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

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 MARCH 2020

Building a better working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE SHAREHOLDERS OF HILAL CEMENT COMPANY K.S.C.P.

Introduction
We have reviewed the accompanying interim condensed consolidated statement of financial position of Hilal Cement Company K.S.C.P. (the "Parent Company") and subsidiaries (collectively, the "Group") as at 31 March 2020, and the related interim condensed consolidated statement of comprehensive income and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three months period then ended. The management of the Parent Company is responsible for the preparation and presentation of the interim condensed consolidated financial information in accordance with International Accounting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on the interim condensed consolidated financial information based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

Emphasis of Matter
We draw attention to Note 4 to the interim condensed consolidated financial information which describes the lawsuit filed against the Parent Company by Kuwait Ports Authority which is pending the final verdict. Our conclusion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements
Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, during the three months period ended 31 March 2020 that might have had a material effect on the business of the Parent Company or on its financial position.

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

13 August .2020
Kuwait

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the period ended 31 March 2020

	Notes	*Three months ended 31 March* **2020** **KD**	*2019* *KD*
Sale of goods		**4,482,731**	5,435,346
Cost of sales		**(3,972,547)**	(4,622,535)
GROSS PROFIT		**510,184**	812,811
Other income		**38,700**	299,248
Other expenses		**(380,699)**	(505,341)
Allowance for (write-back of) expected credit losses for trade receivables		**(32,100)**	300,871
Impairment of goodwill	10	**(831,761)**	-
Net foreign exchange differences		**(3,823)**	(1,811)
OPERATING (LOSS) PROFIT		**(699,499)**	905,778
Finance costs		**(29,564)**	(22,465)
(LOSS) PROFIT BEFORE PROVISION FOR TAX AND DIRECTORS' REMUNERATION		**(729,063)**	883,313
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**-**	(8,235)
National Labour Support Tax (NLST)		**(1,098)**	(15,219)
Zakat		**(215)**	(2,983)
Directors' remuneration		**(6,550)**	(6,550)
(LOSS) PROFIT FOR THE PERIOD		**(736,926)**	850,326
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD		**(736,926)**	850,326
Attributable to:			
Equity holders of the Parent Company		**(805,941)**	872,938
Non-controlling interests		**69,015**	(22,612)
		(736,926)	850,326
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	3	**(7.9) Fils**	8.6 Fils

The attached notes 1 to 10 form part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 March 2020

	Notes	*31 March 2020 KD*	*(Audited) 31 December 2019 KD*	*31 March 2019 KD*
ASSETS				
Non-current assets				
Property, plant and equipment	4	**3,142,554**	3,347,557	4,352,179
Right-of-use assets		**1,458,682**	715,018	191,552
Goodwill	10	**1,273,179**	2,104,940	3,241,484
Term deposits	5	**36,000**	60,000	60,000
		5,910,415	6,227,515	7,845,215
Current assets				
Inventories		**1,020,207**	1,124,332	1,412,275
Accounts receivable and prepayments		**5,107,322**	5,322,091	6,587,819
Cash and short-term deposits	5	**7,215,047**	7,352,131	7,825,737
		13,342,576	13,798,554	15,825,831
TOTAL ASSETS		**19,252,991**	20,026,069	23,671,046
EQUITY AND LIABILITIES				
Equity				
Share capital	6	**10,146,213**	10,146,213	10,146,213
Statutory reserve		**2,096,776**	2,096,776	2,096,776
Voluntary reserve		**574,844**	574,844	2,096,776
(Accumulated losses) retained earnings		**(1,996,570)**	(1,190,629)	363,411
Equity attributable to the equity holders of the Parent Company		**10,821,263**	11,627,204	14,703,176
Non-controlling interests		**707,068**	638,053	1,168,539
Total equity		**11,528,331**	12,265,257	15,871,715
Non-current liabilities				
Lease liabilities		**1,068,625**	388,398	-
Loan from a related party	7	**1,082,900**	1,082,900	1,082,900
Employees' end of service benefits		**818,446**	809,800	794,663
		2,969,971	2,281,098	1,877,563
Current liabilities				
Lease liabilities		**171,381**	112,881	193,833
Loan from a related party	7	**500,000**	500,000	500,000
Accounts payable and accruals		**4,083,308**	4,866,833	5,227,935
		4,754,689	5,479,714	5,921,768
Total liabilities		**7,724,660**	7,760,812	7,799,331
TOTAL EQUITY AND LIABILITIES		**19,252,991**	20,026,069	23,671,046

Sayed Salah Sayed Hashem Al Tabtabaei
Chairman

The attached notes 1 to 10 form part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 31 March 2020

	Attributable to equity holders of the Parent Company						
	Share capital KD	*Statutory reserve KD*	*Voluntary reserve KD*	*(Accumulated losses) retained earnings KD*	*Sub-total KD*	*Non-controlling interests KD*	*Total KD*
As at 1 January 2020 *(Audited)*	10,146,213	2,096,776	574,844	(1,190,629)	11,627,204	638,053	12,265,257
(Loss) profit for the period	-	-	-	(805,941)	(805,941)	69,015	(736,926)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive (loss) income for the period	-	-	-	(805,941)	(805,941)	69,015	(736,926)
At 31 March 2020	**10,146,213**	**2,096,776**	**574,844**	**(1,996,570)**	**10,821,263**	**707,068**	**11,528,331**
As at 1 January 2019 *(Audited)*	10,146,213	2,096,776	2,096,776	(509,527)	13,830,238	1,191,151	15,021,389
Profit (loss) for the period	-	-	-	872,938	872,938	(22,612)	850,326
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income (loss) for the period	-	-	-	872,938	872,938	(22,612)	850,326
At 31 March 2019	10,146,213	2,096,776	2,096,776	363,411	14,703,176	1,168,539	15,871,715

The attached notes 1 to 10 form part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the three months ended 31 March 2020

	Notes	*Three months ended 31 March* **2020** **KD**	*2019* *KD*
OPERATING ACTIVITIES			
(Loss) profit before provision for tax and director's remuneration for the period		**(729,063)**	883,313
Adjustments to reconcile profit before tax and director's remuneration to net cash flows:			
Interest income		**(36,758)**	(39,480)
Depreciation of property, plant and equipment		**206,935**	253,512
Depreciation of right-of-use assets		**69,887**	63,852
Allowance for (write-back of) expected credit losses for trade receivables		**32,100**	(300,871)
Impairment of goodwill	10	**831,761**	-
Provision for employees' end of service benefits		**16,350**	31,820
Finance costs		**29,564**	22,465
Interest expense on lease liabilities		**7,201**	2,669
		427,977	917,280
Working capital adjustments:			
Inventories		**104,125**	162,701
Accounts receivable and prepayments		**180,094**	29,348
Accounts payable and accruals		**(779,562)**	198,169
Cash flows (used in) from operations		**(67,366)**	1,307,498
Employees' end of service benefits paid		**(7,704)**	(23,784)
Net cash flows (used in) from operating activities		**(75,070)**	1,283,714
INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(1,932)**	-
Net movement in term deposits		**24,000**	-
Interest income received		**39,333**	16,471
Net cash flows from investing activities		**61,401**	16,471
FINANCING ACTIVITIES			
Finance costs paid		**(41,390)**	(14,740)
Payment of principal portion of lease liabilities		**(82,025)**	(64,240)
Net cash flows used in financing activities		**(123,415)**	(78,980)
NET (DECREASE) INCREASE IN CASH AND SHORT-TERM DEPOSITS		**(137,084)**	1,221,205
Cash and short-term deposits at 1 January		**7,352,131**	6,604,532
CASH AND SHORT-TERM DEPOSITS AT 31 MARCH	5	**7,215,047**	7,825,737
Non-cash items excluded from the interim condensed consolidated statement of cash flows:			
Transitional adjustment to right-of-use assets on adoption of IFRS 16		**-**	(255,404)
Transitional adjustment to lease liabilities on adoption of IFRS 16		**-**	255,404
Additions to right-of-use assets		**(813,551)**	-
Additions to lease liabilities		**813,551**	-

The attached notes 1 to 10 form part of this interim condensed consolidated financial information.

1 CORPORATE INFORMATION

The interim condensed consolidated financial information of Hilal Cement Company K.S.C.P. (the "Parent Company") and Subsidiaries (collectively, the "Group") for the three months ended 31 March 2020 was authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 13 August 2020.

The Parent Company was established as a Kuwaiti Shareholding Company on 19 January 1984 and is listed in Boursa Kuwait. The principal activities of the Parent Company are import, storage and distribution of cement and other bulk materials; establishing, operating and managing storage silos; acquiring interest in other companies engaged in similar activities and investing surplus funds through portfolio managers in shares of investment and real estate companies.

The registered office of the Parent Company is located in Marzouk Tower, 19th floor, Building 3, Al-Qibla, Block 14 and the postal address is P.O. Box 20732, 13068, Safat, Kuwait.

The Parent Company is a subsidiary of Suez Cement Company S.A.E. (the "Ultimate Parent Company"), a Company registered in Egypt and its registered head office is located at P.O. Box 2691, Cairo - Egypt.

The shareholders of the Parent Company at the annual general assembly meeting ("AGM") held on 16 July 2020 approved the consolidated financial statements for the year ended 31 December 2019.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group, for the three months ended 31 March 2020 has been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34").

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

2.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial information of the Group.

Amendments to IFRS 3: *Definition of a Business*

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial information of the Group but may impact future periods should the Group enter into any business combinations.

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

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial information of, nor is there expected to be any future impact to the Group.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim condensed consolidated financial information of the Group.

3 EARNINGS PER SHARE (EPS)

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

	Three months ended 31 March	
	2020	*2019*
(Loss) profit for the period attributable to the equity holders of the Parent Company (KD)	**(805,941)**	872,938
Weighted average number of shares outstanding during the period	**101,462,130**	101,462,130
Basic and diluted (loss) earnings per share	**(7.9) Fils**	8.6 Fils

4 PROPERTY, PLANT AND EQUIPMENT

On 29 January 2009, the Parent Company received a notice from Kuwait Ports Authority (KPA) to vacate the premises of KPA and remove the barge with a carrying value of KD 1,084,490 (31 December 2019: KD 1,154,761; 31 March 2019: KD 1,365,575) owned by the Parent Company which is moored alongside the berth owned by KPA. A verdict was issued by the Court of First Instance on 8 May 2014 in favour of the Parent Company and KPA has filed an appeal in the 'Court of Appeal'. On 16 April 2017, a verdict was issued against the Parent Company and the Parent Company has filed an appeal in the 'Court of Cassation'.

Further, on 23 October 2014, the Parent Company received a notice from KPA requesting on the increase in rental charges. During the period ended 31 March 2020, the management were in discussions with KPA on entering into a new agreement which was signed subsequently on 29 April 2020.

Although the new agreement is signed with KPA, the verdict from the 'Court of Cassation' is still outstanding as at 31 March 2020 and the management believes there will be no material consequential impact on Group's interim condensed consolidated financial information.

5 CASH AND SHORT-TERM DEPOSITS

For the purpose of interim condensed consolidated statement of cash flows, cash and short-term deposits comprise the following:

	31 March 2020 KD	*(Audited) 31 December 2019 KD*	*31 March 2019 KD*
Cash at bank and in hand	**1,534,795**	1,092,131	1,455,737
Short-term deposits	**5,680,252**	6,260,000	6,370,000
	7,215,047	7,352,131	7,825,737

Short term deposits are placed for varying periods of one month to three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Restricted deposits of KD 36,000 (31 December 2019: 60,000; 31 March 2019: KD 60,000) are placed with a local financial institution and have original maturities of more than three months from the date of placement. Restricted deposits are not available for use in the Group's day-to-day operations and earn interest at an average effective interest rate of 2.5% (31 December 2019: 2.5%; 31 March 2019: 2.5%) per annum

6 SHARE CAPITAL

The authorised, issued and paid up capital of the Parent Company comprises of 101,462,130 ordinary shares of 100 fils each (31 December 2019: 101,462,130 shares of 100 fils each and 31 March 2019: 101,462,130 shares of 100 fils each).

7 RELATED PARTY DISCLOSURES

Related parties represent major shareholders, key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of payment for these transactions are approved by the Parent Company's management.

The following tables show the aggregate value of transactions and outstanding balances with related parties:

Interim condensed consolidated statement of profit or loss:

	Three months ended 31 March		
	Other related parties KD	***2020 KD***	*2019 KD*
Cost of goods sold	694,223	**694,223**	2,113,361
Administrative expenses	1,809	**1,809**	5,924
Finance costs	17,838	**17,838**	19,411

7 RELATED PARTY DISCLOSURES (continued)

Interim condensed consolidated statement of financial position:

As at 31 March 2020	***Associate**** *KD*	***Ultimate Parent Company*** *KD*	***Other related parties*** *KD*	***Total*** *KD*
Amount due from related parties				
Accounts receivable and prepayments*	**15,228**	**-**	**-**	**15,228**
Amount due to related parties				
Account payables and accruals	**-**	**-**	**80,725**	**80,725**
Loan from a related party	**-**	**500,000**	**1,082,900**	**1,582,900**

As at 31 December 2019 (Audited)	*Associate** KD*	*Ultimate Parent Company KD*	*Other related parties KD*	*Total KD*
Amount due from related parties				
Accounts receivable and prepayments*	15,228	-	-	15,228
Amount due to related parties				
Account payables and accruals	-	-	752,785	752,785
Loan from a related party	-	500,000	1,082,900	1,582,900

As at 31 March 2019	*Associate** KD*	*Ultimate Parent Company KD*	*Other related parties KD*	*Total KD*
Amount due from related parties				
Accounts receivable and prepayments*	15,228	-	-	15,228
Amount due to related parties				
Account payables and accruals	-	-	1,136,660	1,136,660
Loan from a related party	-	500,000	1,082,900	1,582,900

* This represent receivables from an associate has no specified repayment terms and are repayable on demand. The investment in associate has been fully impaired in prior periods.

Loan from a related party amounting to KD 1,082,900 (31 December 2019: KD 1,082,900; 31 March 2019: KD 1,082,900) carries an effective interest rate of 5% p.a. (31 December 2019: 5% p.a.; 31 March 2019: 5% p.a.) and is expected to be settled more than twelve months after the reporting period.

Loan from a related party amounting to KD 500,000 (31 December 2019: KD 500,000; 31 March 2019: KD 500,000) carries an effective interest rate of 4.4% p.a. and is expected to be settled within one year from the reporting period.

7 RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel
Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions related to key management personnel were, as follows:

	Three months ended 31 March		*Balance outstanding as at 31 March*	
	2020	*2019*	***2020***	*2019*
	KD	*KD*	***KD***	*KD*
Salaries and short-term benefits	**53,679**	71,613	**17,258**	7,495
Employees end of service benefits	**2,518**	9,170	**233,636**	172,019
Directors' remuneration	**6,550**	6,550	**32,750**	28,293
	62,747	87,333	**283,644**	207,807

The Board of Directors at the meeting held on 3 March 2020 proposed directors' remuneration of KD 26,196 for the year ended 31 December 2019. The remuneration was approved by the shareholders at the AGM held on 16 July 2020.

8 CONTINGENCIES

As at 31 March 2020, the Group provided guarantees in the ordinary course of the business amounting to KD 156,000 (31 December 2019: KD 156,000; 31 March 2019: KD 306,000). No material liabilities are expected to arise.

9 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the products and services and has two reportable operating segments i.e. trading materials and manufacturing materials. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment. The segment performance is evaluated based on operating loss or profit.

The following table presents revenue and profit information for the Group's operating segments for the three months ended 31 March 2020 and 31 March 2019, respectively:

Three months ended 31 March 2020	***Trading units KD***	***Manufacturing units KD***	***Total KD***	***Adjustments and eliminations KD***	***Consolidated KD***
Segment revenue					
External customer	**1,526,385**	**2,956,346**	**4,482,731**	**-**	**4,482,731**
Inter-segment	**760,362**	**-**	**760,362**	**(760,362)**	**-**
Intra-segment	**-**	**719,966**	**719,966**	**(719,966)**	**-**
Total revenue	**2,286,747**	**3,676,312**	**5,963,059**	**(1,480,328)**	**4,482,731**
Segment expenses					
Cost of inventories recognised as an expense	**(1,968,957)**	**(2,735,709)**	**(4,704,666)**	**1,480,328**	**(3,224,338)**
Depreciation expense	**(143,887)**	**(132,935)**	**(276,822)**	**-**	**(276,822)**
Impairment of goodwill	**(831,761)**	**-**	**(831,761)**	**-**	**(831,761)**
Segment results	**(869,908)**	**140,845**	**(729,063)**	**-**	**(729,063)**

9 SEGMENT INFORMATION (continued)

Three months ended 31 March 2019	*Trading units KD*	*Manufacturing units KD*	*Total KD*	*Adjustments and eliminations KD*	*Consolidated KD*
Segment revenue					
External customer	2,038,369	3,396,977	5,435,346	-	5,435,346
Inter-segment	1,017,466	-	1,017,466	(1,017,466)	-
Intra-segment	-	688,078	688,078	(688,078)	-
Total revenue	3,055,835	4,085,055	7,140,890	(1,705,544)	5,435,346
Segment expenses					
Cost of inventories recognised as an expense	(2,444,724)	(3,106,060)	(5,550,784)	1,705,544	(3,845,240)
Depreciation expense	(152,321)	(165,043)	(317,364)	-	(317,364)
Segment results	929,459	(46,146)	883,313	-	883,313

The following table presents assets and liabilities information for the Group's operating segments as at 31 March 2020, 31 December 2019 and 31 March 2019, respectively:

	Trading units KD	***Manufacturing units KD***	***Total KD***	***Adjustments and eliminations KD***	***Consolidated KD***
At 31 March 2020					
Segment assets	**17,500,010**	**14,057,730**	**31,557,740**	**(12,304,749)**	**19,252,991**
Segment liabilities	**2,384,920**	**9,894,473**	**12,279,393**	**(4,554,733)**	**7,724,660**
At 31 December 2019 (Audited)					
Segment assets	17,520,240	14,144,600	31,664,840	(11,638,771)	20,026,069
Segment liabilities	2,359,140	10,122,188	12,481,328	(4,720,516)	7,760,812
At 31 March 2019					
Segment assets	19,004,837	15,676,176	34,681,013	(11,009,967)	23,671,046
Segment liabilities	2,456,448	10,571,139	13,027,587	(5,228,256)	7,799,331

10 IMPACT OF COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity and the Group's business in various ways.

The currently known impact of COVID-19 on the Group are:

- Sales volumes for the quarter down sequentially and down year-over-year. The sequential decline was a result of lower trading activity, primarily driven by the impacts from COVID-19, such as state-imposed production downtimes and construction stoppages on major infrastructure projects.
- Revenue of KD 4,482,731 for the quarter, down by 15% sequentially and 18% year-over-year.
- Operating loss of KD 699,499 for the quarter, down by KD 1,027,502 sequentially and increased by KD 1,605,277 year-over-year

10 IMPACT OF COVID-19 (continued)

The Group is taking a number of actions in response to the current market environment, including the following:

- Approved a plan to reduce net capital expenditures for the year 2020.
- Launched a comprehensive action plan across the Group at the end of June that focuses on cost savings and on maintaining our high level of liquidity. This includes, for example, minimising all non-essential expenses, reducing personnel costs, and voluntary reductions in management salaries.

In addition to the already known effects of the COVID-19 outbreak and resulting government measures, the macroeconomic uncertainty causes disruption to economic activity, and it is unknown what the longer-term impact on the Group's business may be. The COVID-19 virus can evolve in various directions. If society, and as a consequence business, is exposed to COVID-19 for a longer period of time, this may result in prolonged negative results and pressure on the Group's liquidity.

The development in the second half of the year will be a crucial indicator of how quickly and sustainably the construction industry recovers to pre-crisis level. The Group anticipates that in individual core markets, construction activities are likely to benefit in the medium term from infrastructure and other economic stimulus programmes launched by the government.

Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the Group may experience further negative results, liquidity restraints and incur additional impairments on its assets in 2020. Given the ongoing economic uncertainty, the exact impact on the Group's activities in the remainder of 2020 and thereafter cannot be predicted at this stage.

This note describes the impact of the outbreak on the Group's operations and the significant estimates and judgements applied by management in assessing the values of assets and liabilities as at 31 March 2020.

10.1 Risk management

The management is monitoring and reassessing the risk management objectives and policies based on the current updates on COVID-19. For the period ended 31 March 2020, there were no significant changes to the risk management objectives and policies as compared to the audited consolidated financial statements as at 31 December 2019.

10.1.1 Credit risk

The management has assessed the credit risk objectives and policies of the Group as a result of the outbreak and expects no significant change as compared to audited consolidated financial statements of 31 December 2019. The management determined that the impairment loss is immaterial as cash and short-term deposits are mostly held with counterparties with appropriate credit-ratings assigned by international credit-rating agencies and for trade receivables, the outstanding receivables are monitored on an ongoing basis and the maximum risk position from trade receivables corresponds to the carrying amount. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of three months for individual and corporate customers respectively.

10.1.2 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

- Day to day funding is managed by monitoring future cash flows to ensure that working capital requirements can be met. This includes replenishment of funds as they mature;
- Maintaining rolling forecasts of the Group's overall liquidity position on the basis of expected cash flows;
- Monitoring liquidity ratios and net current assets.

The Group expects an impact on its liquidity due to COVID-19 outbreak. Management has taken several steps in protecting cash flows through compensating cost saving measures and reductions to discretionary capital expenditure. Further, the Group aims to maintain the level of its cash and short-term deposits and other highly marketable investments at an amount in excess of expected cash outflows on financial liabilities.

10 IMPACT OF COVID-19 (continued)

10.2 Use of estimates and assumptions

The Group based its assumptions and estimates on parameters available when the interim condensed consolidated financial information is prepared. The COVID-19 outbreak has created uncertainty for revenue forecasts, sourcing and workforce availability, credit ratings, etc. but also volatility in stock prices, interest and currency exchange rates. Estimates based on such metrics may be subject to change due to market changes in the near term or circumstances arising that are beyond the control of the Group.

Information about key assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets in the reporting period is described below:

Property and equipment and right of use assets

As at the reporting date, the Group has considered the potential impact of the current economic volatility in the determination of the reported amounts of the Group's non-financial assets and the unobservable inputs are developed using the best available information about the assumptions that market participants would make in pricing these assets at the reporting date. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

As the situation continues to unfold, the Group will continuously monitor the market outlook and use relevant assumptions in reflecting the values of these non-financial assets as and when they occur.

Goodwill

The carrying amount of goodwill is allocated to manufacturing units as disclosed under segment information (Note 9). Reviews for indicators of impairment and any resulting tests for impairment of the segment units are performed at the interim reporting date in the same manner as at the annual reporting date. With the recent developments of the COVID-19 outbreak, there are both external and internal sources of information, such as overall decline in the activities, as well as ongoing economic uncertainty, which have led to decreased demand for the products or services indicating that the segment units may be impaired. Accordingly, the management concluded that the cash generating unit (CGU) should be tested for impairment.

Impairment assessment of goodwill

Management considered, amongst other factors, the negative outlook due to the impact of the coronavirus pandemic in the determination of the recoverable amount of the CGU.

The recoverable amount was estimated based on the present value of the future cash flows expected to be derived from the CGU (value in use). The value in use calculation is determined based on reasonable and supportable assumptions concerning projections approved by management (as part of the budget). These cash flows cover a five-year period using an average annual growth rate of 14% over the forecast period based on past performance and management's expectations of market development. The discount rate applied to cash flow projections is 12.41% and cash flows beyond the five-year budget period are extrapolated using a 2.5% long-term growth rate.

As a result of the analysis, the recoverable amount of the entire CGU based on value in use as at 31 March 2020 was estimated to be KD 1,273,179, hence the carrying value has exceeded the recoverable amount by KD 831,761 as of that date, and accordingly, management has identified impairment loss of KD 831,761 during the period ended 31 March 2020 (31 March 2019: Nil). This is largely as a result of the negative economic outlook related to the consequences of the coronavirus pandemic. The impairment loss was fully allocated to goodwill and included in the interim condensed consolidated statement of profit or loss.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use, there are no significant changes to the key assumptions disclosed in the annual consolidated financial statements for the year ended 31 December 2019. Any adverse change in key assumptions could result in a further impairment loss.

10 IMPACT OF COVID-19 (continued)

10.2 Use of estimates and assumptions (continued)

Trade receivables

The Group uses the simplified model in calculation the ECL for trade receivables that do not contain a significant financing component by establishing a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group identifies the expected real growth of the construction industry in which the Group operates and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group will continue to individually assess exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

10.3 Subsequent events

The implications of COVID-19 are ongoing and the ultimate outcome of this event is unknown and therefore the full impact on the Group for events and circumstances that arose after the reporting date cannot be reasonably quantified at the authorisation date of this interim condensed consolidated financial information. The effect of COVID-19 on the Group as and when known will be incorporated into the determination of the Group’s estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities.