

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC)
AND ITS SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH
INDEPENDENT AUDITORS' REPORT

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC)
AND ITS SUBSIDIARIES
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CONTENTS

Independent Auditors' Report	
Consolidated statement of financial position	<u>Pages</u> 5
Consolidated statement of profit or loss and other comprehensive income	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8
Notes to consolidated financial statements	9 - 39

INDEPENDENT AUDITORS' REPORT

To the Shareholders
Metal and Recycling Company - K.S.C. (Public) and its subsidiaries
State of Kuwait

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

We have audited the consolidated financial statements of Metal and Recycling Company - K.S.C. (Public) ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Emphasis of matter

We draw attention to Note 30 regarding right of utilization for a land held by an associate and the parent company. Our opinion is not modified in respect to this matter.

Key Audit Matters

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

Valuation of Investment Properties

The valuation of the investment property is important to our audit as it represents a significant judgment area and an important part of the total assets of the Group. The valuation of the investment property is highly dependent on estimates. We therefore identified the valuation of investment property as a significant risk. The Group policy is that property valuations are performed by licensed valuers at least once a year. These valuations are amongst others based on assumptions, such as estimated rental revenues, discount rates, occupancy rates, market knowledge, developers risk and historical transactions. In estimating the fair value of investment properties, valuers had used the valuation techniques i.e. discounted cash flow method and sales comparison, and had considered the nature and usage of the investment properties. We reviewed the valuation reports from the licensed valuers.

We further focused on the adequacy of the disclosures on the valuation of investment properties. Disclosures of this item are included in Note 11 to the consolidated financial statements.

Existence and collectability of trade receivables

Trade receivable balances were significant to the Group's total assets of the consolidated statement of financial position and is therefore a key audit matter. The collectability of trade receivables is a key element of Group's working capital management, which is managed on an ongoing basis by management. Group management supports in setting credit limits for customers and approve such limits above certain thresholds where applicable.

We performed audit procedures on existence of trade receivables, which include but are not limited to control testing on sales transactions and tracing back to supporting documents, sending trade receivable confirmations, subsequent collections. Assessing the valuation of trade receivables requires judgement and we have reviewed the assumptions used to calculate the trade receivables impairment amount, notably through detailed analysis of ageing of receivables, assessment of significant overdue individual trade receivables and assessing specific local risks, combined with legal documentation, where needed. Disclosures of this item are included in Note 5 to the consolidated financial statements.

Other Information

Our opinion on the consolidated financial statements does not cover the other information attached to it, and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

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.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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


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

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

Report on Other Legal and Regulatory Requirements

In our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, 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 Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of association, as amended, have occurred during the year ended December 31, 2017, that might have had a material effect on the business or financial position of the Parent Company, except for the ownership of a subsidiary of the Group for investment properties and rental income on them, which is in contravention of the purposes of the subsidiary provided for in its Memorandum of Association

State of Kuwait
March 27, 2018

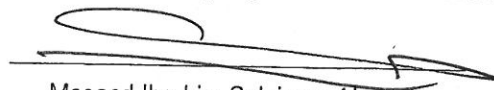


Dr. Shuaib A. Shuaib
Licence No. 33-A
RSM Albazie & Co.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
(All amounts are in Kuwaiti Dinars)

<u>ASSETS</u>	Note	2017	2016
Current assets:			
Cash and cash equivalents	3	2,284,783	2,715,099
Time deposits	4	1,671,802	726,938
Murabaha investments	5	39,715	510,000
Accounts receivable and other debit balances	6	5,650,520	6,329,770
Gross amount due from customers for contract work	7	601,426	118,000
Inventories	8	1,649,502	1,588,474
Total current assets		<u>11,897,748</u>	<u>11,988,281</u>
Non-current assets:			
Financial assets available for sale		183,495	183,495
Investment in an associate	9	5,490,154	4,921,172
Investment properties	11	2,551,000	2,605,000
Property, plant and equipment	12	2,085,525	2,074,482
Goodwill		406,889	406,889
Total non-current assets		<u>10,717,063</u>	<u>10,191,038</u>
Total assets		<u>22,614,811</u>	<u>22,179,319</u>
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Due to banks		-	1,844
Finance lease payables	13	1,730,000	1,730,000
Term loans	14	700,000	800,000
Accounts payable and other credit balances	15	3,134,290	2,555,313
Total current liabilities		<u>5,564,290</u>	<u>5,087,157</u>
Non-current liabilities:			
Provision for end of service indemnity		622,033	456,157
Total non-current liabilities		<u>622,033</u>	<u>456,157</u>
Total liabilities		<u>6,186,323</u>	<u>5,543,314</u>
Equity:			
Capital	16	10,000,000	8,255,650
Share premium		-	5,089,036
Statutory reserve	17	1,520,581	1,511,731
Voluntary reserve	18	-	487,860
Treasury shares	19	(1,279,879)	(1,056,623)
Effect of changes in subsidiary's equity		465,807	(86,191)
Foreign currency translation reserve		11,958	11,958
Retained earnings		4,395,956	292,722
Equity attributable to Parent Company's shareholders		<u>15,114,423</u>	<u>14,506,143</u>
Non-controlling interests		1,314,065	2,129,862
Total equity		<u>16,428,488</u>	<u>16,636,005</u>
Total liabilities and equity		<u>22,614,811</u>	<u>22,179,319</u>

The accompanying notes (1) to (35) form an integral part of the consolidated financial statements.


Mosaed Ibrahim Suleiman Al - Holy
Chairman

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

Revenues:	Note	2017	2016
Net sales		7,943,588	5,670,139
Service revenue	20	<u>10,540,137</u>	<u>6,462,505</u>
		<u>18,483,725</u>	<u>12,132,644</u>
Costs:			
Cost of sales		5,580,526	4,024,124
Service cost	20	<u>9,132,111</u>	<u>5,151,389</u>
		<u>14,712,637</u>	<u>9,175,513</u>
Gross profit		<u>3,771,088</u>	<u>2,957,131</u>
Expenses and charges:			
Staff cost		1,001,585	975,292
General and administrative expenses	21	1,327,448	847,607
Selling and marketing expenses		275,855	170,024
Depreciation	12	304,619	291,432
Provision for doubtful debts	6 – b	722,698	520,552
Provision for inventory no longer required	8 – a	(109,175)	(268,522)
Legal claims	22	479,166	-
Total expenses and charges		<u>4,002,196</u>	<u>2,536,385</u>
(Loss) profit from operations		(231,108)	420,746
Share of results from an associate	9	568,982	11,282
Impairment loss on financial assets available for sale		-	(80,068)
Gain on sale of property, plant and equipment		4,563	13,790
Changes in fair value of investment properties	11	(54,000)	(50,500)
Murabaha income		1,903	7,834
Interest income		34,440	25,818
Finance charges		(262,453)	(263,942)
Foreign exchange loss		(6,097)	(8,477)
Other income	23	<u>356,959</u>	<u>534,697</u>
Profit for the year before contribution to National Labor Support			
Tax and Zakat		413,189	611,180
Contribution to KFAS		-	(3,237)
Contribution to NLST		(24,427)	(19,825)
Contribution to Zakat		(7,792)	(7,930)
Profit for the year		<u>380,970</u>	<u>580,188</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>380,970</u>	<u>580,188</u>
Attributable to:			
Shareholders of the Parent Company		56,282	328,690
Non-controlling interests		<u>324,688</u>	<u>251,498</u>
		<u>380,970</u>	<u>580,188</u>
		(fils)	(fils)
Earnings profit per share attributable to shareholders of the Parent Company	24	<u>0.624</u>	<u>3.64</u>

The accompanying notes (1) to (35) form an integral part of the consolidated financial statements.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

	Equity attributable to Parent Company's shareholders							Subtotal	Non-controlling interests	Total equity
	Capital	Share premium	Statutory reserve	Voluntary reserve	Treasury shares	Foreign currency translation reserve	Effect of change in subsidiary's equity			
Balance as at January 1, 2016	8,255,650	11,690,245	1,475,763	487,860	(1,056,623)	(86,191)	11,958	(6,601,209)	2,152,631	16,330,084
Amortization of accumulated loss in the share premium	-	(6,601,209)	-	-	-	-	-	6,601,209	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	328,690	251,498	580,188
Transferred to statutory reserve	-	-	35,968	-	-	-	-	(35,968)	-	-
Effect of acquisition of a subsidiary	-	-	-	-	-	-	-	-	37,234	37,234
Cash dividends to non-controlling interests	-	-	-	-	-	-	-	-	(311,501)	(311,501)
Balance as of December 31, 2016	8,255,650	5,089,036	1,511,731	487,860	(1,056,623)	(86,191)	11,958	292,722	2,129,862	16,636,005
Transfer share premium to voluntary reserve (Note 1)	-	(5,089,036)	-	5,089,036	-	-	-	-	-	-
Transfer voluntary reserve to retained earning (Note 1)	-	-	-	(5,576,896)	-	-	-	5,576,896	-	-
Transfer part from retained earning to share capital (Note 1)	1,744,350	-	-	-	-	-	-	(1,744,350)	-	-
Effect of increase share capital on treasury shares (Note 1)	-	-	-	-	(223,256)	-	-	223,256	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	56,282	324,688	380,970
Transfer to statutory reserve	-	-	8,850	-	-	-	-	(8,850)	-	-
Effect of disposal of a subsidiary	-	-	-	-	-	-	-	-	(9,987)	(9,987)
Cash dividends to non-controlling interest	-	-	-	-	-	-	-	-	(3,500)	(3,500)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	(1,126,998)	(1,126,998)
Balance as of December 31, 2017	10,000,000	-	1,520,581	-	(1,279,879)	465,807	11,958	4,395,956	1,314,065	16,428,488

The accompanying notes (1) to (35) form an integral part of the consolidated financial statements.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

	2017	2016
Cash flows from operating activities:		
Profit of the year before contribution to KFAS, NLST and Zakat	413,189	611,180
Adjustments for:		
Depreciation	530,490	692,693
Provision for doubtful debts	722,698	520,552
Provision for inventory no longer required	(109,175)	(268,522)
Gain on sale of property, plant and equipment	(29,000)	(13,790)
Assets written off	24,437	-
Impairment loss on financial assets available for sale	-	80,068
Share of results from an associate	(568,982)	(11,282)
Loss on sale of subsidiary	(6,044)	-
Changes in fair value of investment properties	54,000	50,500
Murabaha income	(1,903)	(7,834)
Interest income	(34,440)	(25,818)
Finance charges	262,453	263,942
Provision for end of service indemnity	193,162	130,201
	<u>1,450,885</u>	<u>2,021,890</u>
Changes in operating assets and liabilities:		
Accounts receivable and other debit balances	(56,492)	(1,067,010)
Gross amount due from customers for contract work	(483,426)	(36,272)
Inventories	48,147	(314,406)
Accounts payable and other credit balances	277,359	285,327
Cash flows generated from operations	<u>1,236,473</u>	<u>889,529</u>
Payment for end of service indemnity	(27,286)	(93,337)
Net cash flows generated from operating activities	<u>1,209,187</u>	<u>796,192</u>
Cash flows from investing activities:		
Net increase on term deposits	(944,864)	(541,938)
Proceeds from Murabaha investments	470,285	1,400,000
Net movement on investment properties	-	100,000
Purchase of property, plant and equipment	(565,970)	(338,944)
Proceeds from sale of property, plant and equipment	29,000	13,790
Paid for investment in an subsidiary	300,000	-
Murabaha income received	1,903	7,834
Interest income received	33,640	25,818
Net cash flows (used in) generated from investing activities	<u>(1,275,206)</u>	<u>666,560</u>
Cash flows from financing activities:		
Payment of due to banks	(1,844)	(1,206,756)
Payment of term loans	(100,000)	-
Dividends to non - controlling interests	-	(311,501)
Finance charges paid	(262,453)	(263,942)
Net cash flows used in financing activities	<u>(364,297)</u>	<u>(1,782,199)</u>
Net decrease in cash and cash equivalents	(430,316)	(319,447)
Cash and cash equivalents at beginning of the year	2,715,099	3,034,546
Cash and cash equivalents at end of the year (Note 3)	<u>2,284,783</u>	<u>2,715,099</u>

The accompanying notes (1) to (35) form an integral part of the consolidated financial statements.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

1. Incorporation and activities

Metal and Recycling K.S.C. (Public) (the "Parent Company") is a Kuwaiti shareholding company (Public) registered in the State of Kuwait, and was incorporated based on Memorandum of Incorporation Ref. No. 113 / Volume 17 dated June 10, 1987 and its subsequent amendments, the latest of which was notarized in the commercial registration under Ref. No. 12320 dated on October 9, 2017. By amending article (6) of article of association and article (5) of memorandum of incorporation by approving to increase the Company's authorized and fully paid up share capital from KD 8,255,650 to KD 10,000,000 by approving the following.

- a- Transfer full share premium amount of KD 5,089,036 to the voluntary reserve account be KD 5,576,896.
- b- Approving the transfer of the full amount of the voluntary reserve of KD 5,576,896 to retained earnings.
- c- Approving the transfer of KD 1,744,350 from the retained earnings to the capital account to KD 10,000,000.
- d- Approve the issue of bonus shares to shareholders by 21.12% against the transfer of part of the retained earnings to the capital account.

The main activities of the Parent Company are as follows:

- Purchase and sale of used and scrap machinery and vehicles and their spare parts and all kinds of metals and their derivatives as well as representing specialized companies in such activities.
- Purchase and sale of the scrap of houses, industrial and commercial projects, including household tools, machinery, metal construction and other local scrap.
- Shredding, classifying; storing and selling waste and scrap inside and outside Kuwait.
- Importing machinery and materials necessary for recycling, shredding and storing scrap.
- Carrying out all trade, export and production relating to the company's objectives inside and outside Kuwait.
- Establishing complementary industries to the trade and production of scrap.
- Management and development of areas of sale, purchase, production, and manufacture scrap and used materials and ancillary industries inside and outside State of Kuwait.
- Carrying out all demolishing and removal works for construction and representing companies in such field.
- Utilization of the company's surplus funds by investing in portfolios managed by specialized companies.
- Holding and managing auctions related to the objectives of the company locally and internationally and representing companies in such field.
- Developing, preparing, establishing, managing and operating industrial and professional areas.
- Incorporation and partial ownership of industrial companies and industrial management companies inside and outside State of Kuwait.
- Collection, transportation and utilization of trash waste, garbage and wreckage inside and outside State of Kuwait.
- Undertaking all kind of cleaning contracts and commitment for all agencies inside and outside State of Kuwait.
- Undertaking all kinds of services aiming at cleaning, developing and protecting the environment against pollution inside and outside State of Kuwait.
- Establishing, managing or maintaining all drainage and dumping centers and trading in the resulting materials inside and outside State of Kuwait.
- Establishing industries for recycling environmental waste, garbage and wreckage inside and outside Kuwait (with approval of the Public Authority for Industry).

The address of the Parent Company's registered office is P.O. Box 4520, Safat 13045, State of Kuwait.

The Parent company is owned by 58.296% by Agility Public Warehousing Company - KSC (Public) listed on the Kuwait Stock Exchange (the Parent company).

The Parent company is currently discussing with the General Authority for Industry about the current location and the alternative locations available for its operations. The outcome of these discussions and their impact on the consolidated financial statements cannot be estimated at this time.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

The consolidated financial statements were authorized for issue by the Parent Company's Board of Directors on March 27, 2018. The Shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is the functional currency of the Parent Company and are prepared under the historical cost convention, except for investment properties that are stated at their fair value.

Standards and Interpretations issued and effective

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of January 1, 2017:

Amendment to IAS 7 – Disclosure Initiative

The amendment to this standard which is effective prospectively for annual periods beginning on or after January 1, 2017 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

Annual Improvements to IFRS – 2014 – 2016 Cycle:

Amendments to IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The amendments are effective from January 1, 2017 and must be applied retrospectively.

This amendment is not expected to have any material impact on the consolidated financial statements.

Standards and Interpretations issued but not effective

The following IASB Standards and Interpretations have been issued but are not yet effective, and have not yet been adopted by the Group:

IFRS 9 – Financial Instruments:

The standard, effective for annual periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 specifies how an 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.

- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
- For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

- For the impairment of financial assets, IFRS 9 introduces an "expected credit loss (ECL)" model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.
- For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
- The recognition and derecognition provisions are carried over almost unchanged from IAS 39.

The management anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements when it becomes mandatory and will not restate comparative information. The management in the process of assessing the full impact of IFRS 9 on the Group's consolidated financial statements based on an analysis of the Group's consolidated financial assets and financial liabilities as at December 31, 2017 on the basis of the facts and circumstances that exist at that date. Overall, the Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

Apart from equity investments classified currently as available-for-sale and measured at fair value through other comprehensive income that should be measured at fair value through profit or loss under IFRS 9, all the other Company's financial assets and financial liabilities should continue to be measured on the same bases as currently under IAS 39.

IFRS 15 - Revenue from contracts with customers

The standard, effective for annual periods beginning on or after January 1, 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. 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

This standard applies to all revenue arising from contracts with customers (with a core principle based on a five-step model), unless the contracts are in the scope of other standards. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The management of the Group anticipate that IFRS 15 will be adopted in the Group's consolidated financial statements when it becomes mandatory, and they intend to use the retrospective method of transition wherein the Group will recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of the retained earnings and will not restate comparative information.

Based on the current accounting treatment of the Group's major sources of revenue, the management do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and financial performance of the Group apart from providing more extensive disclosures on the Group's revenue transactions.

However, as the management are still in the process of assessing the full impact of the application of IFRS 15 on the Group consolidated financial statements, it is not practicable to provide a reasonable financial estimate of the effect until the management complete the detailed review.

IFRS 16 - Leases

This standard will be effective for annual periods beginning on or after January 1, 2019 and will be replacing IAS 17 "Leases". The new standard does not significantly change the accounting for leases for lessors and requires 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 recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The interpretation will be effective for annual periods beginning on or after January 1, 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 recognizes 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.

Amendments to IAS 28 – Investment in Associates and Joint Ventures

The amendments clarify that:

- A- An entity that is a venture capital organisation, 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 amendments should be applied retrospectively and are effective from January 1, 2018, with earlier application permitted.

Amendments to IAS 40 – Transfers of Investment Property

The amendment will be effective for annual periods beginning on or after January 1, 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 intentions for the use of a property does not provide evidence of a change in use.

The Group are in the process of assessing the potential impact on its consolidated financial statements resulting from the application of the standard.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(All amounts are in Kuwaiti Dinars)

b) Principles of consolidation:

The consolidated financial statements incorporate the financial statements of the Parent company and the following subsidiaries (together the "Group"):

	Country of incorporation	Principal activities	Percentage of holding %	
			2017	2016
Metal and Recycling Company – J.W.L.L. Jordan (a)	The Hashemite Kingdom of Jordan	Trading of scrap material	99	99
Al Maaden Al Wataniya General Trading & Contracting Company – W.L.L. (a)	State of Kuwait	General trading and contracting	99	99
Al Maaden Al Omomiyah General Trading & Contracting Company – W.L.L. (a)	State of Kuwait	General trading and contracting	99	99
Metal Holding Company – K.S.C. (Public) (a)	State of Kuwait	General trading and contracting	99	99
National Oil Company – Asim Khatieb and Partner - W.L.L. (a)	State of Kuwait	Production of grease , used oil refining and producing mineral grease	-	70
Silver Ocean Company - Ali Hussain and Partners - W.L.L. (b)	State of Kuwait	Cleaning roads, buildings and cities clean contractors	60	60

(a) The 1% remaining shares owned by a related party, the Parent Company is the beneficial owner of this.

(b) During December 31, 2017, the Parent Company has registered in the Commercial Register the annulment of the subsidiary's contract - National Oils Company - Assem Khatib and its partner WLL. Under the cancellation contract No. 2626, the derecognition resulted in recording of a loss on the disposal of a subsidiary amounting to KD 6,044 in the consolidated statement of profit or loss for the current year. The disposal of a subsidiary is not classified as discontinued operation since it is not material.

Subsidiaries are those enterprises controlled by the Parent Company. Control exists 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 its returns.

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

When the Group has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Parent Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;
- rights arising from other contractual arrangements;
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the Non-controlling shareholder's share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Parent Company. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings as appropriate.

c) Financial instruments

The Group classifies its financial instruments as "financial assets" and "financial liabilities. Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and cash equivalents, term deposits, murabaha investments, receivables, financial assets available for sale, due to banks, finance lease payable, term loans and other payables.

• Financial assets

1) Cash and cash equivalents:

Cash and cash equivalents includes cash in hand and at banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2) Term deposits

Term deposits are placed with banks and have a contractual maturity of more than three months.

3) Accounts receivable:

Receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business and is recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of profit or loss.

3) Murabaha investment

Murabaha investment represents the amounts due to receive for financed assets for others on deferred basis as per Murabaha investment agreements. Murabaha balances are reported with full debit balances after deducting finance income amounts pertaining to future periods. Those finance income balances are amortized on a time apportionment basis using effective interest method.

4) Financial investments:

Initial recognition and measurement

The Group classifies financial investments that fall within the scope of IAS 39 under financial assets available for sale category. The classification depends on the purpose for which those assets were acquired and is determined at initial recognition by the management

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial asset within 12 months from the end of the reporting period.

Purchases and sales of those financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent measurement

After initial recognition, financial assets available for sale are subsequently carried at fair value. The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Realized and unrealized gains and losses from financial assets at fair value through profit or loss are included in the consolidated statement of profit or loss. Unrealized gains and losses arising from changes in the fair value of financial assets available for sale are recognized in cumulative changes in fair value in other comprehensive income, except for available for sale debt instruments, where the foreign exchange differences component is recognized in the consolidated statement of profit or loss, while other fair value changes are recognized in cumulative changes in fair value in other comprehensive income.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(All amounts are in Kuwaiti Dinars)

Where financial assets available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When a financial asset available for sale is disposed off or impaired, any prior fair value earlier reported in other comprehensive income is transferred to the consolidated statement of profit or loss.

Derecognition

A financial asset (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the financial asset have expired; or the Group has transferred its rights to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset. Where the Group has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. Significant decline is evaluated against the original cost of the financial asset and prolonged against the period in which fair value has been below its original cost. If any such evidence exists for financial assets available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other comprehensive income and recognized in the consolidated statement of profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on available for sale equity instruments are not reversed through the consolidated statement of profit or loss. Impairment losses recognized for available for sale debt instruments are reversed through the consolidated statement of profit or loss if the increase in fair value can be objectively related to an event occurring after the impairment loss was previously recognized.

• **Financial liabilities**

1) **Accounts payable:**

Accounts payable include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non - current liabilities.

2) **Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized 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 this case, the fee is deferred until the draw-down occurs. 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 capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

d) Inventories

Inventories are valued at the lower of cost or net realizable value after providing allowances for any obsolete or slow-moving items. Costs comprise direct materials, direct labor 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 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 value.

e) Investment properties

Investment properties comprise completed property, property under construction or re-development held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost including purchase price and transactions costs. Subsequent to the initial recognition, investment properties are stated at their fair value at the end of the reporting period. Gains and 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.

Investment properties are derecognized 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. Gains or losses arising on the retirement or disposal of an investment property are recognized 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 or 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 development with a view to sale.

In case of changing the property from the owner use to investment property, the Group treated the property in the same accounting policy used for property, plant and equipment till the date of changing the use.

f) Investment in associates

Associates are those entities in which the Group has 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's 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".

The Group recognizes in its consolidated statement of profit or loss for its share of results of operations of the associate and in its other comprehensive income for its share of changes in other comprehensive income of associate.

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

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group interest in 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 recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. 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 recognized immediately in the consolidated statement of profit or loss.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of profit or loss.

After the application of the equity method, the Group determines whether it is necessary to recognize impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, The Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of profit or loss.

g) Goodwill

Goodwill represents the excess of the consideration transferred and the amount recognized for non-controlling interest over the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Where there is an excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, the Group is required to reassess the identification and measurement of the net identifiable assets and measurement of the cost of the acquisition and recognize immediately in the consolidated statement of profit or loss any excess remaining after that re-measurement.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent periods.

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

h) 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 the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of profit or loss in the year 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 capitalized as an additional cost of property, plant and equipment.

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in consolidated statement of profit or loss for the period.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

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

	Years
Buildings	10 - 20
Leasehold improvements	10
Machinery and equipment	5 - 10
Motor vehicles	3 - 5
Office furniture and equipment	3 - 5

Capital work in progress is stated at cost. Following completion, it will be transferred to relevant category under property, plant and equipment.

The useful life and depreciation method are 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.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

i) Impairment of assets

At the end of each reporting date, the Group reviews the carrying amounts of its tangible and intangible 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.

Recoverable amount is the higher of the 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 (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

j) End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts and the applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of financial period and approximates the present value of the final obligation.

k) Dividend distribution to shareholders

The Company recognizes a liability to make cash and non-cash distributions to shareholders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders of the Parent company at the Annual General Meeting. A corresponding amount is recognized directly in equity.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(All amounts are in Kuwaiti Dinars)

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of profit or loss.

Distributions for the year that are approved after the reporting date are disclosed as an event after the date of consolidated statement of financial position.

l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

m) Share premium

This represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution except in cases stipulated by law.

n) 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. The 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, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized 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.

Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of share premium, reserves, retained earnings and the treasury shares reserve account. 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.

o) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods

Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when significant risks and rewards of ownership of goods are transferred to the buyer. The Group does not practice any activity for Customer Loyalty Programs.

Rendering of services

Revenue is recognized when the service is rendered.

Interest income and expense

Interest income and expense are recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Rent

Rental income is recognized, when earned, on a time apportionment basis.

Gain on sale of financial assets

Gain on sale of financial assets is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

Murabaha income

Murabaha income is accounted based on weighted time apportionment.

Other income and expenses

Other income and expenses are recognized on accrual basis.

p) **Provisions**

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each financial year and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

q) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

r) **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.

1- **Finance lease (the Group lessor)**

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated statement of profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

2- Operating lease

- a) The Group as lessor
Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.
- b) The Group as lessee
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 spread on a straight-line basis over the lease term.
- s) Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) is calculated at 1% of the consolidated profit of the Group before contribution to KFAS, National Labor Support Tax, Zakat, and Board of Directors' remuneration, and after deducting the Group's share of income from shareholding subsidiaries and associates, transfer to statutory reserve, and any accumulated losses. No KFAS has been provided for the year.
- t) National Labor Support Tax (NLST)
National Labor Support Tax (NLST) is calculated at 2.5% on the consolidated profit of the Group before contribution to Kuwait Foundation for the Advancement of Sciences, NLST, Zakat, and Board of Directors' remuneration, and after deducting the Group's share of profit from associates & un-consolidated subsidiaries listed in Kuwait Stock Exchange, its share of NLST paid by subsidiaries listed in Kuwait Stock Exchange, and cash dividends received from companies listed in Kuwait Stock Exchange in accordance with law No. 19 for year 2000 and Ministerial resolution No. 24 for year 2006 and their executive regulations.
- u) Zakat
Zakat is calculated at 1% on the consolidated profit of the Group before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, Zakat, and Board of Directors' remuneration, and after deducting the Group's share of profit from Kuwaiti shareholding associates & un-consolidated subsidiaries, its share of Zakat paid by Kuwaiti shareholding subsidiaries and cash dividends received from Kuwaiti shareholding companies in accordance with law No. 46 for year 2006 and Ministerial resolution No. 58 for year 2007 and their executive regulations.
- v) Foreign currencies
Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the end of reporting date are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that 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 consolidated statement of profit or loss for the period. Translation differences on non-monetary items such as equity investments classified as investments available for sale are included in "cumulative changes in fair value" in other comprehensive income.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the end of reporting period. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in other comprehensive income. Such translation differences are recognized in consolidated statement of profit or loss in the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(All amounts are in Kuwaiti Dinars)

w) Contingencies

Contingent liabilities are not recognized in the consolidated 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. Else, they are disclosed unless the possibility of an outflow of resources embodying economic losses is remote.

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

x) Segment reporting

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 reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

y) Critical accounting estimates and judgments

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

a) Judgments

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

(ii) Determination of contract cost

Determination of costs which are directly related to the specific contract or attributable to the contract activity in general requires significant judgment. The determination of contract cost has a significant impact upon revenue recognition in respect of long term contracts. The Group follows guidance of IAS 11 for determination of contract cost and revenue recognition.

(iii) Classification of Land

Upon acquisition of land, the Group classifies the land into investment properties category 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 for land, the land is classified as investment property.

(iv) Provision for doubtful debts and inventory

The determination of the recoverability of the amount due from customers and the marketability of the inventory and the factors determining the impairment of the receivable and inventory involve significant judgment.

(v) Classification of financial assets

On acquisition of a financial asset, the Group decides whether it should be classified as "at fair value through profit or loss", "available for sale" or "held to maturity". The Group follows the guidance of IAS 39 on classifying its financial assets.

The Group classifies financial assets as "at fair value through profit or loss" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through profit or loss at inception, provided their fair values can be reliably estimated. The Group classifies financial assets as "held to maturity" if the Group has the positive intention and ability to hold to maturity. All other financial assets are classified as "available for sale".

(vi) Impairment of financial asset

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity instruments is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, a significant or prolonged decline in the fair value below its cost; and the financial health of and short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The determination of what is "significant" or "prolonged" requires significant judgment.

(vii) Material non-controlling interests

The Group's management considers any non-controlling interests which accounts for 5% or more of the related subsidiary's equity as material. Disclosures pertaining to those non-controlling interests are set out in Note (10).

b) Estimates and assumptions

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

(i) Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

(ii) Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset or the cash-generating unit to which the goodwill is allocated. Estimating a value in use requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present-value of the cash-flows.

(iii) Long term contracts

Revenue from long term contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. The revenue recognition as per the above criteria should correspond to the actual work completed. The determination of estimated costs and the application of percentage of completion method involve estimation. Further, the budgeted cost and revenue should consider the claims and variations pertaining to the contract.

(iv) Provision for doubtful debts and inventory

The extent of provision for doubtful debts and inventories involves estimation process. Provision for doubtful debts is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventory are subject to management approval.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

(v) Valuation of investment properties

The Group carries its investment properties at fair value, with change in fair values being recognised in the consolidated statement of profit or loss. Two main methods were used to determine the fair value of the investment properties:

Formula based discounted cash flow is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset. Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

(vi) 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.

3. Cash and cash equivalents

	<u>2017</u>	<u>2016</u>
Cash on hand and at banks	1,821,713	2,047,610
Short term bank deposits	463,070	667,489
	<u>2,284,783</u>	<u>2,715,099</u>

The effective interest and return rate on short term bank deposits ranges from 1.625% to 1.75% per annum (2016 – 1% to 1.375% per annum) and these deposits have an average maturity of 90 days (2016 - 90 days).

4. Time Deposits

The effective interest and return rate on time deposits ranges from 0.75% to 2.375% per annum (2016 – 0.75% to 1.375% per annum) and these deposits have an average maturity of 185 days (2016 - 367 days).

Time deposits amounting to KD 781,355 (2016: 726,938) are pledged against certain letters of guarantee issued in favor of the Group (Note 28).

5. Murabaha Investments

The actual rate of return on Murabaha investments is 1.43% per annum (2016: 1.43% per annum) and it is maturing within 365 days (2016: 120 days).

Murabaha amounting to KD 39,715 (2016: KD 500,000) are pledged against certain letters of guarantee issued in favor of the Group (Note 28).

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

6. Accounts receivable and other debit balances

	2017	2016
Trade receivables (a)	10,548,511	10,046,739
Provision for doubtful debts (b)	(7,499,203)	(7,590,476)
Net trade receivables	3,049,308	2,456,263
Staff receivables	138,876	57,244
Due from related parties (Note 25)	452,700	454,738
Amount pledged against letter of guarantees (c)	90,450	564,678
Advances to suppliers	1,170,809	1,647,541
Provision for doubtful debts (b)	(657,848)	(34,830)
Net advances to suppliers	512,961	1,612,711
Refundable deposits	245,487	389,442
Provision for doubtful debts (b)	(10,222)	-
Net refundable deposits	235,265	389,442
Prepaid expenses	609,329	275,765
Retentions	270,742	267,563
Provision for doubtful debts (b)	(112,092)	(98,878)
Net retentions	158,650	168,685
Others	402,981	350,244
	<u>5,650,520</u>	<u>6,329,770</u>

a) Trade receivables:

Trade receivables are non-interest bearing and are generally due within 90 days. The aging analysis of these trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired			Impaired	Total
		Less than 90 days	91 – 180 days	181 – 365 days		
2017	2,368,682	308,991	287,398	84,237	7,499,203	10,548,511
2016	1,741,521	270,386	310,648	133,708	7,590,476	10,046,739

As of December 31, 2017, trade receivables amounting to KD 680,626 (2016 - KD 714,742) were past due but not impaired. These relate to a number of independent customers in addition to governmental entities for whom there is no recent history of default and the collection is in process. Subsequent to the date of the consolidated financial statements date, the Group collected KD 969,337 (2016 – KD 1,312,324) from the outstanding trade receivable balances.

b) Provision for doubtful debts:

The movement in the provision for doubtful debts was as follows:

	2017	2016
Balance at the beginning of the year	7,724,184	7,203,632
Charge for the year	722,698	520,552
Utilized in the year	(167,517)	-
Balance at the end of the year	<u>8,279,365</u>	<u>7,724,184</u>

c) This represents the amounts pledged with the local banks against the bank guarantees for the new projects note (28).

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

d) The other classes within accounts receivable and other debit balances do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. Further, the Group does not hold any collateral as security, for accounts receivable and other debit balances.

7. Gross amount due from customers for contract work

	2017	2016
Contract costs incurred to date plus recognized profits	1,534,454	593,000
Progress billings	(933,028)	(475,000)
	<u>601,426</u>	<u>118,000</u>

Represented by:

	2017	2016
Gross amount due from customers for contract work	<u>601,426</u>	118,000
	<u>601,426</u>	<u>118,000</u>

At December 31, 2017, retentions held by customers for contract work amounted to KD 45,190 (2016: KD Nil), while the advances received from customers for contract work amounted to KD 484,257 (2016: KD 472,152)

8. Inventories

	2017	2016
Spare parts and scrap materials – raw materials	1,114,950	1,687,666
Scrap material – manufactured	825,438	310,946
Goods in stores	183,417	173,340
	<u>2,123,805</u>	<u>2,171,952</u>
Provision for damaged and slow moving inventory (a)	(474,303)	(583,478)
	<u>1,649,502</u>	<u>1,588,474</u>

a) Provision for damaged and slow moving inventories

The movement of the provision for damaged and slow moving inventories is as follows:

	2017	2016
Balance at the beginning of the year	583,478	852,000
Provision for inventory no longer required	(109,175)	(268,522)
Balance at the end of the year	<u>474,303</u>	<u>583,478</u>

9. Investment in an associate

This represents an investment of 40% in Real Estate Development Company – W.L.L., which is engaged in the management and development of different kinds of properties, the main project that the company specialized in is the project of managing properties which are located in Amghara and Mina Abdullah utilized by the Parent Company under contract with the Public Authority for Industry. This contract has been renewed as stated in Note 30.

Name of the associate	Country of Incorporation	Principal activities	Percentage of ownership %			
			2017	2016	2017	2016
Real Estate Development Co W.L.L.	State of Kuwait	General Trading and Contracting	40%	40%	5,490,154	4,921,172
					<u>5,490,154</u>	<u>4,921,172</u>

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

The movement during the year is as follows:

	2017	2016
Balance at the beginning of the year	4,921,172	4,909,890
Group's share of results from an associate	568,982	11,282
Balance at the end of the year	<u>5,490,154</u>	<u>4,921,172</u>

The associate does not has any contingent liabilities or capital commitments as at 31 December 2017 (2016: Nil).

The summarized financial statements for the associate are as follows:

Summarized statement of financial position:

	2017	2016
Assets:		
Current assets	634	634
Non-current assets	17,897,191	17,690,761
Total assets	<u>17,897,825</u>	<u>17,691,395</u>
Liabilities:		
Current liabilities	282,963	281,613
Non-current liabilities	3,889,475	5,106,851
Total liabilities	<u>4,172,438</u>	<u>5,388,464</u>
Net Assets	<u>13,725,387</u>	<u>12,302,931</u>
Group's ownership percentage in Real Estate Development Co. W.L.L.	40%	40%
Net assets attributable to equity holders of parent company	<u>5,490,154</u>	<u>4,921,172</u>

Summarized statement of profit or loss and other comprehensive income

	2017	2016
Changes in fair value of investment properties	206,430	38,761
Other income	1,217,376	-
Other expenses	(1,350)	(10,556)
Net profit	<u>1,422,456</u>	<u>28,205</u>
Other comprehensive income	-	-
Total other comprehensive income	<u>1,422,456</u>	<u>28,205</u>
Group's share of results from an associate	<u>568,982</u>	<u>11,282</u>

10. Principal subsidiaries with major non - controlling interests which are material to the Group

Name of subsidiary	Country of incorporation	Principal activities	Ownership interest held by the group (%)		Ownership interest held by the NCI (%)	
			2017	2016	2017	2016
Silver Ocean Company - Ali Hussain and Partners - W.L.L.	State of Kuwait	Cleaning roads, buildings and cities clean contractors	60%	60%	40%	40%

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

Summarized financial information for each subsidiary that has non-controlling interests that are material to the Group

Summarized statement of financial position:

	2017	2016
Current assets	666,766	435,951
Non-current assets	(240,457)	(230,211)
Total net assets	<u>426,309</u>	<u>205,740</u>
Current liabilities	197,272	142,491
Non-current liabilities	(70,544)	(48,382)
Net Non-current assets	<u>126,728</u>	<u>94,109</u>
Net Assets	<u>553,037</u>	<u>299,849</u>
Ownership interest held by the group	60%	60%
Ownership interest held by the NCI	40%	40%
Net assets attributable to equity holders of parent company	<u>331,822</u>	<u>179,909</u>
Net assets attributable to NCI	<u>221,215</u>	<u>119,940</u>

Summarized statement of profit or loss and other comprehensive income

	2017	2016
Gross profit	946,264	778,483
General and administrative expenses	(554,569)	(318,674)
Depreciation	(70,575)	(61,617)
Provision for doubtful debts	(69,600)	(114,000)
Interest income	1,668	-
Profit for the year	<u>253,188</u>	<u>284,192</u>
Other comprehensive income	-	-
Other comprehensive income for the year	<u>253,188</u>	<u>284,192</u>
Ownership interest held by the Group	60%	60%
Ownership interest held by the NCI	40%	40%
Profit attributable to the Group	<u>151,913</u>	<u>170,515</u>
Profit attributable to NCI	<u>101,275</u>	<u>113,677</u>
Other comprehensive income attributable to the Group	-	-
Other comprehensive income attributable to NCI	-	-
Comprehensive income attributable to the Group	<u>151,913</u>	<u>170,515</u>
Comprehensive income attributable to NCI	<u>101,275</u>	<u>113,677</u>

11. Investment properties

	2017	2016
Balance at the beginning of the year	2,605,000	2,755,500
Adjustments during the year (a)	-	(100,000)
Changes in fair value	(54,000)	(50,500)
Balance at the end of the year	<u>2,551,000</u>	<u>2,605,000</u>

- a) During the year, the Company after negotiating with the seller of the investment property, agreed to return the excess amount paid by the Company of KD 100,000 over the actual value of the property.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

The fair value of investment properties is based on valuation performed by licensed and certified valuers having professional experience, by using recognized valuation techniques and principles.

In estimating the fair value of investment properties, the Company had used the valuation techniques listed in the following schedule, and had considered the nature and usage of the investment properties.

Class of investment property	Valuation technique	Level 3
Buildings	Capitalization of income	2,605,000

Management of the Group has complied with the Executive Regulations of Capital Markets Authority with respect to guidelines for valuation of investment properties.

The investment properties are mortgaged in favor of local bank against financial lease contracts (Note 13).

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

12. Property, plant and equipment

Cost:	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office furniture and equipment	Total
As at January 1, 2017	1,163,707	1,796,283	4,982,544	719,999	164,301	8,826,834
Additions	6,795	-	104,087	455,088	-	565,970
Disposals	-	-	-	(77,608)	-	(77,608)
Assets written off	-	-	(24,437)	-	-	(24,437)
As at December 31, 2017	1,170,502	1,796,283	5,062,194	1,097,479	164,301	9,290,759
<u>Accumulated depreciation and amortization:</u>						
As at January 1, 2017	779,057	1,347,329	3,868,552	604,011	153,403	6,752,352
Charge for the year	39,579	180,025	144,451	158,258	8,177	530,490
Related to disposals	-	-	-	(77,608)	-	(77,608)
As at December 31, 2017	818,636	1,527,354	4,013,003	684,661	161,580	7,205,234
<u>Net book value:</u>						
As at December 31, 2017	351,866	268,929	1,049,191	412,818	2,721	2,085,525
As at December 31, 2016	384,650	448,954	1,113,992	115,988	10,898	2,074,482

The Parent Company's buildings are constructed on lands leased from the Public Authority for Industry (Note 30).

One of the Group's buildings is located on land leased from the Public Authority for Industry, which expires on 1 July 2018. The lease is renewed with a new agreement and contract, and the management expects that the lease will be automatically renewed, as this is known in this type of lease.

Depreciation charge for the year is allocated as follows.

	2017	2016
Cost of sales	225,871	401,261
Consolidated statement of profit or loss and other comprehensive income	304,619	291,432
	530,490	692,693

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

13. Finance lease payables

	<u>2017</u>	<u>2016</u>
Total finance lease installments	1,823,752	1,822,682
Less: Unamortized future finance charges	(93,752)	(92,682)
	<u>1,730,000</u>	<u>1,730,000</u>

The finance lease installments was granted to the Group by a local bank and investment properties were mortgaged in exchange (Note 11). The effective rate of return ranges from 5.75% to 6.25% per annum (2016: 4.8% to 5.5% per annum) and the last payment is due on 14 December 2018.

14. Term loans

Term loans represent loans granted by local banks carrying an interest rate ranging from 2% to 2.5% per annum (2016: 1.5% to 2% per annum) over the Central Bank of Kuwait discount rate and repayable on June 24, 2018 and February 4, 2018, which was renewed until August 3, 2018.

15. Accounts payable and other credit balances

	<u>2017</u>	<u>2016</u>
Trade payables	751,355	709,756
Due to related parties (Note 25)	591,832	427,874
Accrued expenses	336,537	138,015
Staff payables	18,427	94,730
Accrued staff leave	344,695	242,011
Advance payments from customers	781,323	889,416
Due to acquisition of non-controlling interest in a subsidiary (A)	275,000	-
Nation Labor Support Tax payable	24,427	19,825
Contribution to KFAS payable	2,525	3,237
Contribution to Zakat payable	7,792	7,930
Board of directors' remuneration payable	215	215
Others	162	22,304
	<u>3,134,290</u>	<u>2,555,313</u>

A) This amount represents due to acquisition of additional shares (non-controlling interests) in a subsidiary.

16. Capital

Authorized, issued and paid up capital consists of 100,000,000 (2016: 82,556,507) shares of 100 fils each and all shares are in cash (Note 1).

17. 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 contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST) and Zakat is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except for cases stipulated by law and the Parent Company's Articles of Association.

18. Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST) and Zakat is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. The shareholders' General Assembly meeting held on May 1, 2001 approved to discontinue the annual transfer to the voluntary reserve. The balance of the share premium has been closed by the voluntary reserve and the balance has been fully closed in the retained earnings as shown in note (1).

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

19. Treasury shares

	2017	2016
Number of shares	9,816,133	7,779,046
Percentage to paid up shares	9.82%	9.43%
Market value (KD)	677,313	505,638
Cost (KD)	1,279,879	1,056,623

The management of the Parent Company froze part of the reserves equal to the balance of the treasury shares as of December 31, 2017. This balance is not available for distribution as long as the Group is holding the treasury shares. The treasury shares are not pledged.

20. Service revenue and cost

Service revenue and cost include installation and maintenance of "Heating, Ventilating, and Air Conditioning" (HVAC) systems, cleaning works and rent.

21. General and administrative expenses

	2017	2016
Maintenance expenses	139,369	127,687
Rent expense	423,062	173,892
Professional fees	340,699	217,694
Water and electricity expenses	40,257	23,193
Subscriptions	11,034	9,949
Hospitality	10,720	4,169
Cleaning expenses	45,040	40,132
Bank charges	74,976	43,118
Travel expenses	46,548	48,301
Security expenses	41,583	39,113
Others	154,160	120,359
	<u>1,327,448</u>	<u>847,607</u>

22. Legal claims

During the year ended 31 December 2017, two judgments were issued by the Court of Appeal against the Parent Company Metal & Manufacturing Industries - KSC (Public), in partnership with another company, for claims made by subcontractors, a judgment of KD 220,000 its legal benefits at the rate of 7% from the date of the claim until the date of payment and expenses and actual fees amounted to KD 65,075. The other judgment was issued in the amount of KD 170,212 in addition to expenses and the legal fees in the amount of KD 3,879 and a guarantee letter for the owner of a legal case in the amount of KD 20,000. The Parent Company paid KD 479,166 for the two judgments, interests, expenses and actual fees. The first judgment was appealed to the Court of Cassation.

23. Other income

	2017	2016
Credit balances written-back	141,359	-
Net rent income	160,226	278,877
Others	55,374	255,820
	<u>356,959</u>	<u>534,697</u>

Impaired balances have been written-back based on the opinion of the Group's internal legal counsel and the Board of Directors dated on March 27, 2018.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

24. Basic earnings per share attributable to shareholders of the Parent Company

There are no potential dilutive ordinary shares. The information necessary to calculate basic earnings per share based on the weighted average number of shares outstanding during the year as follows:

	2017	2016
Profit for the year attributable to shareholders of the Parent Company	<u>56,282</u>	<u>328,690</u>
	<u>Shares</u>	<u>Shares</u>
<u>Number of outstanding shares:</u>		
Number of issued and fully paid shares	82,556,507	82,556,507
Add: effect of capital increase	17,443,493	17,443,493
Less: Weighted average number of treasury shares	<u>(9,816,133)</u>	<u>(9,816,133)</u>
Weighted average number of outstanding shares	<u>90,183,867</u>	<u>90,183,867</u>
	<u>Fils</u>	<u>Fils</u>
Earnings per share attributable to shareholders of the Parent Company	<u>0.624</u>	<u>3.64</u>

Basic earnings per share amounted to 4.40 fils for the year ended 31 December 2016 before being recalculated to the effect of increase in the capital (note 1).

25. Related party disclosures

The Group has entered into various transactions with related parties, i.e. Major shareholders, Board of Directors, key management personnel, associate and entities under common control and other related parties in the normal course of its business. Prices and terms of payment are approved by Group's management. Significant related party transactions and balances are as follows:

Balances included in the consolidated statement of financial position

	Major share holder	Associate	Related parties	2017	2016
Accounts receivable and other debit balances (Note 6)	-	452,700	-	452,700	454,738
Accounts payable and other credit balances (Note 15)	588,332	-	3,500	591,832	427,874

Compensation to key management personnel:

	2017	2016
Short term benefits	269,198	192,916
Terminal benefits	<u>10,361</u>	<u>7,309</u>
	<u>279,559</u>	<u>200,225</u>

Amounts due from / (to) related parties do not carry interest and there is no specific due date.

26. Proposed dividends and General Assembly

The Board of Directors meeting held on March 27, 2018 recommended not to distribute cash dividends for the year ended December 31, 2017. This recommendation is subject to the approval of the Ordinary Shareholders' Annual General Assembly of the Parent Company.

The Extraordinary Shareholders' Annual General Assembly held on September 20, 2017 approved the consolidated financial statements for the year ended December 31, 2016 and also approved not to distribute cash dividends for the year ended December 31, 2016.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017

(All amounts are in Kuwaiti Dinars)

27. Capital increase

The Shareholders' Ordinary and Extraordinary General Assembly held on September 20, 2017, had approved the increase of company's share capital from KD 8,255,650 to KD 10,000,000 with an increase of KD 1,744,350 which is equivalent to 100,000,000 shares with nominal value of 100 fils each. This capital increase was notarized in Commercial Registry on October 9, 2017.

28. Contingent liabilities

As of December 31, the Group is contingently liabilities in respect of the following:

Letters of guarantee	2017	2016
Letters of credit	8,601,547	7,250,527
	84,870	24,133
	<u>8,686,417</u>	<u>7,274,660</u>

Certain letters of guarantee amounting to KD 911,520 are secured by time deposits, time murabaha and account receivables and other debit balances (Note 4, 5 and 6).

29. 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 external Legal counsels, there will be no material adverse impact on the Group consolidated financial statements, and hence, no provisions were recorded in the Group's records as of the reporting date.

30. Right of utilization

The Parent Company's operations are constructed on land leased by an associate, for which the right of utilization, contract was renewed on June 19, 2013 with the Public Authority for Industry for 5 years ending on May 13, 2018. During the year, the company completed the procedures for receiving additional land area in Mina Abdullah area.

31. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalents, term deposits, Murabaha investments, receivables, financial assets available for sale, due to banks, term loans, financing lease contracts and payables and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

a) Interest rate risk:

Financial instruments are subject to the risk of changes in value due to changes in the level of interest profit for its financial assets liabilities carrying floating interest rates. The effective interest / profit rates and the periods in which interest / profit bearing financial assets and liabilities are repriced or mature are indicated in the respective notes.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit through the impact on floating rate borrowings:

	2017		
	Increase / (decrease) in interest / profit rate	balances as of December 31 (KD)	Effect on consolidated statement of profit or loss (KD)
Short term bank deposits	± 0.5%	463,070	± 2,315
Term deposits	± 0.5%	1,671,802	± 8,359
Murabaha investments	± 0.5%	39,715	± 199
Short term financing lease payables	± 0.5%	1,730,000	± 8,650
Term loans	± 0.5%	700,000	± 3,500

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

	Increase / (Decrease) in interest / profit rate	2016	
		Loans and deposits balances as of December 31 (KD)	Effect on consolidated statement of profit or loss (KD)
Short term bank deposits	± 0.5%	909,579	± 4,548
Term deposits	± 0.5%	484,848	± 2,424
Murabaha investments	± 0.5%	510,000	± 2,550
Due to banks	± 0.5%	1,844	± 9
Short term financing lease payables	± 0.5%	1,730,000	± 8,650
Term loans	± 0.5%	800,000	± 4,000

b) **Credit risk:**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash at banks, receivables and due from related parties. The Group's cash at banks are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash at banks, time deposits, Murabaha investments and receivables.

c) **Foreign currency risk:**

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar. The Group is not currently exposed significantly to such risk.

d) **Liquidity risk:**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable along with planning and managing the Group's forecasted cash flows by maintaining adequate cash reserves, maintaining valid and available credit lines with banks and matching the maturity profiles of financial assets and liabilities.

Maturity Table for financial liabilities

	2016		
	1-3 months	3-12 months	Total
Finance lease payables	-	1,730,000	1,730,000
Term loans	-	700,000	700,000
Accounts payable and other credit balances	1,387,900	1,746,390	3,134,290
Total	1,387,900	4,176,390	5,564,290

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

	2016		Total
	1-3 months	3-12 months	
Due to banks	1,844	-	1,844
Finance lease payables	-	1,730,000	1,730,000
Term loans	-	800,000	800,000
Accounts payable and other credit balances	1,553,494	1,001,819	2,555,313
Total	1,555,338	3,531,819	5,087,157

e) **Equity price risk:**

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in equity securities classified as available for sale. To manage such risks, the Group diversifies its investments in different sectors within its investment portfolio. Group's investment in equity securities are carried at cost.

32. **Fair value measurement**

The Group measures financial assets such as financial assets available for sale financial assets and non-financial assets such as investment properties at fair value at each reporting date

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

At December 31, the fair value of financial instruments approximates their carrying amounts, with the exception of certain financial assets available for sale carried at cost. The Management of the Group has assessed that fair value of its financial assets and liabilities approximate their carrying amounts largely due to the short - term maturities of these instruments.

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

	Level 3	Total
Financial assets available for sale	106,392	106,392
Financial assets available for sale	106,392	106,392

At December 31, the fair values of financial instruments approximate their carrying amounts, with the exception of certain financial assets available for sale carried at cost. The management of the Group has assessed that fair value of its financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

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

The fair value details of investment properties are mentioned in (Note 11).

33. Capital Risk Management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividend paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

34. Segment information

The Group is organized into functional divisions to manage its various lines of business. The Group operates mainly in the State of Kuwait. For the purposes of segment reporting, the Group's management has grouped its products and services into the following operating segments:

A. Metal Shredding and used spare parts department

This represents importing machines and material necessary for shredding, sorting and selling waste scrap inside and outside State of Kuwait.

B. Commercial department

This represents purchase and sale of used and scrap machinery, vehicles and tanks and their spare parts and all kind of materials and other products derived from their materials.

C. Waste plastic recycling department

This represents recycling of waste, plastic, rubbles, and environmental waste and trading in the recycled materials.

D. Shear and Baler

This represents cutting and shearing of metals and other associated activities.

Financial details of the above operating segments are as follows:

	2017		2016	
	Segment assets	Segment liabilities	Segment assets	Segment liabilities
Metal Shredding and used spare parts department	10,799,897	-	10,605,433	-
Commercial department	1,045,512	-	224,024	-
Waste plastic recycling department	1,256,782	-	1,668,813	-
Shear and baler	606,311	-	461,204	-
Unallocated assets and liabilities	8,906,309	6,186,323	9,219,845	5,543,314
	<u>22,614,811</u>	<u>6,186,323</u>	<u>22,179,319</u>	<u>5,543,314</u>

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (All amounts are in Kuwaiti Dinars)

	2017		2016	
	Segment revenue	Segment results	Segment revenue	Segment results
Metal Shredding and used spare parts department	6,191,335	1,634,614	4,640,179	1,443,472
Commercial department	467,724	200,609	98,017	16,865
Waste plastic recycling department	1,012,507	310,515	730,153	384,879
Shear and baler	272,022	44,099	201,790	31,672
Others	10,540,137	(1,808,867)	6,462,505	(1,296,700)
	<u>18,483,725</u>	<u>380,970</u>	<u>12,132,644</u>	<u>580,188</u>

35. Comparative figures

Certain comparative amounts for previous year were reclassified to conform with the current year presentation which has no impact on total equity and the Group's net results.