



شركة ميزان القابضة  
MEZZAN HOLDING CO.

# ANNUAL REPORT 2015





شركة ميزان القابضة  
MEZZAN HOLDING CO.



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**His Highness  
Sheikh Sabah Al-Ahmad  
Al-Jaber Al-Sabah**

Amir of The State of Kuwait



**His Highness  
Sheikh Nawaf Al-Ahmad  
Al-Jaber Al-Sabah**

Crown Prince of The State of Kuwait



**His Excellency  
Sheikh Jaber Mubarak  
Al-Hamad Al-Sabahh**

Prime Minister of The State of Kuwait



**Mezzan Holding Company KSCC.**

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**MEZZAN HOLDING IS A  
LEADING VERTICALLY  
INTEGRATED MANUFACTURER,  
DISTRIBUTOR, AND PROVIDER  
OF FOOD, BEVERAGE, AND  
FMCG PRODUCTS AND  
SERVICES IN KUWAIT WITH  
A GROWING MIDDLE EAST  
BUSINESS.**





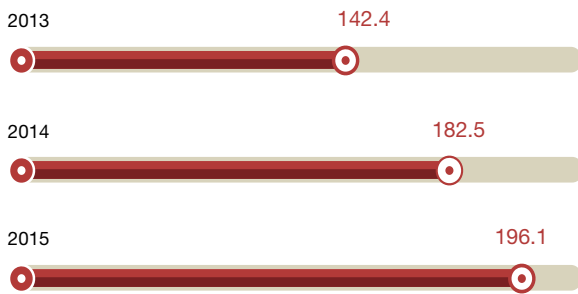


# FINANCIAL HIGHLIGHTS

KD196.1 mn

Total Revenue

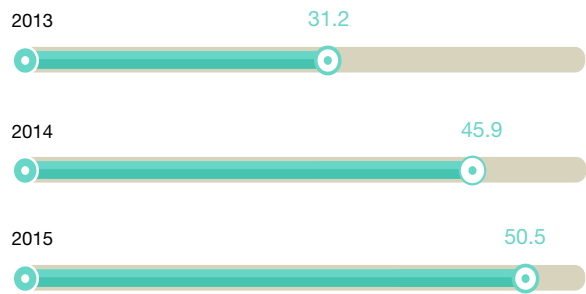
CAGR 17.4%



KD50.5 mn

Gross Profit

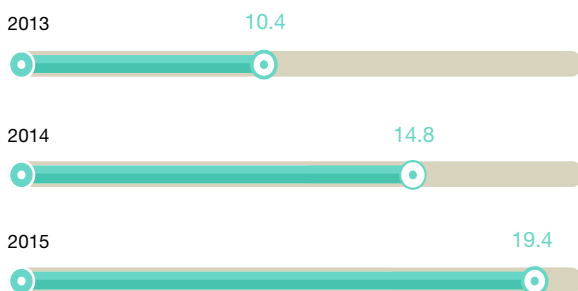
CAGR 27.3%



KD19.4 mn

Net Profit

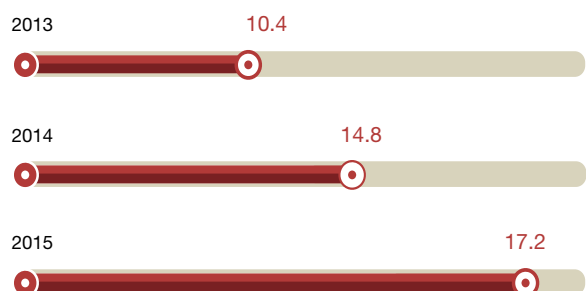
CAGR 36.5%



KD17.2 mn

Underlying Net Profit

CAGR 28.6%



\* Underlying Net Profit: Net Profit attributable to equity shareholders of parent company of KD 19.4 m, less the impact of KLOC settlement income of KD 2.2 m.



# CHAIRMAN'S MESSAGE

Dear Shareholders,

On behalf of Mezzan Holding's Board of Directors and the Executive Management, I am pleased to present you with the 15th annual report for 2015, showcasing the company's achievements for the year and includes the auditors' reports and the consolidated financial statements for the year ended December 31, 2015.

The company has continued to expand its presence in the markets it operates in and is growing in line with the targets set by the Executive Management, focusing on its areas of growth while investing according to plans and recruiting the experienced calibers needed to achieve stronger long-term results.

## About Mezzan Holding

Mezzan Holding was established as a closed shareholding company and reincorporated as a holding company in Kuwait on August 3, 1999. On June 11, 2015, the company was listed on the Kuwait Stock Exchange (KSE) with a strong appetite from investors and shareholders.

## Mezzan Holding's main operations

- a. Holding shares of Kuwaiti or foreign stock companies as well as holding shares or portions in limited liability companies whether Kuwaiti or foreign, or participating in establishing these companies with their types and managing them and sponsoring them at others.
- b. Giving loans to companies in which it holds shares and sponsoring them. In this case it is necessary that the participation ratio of the Parent company in the capital of the borrowing company should not be less than 20%.
- c. Owning the intellectual property including patents, trademarks, industrial fees or any other rights related to them and leasing them to other companies to make use of them inside and outside Kuwait.
- d. Holding movable or real estate necessary to carry out its activities within the limits allowed by law.
- e. The Parent Company may have an interest or participate in any manner with bodies performing activities similar to its own or which may assist it achieve

its purpose inside or outside Kuwait and it may establish or participate or buy such corporations or attach them to itself.

## Corporate Overview

Mezzan Holding's Board of Directors consists of five members, including two independent directors, all of whom have extensive professional and practical experience which ensures the company's pursuit of its strategic goals and monitors and evaluate the company's financial, operational, and safety performance.

Sound corporate governance starts with the Board of Directors which is responsible for increasing the company's success in the long term and ensuring sustainable competitiveness and ensure consistency of the business, protection of the shareholders, promoting transparency and credibility and the ability to tackle and address issues and to promote and enhance management efficiency, secure lower cost operation and financing, promote and reinforce control and audit procedures, promote corporate responsibility, promote fairness and transparency, and eliminate conflict of interest.

- Ensuring the selection of the best calibers by setting standards for selection of board members and executive management.
- Defining corporate goals, vision, mission and strategy.
- Promote and reinforce control and audit procedures.
- Defining sources of risk and and main performance indicators.
- Promote corporate responsibility, fairness and transparency.

To ensure best results, the Board of Directors has established four committees:

- Corporate Governance Committee
- Risk Management Committee
- Internal Audit Committee
- Nomination and Remuneration Committee

## Board of Directors Recommendation

1. Distribution of KD125,000 bonus to the board members for the year ended December 31, 2015.

2. Cash distribution of 27.5 fils per share for a total KD8,153,750 at 27.5% of capital for the year ended December 31, 2015.
3. Distribution of 14,825,000 bonus shares (5%) for the year ended December 31, 2015.

## Future projects

The board of directors is currently considering new expansionary projects for the company's core activities and the activities of its subsidiaries that will achieve the company's goals and generate strong revenues.

In the end, I would like to thank the management and staff for their effort and for the shareholders for their trust in the board of directors. We continue to seek new opportunities that will prove beneficial in the medium and long term for all stakeholders.

We hope that the 2015 results are in line with our shareholders' goals and board will continue to develop the company to expand its operations and achieve better results. Our plan going forwards is to maintain our customers' and partners' trust in us and to invest in good opportunities.

Vice Chairman  
Board of Directors

**Mohammad Jassim Mohammad  
Al Wazzan**



# OUR PRINCIPLES AND VALUES

Our core values reflect how our businesses behave – how we make decisions – regardless of our size and industries. Our aim is to keep Mezzan Holding a leading supplier and producer of products and keeping trademarks and high-quality services which ultimately benefit our clients. We depend on our principles and values to gain our clients' trust in the Kuwait and regional market.

## Integrity

We uphold honest business practices, earning the trust of our employees, partners and customers.

## Quality

We do our best to provide the highest level of excellence in our products and services and with our people, partners and stakeholders.

## Efficiency

Effectiveness in our approach to give best solutions and value for money.

## Collaboration

We leverage our collective intellectual talent and share best practices within and outside the business to provide the best.

## Innovation

We do our best to encourage creativity within the community, and to inspire the creation of new products and services within the business.

## Agility

We embrace change, move quickly and seize new opportunities.

## Community & Culture

We have a responsibility to the communities where we do business to be the best we can be and to do no harm.

## Partnership

We nurture mutually respectful and valuable relationships with our customers and clients.

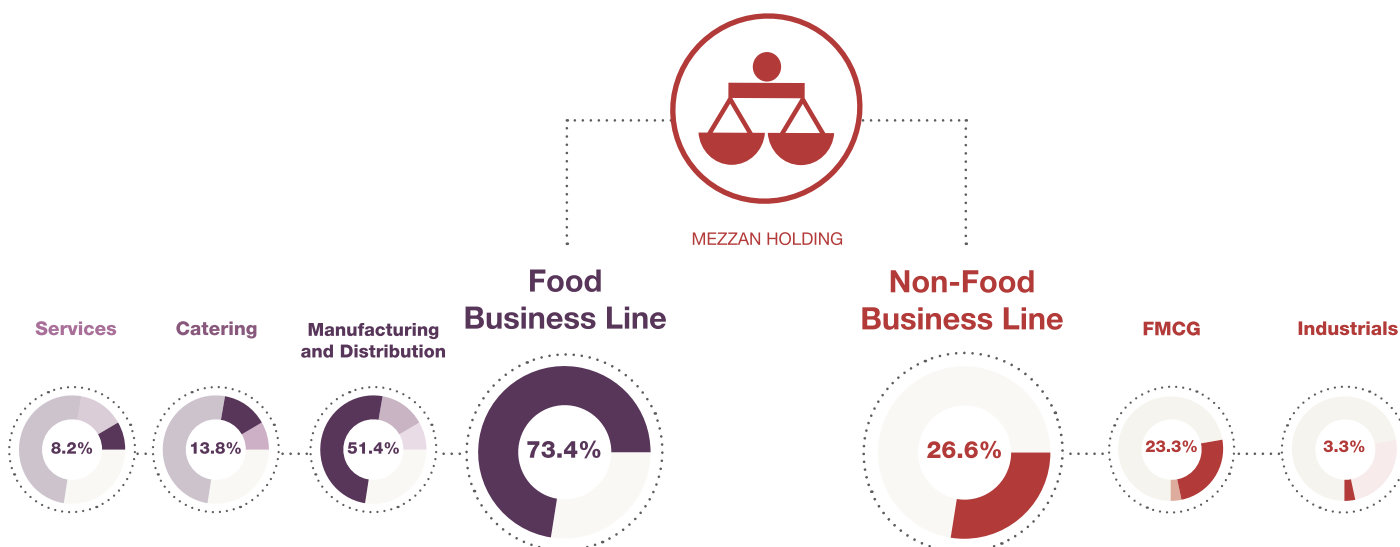
## Commitment

We are passionate about being "best in class".

# BUSINESS COMPOSITION

Mezzan Holding has recorded growth in the food and non-food business and continued to invest in the trademarks it owns and distribution by investing in marketing and launching the first Al Wazzan marketing campaign in Kuwait and the Khazzan and Kettle Chips trademarks in the UAE. Distribution performance was in-line with expectations with a 63% increase in 2015 profit margins as Mezzan Holding continues to manage a large portfolio of international products.

Our 2015 performance reflects Mezzan's strength, the diversity of its operations and the resilience of the sectors we operate in to economic cycles. Going forward, the company will continue to focus on developing its distribution channels, investing in its current brand portfolio and expanding the portfolio as well; investing in its infrastructure and cost management as it increases production capacities; ensure quality products for consumers and increasing shareholder equity.



## Food Business Line:

### +8%

Growth in revenue to KD143.84 million.

#### Manufacturing and Distribution

### 9%

Increase in revenue with broad based growth across our key operating units. This was largely driven by our company owned brands, rather than our partner brands.

#### Catering

### -1.8%

Decrease in revenue due to the completion of long term contracts in Kuwait, which were highlighted in our Q3 Earnings release, and which had a negative impact on performance in the second half of the year. Our catering business in Qatar and UAE performed well and we expect them to make continued progress.

#### Services

### 21.2%

Increase in revenue as growth in our tender business in Jordan and Iraq compensated for declines in Afghanistan, which was driven by widely publicized troop withdrawals in Afghanistan. As indicated in previous communications, the nature of the tender business in Jordan and Iraq will result in quarterly fluctuations.

## Non-Food Business Line:

### +6.1%

Growth in revenue to KD52.2 million.

#### FMCG and Pharmaceuticals

### 6.9%

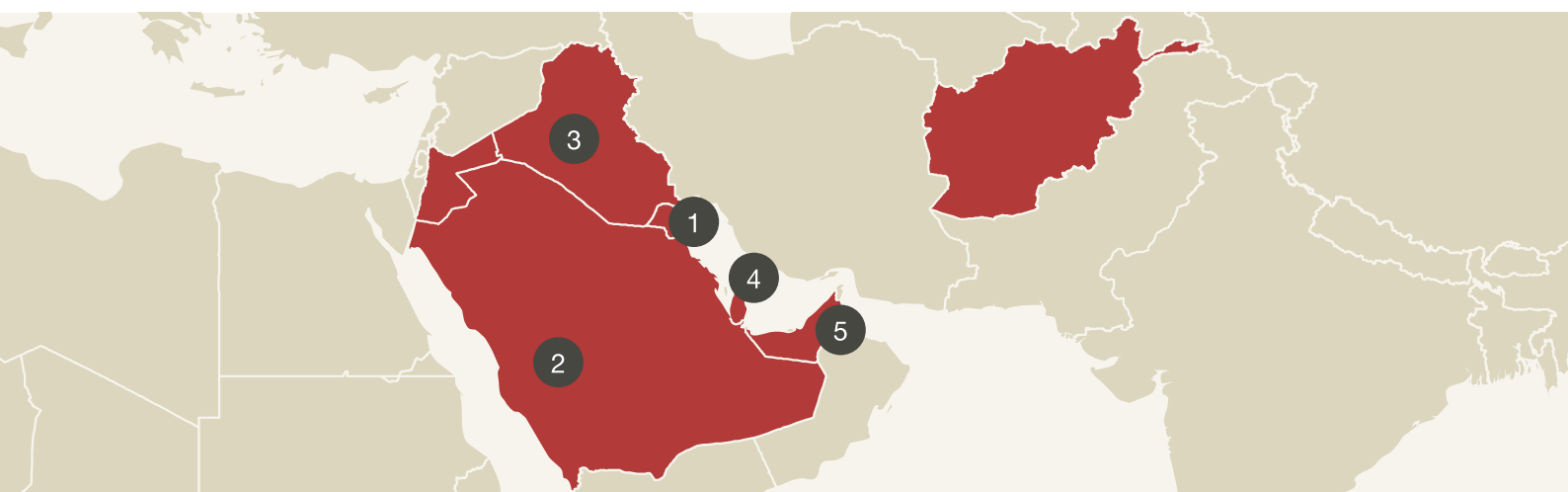
Increase in revenue as our key agencies performed well, and despite the loss of one of our pharmaceutical agencies and the harmonization of medicine prices across the GCC, which acted as a drag on Revenue in the second half of the year.

#### Industrials

### 0.8%

Increase in revenue with our Plastics business offsetting oil price-driven declines in KLOC, our oil refining business.

# REGIONAL BUSINESS HIGHLIGHTS



## 1 KUWAIT

Al Wazzan food products were successfully rebranded throughout 2015 with updated packaging, improved positioning and a more consistent look across all categories.

At the end of Q3, the company started to exclusively distribute Fiji, a natural artesian water, with strong consumer acceptance in the restaurant channel. The company started to distribute Starbucks Coffee chilled products to cooperative and private supermarkets as part of a distribution agreement with Arla Foods.

Also in 2015, Mezzan completed a new contract-catering facility lifting the company's catering capacity from 10,000 meals a day to 20,000 meals a day. In addition, the company has broken ground on a new consolidated food warehouse at the end of 2015.

Kuwait Lube Oil Company (KLOC), a fully-owned by (92.24%) subsidiary, inaugurated a new refinery but continues to operate in a challenging environment given the volatility in oil prices.

## 2 KSA

In Saudi Arabia, where Mezzan has commercial operations, a new warehouse was constructed to support its operations in the Saudi market.

## 3 IRAQ

New retail stores launched under the auspices of the United Nations World Food Program in Erbil and Dohuk.

## 4 QATAR

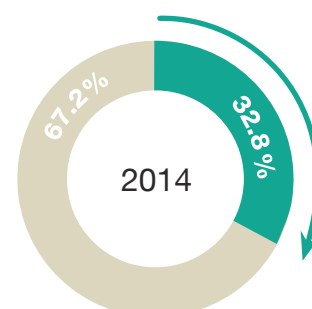
Full year revenue grew by 4.5% with both the water and catering businesses performing in line with expectations. Mezzan continues to increase utilization of the new water line and combined, Mezzan's bottled water brands, Dana and Aqua Gulf, have market leadership in the bottled water category in Qatar.

## 5 UAE

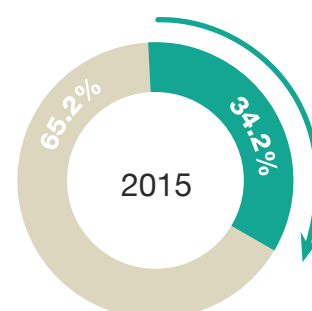
2015 was a very successful year for Mezzan's business in the UAE, with full year revenue growth of 10.9%. The company launched and expanded distribution of Kettle Cooked Chips brand, grew distribution on Khazan meat brand to take market leadership in the chilled meat category.

## GROWING REGIONALLY

Increase in Mezzan's Revenues:



■ Kuwait ■ Non-Kuwait

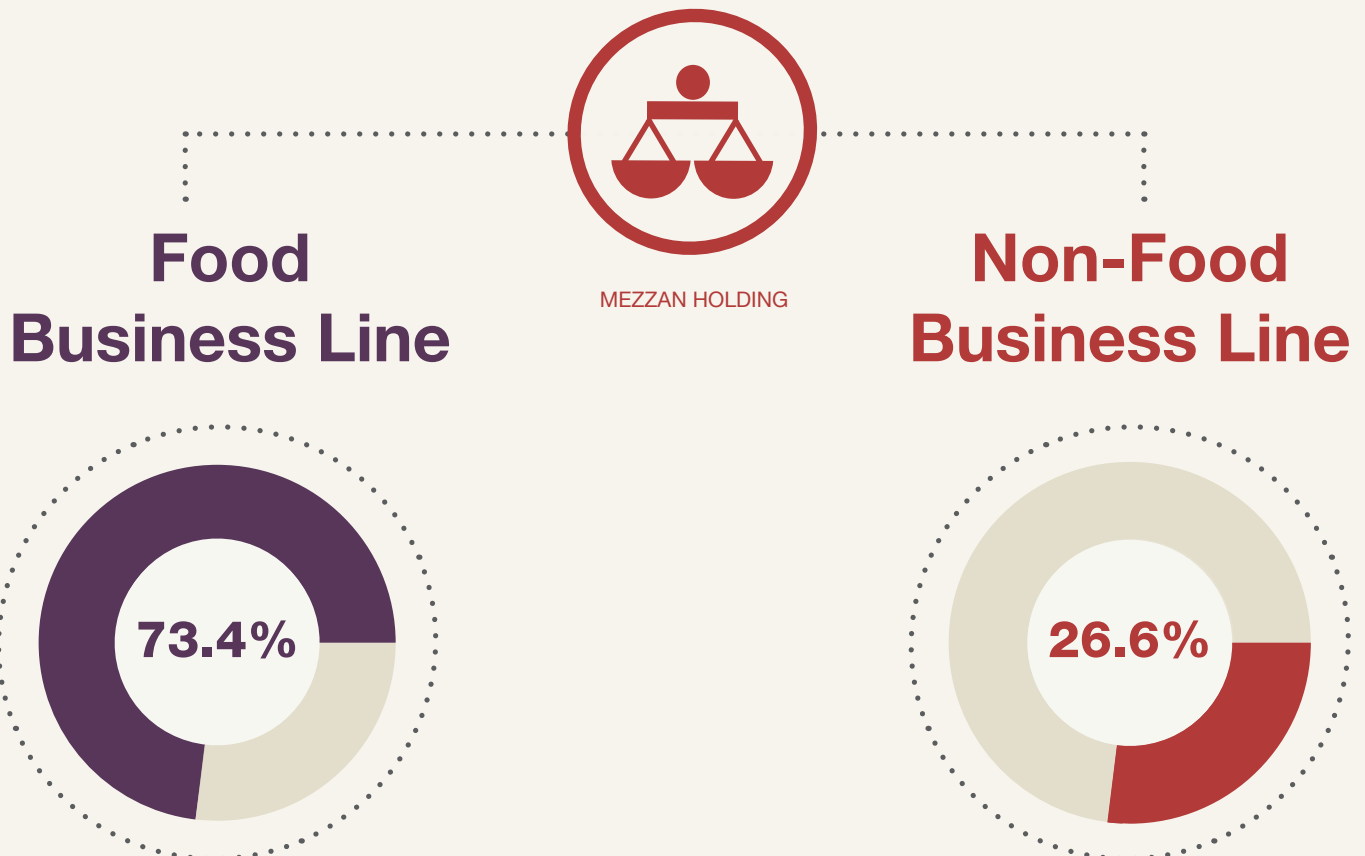


■ Kuwait ■ Non-Kuwait



# MEZZAN IN A NUTSHELL

Established in the early 1940s, Mezzan Group is a unique business with market-dominating products across various consumer-driven sectors.



*73.4% of 2015 revenue*

Mezzan's Food Business Line operates through three primary divisions: Food and Beverage Manufacturing and Distribution, Catering and Services.

*26.6% of 2015 revenue*

Mezzan's Non-Food Business Line comprises two divisions: FMCG and Industrials.

## PORTFOLIO OF OVER 358 LEADING CONSUMER BRANDS

Mezzan Holding's two Business Lines manufacture and distribute over 358 leading brands including Al Wazzan canned tuna, Dana and Aqua Gulf bottled water, Lurpak butter, Al Wazzan rice, KITCO chips and snacks, Khazan meat products, Starbucks retail products, Pillsbury, Green Giant, Sara Lee, Betty Crocker, Tabasco, Dettol cleaning products, Kleenex, Listerine, Pif Paf, Huggies, Clearasil, Neutrogena, Zyrtec, Tylenol, Olfen, Mispurin, and Gaviscon among other.

#1



Bottled water supplier

### Qatar

#1



Energy drink

### UAE

#1



In turkey products, ranks among top 3 in other meats categories

### Kuwait

#1



Canned tuna in

### Kuwait

#1



Rice supplier and a leader in essential food items

### Kuwait

#1



Chips brand

### Kuwait

#1



Cleaning product supplier

### Kuwait

#1



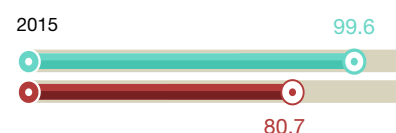
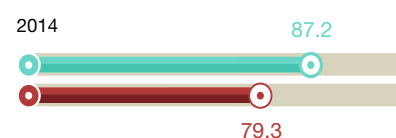
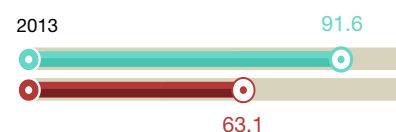
In white cheese category, and ranks among top 3 in other dairy and cheese categories

### Kuwait

## FINANCIAL HIGHLIGHTS

### Total Assets (KD mn)

■ Non-Current Assets  
■ Current Assets



### Total Liabilities (KD mn)



### Shareholders Equity (KD mn)



# BOARD OF DIRECTORS

## MOTASEM JASSIM MOHAMMAD AL WAZZAN

*Board Member (Interim Chairman)*

Mr. Motasem Jassim Mohammad Al Wazzan has been responsible for Mezzan Holding's FMCG Division encompassing many of Mezzan's larger agencies, such as J&J and RBK, medical business and the pharmacies. These divisions have shown exceptional growth through the years under his leadership and though he no longer manages these divisions, he continues to grown these key relationships personally. He was also the creator of Mezzan's Softy brand and has a close affinity with the brand. Constantly seeking new challenges, he pioneered the Group's entry into Jordan by building the Softy facility in Mafrek, Jordan which is a state-of-the-art-facility. Prior to joining Mezzan, Mr. Al Wazzan worked in Commercial Bank of Kuwait for almost five years. During his college years, Mr. Al Wazzan ran the Company's then subsidiary specializing in the air-conditioning and fire-fighting equipment business. Mr. Al Wazzan holds a Bachelor of Arts in English Literature and has served on the Boards of Awal Gulf Manufacturing (Bahrain) from 2003 to 2008, National Textiles in 2008, and was also the Vice Chairman of AlMutaja Real Estate Company from 2007 to 2013.

## MOHAMMAD JASSIM MOHAMMAD AL WAZZAN

*Vice Chairman*

Mr. Mohammad Jassim Mohammad Al Wazzan started his career with Gulf Bank in 1981 before joining Mezzan in 1985. During his time with Mezzan Holding, Mr. Al Wazzan has been responsible for our strategic entry into many areas as well as managing our finance and IT departments. Over the last five years, Mr. Al Wazzan has been mandated by the Board to drive the strategic changes in the group pursuant to the offering and eventual listing of Mezzan. Mr. Al Wazzan now serves as Vice Chairman of the Board and an Executive commitioned by the Board to monitor the executive management with regards to the main course of business. A graduate of the University of Miami, USA, with a Bachelor of Science in Engineering, Mr. Al Wazzan has previously served on the Boards of the Commercial Bank of Kuwait from 2000 to 2003 and Commercial Real Estate Company from 2004 to 2009.

## ABDULWAHAB AHMED AL MARZOUQ

*Director (Having the qualification of independent directors)*

Mr. Abdulwahab Ahmed Al Marzouq brings to Mezzan a rich board-level experience in manufacturing, construction, retail, real estate, advertising and financial services. Mr. Al Marzouq also built a track-record of working in multi-million dinar businesses throughout his 26-year career and continues to serve on several boards of companies including K4 General Trading & Contracting, since 1989, British Industries, since 1993, and Universe Investments, since 2008. Mr. Al Marzouq also served on the board of Kuwait's Commercial Bank from 1997 to 2000. He holds a Bachelor of Science in Public Administration from Point Park University, Indiana - USA. Mr. Al Marzouq has the qualification of independent directors pursuant to the requirement of Corporate Governance Rules issued by the Board of Commissioners of the CMA under Decree number 25 of 2013 with respect to the corporate governance rules for companies subject to the supervision of the CMA. He has not been registered at the MOCI's records as independent directors due to the impossibility of such registration prior to the official listing on the KSE. Accordingly, he acquired three shares in the Company to comply with board membership requirement pursuant to the Companies Law No. 25 of 2012 and its amendments. Nevertheless, the Board of Directors has approved for Mr. Al Marzouq to have the full authorities of an independent director with regard to his tasks, authorities and the formation of the internal committees in accordance with the aforementioned Corporate Governance Rules.

## JAMAL ABDULHAMEED AL MUTAWA

*Director (Having the qualification of independent directors)*

Mr. Jamal Abdulhameed Al Mutawa has 34 years' experience in financial services and banking, of which 16 years were served in executive and leadership positions. Mr. Al Mutawa's executive and leadership roles at the Commercial Bank of Kuwait were General Manager and Acting Chief Executive Officer between 1999 and 2003 and Chief Executive Officer until the end of his tenure in 2010. Mr. Al Mutawa served as Chairman of Kuwait Credit Bureau (CI-NET), as well as National Ranges Company (Mayadeen) from 2009 to 2012, and Cham Bank from 2010 to 2011. He also served on the Boards of VISA International CEMEA Region in 1995 and 1996 and Al Ahlia Investments from 1997 to 1999. Mr. Al Mutawa brings to Mezzan a long-standing experience in the financial sector. Mr. Al Mutawa holds a Bachelor of Industrial & System Engineering from University of Southern California - USA. Mr. Al Mutawaa has the qualification of independent directors pursuant to the requirement of Corporate Governance Rules issued by the Board of Commissioners of the CMA under Decree number 25 of 2013 with respect to the corporate governance rules for companies subject to the supervision of the CMA. He has not been registered at the MOCI's records as independent directors due to the impossibility of such registration prior to the official listing on the KSE. Accordingly, he has acquired three shares in the Company to comply with board membership requirement pursuant to the Companies Law No. 25 of 2012 and its amendments. Nevertheless, the Board of Directors has approved for Mr. Al Mutawaa to have the full authorities of an independent director with regard to his tasks, authorities and the formation of the internal committees in accordance with the aforementioned Corporate Governance Rules.







# **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**







**Building a better  
working world**

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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MEZZAN HOLDING COMPANY K.S.C.**

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Mezzan Holding Company K.S.C.P. (the "Parent Company") and subsidiaries (collectively the "Group") which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the consolidated financial statements*

The Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



**INDEPENDENT AUDITORS' REPORT THE SHAREHOLDERS OF MEZZAN HOLDING COMPANY K.S.C.  
(continued)**

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, the executive regulation of Law No. 25 of 2012 and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, and the executive regulation of Law No. 25 of 2012 or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2015, that might have had a material effect on the business of the Company or on its financial position.

Waleed A. Al Osaimi  
License No. 68 A  
EY  
(Al Aiban Al Osaimil & Partners)

Dr. Saud Hamad Al-Humaidi  
License No. 51 A  
of Dr. Saud Hamad Al-Humaidi & Partners  
Member of BAKER TILLY INTERNATIONAL

15 February 2016  
Kuwait

# Mezzan Holding Company K.S.C. and Subsidiaries

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2015

	Notes	2015 KD	2014 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	61,329,304	65,348,325
Intangible assets	4	12,480,142	11,879,790
Investment in associates	5	1,027,576	983,559
Investment properties	6	4,382,964	-
Biological assets		725,606	325,924
Financial assets available for sale		763,423	763,423
		<u>80,709,015</u>	<u>79,301,021</u>
<b>Current assets</b>			
Trade and other receivables	7	55,065,152	49,048,732
Inventories	8	36,826,736	32,949,078
Due from related parties	9	49,318	54,913
Bank balances and cash	10	7,680,938	5,168,163
		<u>99,622,144</u>	<u>87,220,886</u>
<b>TOTAL ASSETS</b>		<u>180,331,159</u>	<u>166,521,907</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Employees' end of service benefits		3,797,413	3,987,982
Loans and borrowings	11	4,607,561	6,362,178
Due to related parties	9	200,000	600,000
		<u>8,604,974</u>	<u>10,950,160</u>
<b>Current liabilities</b>			
Loans and borrowings	11	21,034,200	24,587,610
Trade and other payables	12	35,436,470	36,408,875
Due to related parties	9	1,724,281	1,423,859
Bank overdrafts	10	13,499,806	4,492,424
		<u>71,694,757</u>	<u>66,912,768</u>
<b>TOTAL LIABILITIES</b>		<u>80,299,731</u>	<u>77,862,928</u>
<b>NET ASSETS</b>		<u>100,031,428</u>	<u>88,658,979</u>
<b>EQUITY</b>			
Share capital	13	29,650,000	29,650,000
Statutory reserve	13	13,427,355	11,406,071
Voluntary reserve	13	13,427,355	11,406,071
Retained earnings		40,874,750	34,179,265
Foreign currency translation reserve		50,865	(161,559)
Fair value reserve		46,403	38,568
Equity attributable to equity holders of the Parent Company		<u>97,476,728</u>	<u>86,518,416</u>
Non-controlling interests		2,554,700	2,140,563
<b>TOTAL EQUITY</b>		<u>100,031,428</u>	<u>88,658,979</u>

Mohammed Jassim Al Wazzan  
(Vice Chairman)

Garrett Walsh  
(Chief Executive Officer)

The attached notes 1 to 25 form part of these consolidated financial statements.

# Mezzan Holding Company K.S.C. and Subsidiaries

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Notes	2015 KD	2014 KD
Revenue		196,129,282	182,503,747
Cost of revenue		(145,588,387)	(136,617,348)
<b>GROSS PROFIT</b>		<b>50,540,895</b>	<b>45,886,399</b>
<b>Operating expenses</b>			
General and administrative expenses		(14,246,822)	(12,335,033)
Selling and distribution expenses		(19,376,454)	(17,592,945)
Other income	14	5,651,536	2,224,075
<b>Operating profit</b>		<b>22,569,155</b>	<b>18,182,496</b>
Share of results of associates	5	36,182	54,892
Finance costs		(976,164)	(1,058,866)
Impairment of property, plant and equipment	3	(925,100)	(806,254)
<b>PROFIT BEFORE STATUTORY CONTRIBUTIONS AND BOARD OF DIRECTORS' REMUNERATION</b>		<b>20,704,073</b>	<b>16,372,268</b>
Kuwait Foundation for the Advancement of Science		(181,916)	(135,546)
National Labour Support Tax		(273,065)	-
Zakat		(195,853)	(147,377)
Board of Directors' remuneration	9	(125,000)	(25,000)
<b>PROFIT FOR THE YEAR</b>	<b>15</b>	<b>19,928,239</b>	<b>16,064,345</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company		19,437,007	14,752,784
Non-controlling interests		491,232	1,311,561
		<b>19,928,239</b>	<b>16,064,345</b>
Basic and diluted earnings per share attributable to the equity holders of the Parent Company	16	65.55 Fils	49.76 Fils

The attached notes 1 to 25 form part of these consolidated financial statements.



## Mezzan Holding Company K.S.C. and Subsidiaries

### CONSOLIDATED STATEMENT OF OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015 KD	2014 KD
<b>Profit for the year</b>	19,928,239	16,064,345
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified/transferred to consolidated statement of income in subsequent periods</i>		
Share of associate's fair value reserve	7,835	38,568
Foreign currency translation adjustment	200,665	13,515
Net other comprehensive income to be reclassified/transferred to consolidated statement of income in subsequent periods	208,500	52,083
Total comprehensive income for the year	20,136,739	16,116,428
<b>Attributable to:</b>		
Equity holders of the Parent Company	19,657,266	14,809,582
Non-controlling interests	479,473	1,306,846
	20,136,739	16,116,428

The attached notes 1 to 25 form part of these consolidated financial statements.

# Mezzan Holding Company K.S.C. and Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 KD	2014 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year		19,928,239	16,064,345
Adjustments for			
Depreciation	3 & 6	4,416,553	4,318,825
Amortisation of intangible assets	4	239,328	177,736
Receipt of Insurance claim	14	(3,300,000)	-
Provision for employees' end of service benefits		1,020,453	932,135
Write back of obsolete and slow moving inventories	15	(253,083)	(179,525)
Allowance for bad and doubtful debts	7	467,472	384,571
Share of results of associates	5	(36,182)	(54,892)
Impairment of property, plant and equipment	3	925,100	806,254
Impairment of intangible assets	4	-	78,865
Gain on disposal of property, plant and equipment	14	(127,362)	(309,719)
Gain on disposal of an investment property	9	-	(952,964)
Gain on revaluation of biological assets		(163,470)	(6,240)
Loss on disposal of biological assets		4,569	-
Write-off of biological assets		44,044	2,924
Finance costs		976,164	1,058,866
Foreign exchange gain	14	(765,701)	(602,707)
		23,376,124	21,718,474
Working capital changes			
Trade and other receivables		(6,506,433)	(2,293,512)
Inventories		(3,619,363)	(278,611)
Net movement in amount due from / to related parties		(93,983)	(759,229)
Trade and other payables		(206,704)	10,049,907
Cash from operations		12,949,641	28,437,029
Employees' end of service benefits paid		(1,211,022)	(643,057)
Net cash from operating activities		11,738,619	27,793,972
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	3	(4,764,860)	(10,984,716)
Proceeds from disposal of property, plant and equipment		146,282	474,641
Receipt of insurance claim	14	3,300,000	-
Purchase of investment properties	6	(23,701)	-
Proceeds from disposal of an investment property	6	-	2,500,000
Proceeds from disposal of intangible assets	4	12,309	-
Purchase of intangible assets	4	(487,627)	(474,952)
Payment for acquisition of additional shares in a subsidiary		(2,102)	-
Purchase of biological assets		(299,162)	(322,608)
Proceeds from disposal of biological assets		14,337	-
Decrease in restricted balances with banks		-	10,479,875
Net cash outflow on acquisition of subsidiaries	17	-	(9,845,372)
Net cash outflow on acquisition of shares in subsidiaries	18	-	(648,329)
Dividend income received from associates		-	54,765
Net cash used in investing activities		(2,104,524)	(8,766,696)
<b>FINANCING ACTIVITIES</b>			
Net movement in loans and borrowings		(5,308,027)	(3,859,240)
Dividends paid to equity holders of Parent Company		(8,700,000)	(5,770,000)
Dividends paid to non-controlling interests		(62,188)	(2,340,684)
Finance costs paid		(976,164)	(1,058,866)
Net cash used in financing activities		(15,046,379)	(13,028,790)
Effect of foreign currency translation		(1,082,323)	(975,621)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		(6,494,607)	5,022,865
Cash and cash equivalents at 1 January		675,739	(4,347,126)
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>10</b>	<b>(5,818,868)</b>	<b>675,739</b>

The attached notes 1 to 25 form part of these consolidated financial statements.

## For the year ended 31 December 2015

The attached notes 1 to 25 form part of these consolidated financial statements.

# Mezzan Holding Company K.S.C. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

### 1 CORPORATE INFORMATION

The consolidated financial statements of Mezzan Holding Company K.S.C.P. (the "Parent Company") and Subsidiaries (collectively the "Group") for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 15 February 2016 and are issued subject to the approval of the Annual General Assembly of the shareholders of the Parent Company. The Annual General Assembly of the shareholders has the power to amend the consolidated financial statements after issuance.

The Parent Company was a closed shareholding company registered and incorporated as a holding company in Kuwait on 3 August 1999. The registered office of the Parent Company is Building number 287, Block 1, Aradiya, Kuwait. The Group operates in manufacturing, sale and distribution of food and non-food products

On 22 September 2014, the Parent Company filed an application with the Capital Market Authority (CMA) in Kuwait for listing of its shares on the Kuwait Stock Exchange (KSE). The CMA gave the approval on 25 May 2015 and, the shares of the Parent Company were listed on KSE from 11 June 2015.

The principal activities of the Parent Company as per the Articles of Association are as follows:

- a) Holding shares of Kuwaiti or foreign stock companies as well as holding shares or portions in limited liability companies whether Kuwaiti or foreign, or participating in establishing these companies with their types and managing them and sponsoring them at others.
- b) Giving loans to companies in which this company holds shares and sponsoring them. In this case it is necessary that the participation ratio of the Parent company in the capital of the borrowing company should not be less than 20%.
- c) Owning the intellectual property including patents, trademarks, industrial fees or any other rights related to them and leasing them to other companies to make use of them inside and outside Kuwait.
- d) Holding movable or real estate necessary to carry out its activities within the limits allowed by law.
- e) The Parent Company may have an interest or participate in any manner with bodies performing activities similar to its own or which may assist it achieve its purpose inside or outside Kuwait and it may establish or participate or buy such corporations or attach them to itself.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 which cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 November 2012, the executive regulation of Law No. 25 of 2012 will continue until a new set of executive regulation is issued.

### 2.1 BASIS OF PREPARATION

#### Statement of compliance

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

#### Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis modified to include the measurement at fair value of financial assets available for sale and derivative financial instruments.

#### Functional and presentation currency

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is also functional currency of the Parent Company.

### 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the previous year except for the adoption of the following new and amended IFRS during the year:

#### *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.



## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

##### Annual Improvements 2010-2012 Cycle

The improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

##### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

##### *IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 20 in this year's consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

##### *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Group during the current period.

##### *IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

##### Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

##### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

##### *IFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

##### *IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2015 did not have relevance nor any material impact on the accounting policies, financial position or performance of the Group.

#### 2.3 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. 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 but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

##### *(a) Classification and measurement*

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

##### *(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 expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

##### *(c) Hedge accounting*

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

##### *(a) Sale of goods*

Contracts with customers in which equipment sale is the only performance obligation are not expected to have any impact on the Group. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.3 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

In applying IFRS 15, the Group considered the following:

*(i) Variable consideration*

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration and related constraint. The Group expects that application of the constraint may result in more revenue being deferred than is under current IFRS.

*(b) Rendering of services*

The Group operates in manufacturing, sale and distribution of food and non-food products. The Group has preliminarily assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, the Group does not expect any significant impact to arise from these service contracts.

*Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

*Amendments to IAS 27: Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

*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. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

*Annual Improvements 2012-2014 Cycle*

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

*IFRS 7 Financial Instruments: Disclosures*

*(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.3 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

*(ii) Applicability of the amendments to IFRS 7 to consolidated financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to consolidated financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

*IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

*Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights



## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The consolidated financial statement includes the financial statements of the Parent Company and its subsidiaries. The subsidiaries of the Group are as follows:

Name of company	Country of incorporation	Legal ownership interest at 31 December		Principal activity
		2015	2014	
Conserved Foodstuff Distribution Company W.L.L. <sup>1</sup>	Kuwait	99.99%	99.99%	Manufacturing and whole sale distribution of meat products and general trading in food stuff
Al Sabriya International General Trading Company W.L.L. <sup>1</sup>	Kuwait	99.88%	99.88%	General trading and contracting activities
Al Muntaser Pharmaceutical Company W.L.L. <sup>1</sup>	Kuwait	99.99%	99.99%	Whole sale and retail trade of cosmetics, medicines and other consumer items
Jassim Al Wazzan Sons General Trading Company W.L.L. <sup>1</sup>	Kuwait	99.99%	99.99%	Whole sale and retail trade of food stuff
Al Hoda Kuwaiti Foodstuff Company W.L.L. <sup>1</sup>	Kuwait	99.98%	99.98%	Exporting ,importing and trading of all kind of food stuff
Al Mansouria Consumer Trading Company W.L.L. <sup>1</sup>	Kuwait	99.94%	99.94%	Trading of household goods and cleaning materials
Al Wazzan Trading and Catering Services Company W.L.L. <sup>1</sup>	Kuwait	99.99%	99.99%	Providing catering services and general trading
National Canned Food Production and Trading Company W.L.L. <sup>1</sup>	Kuwait	99.99%	99.99%	Manufacturing and trading of all kinds of food stuffs
Oriental for Catering Services Company W.L.L. <sup>1</sup>	Kuwait	99.98%	99.98%	Exporting, mporting and trading of all kind of food stuff
Mezzan Industries Company W.L.L. <sup>1</sup>	Kuwait	99.98%	99.98%	Manufacturing of Paper and nylon products

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Basis of consolidation (continued)

Name of company	Country of incorporation	Legal ownership interest at 31 December		Principal activity
		2015	2014	
Arla Food Kuwait W.L.L.	Kuwait	51%	51%	Importing and trading of all kind of dairy products
Plastic Industries Company K.S.C. (Closed)	Kuwait	55.58%	55.58%	Manufacturing and trading of household goods
Kuwait Biscuit and Food Products Manufacturing Company W.L.L. ("KBC") <sup>1</sup>	Kuwait	99.99%	99.99%	Manufacturing and trading of biscuits and related products
Gulf Pastries Manufacturing Company W.L.L. ("GPM") <sup>1</sup>	Kuwait	99.98%	99.98%	Manufacturing and sale of pastries and cakes
Kuwait Indo Trading Company W.L.L. ("KITCO") <sup>1</sup>	Kuwait	99.99%	99.99%	Manufacturing and sale of food stuff
Mezzan Logistics for Transport and Storage Company K.S.C. (Closed) <sup>2</sup>	Kuwait	96%	96%	Logistics services and storage facilities
Emirates Star Services L.L.C. <sup>1</sup>	U.A.E	99%	99%	Providing catering services and running restaurants
Qatar Star Services L.L.C. <sup>3</sup>	Qatar	50%	50%	Providing catering and cleaning services
Mezzan Saudi Trading Company L.L.C. <sup>3</sup>	Saudi Arabia	100%	100%	Manufacturing and whole sale distribution of meat products and general trading in food stuff
Mezzan Jordan Industries L.L.C.	Jordan	100%	100%	Manufacturing, whole sale and retail trade of cosmetics and other consumer items
Afia Trading Services FZE	U.A.E	100%	100%	Trading in food services and providing related services
Al Wazzan Foodstuffs Factory L.L.C. <sup>1</sup>	U.A.E	99%	99%	Manufacturing and trading of food stuffs
Tazweed Commercial Solutions Company P.S.C. <sup>4</sup>	Jordan	50%	50%	Providing catering and retail services
UNITRA International L.L.C. (Note 17) <sup>2</sup>	U.A.E	99.67%	99.67%	Trading of food and beverages
Middle East Trading Store L.L.C. (Note 17) <sup>2</sup>	U.A.E	99.67%	99.67%	Trading of food and beverages

The Parent Company also has branches in Qatar (Conserved Foodstuffs Distributing Company W.L.L. – Qatar branch) and Kingdom of Saudi Arabia (Conserved Foodstuff Distribution Factory Company – KSA branch). In addition, the Group owns a sole proprietorship concern (Khazan Meat Factory) in United Arab Emirates.

1 During 2014, the Parent Company has acquired additional equity interest from related parties [Note 9 and Note 18 (i) and (ii)]. The remaining shares are held by a subsidiary included within the Group and therefore the effective holding of the Group in these subsidiaries is 100%.

2 The remaining shares are held by subsidiaries included within the Group and therefore the effective holding of the Group in these subsidiaries is 100%.

3 The remaining shares in these subsidiaries are held by the other partner on behalf of the Parent Company. Therefore, the effective holding of the Group in these subsidiaries is 100%.

4 As per the terms of the incorporation, the Parent Company is entitled to receive 75% of share of profit or loss.

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Hedge Accounting

The Group makes use of financial instruments including borrowings to manage its foreign currency risks arising from net investments in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. A hedge is regarded as highly effective if the changes in the value of hedged item are offset by the changes in the value of hedging instruments between 80% and 125%.

##### *Hedges of net investments in foreign operations*

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of income.

During 2014, the Group designated certain loans as hedging instruments for its exposure to foreign exchange risk on its net investments in foreign subsidiaries.

##### Forward exchange contracts

The Group makes use of forward foreign exchange contracts to manage exposures to foreign currency relating to loan settlement and purchases of inventory from overseas suppliers. In order to manage particular risks, the Group applies forward foreign exchange contracts for transactions which meet specified criteria.

At the inception, forward foreign exchange contracts instruments ("the instruments") are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of these instruments includes unrealised gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other receivables and the instruments with negative market values (unrealised losses) are included in other payables in the consolidated statement of financial position.

The resultant gains and losses from forward foreign exchange contracts are taken directly to the consolidated statement of income.

##### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Business combinations and goodwill (continued)

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

##### Property, plant and equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold and leasehold land and capital work-in-progress are not depreciated.

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

Buildings	5 to 30 years
Plant and machinery	3 to 15 years
Tools and spare parts	2 to 5 years
Motor vehicles	5 to 7 years
Furniture, fixtures, office and computer equipment	3 to 8 years

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for the intended use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

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

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

##### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Intangible assets (continued)**

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

##### *Goodwill*

Accounting policy relating to goodwill is documented in the accounting policy "Business combinations and goodwill".

##### *Key money*

Key money represents amounts paid in securing operating leases for the Group's branches. Key money is amortised over the term of lease contract or treated as an indefinite life asset (depending on the nature of the key money).

##### *License fee*

The license is assumed to have an indefinite useful life and is subject to impairment testing on at least an annual basis.

##### *Computer software*

Computer software is amortised over a period of 8 years which is determined to be the expected period over which benefit is derived from use of the software.

##### **Impairment of non-financial assets**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, except for reversal of impairment loss recognised for goodwill which is not reversed in a subsequent period, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in financial and operating policy decisions of the investee, but not control or joint control over those policies. The Group's investment in its associates, are accounted for using the equity method.

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

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate



## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investment in associates (continued)

in financial and operating policy decisions of the investee, but not control or joint control over those policies. The Group's investment in its associates, are accounted for using the equity method.

Under the equity method, investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of associates is shown in the consolidated statement of income and represents profit or loss after tax and excluding non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At each reporting date, the Group determines whether there is any objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Impairment loss on an associate' in the consolidated statement of income.

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

##### Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of existing investment properties at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less depreciation and impairment, if any.

Investment properties are depreciated as follows;

Land	Not depreciated
Building	5 to 30 years

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

##### Financial instruments - classification, measurement, recognition, de-recognition and offsetting

###### *Classification*

The Group classifies its financial instruments as "financial assets available for sale", "loans and receivables", "loans and borrowings" and "liabilities other than at fair value through profit or loss". Management determines the appropriate classification of each financial instrument at the time of initial recognition.

###### *Recognition and measurement of financial assets and liabilities*

The Group recognises a financial asset or a financial liability when the Group becomes a party to the contractual provisions of

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Financial instruments - classification, measurement, recognition, de-recognition and offsetting (continued)**

the instrument. All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the

Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

All financial assets are initially recognised at fair value plus, in the case of investments not at fair value, through profit or loss, directly attributable transaction costs.

All financial liabilities are initially measured at fair value of the consideration given plus transaction costs.

##### *Financial assets available for sale*

Financial assets available for sale comprise equity securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

These are financial assets principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate or equity prices. Available for sale investments are initially measured at fair value (transaction price) plus directly attributable transaction costs. After initial recognition, available for sale investments are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value are reported as other comprehensive income and included in the cumulative changes in fair value reserve until the investment is sold or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment, if any.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortised cost using effective interest method less any provision for impairment. In the consolidated statement of financial position “trade receivables” “bank balances and cash” and “due from related parties” are classified as “loan and receivables”.

Accounts receivable are stated at original invoice amount less impairment for any uncollectible amounts. An estimate for doubtful debts is made when collection of part of or the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

##### *Loans and borrowings*

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Installments due within one year are shown as current liabilities. Interest is charged as an expense as it accrues, with unpaid amounts included in ‘Trade and other payables’.

##### *Financial liabilities other than at fair value through profit and loss*

These are financial liabilities other than those designated at fair value through profit and loss. These include trade and other payables and due to related parties.

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

##### *Derecognition of financial assets and liabilities*

A financial asset (in whole or in part) is derecognised either when: (i) the rights to receive the cash flows from the asset have expired or (ii) the Group has retained its right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Where the Group has transferred its right to receive cash flows from an asset 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.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Financial instruments - classification, measurement, recognition, de-recognition and offsetting (continued)**

existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original

liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of income.

##### *Offsetting*

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

##### *Impairment and uncollectibility of financial assets*

An assessment is made at each reporting date to determine, whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. A financial asset, or a group of financial assets are impaired if there is any objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence or indication exists, any impairment loss is recognised in the consolidated statement of income.

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows, discounted at the current market rate of return for a similar financial asset;
- c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of estimated future cash flows, discounted at the financial assets original effective interest rate.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for investments classified as available for sale, reversals of impairment losses are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Reversals in respect of financial assets classified as available for sale are recognised in other comprehensive income.

##### *Fair values*

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

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

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates with the same maturity.

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

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fair values (continued)

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

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

##### *Cash and cash equivalents*

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash and short term deposits which mature within three months from inception, net of outstanding bank overdrafts.

##### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, as follows:

Goods for resale	purchase cost on a weighted average basis.
Raw materials, packing materials and consumables	purchase cost on a weighted average basis.
Finished goods and work-in-progress	cost of direct materials and labour plus attributable overheads based on a normal level of activity.
Goods in transit	purchase cost incurred up to the reporting date

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

##### *Biological assets*

Biological assets comprise livestock and are measured on initial recognition and at each reporting date at their fair value less cost to sell, with any resultant gain or loss recognized in the consolidated statement of income.

##### *Employees' end of service benefits*

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The computation of the benefits is based upon the employees' final salary, length of service, historical termination and resignation rate. The computed amount is discounted using weighted average cost of capital of the Group to the present value of such obligation subject to the completion of a minimum service period. The obligation as calculated and the expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Group makes contributions to social security scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

##### *Foreign currencies*

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to KD at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to KD at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated statement of income, all differences are recognised in the consolidated statement of income.

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *Group Companies*

Assets (including goodwill) and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences arising on translation are recognised in the other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

##### *Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

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

##### *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

##### *Rendering of services*

Revenue from rendering of services is recognised when related services are provided.

##### *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

##### *Kuwait Foundation for the Advancement of Sciences (KFAS)*

The Parent Company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

##### *Zakat*

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance resolution No. 58/2007.

##### *National Labour Support Tax (NLST)*

Contribution to NLST is calculated at 2.5% of the taxable profit of the Group in accordance with Law No. 19 of 2000, National Labor Support Tax Law and the Ministry of Finance resolution No. 24/2006.

##### *Dividends on ordinary shares*

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Parent Company's shareholders.

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

##### *Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

##### *Contingencies*

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



## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Contingencies (continued)

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

##### *Segment information*

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

##### *Significant accounting judgments and estimates*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the

date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Group has used judgment and estimates principally in, but not limited to the following:

##### *Impairment of trade receivables*

An estimate of the collectible amount of trade accounts receivable and retentions is made when collection of part of or the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts

which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

##### *Impairment of inventories*

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

##### *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

##### *Impairment of property, plant and equipment*

A decline in the value of property, plant and equipment could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant changes in the technology and regulatory environments.
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

##### *Impairment of intangible assets (with indefinite life)*

The Group determines whether intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the respective asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of intangible assets with indefinite lives at 31 December 2015 were KD 11,279,756 (2014: KD 10,732,978). More details are given in Note 4.

## Mezzan Holding Company K.S.C. and Subsidiaries

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### **2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### *Impairment of financial assets available for sale*

The Group treats equity financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment.

##### *Provision for employees' end of service benefits*

The Group's management performs a detailed review of the provision for employees' end of service benefits considering the expected pattern of the future obligations based on historical termination and resignation rates. Management reviews the future obligations annually and would be adjusted where the management believes the previous estimates are required to be adjusted.

##### *Material non-controlling interests*

The Group's management considers any non-controlling interests which accounts for over 5% of the total equity of the Group as material. As at the reporting date, none of the non-controlling interests accounts for over 5% of the total equity. Hence, no disclosures are considered necessary.

# Mezzan Holding Company K.S.C. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

### 3 PROPERTY, PLANT AND EQUIPMENT

	Freehold land KD	Leasehold land KD	Buildings KD	Plant and machinery KD	Tools and spare parts KD	Motor vehicles KD	Furniture, fixtures, office and computer equipment KD	Capital work-in- progress KD	Total KD
<b>Cost:</b>									
As at 1 January 2015	14,212,924	5,774,146	39,169,348	43,114,404	2,396,654	8,608,748	7,999,306	6,937,233	128,212,763
Transfer to investment properties (Note 6)	(1,612,791)	-	(3,025,780)	-	-	-	-	-	(4,638,571)
Additions	-	-	132,181	533,094	31,144	1,033,408	204,593	2,830,440	4,764,860
Disposals	-	-	-	(221,277)	(27)	(781,740)	(17,761)	-	(1,020,805)
Transfers	-	-	3,022,364	6,003,512	87,125	(16,873)	(106,352)	(8,989,776)	-
Exchange differences	184,245	-	534,254	311,334	16,670	57,291	61,023	186,142	1,350,959
<b>As at 31 December 2015</b>	<b>12,784,378</b>	<b>5,774,146</b>	<b>39,832,367</b>	<b>49,741,067</b>	<b>2,531,566</b>	<b>8,900,834</b>	<b>8,140,809</b>	<b>964,039</b>	<b>128,669,206</b>
<b>Depreciation and impairment:</b>									
As at 1 January 2015	304,294	-	15,074,919	31,109,026	2,237,928	6,941,964	7,196,307	-	62,864,438
Transfer to investment properties (Note 6)	-	-	(253,097)	-	-	-	-	-	(253,097)
Charge for the year	-	-	1,436,313	1,958,494	48,017	563,321	384,197	-	4,390,342
Relating to transfers	-	-	-	24,206	87,115	(12,009)	(99,312)	-	-
Impairment	-	-	-	925,100	-	-	-	-	925,100
Relating to disposals	-	-	-	(220,406)	(26)	(764,101)	(17,352)	-	(1,001,885)
Exchange differences	11,174	-	141,560	156,473	12,884	40,064	52,849	-	415,004
<b>As at 31 December 2015</b>	<b>315,468</b>	<b>-</b>	<b>16,399,695</b>	<b>33,952,893</b>	<b>2,385,918</b>	<b>6,769,239</b>	<b>7,516,689</b>	<b>-</b>	<b>67,339,902</b>
<b>Net carrying amount</b>									
<b>As at 31 December 2015</b>	<b>12,468,910</b>	<b>5,774,146</b>	<b>23,432,672</b>	<b>15,788,174</b>	<b>145,648</b>	<b>2,131,595</b>	<b>624,120</b>	<b>964,039</b>	<b>61,329,304</b>

# Mezzan Holding Company K.S.C. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

### 3 PROPERTY, PLANT AND EQUIPMENT (continued)

Cost:	Freehold land KD	Leasehold land KD	Buildings KD	Plant and machinery KD	Tools and spare parts KD	Motor vehicles KD	Furniture, fixtures, office and computer equipment KD	Capital work-in- progress KD	Total KD
As at 1 January 2014	11,877,820	5,753,146	37,568,427	40,491,222	2,302,220	8,511,534	7,097,778	1,505,342	115,107,489
Arising on acquisition of subsidiaries (Note 17)	-	-	67,189	-	-	24,559	272,547	32,029	396,324
Additions	2,222,611	21,000	402,308	1,087,085	77,094	532,559	554,125	7,433,582	12,330,364
Disposals	-	-	(3,411)	(38,743)	-	(518,163)	(12,598)	-	(572,915)
Transfers	-	-	650,695	1,272,945	3,706	-	25,198	(1,952,544)	-
Transfer to intangible assets (Note 4)	-	-	-	-	-	-	-	(136,863)	(136,863)
Exchange differences	112,493	-	484,140	301,895	13,634	58,259	62,256	55,687	1,088,364
As at 31 December 2015	14,212,924	5,774,146	39,169,348	43,114,404	2,396,654	8,608,748	7,999,306	6,937,233	128,212,763
Depreciation and impairment:									
As at 1 January 2014	-	-	13,581,912	28,533,854	2,158,074	6,723,057	6,477,137	-	57,474,034
Arising on acquisition of subsidiaries (Note 17)	-	-	64,631	-	-	22,548	222,044	-	309,223
Charge for the year	-	-	1,306,213	1,980,881	68,526	524,591	419,932	-	4,300,143
Impairment	304,294	-	-	463,132	-	-	38,828	-	806,254
Relating to disposals	-	-	(69)	(29,701)	-	(366,427)	(11,796)	-	(407,993)
Exchange differences	-	-	122,232	160,860	11,328	38,195	50,162	-	382,777
As at 31 December 2014	304,294	-	15,074,919	31,109,026	2,237,928	6,941,964	7,196,307	-	62,864,438
Net carrying amount									
As at 31 December 2014	13,908,630	5,774,146	24,094,429	12,005,378	158,726	1,666,784	802,999	6,937,233	65,348,325

Capital work-in-progress comprises the cost of assets acquired which are under construction and are not available for use as at the reporting date.

Leasehold land represents land leased from the Government of Kuwait for periods ranging from 1 to 20 years and the leases are renewable upon the expiry of the leases. The management expects these leases to be renewed indefinitely and therefore, the cost of the acquisition of such leases amounting to KD 5,774,146 (2014: KD 5,774,146) is not depreciated.

Property, plant and equipment with a net book value of KD Nil (2014: KD 5,758,631) are secured against certain loans and borrowings granted to the Group (Note 11).

## Mezzan Holding Company K.S.C. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**3 PROPERTY, PLANT AND EQUIPMENT (continued)**

The depreciation charge for the year was allocated as follows:

	2015 KD	2014 KD
Cost of sales	2,591,098	2,276,543
Selling and distribution expenses	387,200	393,287
General and administrative expenses	1,412,044	1,630,313
	<u>4,390,342</u>	<u>4,300,143</u>

**4 INTANGIBLE ASSETS**

	Goodwill KD	Key money KD	License fee KD	Computer software KD	Asset under development KD	Total KD
<b>Cost:</b>						
As at 1 January 2015	9,943,681	392,200	1,040,000	1,426,081	401,928	13,203,890
Additions	-	63,000	120,200	172,317	132,110	487,627
Transfers	-	-	-	491,976	(491,976)	-
Disposals	-	(18,000)	-	-	-	(18,000)
Exchange differences	363,578	-	-	1,007	-	364,585
<b>As at 31 December 2015</b>	<b>10,307,259</b>	<b>437,200</b>	<b>1,160,200</b>	<b>2,091,381</b>	<b>42,062</b>	<b>14,038,102</b>
<b>Amortisation and impairment:</b>						
As at 1 January 2015	-	244,187	353,703	726,210	-	1,324,100
Charge for the year	-	8,329	-	230,999	-	239,328
Relating to disposals	-	(5,691)	-	-	-	(5,691)
Exchange differences	-	-	-	223	-	223
<b>As at 31 December 2015</b>	<b>-</b>	<b>246,825</b>	<b>353,703</b>	<b>957,432</b>	<b>-</b>	<b>1,557,960</b>
<b>Net carrying amount</b>						
As at 31 December 2015	10,307,259	190,375	806,497	1,133,949	42,062	12,480,142



## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 4 INTANGIBLE ASSETS (continued)

	Goodwill KD	Key money KD	License fee KD	Computer software KD	Asset under development KD	Total KD
Cost:						
As at 1 January 2014	624,825	313,200	1,040,000	1,294,468	-	3,272,493
Arising on acquisition of subsidiaries (Note 17)	8,955,198	-	-	-	-	8,955,198
Additions	-	79,000	-	130,887	265,065	474,952
Transfer from property, plant and equipment (Note 3)	-	-	-	-	136,863	136,863
Exchange differences	363,658	-	-	726	-	364,384
As at 31 December 2014	9,943,681	392,200	1,040,000	1,426,081	401,928	13,203,890
Amortisation and impairment:						
As at 1 January 2014	-	222,563	274,838	570,020	-	1,067,421
Charge for the year	-	21,624	-	156,112	-	177,736
Impairment	-	-	78,865	-	-	78,865
Exchange differences	-	-	-	78	-	78
As at 31 December 2014	-	244,187	353,703	726,210	-	1,324,100
Net carrying amount:						
As at 31 December 2015	9,943,681	148,013	686,297	699,871	401,928	11,879,790

Amortisation charge for the year is included under general and administrative expenses.

#### 5 INVESTMENT IN ASSOCIATES

The Parent Company has interest in the following unquoted associates:

Name of company	Country of incorporation	Activity	Effective interest%		Carrying value	
			2015	2014	2015 KD	2014 KD
International Paper Products W.L.L.	Kuwait	Manufacturing	24.34	24.34	620,790	558,851
National Textile Company K.S.C. (Closed)	Kuwait	Manufacturing	31.65	31.65	406,786	424,708
					1,027,576	983,559

Summarised financial information of the Group's investment in associates is as follows:

	2015 KD	2014 KD
Current assets	3,671,982	3,584,855
Non-current assets	4,515,085	3,987,937
Current liabilities	(1,501,428)	(2,151,788)
Non-current liabilities	(2,369,873)	(1,132,991)
<b>Equity</b>	<b>4,315,766</b>	<b>4,288,013</b>
Group's carrying amount of the investment in associates	1,027,576	983,559

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 5 INVESTMENT IN ASSOCIATES (continued)

Summarised statement of income for associates is as follows:

	2015 KD	2014 KD
Revenue	3,113,462	2,507,017
Cost of revenue	(2,489,931)	(1,894,842)
Other expenses	(511,550)	(381,113)
Profit for the year	111,981	231,062
Total comprehensive income for the year	144,172	391,096
Group's share of results for the year	36,182	54,892

The associates had no contingent liabilities or capital commitments as at 31 December 2014 or 2015.

The management of the Parent Company has assessed the carrying value of the associates. As at 31 December 2015, there are no indications that the carrying value of these associates is impaired. Therefore, no impairment is recognised in respect of these associates in the consolidated statement of income.

#### 6 INVESTMENT PROPERTIES

During the year, the Group transferred certain property, plant and equipment with a carrying value of KD 4,385,474 to investment properties due to change in use.

The movement in investment properties is as follows:

	2015 KD	2014 KD
As at 1 January	-	1,565,718
Transfer from property, plant and equipment (Note 3)	4,385,474	-
Additions	23,701	-
Charge for the year	(26,211)	(18,682)
Disposals	-	(1,547,036)
As at 31 December	4,382,964	-

The group engaged an independent valuation specialist to assess fair value as at 31 December 2015 for investment properties. As at 31 December 2015, the fair value of investment properties was KD 5,520,182. Fair value of investment properties are determined by reference to value of recent transactions in the market for similar properties. As significant valuation inputs used are based on observable market data, these are classified under level 2 fair value hierarchy.

#### 7 TRADE AND OTHER RECEIVABLES

	2015 KD	2014 KD
Trade receivables	48,701,028	46,157,906
Less: Allowance for bad and doubtful debts	(3,976,363)	(4,369,956)
Trade receivables – net of doubtful debt allowance	44,724,665	41,787,950
Advance to suppliers	7,546,163	5,563,756
Prepaid expenses	1,369,476	722,909
Deposits	868,067	643,956
Staff receivables	50,984	76,078
Other receivables	505,797	254,083
	55,065,152	49,048,732

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 7 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2015, trade receivables with a carrying value of KD 3,976,363 (2014: KD 4,369,956) were impaired and fully provided for.

The movement in the allowance for bad and doubtful debts on trade receivables was as follows:

	2015 KD	2014 KD
As at 1 January	4,369,956	5,459,283
Arising on acquisition of subsidiaries	-	110,627
Charge for the year	467,472	384,571
Amounts written off	(883,606)	(1,628,097)
Exchange differences	22,541	43,572
As at 31 December	3,976,363	4,369,956

The allowance for bad and doubtful debts for the year is included in general and administrative expenses.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, management believes that there is no further credit allowance required in excess of the allowance for bad and doubtful debts.

As at 31 December, the ageing analysis of trade receivables that were not impaired is as follows:

		Past due but not impaired					Total
	Neither past due nor impaired KD	< 30 days KD	30 to 60 days KD	61 to 90 days KD	91 to 120 days KD	> 120 days KD	KD
2015	26,892,574	5,699,367	4,276,117	2,123,580	1,909,584	3,823,443	44,724,665
2014	22,770,272	6,334,313	4,734,653	1,582,236	2,082,009	4,284,467	41,787,950

Unimpaired trade receivables are expected, on the basis of past experience, to be fully recoverable.

#### 8 INVENTORIES

	2015 KD	2014 KD
Goods for resale	27,097,946	23,767,988
Raw materials, packing materials and consumables	9,181,150	10,014,368
Finished goods and work in progress	1,427,284	1,172,747
Goods in transit	794,495	150,152
	38,500,875	35,105,255
Less: allowance for obsolete and slow moving inventories	(1,674,139)	(2,156,177)
	36,826,736	32,949,078

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 8 INVENTORIES (continued)

The movement in the allowance for obsolete and slow moving inventories was as follows:

	2015 KD	2014 KD
As at 1 January	2,156,177	2,775,359
Arising on acquisition of subsidiaries	-	53,711
Reversal for the year	(253,083)	(179,525)
Amounts written off	(223,743)	(500,627)
Exchange differences	(5,212)	7,259
As at 31 December	1,674,139	2,156,177

#### 9 RELATED PARTY TRANSACTIONS

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

Significant balances and transactions with related parties included in the consolidated financial statements are as follows:

	Major shareholders KD	Associates KD	Other related parties KD	2015 Total KD	2014 Total KD
<b>Consolidated statement of financial position:</b>					
Due from related parties	-	-	49,318	49,318	54,913
Due to related parties	682,132	20,910	1,221,239	1,924,281	2,023,859

The amounts due from/to related parties are interest free and are receivable/payable on demand, except for KD 200,000 (2014: KD 600,000) payable after one year pertaining to acquisition of non-controlling interest (Note 18(ii)).

	Major shareholders KD	Associates KD	Other related parties KD	2015 Total KD	2014 Total KD
<b>Consolidated statement of income:</b>					
Revenue	34,892	-	220,931	255,823	201,427
Cost of revenue	(22,757)	-	(22,067)	(44,824)	(30,837)
Other income	-	-	354,056	354,056	1,535,586
General and administrative expenses	-	-	(177,264)	(177,264)	(179,304)

#### Other related parties transactions:

- During 2014, the Group sold an investment property with a net carrying value of KD 1,547,036 to a related party for a consideration of KD 2,500,000 resulting in a gain of KD 952,964 (Note 14).
- During 2014, the Parent Company acquired non-controlling interests in certain subsidiaries from a related party and minority shareholders for a consideration of KD 1,648,329 (Note 18).

#### Compensation of key management personnel

Remuneration paid or accrued in relation to key management (which is deemed for this purpose to comprise of the Chief Executive Officer, Chief Finance Officer, Department/division heads, and other Senior Officers) was as follows:

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 9 RELATED PARTY TRANSACTIONS (continued)

	2015 KD	2014 KD
Key management compensation:		
Salaries and other short-term benefits	1,972,564	1,626,488
Employees' end of service benefits	63,375	40,770
	<u>2,035,939</u>	<u>1,667,258</u>

The Board of Directors' remuneration of KD 125,000 (2014: KD 25,000) in respect of the year ended 31 December 2015 is subject to approval by the ordinary General Assembly of the equity holders of the Parent Company.

#### 10 CASH AND CASH EQUIVALENTS

	2015 KD	2014 KD
Bank balances and cash	7,680,938	5,168,163
Bank overdrafts	(13,499,806)	(4,492,424)
<b>Cash and cash equivalents included in consolidated statement of cash flows</b>	<u>(5,818,868)</u>	<u>675,739</u>

Bank overdrafts are repayable on demand and carry effective interest rates of up to 3.25% (2014: 4%) per annum.

#### 11 LOANS AND BORROWINGS

Currency	Current		Non-current	
	2015 KD	2014 KD	2015 KD	2014 KD
Kuwaiti Dinars	5,499,800	11,027,845	-	92,250
US Dollars	15,534,400	13,559,765	4,607,561	6,269,928
	<u>21,034,200</u>	<u>24,587,610</u>	<u>4,607,561</u>	<u>6,362,178</u>

Loans and borrowings carry interest at commercial rates.

Loans and borrowings of KD Nil (2014: KD 620,415) were secured against certain property, plant and equipment (Note 3).

#### 12 TRADE AND OTHER PAYABLES

	2015 KD	2014 KD
Trade payable	24,013,941	26,096,329
Accrued expenses	9,671,449	9,192,012
Other payables	1,723,677	1,088,246
Advance from customers	27,403	32,288
	<u>35,436,470</u>	<u>36,408,875</u>

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 13 SHARE CAPITAL AND RESERVES

##### a) Share capital

	2015 KD	2014 KD
<i>Authorised, issued and fully paid up in cash:</i>		
296,500,000 (2014: 296,500,000) shares of 100 (2014: 100) fils	29,650,000	29,650,000

On 24 August 2014, the shareholders at the Extra-ordinary General Assembly approved issuance of 98,500,000 bonus shares of 100 fils each. As a result, the shares of the Parent Company increased to 296,500,000.

##### b) Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, Zakat and Board of Directors' remuneration is required to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up capital.

Distribution of the statutory reserve up to the amount equivalent to 50% of paid up share capital is limited to the amount required to enable the payment of a dividend of up to 5% of paid up share capital in years when accumulated profits are not sufficient for the payment of such dividend.

##### c) Voluntary reserve

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, Zakat and Board of Directors' remuneration is required to be transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution in General Assembly of the Parent Company's shareholders upon a recommendation by the Board of Directors. Voluntary reserve is available for distribution.

#### 14 OTHER INCOME

	2015 KD	2014 KD
Gain on disposal of property, plant and equipment	127,362	309,719
Receipt of insurance claim	3,300,000	-
Gain on sale of an investment property (Note 9)	-	952,964
Other income	1,401,379	285,279
Foreign exchange gain	765,701	602,707
Dividends	57,094	73,406
	5,651,536	2,224,075

During the year, the insurance company made a final settlement of KD 3,300,000 in respect of an insurance claim made by the Group relating to a fire incident in one of its factories during the year ended 31 December 2013.

#### 15 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	2015 KD	2014 KD
Staff costs	25,342,872	23,744,801
Rental – operating leases	4,606,206	4,633,869
Write back of obsolete and slow moving inventories (Note 8)	(253,083)	(179,525)
Inventories recognised as expense upon sale of goods and rendering services	134,579,527	127,213,555



## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 16 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, as follows:

	2015 KD	2014 KD
Profit for the year	19,437,007	14,752,784
	Shares	Shares
Weighted average number of ordinary shares outstanding during the year	296,500,000	296,500,000
Basic and diluted earnings per share	65.55 Fils	49.76 Fils

#### 17 BUSINESS COMBINATION

On 9 January 2014, the Parent Company acquired 100% equity interest in UNITRA International L.L.C. ("UNITRA") and Middle East Trading Store L.L.C. ("METS") (collectively referred to as "acquiree companies"), companies incorporated in the United Arab Emirates (U.A.E.). Principal activity of the acquiree companies is trading in food and beverages.

During 2014, the Group finalized the Purchase Price Allocation ("PPA") exercise and determined that the fair value of the assets and liabilities acquired do not materially differ from their provisionally determined fair values as at the acquisition date.

The consideration paid and the values of assets acquired and liabilities assumed are summarized as follows:

	UNITRA KD	METS KD	Total KD
<b>Assets:</b>			
Property, plant and equipment	77,704	9,397	87,101
Trade and other receivables	2,250,084	603,822	2,853,906
Inventories	902,784	263,367	1,166,151
Bank balances and cash	641,258	15,466	656,724
	<u>3,871,830</u>	<u>892,052</u>	<u>4,763,882</u>
<b>Liabilities:</b>			
Employees' end of service benefits	321,194	10,658	331,852
Trade and other payables	2,593,720	291,412	2,885,132
	<u>2,914,914</u>	<u>302,070</u>	<u>3,216,984</u>
Total identifiable net assets at fair values	<u>956,916</u>	<u>589,982</u>	<u>1,546,898</u>
Consideration paid			<u>10,502,096</u>
Goodwill			<u>8,955,198</u>
Consideration paid			<u>10,502,096</u>
Cash and cash equivalents acquired			<u>(656,724)</u>
Net cash outflow on acquisition			<u>9,845,372</u>

#### 18 ACQUISITION OF NON-CONTROLLING INTERESTS

- During the year ended 31 December 2014, the Parent Company acquired additional equity interest in certain subsidiaries from a related party (Note 9 (ii)) for a total consideration of KD 448,329.
- During the year ended 31 December 2014, the Parent Company entered into an agreement with the minority shareholders to acquire the remaining shares held by them in certain subsidiaries (Kuwait Indo Trading Company W.L.L. (KITCO), Gulf Pastries Manufacturing Company W.L.L. (GPM), Kuwait Biscuit and Food Products Manufacturing Company W.L.L. (KBC) and Al Wazzan Foodstuff Factory) (Note 9 (ii)) for a total consideration of KD 1,200,000 to be paid by the Parent Company and 18,383,563 shares of the Parent Company to be transferred by the shareholders of the Parent Company. The agreement required KD 1,200,000 to be paid by the Parent Company over a period of 3 years. This transaction

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 18 ACQUISITION OF NON-CONTROLLING INTERESTS (continued)

resulted in a difference of KD 5,863,011 during the year ended 31 December 2014 and was recorded directly in equity in 'Retained earnings' in accordance with IFRS 10: Consolidated Financial Statement. The balance of KD 600,000 is still outstanding and is included in the amount due to related parties.

#### 19 CONTINGENCIES AND COMMITMENTS

##### (a) Contingencies:

As at the reporting date, the Group had the following contingent liabilities in respect of letter of guarantee and letter of credit granted by banks from which it is anticipated that no material liabilities will arise:

	2015 KD	2014 KD
Letters of guarantee	12,919,722	11,546,095
Letters of credit	2,767,736	4,628,563
	<u>15,687,458</u>	<u>16,174,658</u>

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of subsidiaries in the event of a specific act, generally related to the import or export of goods and performance guarantees.

##### Legal claims

In addition to the above, the Group is involved in various incidental claims and legal proceedings matters. The legal counsel of the Group believes that these matters will not have a material adverse effect on the accompanying consolidated financial statements.

##### (b) Commitments:

	2015 KD	2014 KD
<b>Capital expenditure commitments</b>		
Future estimated capital expenditure contracted for at the reporting date:		
Property, plant and equipment	7,424,831	968,508
Intangible assets	345,822	55,258
	<u>7,770,653</u>	<u>1,023,766</u>
<b>Operating lease commitments as lessee:</b>		
Future minimum lease payments:		
Within one year	2,439,394	1,914,163
After one year but not more than five years	1,340,877	1,865,776
Total operating lease expenditure contracted for at the reporting date	<u>3,780,271</u>	<u>3,779,939</u>
<b>Operating lease commitments as lessor:</b>		
Future minimum lease payments:		
Within one year	283,500	-
After one year but not more than five years	2,268,000	-
Total operating lease income contracted for at the reporting date	<u>2,551,500</u>	<u>-</u>

#### 20 SEGMENTAL INFORMATION

For management reporting purposes, the Group is organised into five major operating segments based on internal reporting provided to the chief operating decision maker. The chief operating decision maker, is the person responsible for allocating resources to and assessing the performance of the operating segments. The Group does not have material inter-segment transactions. The principal activities and services under these segments are as follows:

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 20 SEGMENTAL INFORMATION (continued)

Food	: Food comprises all the businesses that relate to the food industry including food and beverages, wholesale trading, manufacturing and retail. The segment deals in a variety of products namely meat products, cakes, biscuits, potato chips, snacks, canned food products, dairy products and water.KD
Fast Moving Consumer Goods ("FMCG")	: FMCG mainly comprises of distribution of health and beauty products, medicines, medical products and household products.
Catering	: Catering comprises of food services for short term and long term delivery of cooked food as well as on site operation of food facilities and catering for one off events.
Industrial	: Industrial comprises of the manufacturing of goods including plastic materials, lube oil and cartons used for packaging.
Services	: Services includes provision/sale of a variety of services/goods respectively to major customers predominantly including sales and delivery of foods as well as ancillary storage, logistics, repairs and maintenance services and sale of non-food items.
Corporate	: Corporate comprises of central assets, liabilities and support functions for the entire Group. The corporate provides management, information systems and technology, human resource, procurement and finance support to other segments. The Group maintains a central treasury function and manages the cash and borrowing position centrally.

Management monitors operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segmental return on investments. Taxation and Board of Directors' remuneration are managed on an overall basis and are not allocated to the corporate segments.



# Mezzan Holding Company K.S.C. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

### 20 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2014

	Food				Non Food			Corporate	
	Food KD	Catering KD	Services KD	Sub-total KD	FMCG KD	Industrial KD	Sub-total KD	KD	Total Segment KD
Revenue	92,417,266	27,521,113	13,251,783	133,190,162	42,800,530	6,398,195	49,198,725	114,860	182,503,747
Segment profit	10,263,453	2,386,476	2,314,120	14,964,049	1,192,142	(94,719)	1,097,423	310,796	16,372,268
Total assets	77,207,368	18,881,038	7,547,504	103,635,910	46,814,214	8,965,995	55,780,209	7,105,788	166,521,907
Total liabilities	16,249,844	7,649,376	2,061,742	25,960,962	10,924,351	3,258,297	14,182,648	37,719,318	77,862,928
<i>Other disclosures:</i>									
Depreciation and amortisation	2,102,161	970,930	228,829	3,301,920	334,126	468,860	802,986	391,655	4,496,561
Investment in associates	-	-	-	-	-	-	-	983,559	983,559
Capital expenditure (excluding goodwill)	6,906,462	772,529	2,970,706	10,649,697	222,268	1,241,775	1,464,043	691,576	12,805,316
Impairment of property, plant and equipment	513,472	53,568	239,214	806,254	-	-	-	-	806,254
Impairment of intangible assets	-	-	-	-	78,865	-	78,865	-	78,865

# Mezzan Holding Company K.S.C. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

### 20 SEGMENTAL INFORMATION (continued)

b) The following table presents information regarding the Group's geographical segments.

	Kuwait KD	Saudi Arabia KD	UAE KD	Qatar KD	Jordan KD	Afghanistan KD	Iraq KD	Total KD
<i>Year ended 31 December 2015</i>								
Revenue	129,044,486	87,302	35,077,897	17,911,195	7,318,501	4,667,582	2,022,319	196,129,282
Non-current assets	52,926,788	5,514,565	7,463,924	11,971,588	2,679,380	152,770	-	80,709,015
<i>Year ended 31 December 2014</i>								
Revenue	122,655,242	-	31,617,301	17,144,134	3,762,659	7,324,411	-	82,503,747
Non-current assets	53,450,123	4,749,600	7,461,660	10,702,794	2,742,282	194,562	-	79,301,021



## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 21 PROPOSED DIVIDENDS

The Board of Directors of the Parent Company recommended a cash dividend of KD 8,153,750 (2014: KD 8,700,000) and a stock dividend (bonus shares) of 5% (2014: Nil) in respect of the year ended 31 December 2015, which is subject to approval by the shareholders at the Annual General Assembly of the Parent Company.

#### 22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into interest rate risk, foreign currency risk and equity price risk. They are monitored through the Group's strategic planning process.

The Group's principal financial liabilities comprise bank overdrafts, trade and other payables, loan and borrowings and due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as bank balances and cash, due to related parties, trade receivables and financial assets available for sale which arise directly from its operations.

The management of the Group is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

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

##### 22.1 Credit risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge its obligation and cause the Group to incur a financial loss. The Group is exposed to credit risk on its bank balances, trade and other receivables, amounts due from related parties and financial assets available for sale.

##### *Risk concentration of maximum exposure to credit risk*

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

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. The maximum exposure is the carrying amount as disclosed in Note 7. The Group does not have any collateral or other credit enhancements against any of the financial assets at 31 December 2015 and 31 December 2014.

The Group sells its products and renders services to a large number of customers. Its 5 largest customers account for 35% of outstanding trade receivables at 31 December 2015 (2014: 34%).

With respect to credit risk arising from the other financial assets of the Group, including bank balances and cash, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

##### 22.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Group limits its liquidity risk by ensuring that bank facilities are available and by monitoring on a regular basis that sufficient funds are available to meet future commitments. The Group's terms of sales and services require amounts to be paid within 30 to 60 days of the date of sale/rendering services, unless otherwise covered by a specific contract or agreement. The Group's terms of trade with its principal suppliers generally require the amounts to be paid within periods ranging from 30 to 60 days from the date of purchase unless otherwise covered by specific contract or agreement. The maturity profile is monitored by Group's management to ensure adequate liquidity is maintained.

Liquidity risk is managed by the finance department of the Parent Company. To manage this risk, the Group invests in bank

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

## 22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 22.2 Liquidity risk (continued)

deposits or other investments that are readily realisable. The maturity profile is monitored by finance department to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December was as follows:

2015	On demand KD	Within 3 months KD	3 to 12 months KD	1 to 5 years KD	Total KD
Loans and borrowings	-	3,605,340	17,555,557	4,747,405	25,908,302
Trade and other payables	-	35,436,470	-	-	35,436,470
Due to related parties	1,324,281	100,000	300,000	200,000	1,924,281
Bank overdrafts	13,499,806	-	-	-	13,499,806
Total undiscounted liabilities	14,824,087	39,141,810	17,855,557	4,947,405	76,768,859
Commitments	-	-	3,353,653	4,417,000	7,770,653
2014	On demand KD	Within 3 months KD	3 to 12 months KD	1 to 5 years KD	Total KD
Loans and borrowings	-	2,109,000	25,404,576	6,869,124	34,382,700
Trade and other payables	-	36,408,875	-	-	36,408,875
Due to related parties	1,023,859	100,000	300,000	600,000	2,023,859
Bank overdrafts	4,492,424	-	-	-	4,492,424
Total undiscounted liabilities	5,516,283	38,617,875	25,704,576	7,469,124	77,307,858
Commitments	-	868,812	154,954	-	1,023,766

Included in loans and borrowings is an amount of KD 14,044,800 (2014: KD 21,543,147) which represents revolving facilities and the management is confident that the facilities will be renewed on expiry.

### 22.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to change in market prices. Market risks arise for open positions in interest rate, currency and equity product, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

#### 22.3.1 Interest rate risk

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

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank overdrafts and loans and borrowings with floating interest rates.

The Group's policy is to manage its interest cost by availing competitive credit facilities from the local and regional financial institutions and constantly monitoring interest rate fluctuations.

Based on the Group's financial assets and liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would equally impact the Group's profit before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration as follows:

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

## 22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 22.3.1 Interest rate risk (continued)

Currency	<i>Increase of 25 basis points</i> <i>Decrease in profit before KFAS, NLST, Zakat and</i> <i>Board of Director's remuneration</i>	
	<i>2015</i> <i>KD</i>	<i>2014</i> <i>KD</i>
Kuwaiti Dinars	47,498	39,031
US Dollars	50,355	49,574

The decrease in the basis points will have an opposite impact on the net interest income. There is no direct impact on the Group's other comprehensive income.

### 22.3.2 Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

The Group is mainly exposed to foreign currency risk on its trade receivables, trade accounts payables denominated in foreign currencies and net investment in foreign operations.

The table below analyses the effect on profit before contribution to KFAS, NLST, Zakat and Board of Director's remuneration (due to change in the fair value of monetary assets and liabilities) and other comprehensive income of an assumed 5% strengthening in the value of the currency rate against the KD from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or other comprehensive income, whereas a positive amount reflects a net potential increase.

Currency	<i>Change in currency rate by + 5%</i>			
	<i>Effect on profit before KFAS, NLST, Zakat and</i> <i>Board of Director's remuneration</i>		<i>Effect on other comprehensive income</i>	
	<i>2015</i> <i>KD</i>	<i>2014</i> <i>KD</i>	<i>2015</i> <i>KD</i>	<i>2014</i> <i>KD</i>
U.A.E. Dirhams	(1,821)	1,017	760,851	734,010
Euro	(12,710)	(76,621)	-	-
British Pound	55	(273)	-	-
Saudi Riyals	(46,987)	(43,500)	-	-
US Dollars	(178,974)	(177,173)	(893,098)	(970,184)
Jordanian Dinar	120	115	-	-

An equivalent weakening in each of the abovementioned currencies against the KD would result in an equivalent but opposite impact.

### 22.3.3 Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in equity prices. The Group manages this through diversification of investments in terms of industry concentration. Financial instruments, which potentially subject the Group to equity price risk, consist principally of financial assets available for sale.

The Group has unquoted financial assets available for sale which are carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted.

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

## 22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 22.4 Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The Group is not exposed to significant prepayment risk.

### 22.5 Operation risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## 23 FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date

#### *Financial instruments:*

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of financial assets available for sale, trade and other receivables, bank balances and cash and due from related parties. Financial liabilities consist of bank overdrafts, loans and borrowing, trade and other payables and due to related parties.

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

The fair values of financial instruments, except unquoted equity securities carried at cost, are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than twelve months) it is assumed that the carrying amounts approximate to their fair values. This assumption is also applied to variable rate financial instruments.

## 24 HEDGING ACTIVITIES AND DERIVATIVES

#### Derivatives not designated as hedging instruments

The Group uses foreign currency-denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 3 months.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk.

	<i>Positive fair value KD</i>	<i>Negative fair value KD</i>	<i>Notional amount KD</i>	<i>Notional amounts by term to maturity</i>	
				<i>up to 3 months KD</i>	<i>3 to 12 months KD</i>
2015					
Forward foreign exchange contracts	-	2,340	2,280,000	2,280,000	-
2014					
Forward foreign exchange contracts	10,936	-	1,862,455	1,862,455	-

## Mezzan Holding Company K.S.C. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

#### 24 HEDGING ACTIVITIES AND DERIVATIVES (continued)

##### Derivatives not designated as hedging instruments (continued)

The forward foreign exchange contracts are fair valued using valuation technique as described in note 2 above and are classified under level 2 fair value hierarchy.

##### Hedge of net investments in foreign operations

Included in loans at 31 December 2015 was borrowings of USD 58,756,450 which have been designated as hedge of the net investments in one of the subsidiary in United Arab Emirates. This borrowing is being used to hedge the Group's exposure to the USD foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiary. There is no ineffectiveness in the years ended 31 December 2015 and 2014.

#### 25 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2015 and 31 December 2014. The Group monitors capital at the level of the Parent Company and at each of the subsidiaries.

Based on considerations of various stakeholders, capital at the Parent Company is monitored in terms of debt/equity ratio, which is net debt divided by total capital plus net debt. The Parent Company includes within net debt, loans and borrowings and bank overdrafts less bank balances and cash. Total capital represents total equity attributable to the equity holders of the Parent Company.

	2015 KD	2014 KD
Loans and borrowings	25,641,761	30,949,788
Bank overdrafts	13,499,806	4,492,424
Less: Bank balances and cash	(7,680,938)	(5,168,163)
Net debt	31,460,629	30,274,049
Equity attributable to the equity holders of the Parent Company	97,476,728	86,518,416
Total capital plus net debt	128,937,357	116,792,465
Debt : Equity ratio	24:76	26:74

The Parent Company manages the capital needs of its subsidiaries to ensure that their capital is adequate to support the business and financial exposure.