

ELZAY Ready Wear Manufacturing Co.



شركة الزي لصناعة الألبسة الجاهزة

<p>To: Jordan Securities Commission Amman Stock Exchange Date 29/3/2018 Subject: Annual Report for the fiscal year ended <u>31/12/2017</u></p>	<p>السادة هيئة الأوراق المالية السادة بورصة عمان التاريخ: 2018/3/29 الموضوع: التقرير السنوي للسنة المنتهية في <u>2017/12/31</u></p>
<p>Attached the Annual Report of (Elzay Ready Wear Manufacturing) for the fiscal year ended at 31/12/2017</p>	<p>مرفق طيه نسخة من التقرير السنوي لشركة الزي لصناعة الألبسة الجاهزة عن السنة المالية المنتهية في 2017/12/31م</p>
<p>Kindly accept our highly appreciation and respect elzay Ready Wear Manufacturing Financial Manager's Signature</p> 	<p>وتفضلوا بقبول فائق الاحترام... شركة الزي لصناعة الألبسة الجاهزة . توقيع المدير المالي</p> 

بورصة عمان
الداخلة الإدارية والمالية
الديوان

٢١ آذار ٢٠١٨

الرقم التسلسلي: ١٧٤٧

رقم الملف: ٢١٠٦١

الجهة المختصة: الإدارة العامة

EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017



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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of El-Zay Ready Wear Manufacturing Company
Public Shareholding Company
Amman - Jordan

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of El-Zay Ready Wear Manufacturing Company (the Company), and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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 financial position of the Group as at 31 December 2017, and its financial performance and its 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 the ethical requirements that are relevant to our audit of the financial statements in Jordan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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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. For each matter below, our description of how our audit addressed the matter provided in that context.

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

Key audit matter 1: Valuation of Inventories

Refer to note 6 on the consolidated financial statements

Key audit matter	How the key audit matter was addressed in the audit
Judgment is required to assess the appropriate level of provisioning for items, which may be ultimately sold below cost. The Group manufactures and sells goods in the fashion industry and is subject to changing consumer demands and fashion trends, increasing the level of judgment involved in estimating provisions.	For both finished goods and raw materials, we tested the methodology for calculating the provisions, assessing the appropriateness and consistency of judgments and assumptions, and considered the historical data used in estimating the provisions, the accuracy and completeness of aging profile of inventory, including the completeness of provision for slow moving and obsolete items.



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Key audit matter 2 : Valuation of Accounts Receivable

Refer to the note 7 on the consolidated financial statements

Key audit matter

Judgment is required to assess the appropriate level of provisioning for doubtful accounts receivables. The Group has large number of customers inside and outside the country, which increases the risk of collecting these amounts.

How the key audit matter was addressed in the audit

We tested the methodology for calculating the provisions for doubtful debts, challenged the basis of valuation and assumptions used in identifying doubtful accounts, along with the provisioning criteria for such accounts. In doing so, we tested the accuracy of aging of accounts receivable and evaluated the sufficiency of the provision against doubtful accounts.

Key Audit Matter 3: Revenue recognition

Refer to the note (14) on the consolidated financial statements

Key Audit Item

Revenue targets form part of the Group's key performance measures that could create an incentive to overstate revenue.

How the key audit matter was addressed in the audit

Our audit procedures included, among other things, considering the appropriateness of the Group's revenue recognition accounting policies and assessing compliance with the policies in accordance of International Financial Reporting Standards. We have evaluated the control environment and tested the internal controls over the completeness, measurement and occurrence of revenue recognized. We obtained a representative sample of transactions and tested proper recording and recognition. In addition, we selected a sample of transactions before and after the financial year ended at 31 December 2017 to check proper recognition.

We performed as well substantive analytical procedures for the gross margin and sales revenues on a monthly basis



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Other information included in the Company's 2017 annual report.

Other information consists of the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2017 annual report is expected to be made available to us after the date of the audit's report.

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

In connection with our audit of the 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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

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

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

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



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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could 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 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 auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonable be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

The Group maintains proper books of accounts which are in agreement with the consolidated financial statements.

Ernst & Young/ Jordan

Waddah Isam Barkawi
License No. 591

Amman - Jordan
29 March 2018

Ernst & Young

EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

<u>Assets</u>	<u>Notes</u>	<u>2017</u>	<u>2016</u>
		<u>JD</u>	<u>JD</u>
Non-Current Assets-			
Property, plant and equipment	3	5,166,311	5,250,696
Intangible assets	4	688,627	688,627
Financial assets at fair value through other comprehensive income	5	1,003,453	959,318
		<u>6,858,391</u>	<u>6,898,641</u>
Current Assets-			
Inventory	6	5,929,065	5,253,857
Receivables and purchase orders in progress	12	4,613,931	5,326,812
Accounts receivable	7	916,387	868,139
Checks under collection		3,321	7,000
Other current assets	8	1,279,214	1,264,579
Cash on hand and at banks	9	2,058,484	1,635,525
		<u>14,800,382</u>	<u>14,355,912</u>
Total Assets		<u>21,658,773</u>	<u>21,254,553</u>
<u>Equity and Liabilities</u>			
Equity -			
Paid in capital	1,10	8,684,029	6,705,246
Statutory reserve	10	415,008	415,008
Fair value reserve	5	(148,886)	(192,001)
Accumulated losses		(2,101,270)	(811,336)
Net Equity		<u>6,849,079</u>	<u>6,116,917</u>
<u>Liabilities</u>			
Non-Current Liabilities -			
Long term loans	11	5,703,658	2,653,853
Current Liabilities -			
Current portion of long term loans	11	973,507	1,178,814
Accounts payable		1,214,277	1,230,239
Bank facilities against purchase orders from customers	12	3,233,649	6,714,057
Bank overdrafts	9	3,233,341	3,064,817
Other credit balances	13	451,262	295,856
		<u>9,106,036</u>	<u>12,483,783</u>
Total Liabilities		<u>14,809,694</u>	<u>15,137,636</u>
Total Equity and Liabilities		<u>21,658,773</u>	<u>21,254,553</u>

The attached notes from 1 to 27 form an integral part of these consolidated financial statements

**EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<u>Notes</u>	<u>2017</u> <u>JD</u>	<u>2016</u> <u>JD</u>
Sales	14	10,095,279	12,925,277
Cost of sales	15	(9,335,221)	(11,332,299)
Gross Profit		<u>760,058</u>	<u>1,592,978</u>
Administrative expenses	18	(1,067,556)	(1,120,167)
Selling and distribution expenses	17	(917,504)	(748,728)
Recoveries from provision for slow moving inventory	6	598,566	-
Interest expense		(713,235)	(613,724)
Interest income		69,703	49,970
Dividends income		41,911	50,180
Other (expenses) income, net	16	(39,837)	14,783
Foreign currency exchange losses		2,102	(23,213)
Loss for the year		<u>(1,267,592)</u>	<u>(795,921)</u>
		<u>JD/Fils</u>	<u>JD/Fils</u>
Basic and diluted loss per share	19	<u>(0/152)</u>	<u>(0/071)</u>

The attached notes from 1 to 27 form an integral part of these consolidated financial statements

**EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<u>2017</u>	<u>2016</u>
	<u>JD</u>	<u>JD</u>
Loss for the year	(1,267,592)	(795,921)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Change in fair value of financial assets at fair value through other comprehensive income, net	<u>43,313</u>	<u>(65,903)</u>
Total comprehensive income for the year	<u>(1,224,279)</u>	<u>(861,824)</u>

The attached notes from 1 to 27 form an integral part of these consolidated financial statements

EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Paid in capital	Share discount	Statutory Reserve	Fair value reserve	Accumulated losses	Total
	JD	JD	JD	JD	JD	JD
For the year ended 31 December 2017 -						
Balance at 1 January 2017	6,705,246	-	415,008	(192,001)	(811,336)	6,116,917
Capital increase (Note 1)	1,978,783	-	-	-	-	1,978,783
Total comprehensive income for the year	-	-	-	43,313	(1,267,592)	(1,224,279)
Capital increase expenses	-	-	-	-	(22,342)	(22,342)
Balance at 31 December 2017	8,684,029	-	415,008	(148,688)	(2,101,270)	6,849,079

For the year ended 31 December 2016 -

Balance at 1 January 2016	15,000,000	(1,802,415)	415,008	(109,532)	(6,492,339)	7,010,722
Capital decrease (Note 1)	(8,294,754)	1,802,415	-	-	6,492,339	-
Realized gains from sale of financial assets at fair value through other comprehensive income	-	-	-	(16,568)	16,568	-
Total comprehensive income for the year	-	-	-	(65,903)	(795,921)	(861,824)
Capital decrease expenses	-	-	-	-	(31,981)	(31,981)
Balance at 31 December 2016	6,705,246	-	415,008	(192,001)	(811,336)	6,116,917

The attached notes from 1 to 27 form an integral part of these consolidated financial statements

EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 JD	2016 JD
<u>Operating Activities</u>			
Loss for the year		(1,267,592)	(795,921)
Adjustments -			
Depreciation	3	419,851	416,605
Gain from sale of property, plant and equipment	16	(1,700)	(13,020)
Recoveries from provision for slow moving inventory	6	(598,566)	-
Dividends income		(41,911)	(50,180)
Interest expense		713,235	813,724
Interest income		(69,703)	(49,970)
Working capital changes:			
Inventory, finished goods, work in progress and raw materials against purchases orders		(21,145)	(712,974)
Accounts receivable and accounts receivable against purchase orders		607,136	(530,271)
Checks under collection		3,679	5,785
Other current assets		(14,635)	(309,413)
Accounts payable		(15,962)	481,059
Other credit balances		155,406	(180,019)
Net cash flows used in operating activities		(129,907)	(1,124,595)
<u>Investing Activities</u>			
Purchases of property, plant and equipment	3	(340,414)	(113,630)
Proceeds from sale of property, plant and equipment		6,648	13,020
Interest income received		69,703	49,970
Dividends income received		41,911	50,180
Purchases of financial assets at fair value through other comprehensive income		(822)	(368,349)
Proceeds from sale of financial assets at fair value through other comprehensive income		-	68,661
Net cash flows used in investing activities		(222,974)	(310,148)
<u>Financing Activities</u>			
Interest expense paid		(713,235)	(813,724)
Proceeds from Long term loans		4,857,415	2,012,917
Payments of long term loans		(2,012,917)	(434,199)
Cash margins against bank facilities		(469,704)	241,191
Bank facilities against purchase orders from customers		(3,480,408)	434,731
Capital increase expenses		(22,342)	-
Capital decrease expenses		-	(31,981)
Paid in capital increase		1,978,783	-
Net cash flow from financing activities		137,592	1,608,935
Net (decrease) increase in cash and cash equivalents		(215,289)	174,192
Cash and cash equivalents at 1 January	9	(2,894,697)	(3,068,889)
Cash and cash equivalents at 31 December	9	(3,109,986)	(2,894,697)

The attached notes from 1 to 27 form an integral part of these consolidated financial statements

**EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

(1) GENERAL

El-Zay For Ready Wear Manufacturing Company ("the Company") was established in the Hashemite Kingdom of Jordan as a public shareholding company on 22 March 1992 with a paid in capital of JD 4,000,000, which was decreased and increased throughout the years the last of which was during 2016 to become JD 12,000,000 divided into 12,000,000 shares. The Company's objectives are, manufacturing of civil and military wears whether for men or women, and all kinds of ready wear in all sizes and standards.

The General Assembly has approved in its extraordinary meeting held on 28 April 2016 the decrease of the Company's capital by the balance of the accumulated losses and the share discount amounted to JD 6,492,339 and JD 1,802,415 respectively; the total amount of the decrease amounted to JD 8,294,754 was written off against the Company's capital amounting JD 15,000,000 to become JD 6,705,246 after the decrease. The capital decrease procedures were completed by the Ministry of Industry, Trade and Supply on 18 July 2016 and by the securities commission on 30 August 2016.

The General Assembly has approved in its extraordinary meeting held on 28 April 2016 the recommendation of the Board of Directors to increase the Company's capital to become JD 12,000,000 per share with an increase amounted to JD 5,294,754 through public and private offering, the capital increase was completed by the number of the covered shares during the offering period amounting to 1,978,783 shares at a nominal value of JD 1 per share on 12 March 2017. Accordingly, the Company's paid in capital has reached JD 8,684,029.

The consolidated financial statements were approved by the Company's Board of Directors in their meeting held on 29 March 2018 and these consolidated financial statements are subject to the approval of the General Assembly.

(2-1) BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by International accounting standards board.

The consolidated financial statements are prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income that have been measured at fair value at the date of consolidated financial statement.

The consolidated financial statements have been presented in Jordanian Dinar (JD), which is the functional currency of the Group.

**EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

(2-2) BASIS OF CONSOLIDATION

The consolidated financial statements comprise of the company's financial statements and its subsidiaries (collectively referred to as the "the Group") as at 31 December 2017:

	<u>Country of Incorporation</u>	<u>Ownership</u>	<u>Capital</u>
World Fashion Trading Company Limited	Jordan	100%	500,000
Al Lamle for Ready Wear Company Limited*	Jordan	100%	5,000

*Al Lamle for Ready Wear Company Limited was established on 7 February 2017, the Company did not perform any operations up to the date of these consolidated financial statements.

Subsidiaries are fully consolidated from the date of acquisition being the date on which the Group gains control, and continues to do so until the date when such control ceases. Control is achieved when the Group is exposed, or has the rights, to variable returns from its involvement with the subsidiaries, and has the ability to affect those returns. All intra-group balances and transactions income, expenses relating to transactions between members of the Group are eliminated in full upon consolidation.

The subsidiaries' financial statements are prepared for the same financial year using the same accounting policies of the company. If the subsidiaries uses accounting policies that differs from the company's accounting policies, the subsidiaries' financial statements are adjusted accordingly to comply with the Company's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. 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 the statement of profit or loss and other comprehensive income
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate.

**EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

(2-3) CHANGES IN ACCOUNTING POLICES

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2016 except for the followings:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

Limited amendments which require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). However, the adoption of these amendments have no impact on the Company's financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Un-recognised Losses

Limited amendments to clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference and some other limited amendments, the adoption of these amendments have no impact on the Company's financial statements.

(2-4) USE OF ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes in such provisions.

**EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

(2-5) SIGNIFICANT ACCOUNTING POLICIES

Property, Plant and equipment

Property and equipment are stated at cost less accumulated depreciation and any provision against impairment in value and lands are not depreciated. Costs include the cost of replacing property, plant and equipment and borrowing costs for the long-term projects under construction if recognition conditions are met. Maintenance and repair expenses are recognized in the consolidated statement of profit or loss. Depreciation is calculated on a straight-line basis (except of land) using the following depreciation rates:

	<u>%</u>
Buildings	2
Machinery and equipment	6 - 8
Vehicles	7 - 15
Furniture, and fixtures	4 - 20
Tools	10 - 15
Decorations	6 - 15
Other	10 - 20

When the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is recorded in the consolidated statement of profit or loss.

Useful lives and depreciation method of property, plant and equipment are reviewed periodically at the end of each financial year 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, and adjusted prospectively.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

Projects in progress

Projects in progress are stated at cost and include the cost of construction, equipment and other direct costs. Projects in progress are not depreciated until it is available for use.

**EL ZAY FOR READY WEAR MANUFACTURING COMPANY
PUBLIC SHAREHOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

Intangible assets

Intangible assets acquired are measured at cost or fair value following after initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite, intangible assets with finite lives are amortized over their estimated useful economic life and are tested for impairment when such indication exists.

Financial assets at fair value through other comprehensive income

These are financial assets limited to equity instruments and the management intends to retain those assets in the long term. These financial assets are initially recognized at fair value plus attributable transaction costs and subsequently measured at fair value. The change in fair value of those assets is presented in the consolidated statement of comprehensive income within owners' equity, including the change in fair value resulting from the foreign exchange differences of non-monetary assets.

In case those assets - or part of them - were sold, the resultant gain or loss is recorded in the consolidated comprehensive income statement and within owners' equity and the fair value reserve for the sold assets is directly transferred to the retained earnings and not through the consolidated statement of profit or loss.

Those assets are not tested for impairment.

Dividends income is recorded in the consolidated statement of profit or loss.

Fair value

The Group evaluates its financial instruments using the closing prices in an active markets at the date of the financial statements.

Fair value represents the price received in exchange for financial assets sold, or price paid to settle a sale between market participants in an ordinary transaction at the measurement date.

The fair value is measured based on the assumption that the sale or purchase transaction of financial assets is facilitated through an active market for financial assets and liabilities respectively. In case there is no active market, a market best fit for financial assets and liabilities is used instead. The Group needs to acquire opportunities to access the active market or the best fit market.

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The fair value measurement of non-financial assets considers the ability of market participants to utilize the assets efficiently in order to generate economic benefits, or to sell them to other participants who will utilize them in the best way possible.

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

The Group uses the following valuation methods and alternatives in measuring and recording the fair value of financial instruments.

All assets and liabilities for which fair value is measured or disclosed in the financial statements or have been written off 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.

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 reassessing 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.

For the disclosure of fair value, the Group classifies assets and liabilities based on their nature, their risk, and the level of fair value measurement.

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Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment of financial assets

The Group assesses at each financial position date whether there is any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets are considered impaired when there is objective evidence of impairment as a result of one or more events (loss event) that occur after the asset's initial measurement, that will have a direct and reasonably estimated impact on its future cash flows. Permanent impairment indicators could comprise of indications that the borrower or a group of borrowers are facing significant financial difficulties, or neglect, or default in making interest or principal payments, and are likely to be subject to bankruptcy or financial restructuring. Furthermore, permanent impairment indicators exist when observable data indicates the existence of a measurable decrease in estimated cash flows such as changes in the Group's economic conditions due to negligence.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost includes all expenses incurred to bring the product to its present location and condition and are accounted for as follows:

- Raw materials and consumables are measured on a weighted average basis.
- Work in progress are measured at cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity.
- Finished products are measured at the lower of cost and net realizable value on a weighted average basis.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost to complete the sale or the manufacturing process.

Accounts receivable

Accounts receivable represent amounts due from customers for goods sold or services rendered during the normal course of business. Long-term receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less impairment provision.

The Group first assesses the existence of objective evidence of impairment for each financial asset of individual or collective interest. Where there is no objective evidence of impairment individually, whether significant or not, that asset are not included in the assessment of the collective impairment of the financial assets that have the same credit characteristics. Assets that have been individually assessed for impairment and recognized for impairment are not included in the collective impairment assessment. If there is objective evidence of impairment, the amount of the loss is calculated as the difference between the carrying amount of the asset and the present value of the expected future cash flows (excluding expected future credit losses that have not yet been realized).

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The carrying amount of the asset is reduced using the allowance for impairment where the loss is recognized in the consolidated statement of profit or loss. In the event of an increase or decrease in the amount of the provision due to the occurrence of a certain event after recognizing the impairment loss, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment. If a debt is written off, it is recognized in the consolidated statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and at banks and short term deposit with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and at banks, short-term deposits with a maturity of three months or less, net of bank overdrafts.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Borrowings

Loans are initially recognized at fair value less directly attributable transaction costs. Loans are subsequently measured at amortized cost using the effective interest rate method. Interest is recognized on loans during the year in which they are incurred.

Interest is recognized on long-term loans during the year in which they are incurred.

Derecognition of Financial liabilities

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

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Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Revenue recognition

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, and the amount of revenue can be measured reliably.

Interest revenue is recognized when the interest accrues using the effective interest rate method.

Dividends are recognized when the shareholders' right to receive payment is established.

Other income is recognized on an accrual basis.

Income tax

Income tax expense represents current year income tax and deferred income tax.

Current income tax is calculated based on the tax rates and laws that are applied in the Hashemite Kingdom of Jordan at the consolidated statement of financial position date and according to IAS 12.

Deferred income taxation is provided using the liability method on all temporary differences at the consolidated financial statement date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on laws that have been enacted at the financial position date. The carrying values of deferred income tax assets are reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Segment information

A business segment is a group of assets and operation engaged in providing products or services that are subject to risks and returns that are different from those of other business segments, measured according to reports used by the General Manager and the primary decision maker of the Group.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated statement of financial position date. All differences are recognized in the consolidated statement of profit or loss.

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(3) PROPERTY, PLANT AND EQUIPMENT

	Land		Buildings		Machinery & equipment		Vehicles		Furniture & fixtures		Tools		Decoration		Others		Project under progress		Total	
	JD		JD		JD		JD		JD		JD		JD		JD		JD		JD	
Cost -																				
Balance as at 1 January 2017	430,252		4,406,001		4,906,810		201,765		909,571		332,955		882,578		346,017		4,853		12,420,602	
Additions	-		7,000		103,720		42,880		18,114		-		148,595		18,554		1,551		340,414	
Transfers	-		-		-		-		-		-		1,903		-		(1,903)		-	
Disposals	-		-		-		(81,000)		-		-		(6,520)		-		-		(87,520)	
Balance as at 31 December 2017	430,252		4,413,001		5,010,530		163,645		927,685		332,955		1,026,458		384,571		4,301		12,673,398	
Accumulated Depreciation -																				
Balance as at 1 January 2017	-		1,615,008		3,502,302		163,659		787,269		280,394		539,888		281,375		-		7,169,908	
Depreciation for the year	-		88,223		240,055		15,102		24,736		1,113		34,116		18,507		-		419,851	
Disposals	-		-		-		(81,000)		-		-		(1,672)		-		-		(82,672)	
Balance as at 31 December 2017	-		1,703,231		3,742,357		97,761		812,004		281,507		572,343		297,882		-		7,507,085	
Net book value -																				
At 31 December 2017	430,252		2,709,770		1,268,173		65,884		115,681		61,448		454,115		66,689		4,301		5,166,311	

• The estimated cost to complete the project under progress amounted to JD 10,000 approximately and the project is expected to be completed during 2018.

- The value of fully depreciated property, plant and equipment are amounted to JD 2,581,390 as at 31 December 2017 (2016: JD 2,556,698).

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	Land		Buildings		Machinery & equipment		Vehicles		Furniture & fixtures		Tools		Decorations		Others		Projects under progress		Total	
	JD		JD		JD		JD		JD		JD		JD		JD		JD		JD	
Cost -																				
Balance as at 1 January 2016	430,252		4,406,001		4,863,837		221,615		884,620		330,805		861,195		338,151		2,750		12,339,228	
Additions	-		-		55,377		-		24,951		2,150		21,383		7,866		1,903		113,530	
Disposals	-		-		(12,404)		(19,850)		-		-		-		-		-		(32,254)	
Balance as at 31 December 2016	430,252		4,406,001		4,906,810		201,765		909,571		332,955		882,578		346,017		4,653		12,420,802	
Accumulated Depreciation -																				
Balance as at 1 January 2016	-		1,526,881		3,280,182		173,271		754,805		278,344		505,962		285,300		-		6,785,555	
Depreciation for the year	-		88,127		234,514		10,238		32,694		1,050		33,937		16,075		-		416,805	
Disposals	-		-		(12,404)		(19,850)		-		-		-		-		-		(32,254)	
Balance as at 31 December 2016	-		1,615,008		3,502,302		163,659		787,269		280,394		539,898		281,375		-		7,189,906	
Net book value -																				
At 31 December 2016	430,252		2,790,993		1,404,508		38,106		122,302		52,561		342,679		64,642		4,653		5,250,896	

Depreciation in the consolidated statement of profit or loss consist of the following:

	2017		2016	
	JD		JD	
Cost of sales	334,256		328,849	
Selling and distribution expenses	39,682		37,159	
Administrative expenses	45,913		50,597	
	419,851		416,605	

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(4) INTANGIBLE ASSETS

The balance of this item as at 31 December 2017 represents the net value of the shops' key money and franchise rights resulting from the acquisition of the subsidiary. In the opinion of the Group's management, intangible assets have an indefinite life and therefore are not amortized.

(5) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2017	2016
	JD	JD
Investment in quoted companies' shares	1,003,453	959,318

Movement on fair value reserve is as follows:

	2017	2016
	JD	JD
Balance as at 1 January	(192,001)	(109,532)
Change in fair value	43,313	(65,903)
Realized gains from sale of financial assets at fair value through other comprehensive income	-	(16,566)
Balance as at 31 December	(148,688)	(192,001)

(6) INVENTORY

The details of this item is as follows:

	2017	2016
	JD	JD
Raw materials	2,958,548	3,465,253
Finished goods	3,763,193	3,661,250
Work in progress	105,707	37,974
Spare parts	514,803	505,136
	7,342,251	7,669,613
Provision for slow moving inventory	(1,413,186)	(2,415,756)
	5,929,065	5,253,857

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(21) INCOME TAX

No income tax provision was taken for the year ended as at 31 December 2017 and 2016 due to the excess of deductible expenses over taxable income in accordance with the Income Tax Law No. (34) of 2014.

The company submitted its annual income tax returns for the year 2016 and the Income and Sales Tax Department has not reviewed the Company's records up to the date of the consolidated financial statements.

The Company obtained a final clearance from the Income and Sales Tax Department until the end of the year 2015.

The subsidiary submitted its annual income tax returns for the year 2016 and the Income and Sales Tax Department has not reviewed the Company's records up to the date of the consolidated financial statements.

The subsidiary obtained a final clearance from the Income and Sales Tax Department until the end of the year 2015.

(22) FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments consist of financial assets and financial liabilities.

Financial assets consist of cash on hand and at bank, accounts receivable, checks under collection, financial assets at fair value through other comprehensive income and some other current assets.

Financial liabilities consist of accounts payable, bank overdrafts, bank facilities against purchase orders from customers, loans, and other some current liabilities.

The fair values of the financial instruments are not materially different from their carrying values.

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(23) CONTINGENCIES LIABILITIES

Banks contingent liabilities-

The Group has contingent liabilities that may arise represented in issued bank guarantees amounting to JD 862,966 as at 31 December 2017 (2016: JD 1,018,384) and letters of credit amounting to JD 20,419 as at 31 December 2017 (2016: JD 423,247). Guarantees against letters of credit, letter of guarantee and loans are amounted to JD 1,956,692 as at 31 December 2017 (2016: JD 1,505,905).

Lawsuits against the Group-

The Group is defendant in a number of lawsuits in the ordinary course of business in the amount of JD 22,830. The management of the Group and the legal advisor believes that the Group has a good status and there will be no probable liabilities related to this lawsuits.

(24) RELATED PARTY TRANSACTIONS

Related parties represent balances with major shareholders, directors and key management of the Group and the companies in which they are major shareholders. The Group's management approves pricing policies and terms of these transactions.

Consolidated statement of financial position items-

	<u>2017</u>	<u>2016</u>
	JD	JD
Financial assets at fair value through other comprehensive income	851,768	780,221
Short term deposits – Jordan Ahli Bank	1,935,109	1,465,406
Current Accounts – Jordan Ahli Bank	54,183	42,019
Utilized overdraft ceilings balances - Jordan Ahli Bank	3,233,341	3,084,817
Loans balances – Jordan Ahli Bank	9,910,814	10,546,724
Amounts due from related parties	213,632	119,877

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Off consolidated statement of financial position items –

	<u>2017</u>	<u>2016</u>
	JD	JD
Letters of guarantees - Jordan Ahli Bank	862,966	1,018,384
Letters of credit – Jordan Ahli Bank	20,419	423,247
Deposits on letters of guarantees and letters of credit– Jordan Ahli Bank	21,583	40,500

Consolidated statement of profit or loss items-

	<u>2017</u>	<u>2016</u>
	JD	JD
Salaries, wages, and other benefits of executive management	226,116	230,616
Board of Directors transportations	19,800	19,800
Interest expense and commissions - Jordan Ahli Bank	713,235	613,724
Interest income - Jordan Ahli Bank	69,703	49,970
Dividends income – sister company	36,772	40,158

(25) RISK MANAGEMENT

Interest rate risk

Credit risk is the risk that results from the changes in market value or future cash flows of financial instruments as a result of changes in interest rate.

The Group is exposed to interest rate risk on its interest-bearing assets and liabilities (deposits at banks, overdrafts and loans).

The sensitivity of the consolidated statement of profit or loss is the assumed effect of the possible changes in interest rates on the Group's profit for one year, computed on the Group's bearing a variable interest rate as at 31 December 2017.

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The following table summarizes the sensitivity analysis for the possible changes in interest rates as of 31 December with all other variable held constant.

	<u>Increase in Interest rate</u>	<u>Effect on loss for the year</u>
	%	JD
2017 -		
Currency		
JOD	1	(4,340)
USD	1	116,430
2016 -		
Currency		
JOD	1	(15,913)
USD	1	105,262

The effect of decreases in the interest rates is expected to be equal and opposite to the effect of the increases shown above.

Share price risk

The following table demonstrates the sensitivity of the changes in fair value to reasonably possible changes in share prices, with all other variables held constant.

	<u>Change in Index</u>	<u>Effect on the consolidated statement of comprehensive income and equity</u>
	%	JD
2017 -		
Index		
Amman Stock Exchange	5	50,173
2016 -		
Index		
Amman Stock Exchange	5	47,966

The effect of decreases in equity prices with the same percentages is expected to be equal and opposite to the effect of the increases shown above.

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Credit risk -

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. Therefore the Group is not significantly exposed to credit risk.

The Group sells its products to a large number of customer. The largest two customers represents 53% of the outstanding accounts receivable as at 31 December 2017 (2016: 55%).

Liquidity risk -

The Group limits its liquidity risk by ensuring bank facilities are available.

The table below summarizes the maturities of the Group's undiscounted financial liabilities at 31 December.

	Less than 3 months	3 to 12 months	1 to 5 years	Total
	JD	JD	JD	JD
2017 -				
Bank overdrafts	3,395,585	-	-	3,395,585
Accounts payable	1,214,277	-	-	1,214,277
Loans against purchase orders from customers	-	3,366,229	-	3,366,229
Loans	142,258	1,039,026	6,369,238	7,550,522
Total	4,752,120	4,405,255	6,369,238	15,526,613
2016 -				
Bank overdrafts	3,211,923	-	-	3,211,923
Accounts payable	1,230,239	-	-	1,230,239
Loans against purchase orders from customers	-	6,989,333	-	6,989,333
Loans	390,664	975,316	2,830,511	4,196,491
Total	4,832,826	7,964,649	2,830,511	15,627,986

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Currency risk -

Most of the Group's transactions are in Jordanian Dinars and US Dollars. The Jordanian Dinar exchange rate is fixed against the US Dollar (USD 1/41 JD). Accordingly, the Group is not exposed to significant currency risk in relation to the US Dollar.

(26) CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains appropriate capital ratios in order to support its business and maximize shareholders' value.

As mentioned in Note (1) to the financial statements, the Company has restructured the capital by decreasing the Company's capital to JD 6,705,246. The General Assembly also resolved to increase the Company's capital to JD 12,000,000 through public and private offering. The capital increase of the company was completed by the number of the covered shares during the offering period amounting to JD 1,978,783 shares at a nominal value of JD 1 per share on 12 March 2017. Accordingly, the company's paid in capital has reached JD 8,684,029.

Capital comprises of paid in capital, statutory reserve, fair value reserve and accumulated losses totalling a net of JD 6,849,079 as at 31 December 2017 (2016: JD 6,116,917).

(27) STANDARDS ISSUED BUT NOT EFFECTIVE

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The new version of IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required; however, the entities are exempted from restating their comparative information.

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(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has estimated that the additional provision to be recorded resulting from the expected credit loss from its trade receivables will not be significant compared to the current requirements of provisioning for doubtful trade receivables.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases, IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, 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. The standard is effective for annual periods beginning on or after 1 January 2018, and early adoption is permitted.

During 2017, the Group has performed an impact assessment of IFRS 15. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group adopts IFRS 15, whereas,

The Group does not expect a significant impact on its balance sheet or equity on applying the requirements of IFRS 15.

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Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

Entities may apply the amendments prospectively and are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

IFRS 16 Leases

During January 2018, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

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IFRS 17 Insurance Contracts

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS 4 - Insurance Contracts. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The standard general model is supplemented by the variable fee approach and the premium allocation approach.

The new standard will be effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

Transfers of Investment Property (Amendments to IAS 40)

The amendments 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.

Entities should apply the amendments prospectively and effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, a temporary exemption from implementing IFRS 9 to annual periods beginning before 1 January 2021 at latest and an overlay approach that allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

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IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation 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 non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. Entities may apply the amendments on a fully retrospective or prospective basis. The new interpretation will be effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

