>	<u>Warehousing Projects and Logistics Company W.L.L. KD</u>	<u>Total KD</u>
<u>2017</u>			
Net assets of the associate	5,377,206	7,473,840	12,851,046
Group's effective interest in the associate's equity	25%	50%	-
Group's interest in net assets of the associate	1,344,302	3,736,920	5,081,222
Impairment losses of associates	-	(1,000,000)	(1,000,000)
Goodwill	571,349	-	571,349
Carrying amount of the Group's investment in the associate	<u>1,915,651</u>	<u>2,736,920</u>	<u>4,652,571</u>

9. ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES

	<u>2018 KD</u>	<u>2017 KD</u>
Trade receivables and receivables from construction contracts	8,067,784	7,190,093
Retentions receivables	4,737,237	3,450,213
Less: provision for expected credit losses	<u>(2,557,796)</u>	<u>(2,200,730)</u>
	10,247,225	8,439,576
Advance payments to suppliers	839,750	976,826
Total amount due from customers for contract works	687,842	832,717
Other	1,564,814	1,902,297
Less: provision for expected credit losses	<u>(408,480)</u>	<u>(816,978)</u>
	<u>12,931,151</u>	<u>11,334,438</u>

**Notes to the Consolidated Financial Statements**

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**9. ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES (CONTINUED)**

Represented as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Non-current portion	3,306,072	2,413,964
Current portion	9,625,079	8,920,474
	<u>12,931,151</u>	<u>11,334,438</u>

\* Movement on provision for ECLs is as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Balance at beginning of the year	3,017,708	1,781,342
Impact of application of IFRS 9 (Note 2,C,A,i)	286,000	-
Reversal of provision for ECLs	(267,407)	-
Charged during the year	-	1,236,366
Bad debts written –off	(70,025)	-
Balance at end of the year	<u>2,966,276</u>	<u>3,017,708</u>

**10. INVENTORIES**

	<u>2018</u>	<u>2017</u>
	KD	KD
Construction materials	183,129	1,151,059
Raw and packing materials	2,081,882	1,013,228
Other	13,481	14,109
	<u>2,278,492</u>	<u>2,178,396</u>
Less:		
Provision for obsolete and slow moving inventories *	<u>(305,171)</u>	<u>(307,510)</u>
	<u>1,973,321</u>	<u>1,870,886</u>

\* Movement on provision for obsolete and slow moving inventories is as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Balance at beginning of the year	307,510	42,334
Charged during the year	-	265,176
Damaged goods in cost during the year	(2,339)	-
Balance at end of the year	<u>305,171</u>	<u>307,510</u>

**11. TRADING PROPERTIES**

	<u>2018</u>	<u>2017</u>
	KD	KD
Balance at beginning of the year	2,210,214	4,420,520
Disposals	(104,713)	(1,729,725)
Write down of trading properties to net realisable value	(81,347)	(480,581)
Balance at end of the year	<u>2,024,154</u>	<u>2,210,214</u>

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**11. TRADING PROPERTIES (CONTINUED)**

All trading properties are located in United Arab Emirates.

At 31 December 2018, management of the Group performed a review of trading properties to assess if there is an impairment in their carrying values, based on valuations performed by independent professional real estate valuation experts using comparable approach of active market prices for similar properties adjusted considering location, plot area and other individual characteristics. As a result, the Group wrote down certain trading properties to their net realisable values and recorded the difference of KD 81,347 (2017: KD 480,581) in the consolidated statement of profit or loss.

During the year ended 31 December 2018, the Group sold certain trading properties with a carrying value of KD 104,713 (2017: KD 1,729,725) for a total consideration of KD 104,169 (2017: KD 1,808,651) (Note 25).

**12. RELATED PARTY DISCLOSURES**

The Group entered into various transactions with related parties in the normal course of its business (i.e. associates, key management personnel and other related parties). Prices and terms of payment relating to these transactions are approved by the Group's management. Significant related party transactions and balances are as follows:

**(i) Balances included in consolidated statement of financial position:**

	<u>Associates</u>	<u>Other related parties</u>	<u>2018</u>	<u>2017</u>
	KD	KD	KD	KD
<b>Due from related parties:</b>				
Warehousing Project and logistics Company – W.L.L.*	2,406,000	-	2,406,000	2,406,000
Al-Khadda International General Trading and Contracting Company – W.L.L.	-	857,398	857,398	1,320
	<u>2,406,000</u>	<u>857,398</u>	<u>3,263,398</u>	<u>2,407,320</u>
Less: provision for doubtful debts*	<u>(2,406,000)</u>	<u>-</u>	<u>(2,406,000)</u>	<u>(2,406,000)</u>
	<u>-</u>	<u>857,398</u>	<u>857,398</u>	<u>1,320</u>

\*The amount due from Warehousing Projects and Logistics Company W.L.L. represents an unsecured loan granted by the Parent Company which matured on 30 April 2015 and has not been renewed. The loan carries profit at a rate charged on loans by Islamic banks in Kuwait. The management has provided a full provision against the outstanding balance amounting to KD 2,406,000. Management of the Parent Company has filed a legal case against the investee Company in order to recover this balance, for which the Court issued its verdict for behalf the Group. The verdict is under implementation in order to collect the amount due to the Group.

**(ii) Balances included in the consolidated Statement of Profit or Loss:**

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Gross profit</b>		
Al-Khadda International General Trading and Contracting Company – W.L.L.	233,562	-

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12. RELATED PARTY DISCLOSURES (CONTINUED)

(iii) Compensation to key management personnel

	<u>2018</u>	<u>2017</u>
	KD	KD
Salaries and other short term benefits	70,220	71,244
Employees' end of service indemnity	5,450	81,584
Remuneration of board of directors and executive committees	58,116	35,000
	<u>133,786</u>	<u>187,828</u>

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2018</u>	<u>2017</u>
	KD	KD
Quoted securities	59,971	63,922
Unquoted securities	4,649,932	-
	<u>4,709,903</u>	<u>63,922</u>

The movement of financial assets at fair value through profit or loss during the year was as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Balance at beginning of the year	63,922	82,038
Additions*	4,649,932	-
Unrealised loss on financial assets at fair value through profit or loss	(3,951)	(18,116)
Balance at end of the year	<u>4,709,903</u>	<u>63,922</u>

\*During the current year, the Group purchased financial assets at fair value through profit or loss from unlisted Companies of KD 4,649,932 and were assessed at fair value (Note 30).

14. TERM DEPOSIT

Deposit is placed with local Islamic bank. It has an original maturity period as of the deposit date for six months. Average profit rate of term deposit is 2.55% per annum. There is a pledge to the deposit against non-cash facilities at the bank.

15. CASH AND CASH EQUIVALENTS

	<u>2018</u>	<u>2017</u>
	KD	KD
Cash on hand	101,648	101,097
Short term bank deposits	152,000	4,000,000
Cash at banks	1,586,164	2,804,744
	<u>1,839,812</u>	<u>6,905,841</u>

Deposit is placed at local Islamic banks. It has an original maturity period as of the deposit date for a month. Average profit rate of term deposits is 2.25% to 2.5% per annum (2017: 1.8% per annum).

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**16. ASSETS CLASSIFIED AS HELD FOR SALE**

The management of the Parent Company had a plan to actively pursue the disposal of its investment in the associate Equipment Holding Company – K.S.C.P. as at 31 December 2018 which has been approved by the Board of Directors in the meeting held on 17 October 2017. As a result, the carrying amount of the investment as at 31 December 2018 of KD 1,055,194 (31 December 2017: KD 1,306,676) and the current account due from such associate of KD 59,943 (31 December 2017: KD 114) were classified as non-current assets held for sale after deduction of an impairment losses of KD 251,596 (31 December 2017: KD 575,700) based on the latest bid price in the market to bring down the carrying amount of the investment to its fair value. Accordingly, the impairment loss was recorded as loss for the year from discontinuing operations.

The movement of assets classified as held for sale during the year was as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Balance at beginning of the year	1,306,790	-
Transferred from investments in associates (Note 8)	-	1,882,376
Add: due from an associate	59,943	114
Less: impairment loss of assets classified as held for sale	<u>(251,596)</u>	<u>(575,700)</u>
	<u>1,115,137</u>	<u>1,306,790</u>

Management presented share of results of such associate and the impairment loss of assets held for sale as discontinuing operations as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Share of results (Note 8)	-	(353,135)
Impairment loss of assets classified as held for sale	<u>(251,596)</u>	<u>(575,700)</u>
	<u>(251,596)</u>	<u>(928,835)</u>

**17. SHARE CAPITAL**

The Parent Company's authorised, issued and paid up capital is KD 15,000,000 distributed over 150,000,000 shares with nominal value of 100 fils each (2017: KD 15,000,000 distributed over 150,000,000 shares with nominal value of 100 fils each), and all shares are in cash.

**18. STATUTORY RESERVE**

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before calculation of the contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the statutory reserve exceeds 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association. An amount of KD 133,732 has been transferred to the statutory reserve at 31 December 2018.

It is not allowed to distribute statutory reserve to shareholders, it is only allowed to use it to distribute profits to shareholders up to 5% of paid-up share capital in the years when retained earnings are not sufficient for the payment of a dividend of that amount.

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**19. VOLUNTARY RESERVE**

As required by the Parent Company's Article of Association, a percentage of the profit for the year should be transferred based on the Board of Directors' recommendation that is subject to approval of the General Assembly of the Parent Company's shareholders. Such annual transfers may be discontinued by the Company based on a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. An amount of KD 133,732 has been transferred to the voluntary reserve at 31 December 2018.

**20. GENERAL ASSEMBLY OF THE PARENT COMPANY'S SHAREHOLDERS**

At the meeting held on 21 February 2019, the Board of Directors have proposed not to allocate cash dividends for the year ended 31 December 2018, and to distribute directors' remuneration of KD 25,000 (2017: nil), which is subject to the approval of the Shareholders' Annual General Assembly.

The Parent Company's shareholders' Ordinary General Assembly meeting held on 2 May 2018 approved the consolidated financial statements of the Group for the year ended 31 December 2017, and resolved the following:

- To write off the full amount of accumulated losses of KD 2,978,191 as at 31 December 2017 through the share premium, which will result in share, premium amount to be KD 12,620,790 after writing off these accumulated losses.
- Not to distribute cash dividends for the year ended 31 December 2017.
- Not to distribute remunerations to the Board of Directors.

The Parent Company's shareholders' Ordinary General Assembly meeting held on 30 April 2017 approved the consolidated financial statements of the Group for the year ended 31 December 2016, and resolved the following:

To write off the full amount of accumulated losses of KD 4,355,901 as at 31 December 2016 through the following:

- The full amount of voluntary reserve amounting to KD 473,319.
- The full amount of statutory reserve amounting to KD 1,981,563.
- An amount of KD 1,901,019 from share premium, which will result in a share premium amount to be KD 15,598,981 after writing off these accumulated losses.
- Not to distribute cash dividends for the year ended 31 December 2016.
- Not to distribute remunerations to the Board of Directors, except for an amount of KD 10,000 to the independent member.

**21. OTHER COMPONENTS OF EQUITY**

	Revaluation reserve	Reserve related to assets held for sale	Foreign currency translation reserve	Treasury shares reserve	Total
	KD	KD	KD	KD	KD
Balance at 1 January 2018	211,909	(9,403)	198,986	748,437	1,149,929
Additions	129,169	-	-	-	129,169
Foreign exchange differences	-	(7)	91,310	-	91,303
Transfer relating to depreciation expenses charged to retained earnings	(25,415)	-	-	-	(25,415)
Balance at 31 December 2018	315,663	(9,410)	290,296	748,437	1,344,986

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**21. OTHER COMPONENTS OF EQUITY (CONTINUED)**

	Revaluation reserve	Reserve related to assets held for sale	Foreign currency translation reserve	Treasury shares reserve	Total
	KD	KD	KD	KD	KD
Balance at 1 January 2017	237,324	(13,014)	300,908	748,437	1,273,655
Share of other comprehensive losses of associates (Note 8)	-	3,611	-	-	3,611
Foreign exchange differences	-	-	(101,922)	-	(101,922)
Transfer relating to depreciation expenses charged to accumulated losses	(25,415)	-	-	-	(25,415)
Balance at 31 December 2017	211,909	(9,403)	198,986	748,437	1,149,929

**22. TREASURY SHARES**

	2018	2017
Number of shares	7,313,493	7,313,493
Percentage to paid up shares	4.88%	4.88%
Market value (KD)	499,512	493,661
Cost (KD)	2,418,587	2,418,587

Based on the decision of the Capital Markets Authority, the Parent Company's management has locked off an amount equal to treasury shares balance from share premium as at the consolidated financial statements date. Such amount will not be available for distribution over the period in which the Parent Company holds treasury shares.

**23. PROVISION FOR EMPLOYEES' END OF SERVICE INDEMNITY**

	2018	2017
	KD	KD
Balance at beginning of the year	629,219	517,488
Charged during the year	107,283	266,607
Payment during the year	(45,815)	(154,876)
Balance at end of the year	690,687	629,219

**24. ACCOUNTS PAYABLES AND OTHER CREDIT BALANCES**

	2018	2017
	KD	KD
Trade payables	1,735,308	847,973
Advance payments from customers	1,106,455	1,474,747
Retention payables	2,236,453	685,966
Notes payable	49,524	237,641
Other	1,210,386	955,247
	6,338,126	4,201,574

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24. ACCOUNTS PAYABLES AND OTHER CREDIT BALANCES (CONTINUED)

Represented as follows:

	2018	2017
	KD	KD
Non-current liabilities	263,302	270,906
Current liabilities	6,074,824	3,930,668
	<u>6,338,126</u>	<u>4,201,574</u>

25. REVENUES

	2018	2017
	KD	KD
General trading revenue	4,467,708	4,688,144
Contract Revenue	2,067,017	1,822,089
Construction revenue	13,282,225	7,950,080
Oil and gas services revenue	2,326,529	834,978
Sale of trading properties (Note 11)	104,169	1,808,651
	<u>22,247,648</u>	<u>17,103,942</u>

*Revenues details*

The Group classified the revenue from contracts with customers as stated in the following table:

2018	Trading properties KD	Oil and gas KD	General Trading, Contracting and Construction KD	Total KD
<i>Revenue Types:</i>				
General trading revenue	-	-	4,467,708	4,467,708
Contract Revenue	-	-	2,067,017	2,067,017
Construction revenue	-	-	13,282,225	13,282,225
Oil and gas services revenue	-	2,326,529	-	2,326,529
Revenues from trading properties	104,169	-	-	104,169
<b>Total revenues from contracts with customers</b>	<u>104,169</u>	<u>2,326,529</u>	<u>19,816,950</u>	<u>22,247,648</u>
<i>Main geographical market:</i>				
State of Kuwait	-	2,326,529	18,664,142	20,990,671
Qatar	-	-	1,152,808	1,152,808
UAE	104,169	-	-	104,169
	<u>104,169</u>	<u>2,326,529</u>	<u>19,816,950</u>	<u>22,247,648</u>
<i>Timing of revenue recognition:</i>				
<b>Revenue from contracts with customers</b>				
At time point	104,169	-	4,467,708	4,571,877
Over time	-	2,326,529	15,349,242	17,675,771
<b>Total revenues from contracts with customers</b>	<u>104,169</u>	<u>2,326,529</u>	<u>19,816,950</u>	<u>22,247,648</u>

Notes to the Consolidated Financial Statements  
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25. REVENUES (CONTINUED)

2017	Trading properties KD	Oil and gas services KD	General Trading, Contracting and Construction KD	Total KD
<i>Revenue Types:</i>				
General trading revenue	-	-	4,688,144	4,688,144
Contract Revenue	-	-	1,822,088	1,822,088
Construction revenue	-	-	7,950,080	7,950,080
Oil and gas services revenue	-	834,979	-	834,979
Revenues from trading properties	1,808,651	-	-	1,808,651
<b>Total revenues from contracts with customers</b>	1,808,651	834,979	14,460,312	17,103,942
<i>Main geographical market:</i>				
State of Kuwait	-	834,979	13,560,913	14,395,892
Qatar	-	-	899,399	899,399
UAE	1,808,651	-	-	1,808,651
	1,808,651	834,979	14,460,312	17,103,942
<i>Timing of revenue recognition:</i>				
<b>Revenue from contracts with customers</b>				
At time point	1,808,651	-	4,688,144	6,496,795
Over time	-	834,979	9,772,168	10,607,147
<b>Total revenues from contracts with customers</b>	1,808,651	834,979	14,460,312	17,103,942

26. BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY

Basic earnings/ (loss) per share is calculated by dividing the profit / (loss) for the year attributable to shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares). There are no potential dilutive ordinary shares. The information necessary to calculate basic earnings / (loss) per share based on the weighted average number of shares outstanding during the year is as follows:

	2018	2017
Profit / (loss) for the year from the continuing operations attributable to the shareholders of the Parent Company (KD)	1,748,760	(2,074,771)
Loss for the year from the discontinuing operations attributable to the shareholders of the Parent Company (KD)	(251,596)	(928,835)
Profit / (loss) for the year attributable to the shareholders of the Parent Company (KD)	1,497,164	(3,003,606)
No. of shares outstanding		
Weighted average number of shares in issue (shares)	150,000,000	150,000,000
Less: weighted average number of treasury shares (shares)	(7,313,493)	(7,313,493)
Weighted average number of outstanding shares (shares)	142,686,507	142,686,507
	Fils	Fils
Basic and diluted earnings / (loss) per share from the continuing operations attributable to the shareholders of the Parent Company	12.25	(14.54)
Basic and diluted loss per share from the discontinuing operations attributable to shareholders of the Parent Company	(1.76)	(6.51)
Basic and diluted earnings / (loss) per share attributable to shareholders of the Parent Company	10.49	(21.05)

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**27. SEGMENT INFORMATION**

The Group's assets and activities are based in Kuwait and GCC countries. The Group's activities are represented primarily in general trading, contracting and construction, oil and gas services and real estates as follows:

2018	General Trading, Contracting and Construction	Oil and gas services	Real estate activities	Total
	KD	KD	KD	KD
Segment operating revenues	19,816,950	2,326,529	167,169	22,310,648
Segment results	1,749,711	417,814	(43,821)	2,123,704
Depreciation and amortization	(292,709)	(1,064)	(1,405)	(295,178)
Share of results of associates				(80,614)
Unrealised loss on financial assets at fair value through profit or loss				(3,951)
Profit for the year from continuing operations				1,743,961
Loss for the year from discontinued operations				(251,596)
Profit for the year				1,492,365
Total assets	*28,481,939	5,648,323	930,854	35,061,116
Total liabilities	(6,770,472)	(95,446)	(162,895)	(7,028,813)
	21,711,467	5,552,877	767,959	28,032,303

\* Including assets classified as held for sale.

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27. SEGMENT INFORMATION (CONTINUED)

2017	General Trading, Contracting and Construction	Oil and gas services	Real estate activities	Total
	KD	KD	KD	KD
Segment operating revenues	14,460,312	834,979	1,871,651	17,166,942
Segment results	193,505	(1,240,153)	(452,888)	(1,499,536)
Depreciation and amortization	(652,343)	(1,068)	(1,401)	(654,812)
Share of results of associates				80,233
Unrealised loss on financial assets at fair value through profit or loss				(18,116)
Loss for the year from continuing operations				(2,092,231)
Loss for the year from discontinued operations				(928,835)
Loss for the year				(3,021,066)
Total assets	*24,424,325	1,179,603	5,826,961	31,430,889
Total liabilities	(4,636,903)	(101,952)	(91,938)	(4,830,793)
	19,787,422	1,077,651	5,735,023	26,600,096

\* Including assets classified as held for sale.

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**28. CONTINGENT LIABILITIES**

At the consolidated financial position date, the Group is contingently liable in respect of the following, from which it is anticipated that no material liability will arise:

	<u>2018</u>	<u>2017</u>
	KD	KD
Against letters of guarantee and letters of credit	<u>11,106,052</u>	<u>10,530,358</u>

**29. CAPITAL MANAGEMENT AND FINANCIAL RISKS**

**Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

**Financial risk**

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. Market risk is divided into foreign currency risk, interest rate risk and equity price risk. No changes were made in the risk management objectives and policies during the years ended 31 December 2018 and 31 December 2017.

The Parent Company's board of directors is ultimately responsible to set out policies and strategies for management of risks.

**Categories of financial instruments**

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Financial assets</b>		
Financial assets at fair value through other comprehensive income	10,788	-
Available for sale financial assets	-	10,788
Accounts receivable and other debit balances (excluding advance payments to suppliers)	12,091,401	10,357,612
Due from related parties	857,398	1,320
Financial assets at fair value through profit or loss	4,709,903	63,922
Term deposit	1,000,000	-
Cash and cash equivalents	1,839,812	6,905,841
<b>Financial liabilities</b>		
Accounts payable and other credit balances (excluding advance payments from customers)	5,231,671	2,726,827

## 29. CAPITAL MANAGEMENT AND FINANCIAL RISKS (CONTINUED)

### Financial risk (Continued)

The management of the Group reviews and approves policies for managing each of these risks which are summarised below:

#### Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument leading to financial loss.

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party and to monitor the collection of the debit balances on an ongoing basis. The Group limits its credit risk with regard to bank balances by only dealing with reputable banks. In addition, debit balances are monitored on an ongoing basis. Accordingly, the Group's exposure to bad debts is insignificant.

#### Maximum exposure to credit risk

The Group's exposure to credit risk from bank balances and debit balances arises from default of the counterparty. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in the value. The maximum exposure to credit risk is the carrying amount of the financial assets, which is stated in the consolidated statement of financial position.

#### Risk of impairment of financial assets

Financial assets exposed to impairment include "accounts receivable and other debit balances" and "bank balances".

#### Accounts receivable and other debit balances

The Group adopts the simplified approach in accordance with IFRS 9 to measure ECLs through using provision for ECLs based on the period of ECLs for all accounts receivable.

Accounts receivable are consolidated based on characterizations of the mutual credit risk and its maturity in order to measure ECLs. Accordingly, the Group's management believes that ECLs rate on accounts receivable represent a reasonable approximation of actual results of customer default in the subsequent periods.

On this basis, the provision for ECLs on accounts receivable as at 31 December 2018 (on the impact of the application of IFRS 9) has been determined as follows:

#### 31 December 2018:

<u>Ageing of receivables</u>	<u>Total carrying amount</u> KD	<u>Weighted average of loss rate</u>	<u>Credit impairment</u> KD
Less than 90 days	2,126,652	2.69%	57,207
90 to 180 days	2,585,102	2.85%	73,675
180 to 365 days	2,219,272	7.66%	169,996
More than 365 days	5,873,995	38.42%	2,256,918
	<u>12,805,021</u>		<u>2,557,796</u>

As at 1 January 2018, the Group recognised an additional allowance for ECLs of KD 286,000 as a result of application of IFRS 9 (Note 2- C, A,ii).

Accounts receivable are written off when there is no reasonable expectation of recovery. Indicators include lack of a reasonable expectation of recovery, among other matters, e.g. the failure of the customer to subscribe to a payment plan with the group and lack to make contractual payments for more than 365 days except for the contractual retentions.

While other receivables are also subject to the requirements of impairment losses in IFRS 9, the impairment loss is insignificant.

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29. CAPITAL MANAGEMENT AND FINANCIAL RISKS (CONTINUED)

**Financial risk (Continued)**

*Cash and cash equivalents*

Cash and cash equivalents are also subject to the requirements of ECLs in IFRS 9, Cash is placed with high credit rating financial institutions. Therefore, the Group's management believes that the impairment loss of cash and cash equivalents is insignificant.

*Credit risk exposure*

The carrying values for financial assets represent the maximum exposure to credit risks. The maximum net exposure to credit risk for assets categories at the reporting date was as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Term deposit	1,000,000	-
Cash and cash equivalents	1,738,164	6,804,744
Accounts receivable and other debit balances (excluding advance payments to suppliers)	<u>12,091,401</u>	<u>10,357,612</u>
	<u>14,829,565</u>	<u>17,162,356</u>

*Credit concentration risk*

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by change in economic, political or other conditions. Concentration indicates the relative sensitivity of the Group's performance to developments affecting in particular industry or geographical location.

Analysis of Group's financial assets that are exposed to credit risk by geographic segment and business sector is as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
<i>Geographical segment:</i>		
State of Kuwait	13,983,068	16,283,056
Middle East	<u>846,497</u>	<u>879,300</u>
	<u>14,829,565</u>	<u>17,162,356</u>

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The risk is managed by the Group by ensuring that bank facilities are available and by monitoring on a regular basis that sufficient funds are available to meet future commitments.

The following table summarises the maturities of the Group's undiscounted financial liabilities as at 31 December based on contractual payment dates and current market interest rates.

<u>2018</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>More than one year</u>	<u>Total</u>
	KD	KD	KD	KD
Accounts payable and other credit balances (excluding advance payments from customers)	<u>2,968,088</u>	<u>2,000,281</u>	<u>263,302</u>	<u>5,231,671</u>
	<u>2,968,088</u>	<u>2,000,281</u>	<u>263,302</u>	<u>5,231,671</u>

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29. CAPITAL MANAGEMENT AND FINANCIAL RISKS (CONTINUED)

Financial risk (Continued)

Liquidity risk (Continued)

<u>2017</u>	<u>Less than 3 months</u> KD	<u>3 to 12 months</u> KD	<u>More than one year</u> KD	<u>Total</u> KD
Accounts payable and other credit balances (excluding advance payments from customers)	1,513,601	942,320	270,906	2,726,827
	<u>1,513,601</u>	<u>942,320</u>	<u>270,906</u>	<u>2,726,827</u>

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and equity prices.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The Group mainly operates in the Middle Eastern countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, Euro, Saudi Riyal, UAE Dirham, Qatari Riyal and Omani Riyal. The Group's consolidated statement of financial position can be significantly affected due to fluctuations in foreign currency exchange rates. To mitigate the Group's exposure to foreign currency risk, foreign currency cash flows are monitored.

The Group's significant net exposure to foreign currency risk arising from the monetary asset denominated in foreign currencies less monetary liabilities at the reporting date, and which are translated into Kuwaiti Dinars as per the closing rates are as follows:

<u>Currency</u>	<u>2018</u> KD	<u>2017</u> KD
USD	87,667	(337)
Saudi Riyal	4,090,974	4,043,851
UAE Dirham	(3,247)	(62,597)
Qatar riyal	659,657	577,612
Omani Riyal	75,744	84,869
Pound Sterling	-	(15,532)
Egyptian Pound	1,223	1,223
Euro	15,479	(239,000)
Japanese Yen	49,524	-

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29. CAPITAL MANAGEMENT AND FINANCIAL RISKS (CONTINUED)

Financial risk (Continued)

Market risk (Continued)

(i) Foreign currency risk (Continued)

The following table shows the sensitivity of the Group's results (due to change in the fair value of monetary assets and liabilities) to a 5% possible change in the exchange rates, with all other variable held constant:

Currency	2018	2017
	KD	KD
USD	4,383	(17)
Saudi Riyal	204,549	202,193
UAE Dirham	(162)	(3,130)
Qatar riyal	32,983	28,881
Omani Riyal	3,787	4,243
Pound Sterling	-	(777)
Egyptian Pound	61	61
Euro	774	(11,950)
Japanese Yen	2,476	-

Management believes that there is a limited risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposure.

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rate. The Group is not exposed to interest rate risk, as the Company does not have any floating interest bearing assets and liabilities.

(iii) Equity risk

Equity price risk arises from the changes in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on the Group's results (as a result of a change in the financial assets at fair value through profit or loss) due to a 5% change in market indices, with all other variables held constant, is as follows:

Description	2018		
	Change in equity price	Effect on consolidated statement of profit or loss	Effect on consolidated statement of profit or loss and other comprehensive income
	%	KD	KD
Financial assets at fair value through profit or loss	±5%	235,495	-
Financial assets at fair value through other comprehensive income	±5%	-	539

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29. CAPITAL MANAGEMENT AND FINANCIAL RISKS (CONTINUED)

Financial risk (Continued)

Market risk (Continued)

(iii) Equity risk (Continued)

Description	2017		
	Change in equity price	Effect on consolidated statement of profit or loss	Effect on consolidated statement of profit or loss and other comprehensive income
	%	KD	KD
Financial assets at fair value through profit or loss	±5%	3,196	-
Available for sale financial assets	±5%	-	539

30. FAIR VALUE MEASUREMENT

The fair value represents 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. In the opinion of the Group's management, the carrying values of the financial assets and liabilities as at 31 December 2018 and 2017 are not significantly different from their carrying value.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, Grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (inputs relating to prices).
- Level 3: Inputs are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial assets are classified is determined based on the lowest level of significant input to the fair value measurement.

The assets measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

2018	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
<b>Financial assets:</b>				
Financial assets at fair value through profit or loss	59,971	-	4,649,932	4,709,903
Financial assets at fair value through other comprehensive income	-	10,788	-	10,788
<b>Non-financial assets:</b>				
Investment properties	-	1,467,001	533,887	2,000,888

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30. FAIR VALUE MEASUREMENT (CONTINUED)

2017	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
<b>Financial assets:</b>				
Financial assets at fair value through profit or loss	63,922	-	-	63,922
Available for sale financial assets	-	10,788	-	10,788
<b>Non-financial assets:</b>				
Investment properties	-	-	533,818	533,818

Reconciliation of Level 3 fair value measurements of assets is as follows:

	<b>Financial assets at fair value through profit or loss</b>
	KD
<b>2018</b>	
1 January 2018	-
Additions	4,649,932
Revaluation result	-
31 December 2018	<u>4,649,932</u>
	<b>Investment properties</b>
	KD
<b>2017</b>	
1 January 2017	696,315
Disposals	(149,393)
Revaluation result	(13,000)
Foreign currency translation adjustments	(104)
31 December 2017	<u>533,818</u>
	<b>Investment properties</b>
	KD
<b>2018</b>	
1 January 2018	533,818
Foreign currency translation adjustments	69
31 December 2018	<u>533,887</u>

31. LEGAL CLAIMS

There are certain lawsuits raised by / against the Group, the results of which cannot be assessed till being finally cleared by the court. In the opinion of the Group's management and legal counsel, there will be no material adverse impact on the Group consolidated financial statements, and hence, no additional provisions were recorded in the Group's records due to the sufficiency of the currently recorded provisions for those claims as of the reporting date.