

**MEZZAN HOLDING COMPANY K.S.C.P. AND
SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017



Building a better
working world

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Mezzan Holding Company K.S.C.P. (the "Company") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Impairment of goodwill

The Group has recorded goodwill of KD 11.4 million with regard to the acquisition of certain subsidiaries representing 5.4% of the total assets of the Group. The individual goodwill amounts have been allocated to the cash-generating unit (CGU) expected to benefit from synergies from the combination as disclosed in Note 4 to the consolidated financial statements.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of goodwill (continued)

Due to the complexity of the impairment assessment process and significant management judgment involved in making key assumptions, such as discount and long-term growth rates which are affected by expected future internal and external market conditions, as well as the significant carrying amount of the goodwill, we consider this area to be a key audit matter.

We involved valuation specialists to assist us in evaluation of the appropriateness of the key assumptions used in the impairment analysis, in particular average future growth rates for 2018-2022 years and discount rate applied. We challenged and examined the business plans approved and assumptions used by management, including forecasted revenue base, profit from operations margin, working capital for terminal value calculations and cash flows necessary for the continuing use of the CGU's assets and allocated goodwill. We also evaluated the sensitivity analysis performed by management around the key assumptions noted above for various CGU's and challenged the outcomes of the assessment.

Furthermore, we assessed the adequacy of the Group's disclosures concerning goodwill in Note 4 to the consolidated financial statements.

Impairment of trade receivables

The Group has recorded net trade receivables of KD 41.1 million representing 19.5% of total assets as at 31 December 2017. Impairment of trade receivables is a subjective area due to the high level of judgment applied by management in determining allowance for bad and doubtful debts including the historical experience levels of recovery from the customers. Also, management is required to identify those trade receivables that are deteriorating, in addition to identifying them through a process of ageing analysis, make an objective assessment for evidence of impairment and the assessment of the recoverable amount.

Further, a significant proportion of receivables relates to entities that do not make payments invoice-wise but are settled through lump sum payments. There is a significant judgment involved in calculating the allowance for bad and doubtful debts, particularly regarding the estimation of future cash collection and allocation of cash collected towards outstanding invoices.

We reviewed and challenged information used to determine the allowance for bad and doubtful debts by considering cash collection performance against historical trends and the level of bad debt charges over time. Specifically, for the slow paying customers we reviewed the actual history to understand the collection of previously aged debts. We tested a sample of trade receivables, and assessed the criteria for determining whether an impairment event had occurred, by focusing on those with the most significant potential for impairment due to increased uncertainty of recovery in the current market circumstances and specifically challenged management's assessment of the recoverable amount.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of trade receivables (continued)

Disclosures relating to the impairment provision policy is presented in Note 2.4 and Note 7 and the management's assessment of the credit risk and their responses to such risks, including the risk management policies are disclosed in Note 21.1 to the consolidated financial statements.

Allowances against inventories

The Group is in the business of manufacturing, trading and distribution of various products relating to food industry, fast moving consumer goods, catering and other industrial products and is subject to changing consumer demands and market trends, increasing the level of judgment involved in estimating allowance for obsolete and slow moving inventories. Judgment is required to assess the appropriate level of allowance for items, which may be ultimately destroyed or sold below cost as a result of a reduction in consumer demand. Such judgments include management's expectations for future sales and inventory liquidation plans. Estimation process of the allowance is disclosed in Note 2.4 to the consolidated financial statements.

We reviewed the basis for the allowance by understanding and challenging the key assumptions used. In doing so, we understood the aging profile of the inventory, identification of obsolete and damaged inventories and the process for identifying specific problem inventory. Furthermore, we recalculated the expected allowance based on the above key assumptions to assess the mathematical accuracy of the calculation.

Disclosures relating to inventory and related allowances are given in Note 8 to the consolidated financial statements.

Other information included in the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

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

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

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on the Audit of the Consolidated Financial Statements (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, 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, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.



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

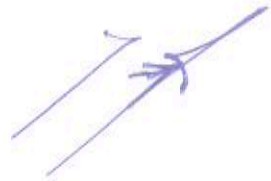


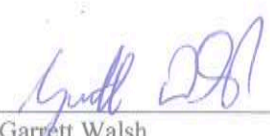
DR. SAUD HAMAD AL-HUMAIDI
LICENSE NO. 51 A
OF DR. SAUD HAMAD AL-HUMAIDI & PARTNERS
MEMBER OF BAKER TILLY INTERNATIONAL

18 March 2018
Kuwait

Mezzan Holding Company K.S.C.P. and Subsidiaries
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 As at 31 December 2017

	Notes	2017 KD	2016 KD
ASSETS			
Non-current assets			
Property, plant and equipment	3	77,113,969	66,405,100
Intangible assets	4	13,566,688	13,822,884
Investment in associates	5	1,124,307	1,014,041
Investment properties	6	4,176,695	4,336,091
Biological assets		696,571	752,876
Financial assets available for sale		763,423	763,423
		<u>97,441,653</u>	<u>87,094,415</u>
Current assets			
Trade and other receivables	7	60,165,695	69,790,064
Inventories	8	37,516,148	36,609,024
Due from related parties	9	37,098	41,011
Bank balances and cash	10	15,726,298	18,156,937
		<u>113,445,239</u>	<u>124,597,036</u>
TOTAL ASSETS		<u>210,886,892</u>	<u>211,691,451</u>
LIABILITIES			
Non-current liabilities			
Employees' end of service benefits		4,449,137	4,073,316
Loans and borrowings	11	3,991,185	7,158,360
		<u>8,440,322</u>	<u>11,231,676</u>
Current liabilities			
Loans and borrowings	11	39,651,640	32,626,860
Trade and other payables	12	40,689,219	44,597,028
Due to related parties	9	464,185	1,342,319
Bank overdrafts	10	6,555,908	10,192,590
		<u>87,360,952</u>	<u>88,758,797</u>
TOTAL LIABILITIES		<u>95,801,274</u>	<u>99,990,473</u>
NET ASSETS		<u>115,085,618</u>	<u>111,700,978</u>
EQUITY			
Share capital	13	31,132,500	31,132,500
Treasury shares	13	(37,500)	-
Statutory reserve	13	16,601,335	15,234,911
Voluntary reserve	13	16,601,335	15,234,911
Retained earnings		46,296,483	44,803,621
Foreign currency translation reserve		(554,967)	(98,820)
Fair value reserve		46,403	46,403
		<u>110,085,589</u>	<u>106,353,526</u>
Equity attributable to equity holders of the Parent Company		<u>110,085,589</u>	<u>106,353,526</u>
Non-controlling interests		5,000,029	5,347,452
TOTAL EQUITY		<u>115,085,618</u>	<u>111,700,978</u>


 Abdul Rahman Jassim Mohammed Al Wazzan
 (Chairman)


 Garrett Walsh
 (Chief Executive Officer)

The attached notes 1 to 24 form part of these consolidated financial statements.



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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017 KD</i>	<i>2016 KD</i>
Revenue		204,548,025	207,433,203
Cost of revenue		(151,109,967)	(153,665,016)
GROSS PROFIT		53,438,058	53,768,187
Operating expenses			
General and administrative expenses		(16,696,874)	(13,820,749)
Selling and distribution expenses		(22,397,516)	(21,748,972)
Other income	14	1,578,812	1,677,536
Operating profit		15,922,480	19,876,002
Share of results of associates	5	110,266	30,277
Finance costs		(2,188,176)	(1,367,836)
Impairment of property, plant and equipment	3	(260,829)	(131,355)
PROFIT BEFORE TAX AND BOARD OF DIRECTORS' REMUNERATION		13,583,741	18,407,088
Kuwait Foundation for the Advancement of Sciences		(122,978)	(162,680)
National Labour Support Tax		(358,805)	(451,893)
Zakat		(142,788)	(180,757)
Board of Directors' remuneration	9	(100,000)	(100,000)
PROFIT FOR THE YEAR	15	12,859,170	17,511,758
Attributable to:			
Equity holders of the Parent Company		12,939,671	17,180,233
Non-controlling interests		(80,501)	331,525
		12,859,170	17,511,758
Basic and diluted earnings per share attributable to the equity holders of the Parent Company	16	41.56 Fils	55.18 Fils

The attached notes 1 to 24 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 KD	2016 KD
Profit for the year	<u>12,859,170</u>	<u>17,511,758</u>
Other comprehensive income :		
<i>Items that are or may be reclassified to consolidated statement of income in subsequent period:</i>		
Net gain (loss) on hedge of investment in foreign operations	2,969	(232,444)
Foreign currency translation adjustment	<u>(519,323)</u>	<u>85,912</u>
Other comprehensive loss for the year	<u>(516,354)</u>	<u>(146,532)</u>
Total comprehensive income for the year	<u><u>12,342,816</u></u>	<u><u>17,365,226</u></u>
Attributable to:		
Equity holders of the Parent Company	12,483,524	17,030,548
Non-controlling interests	<u>(140,708)</u>	<u>334,678</u>
	<u><u>12,342,816</u></u>	<u><u>17,365,226</u></u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
OPERATING ACTIVITIES			
Profit for the year before tax and Board of Directors' remuneration		13,583,741	18,407,088
Adjustments to reconcile profit before tax and Board of Directors' remuneration to net cash flows:			
Depreciation	3 & 6	4,845,642	4,710,969
Amortisation of intangible assets	4	314,719	290,193
Provision for employees' end of service benefits		1,331,380	997,418
Provision for obsolete and slow moving inventories	8	146,559	97,597
Provision for bad and doubtful debts	7	532,978	381,837
Share of results of associates	5	(110,266)	(30,277)
Impairment of property, plant and equipment	3	260,829	131,355
(Gain) loss on disposal of property, plant and equipment and intangible assets	14	(10,466)	20,060
Gain on revaluation of biological assets		(137,980)	(119,263)
Loss (gain) on disposal of biological assets		51,744	(5,529)
Write-off of biological assets		35,299	24,764
Finance costs		2,188,176	1,367,836
Net foreign exchange loss (gain)	14	4,843	(133,475)
		<u>23,037,198</u>	<u>26,140,573</u>
Working capital adjustments:			
Trade and other receivables		9,112,339	(14,934,973)
Inventories		(1,051,074)	293,726
Net movement in amount due from / to related parties		(874,221)	(859,593)
Trade and other payables		(4,637,223)	7,741,224
		<u>25,587,019</u>	<u>18,380,957</u>
Cash from operations		25,587,019	18,380,957
Employees' end of service benefits paid		(928,097)	(798,826)
		<u>24,658,922</u>	<u>17,582,131</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(16,646,577)	(7,552,043)
Proceeds from disposal of property, plant and equipment		441,128	123,509
Purchase of intangible assets	4	(287,609)	(298,849)
Proceeds from disposal of intangible assets		28,000	-
Acquisition of non-controlling interests in a subsidiary		(7,054)	-
Proceeds from disposal of biological assets		107,242	72,758
Net cash flow on acquisition of a subsidiary	17	-	30,434
Dividend income received from associates		-	43,812
		<u>(16,364,870)</u>	<u>(7,580,379)</u>
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		7,024,780	28,147,333
Repayment of loans and borrowings		(2,464,802)	(14,373,890)
Purchase of treasury shares		(37,500)	-
Net movement in amount due to related parties (non-current)		-	(200,000)
Dividends paid to equity holders of Parent Company		(8,717,100)	(8,116,724)
Dividends paid to non-controlling interests		(196,522)	(183,638)
Finance costs paid		(2,188,176)	(1,365,065)
		<u>(6,579,320)</u>	<u>3,908,016</u>
Net cash flows (used in) from financing activities		(6,579,320)	3,908,016
Effect of foreign currency difference		(508,689)	(126,553)
		<u>1,206,043</u>	<u>13,783,215</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,206,043	13,783,215
Cash and cash equivalents at 1 January		7,964,347	(5,818,868)
		<u>9,170,390</u>	<u>7,964,347</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	9,170,390	7,964,347

The attached notes 1 to 24 form part of these consolidated financial statements.

Mezzan Holding Company K.S.C.P. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

Attributable to equity holders of the Parent Company

	Share capital KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Retained earnings KD	Foreign currency translation reserve KD	Fair value reserve KD	Sub total KD	Non-controlling interests KD	Total KD
As at 1 January 2016	29,650,000	-	13,427,355	13,427,355	40,874,750	50,865	46,403	97,476,728	2,554,700	100,031,428
Profit for the year	-	-	-	-	17,180,233	-	-	17,180,233	331,525	17,511,758
Other comprehensive (loss) income	-	-	-	-	-	(149,685)	-	(149,685)	3,153	(146,532)
Total comprehensive income (loss) for the year	-	-	-	-	17,180,233	(149,685)	-	17,030,548	334,678	17,365,226
Issue of bonus shares (Note 13)	1,482,500	-	-	-	(1,482,500)	-	-	-	-	-
Transfers to reserves	-	-	1,807,556	1,807,556	(3,615,112)	-	-	(8,153,750)	-	(8,153,750)
Dividends	-	-	-	-	(8,153,750)	-	-	-	-	(8,153,750)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(183,638)	(183,638)
Arising on acquisition of subsidiary	-	-	-	-	-	-	-	-	2,641,712	2,641,712
As at 31 December 2016	31,132,500	-	15,234,911	15,234,911	44,803,621	(98,820)	46,403	106,353,526	5,347,452	111,700,978
Profit (loss) for the year	-	-	-	-	12,939,671	-	-	12,939,671	(80,501)	12,859,170
Other comprehensive loss	-	-	-	-	-	(456,147)	-	(456,147)	(60,207)	(516,354)
Total comprehensive income (loss) for the year	-	-	-	-	12,939,671	(456,147)	-	12,483,524	(140,708)	12,342,816
Transfers to reserves	-	-	1,366,424	1,366,424	(2,732,848)	-	-	-	-	-
Purchase of treasury shares	-	(37,500)	-	-	-	-	-	(37,500)	-	(37,500)
Dividends (Note 20)	-	-	-	-	(8,717,100)	-	-	(8,717,100)	-	(8,717,100)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(196,522)	(196,522)
Acquisition of non-controlling interest without change in control	-	-	-	-	3,139	-	-	3,139	(10,193)	(7,054)
As at 31 December 2017	31,132,500	(37,500)	16,601,335	16,601,335	46,296,483	(554,967)	46,403	110,085,589	5,000,029	115,085,618

The attached notes 1 to 24 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of Mezzan Holding Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively the "Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 18 March 2018. The shareholders have the power to amend the consolidated financial statements at the annual general assembly meeting (AGM).

The Parent Company is a shareholding company registered and incorporated as a holding company in Kuwait on 3 August 1999. The registered office of the Parent Company is Building no. 287, Block 1, Aradiya, Kuwait. The Group is principally engaged in manufacturing, sale and distribution of food and non-food products. The shares of the Parent Company are publicly traded on Kuwait Stock Exchange (KSE).

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 units in limited liability companies whether Kuwaiti or foreign, or participating in establishing these companies, managing them and sponsoring them on behalf of others.
- b) Providing loans to companies in which the Parent Company holds shares or sponsors. In such cases, it is necessary that the participation ratio of the Parent Company in the share capital of the borrowing company not to be less than 20%.
- c) Owning intellectual property including patents, trademarks, industrial fees or any other related rights and leasing them to other companies to make use of them inside Kuwait and abroad.
- d) Holding movable or real estate assets necessary to carry out its activities within the limits allowed by law.

The Group is allowed to conduct the above-mentioned operations in the State of Kuwait or abroad by its own or as an agent on behalf of other parties. The Group may have an interest or in any way be associated with entities engaged on activities similar to its own or which may assist the Group in achieving its objectives in Kuwait or abroad, or may establish, participate in or acquire these entities or affiliate itself to it.

2.1 BASIS OF PREPARATION

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").

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and biological assets that have been measured at fair value.

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 POLICIES AND DISCLOSURES

Accounting for new transactions and events:

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in as a separate component of equity.

New and amended standards and interpretations

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 which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective.

The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 11.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

As at 31 December 2017, this amendment does not have any impact on the Group.

Other amendments to IFRSs, which are effective for annual accounting period starting from 1 January 2017, 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, amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated 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 and will not restate comparative information. During 2017, the Group has performed an initial impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its consolidated statement of financial position and equity from applying the classification and measurement requirements of IFRS 9.

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

With respect of receivables, the Group analysed the contractual cash flow characteristics of those instruments and concluded that based on their business model, they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

(b) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group will apply the simplified approach and record lifetime expected credit losses on all receivables. The Group do not expect any significant impact of expected credit losses on its amortised cost financial assets, when adopted.

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships would continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's consolidated financial statements.

(d) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group's assessment included an analysis to identify data gaps against current process and the Group is in process of implementing the system and controls changes that it believes will be necessary to capture the required data.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, 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.

Currently, 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 and revenue from rendering of services is recognised when related services are provided and hence, Group does not expect any significant impact when IFRS 15 is adopted.

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. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

IFRS 16 Leases (continued)

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

During 2018, the Group will continue to evaluate the potential effect of IFRS 16 on its consolidated financial statements.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

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

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (continued)

Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation
Or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2017. 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.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and 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.

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 consolidated statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The consolidated financial statements of the Group include:

Name of company	Country of incorporation	Legal ownership interest at 31 December		Principal activities
		2017	2016	
Conserved Foodstuff Distribution Company W.L.L. ¹	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. ¹	Kuwait	99.88%	99.88%	General trading and contracting activities
Al Muntaser Pharmaceutical Company W.L.L. ¹	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. ¹	Kuwait	99.99%	99.99%	Whole sale and retail trade of food stuff
Al Hoda Kuwaiti Foodstuff Company W.L.L. ¹	Kuwait	99.98%	99.98%	Exporting ,importing and trading of all kind of food stuff
Al Mansouria Consumer Trading Company W.L.L. ¹	Kuwait	99.94%	99.94%	Trading of household goods and cleaning materials
Al Wazzan Trading and Catering Services Company W.L.L. ¹	Kuwait	99.99%	99.99%	Providing catering services and general trading
National Canned Food Production and Trading Company W.L.L. ¹	Kuwait	99.99%	99.99%	Manufacturing and trading of all kinds of food stuffs
Oriental for Catering Services Company W.L.L. ¹	Kuwait	99.98%	99.98%	Exporting ,importing and trading of all kind of food stuff
Mezzan Industries Company W.L.L. ¹	Kuwait	99.98%	99.98%	Manufacturing of paper and nylon products
Kuwait Lube Oil Company K.S.C. (Closed)	Kuwait	93.76%	93.76%	Recycling and trading of oil, lubricants and related products
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	55.82%	55.58%	Manufacturing and trading of household goods
Kuwait Biscuit and Food Products Manufacturing Company W.L.L.(“KBC”) ¹	Kuwait	99.99%	99.99%	Manufacturing and trading of biscuits and related products
Gulf Pastries Manufacturing Company W.L.L. (“GPM”) ¹	Kuwait	99.98%	99.98%	Manufacturing and sale of pastries and cakes
Kuwait Indo Trading Company W.L.L.(“KITCO”) ¹	Kuwait	99.99%	99.99%	Manufacturing and sale of food stuff

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

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 activities
		2017	2016	
Mezzan Logistics for Transport and Storage Company K.S.C. (Closed) ¹	Kuwait	96%	96%	Logistics services and storage facilities
Emirates Star Services L.L.C. ¹	U.A.E.	99%	99%	Providing catering services and running restaurants
Qatar Star Services L.L.C. ²	Qatar	50%	50%	Providing catering and cleaning services
Mezzan Saudi Trading Company L.L.C. ²	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 products and providing related services
Al Wazzan Foodstuffs Factory L.L.C. ¹	U.A.E.	99%	99%	Manufacturing and trading of food stuffs
Tazweed Commercial Solutions Company P.S.C. ³	Jordan	50%	50%	Providing catering and retail services
UNITRA International L.L.C. ¹	U.A.E.	99.67%	99.67%	Trading of food and beverages
Middle East Trading Store L.L.C. ¹	U.A.E.	99.67%	99.67%	Trading of food and beverages
Mezzan Foods Company L.L.C. ⁴	Saudi Arabia	70%	70%	Manufacturing and distribution of food and beverage products

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

² 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%.

³ As per the terms of the incorporation, the Parent Company is entitled to receive 75% of share of profit or loss.

⁴ Subsidiary of Mezzan Saudi Trading Company L.L.C.

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%.

Hedge of net investment in foreign operations

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated 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 consolidated statement of income.

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 purchases of inventory from overseas suppliers.

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. Other contingent consideration that is not within the scope of IAS 39, is measured in accordance with applicable standard.

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 up to their residual values, 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 as either finite or indefinite.

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.

A summary of the policies applied to the Group's intangible assets is, as follows:

	Goodwill	Key money	Licenses	Computer software
Useful lives	Indefinite	Finite (based on the minimum lease term)	Indefinite	Finite (8 years)
Amortisation method used	No amortisation	Amortised on a straight-line basis over the minimum lease term	No amortisation	Amortised on a straight-line basis over the expected period over which benefits are 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates

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.

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 in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained 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 retained 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 (building only) 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 at amortised cost". Management determines the appropriate classification of each financial instrument at the time of initial recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 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 in response to changes in market conditions. Available for sale investments are initially measured at fair value (transaction price) plus directly attributable transaction costs. After initial recognition, financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the fair value reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the fair value reserve to the consolidated statement of income in finance costs. Interest earned whilst holding available for sale financial assets is reported as interest income using the effective interest rate method.

Unquoted equity securities classified as available for sale financial assets and whose fair value cannot be reliably determined are measured at cost, including transaction costs and less impairment losses. If a reliable measure becomes available for which such a measure was previously not available, then the available for sale financial assets are remeasured at fair value. The difference between the carrying amount and fair value at the date of such remeasurement is recognized in other comprehensive income

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For available-for-sale equity securities carried at cost because their fair value cannot be measured reliably, impairment losses may not be reversed.

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 at amortised cost

Financial liabilities includes 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 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. Increase in fair value after impairment in respect of financial assets classified as available for sale are recognised in other comprehensive income.

Fair value

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value (continued)

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 consolidated 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:

- 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 consolidated 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 at cost, 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 all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated statement of comprehensive income, foreign exchange differences are recognised directly in consolidated statement of 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.

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 consolidated statement of 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.

Statutory contributions

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated statement of financial position date are disclosed as an event after the consolidated 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.

Group as lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Group as a lessee

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, except for contingent rental payments which are expensed when they arise.

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.

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 are 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 consolidated 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 consolidated 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 receivables 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives of its property, plant and equipment and intangible assets for calculating depreciation and amortisation. 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 and amortisation charge would be adjusted where management believes the useful lives differs 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 consolidated 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 indefinite life 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 2017 were KD 12,496,327 (2016: KD 12,365,675). More details are given in Note 4.

Impairment of financial assets available for sale

Available-for-sale financial assets includes unquoted investments whose fair value cannot be measured reliably. These are measured at cost, subject to impairment testing.

Significant judgment and estimates are used by management to assess if any indications of impairment exist of available-for-sale financial asset measured at cost. Indications of impairment may include evidence that an investee company is experiencing significant financial difficulties, deteriorating cash flows and adverse changes to the business and the surrounding economic factors.

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 adjusts 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.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

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
Cost:									
As at 1 January 2017	12,816,818	5,774,146	41,238,276	46,003,489	2,560,351	9,942,340	8,719,784	4,140,275	131,195,479
Additions	-	-	694,275	1,271,228	33,211	732,043	514,800	13,401,020	16,646,577
Disposals	-	-	-	(146,454)	(4,381)	(651,544)	(218,682)	(279,015)	(1,300,076)
Exchange differences	(52,111)	-	(299,778)	(337,558)	(11,297)	(50,772)	(36,948)	(63,735)	(852,199)
As at 31 December 2017	12,764,707	5,774,146	41,632,773	46,790,705	2,577,884	9,972,067	8,978,954	17,198,545	145,689,781
Depreciation and impairment:									
As at 1 January 2017	318,223	-	17,780,993	29,769,036	2,439,274	6,587,968	7,894,885	-	64,790,379
Charge for the year	-	-	1,372,405	2,077,228	43,251	807,964	442,717	-	4,743,565
Impairment	-	-	-	251,506	8,485	-	838	-	260,829
Relating to disposals	-	-	-	(103,728)	(4,380)	(596,674)	(196,832)	-	(901,614)
Exchange differences	(4,439)	-	(96,206)	(137,108)	(10,032)	(31,700)	(37,862)	-	(317,347)
As at 31 December 2017	313,784	-	19,057,192	31,856,934	2,476,598	6,767,558	8,103,746	-	68,575,812
Net book value:									
As at 31 December 2017	12,450,923	5,774,146	22,575,581	14,933,771	101,286	3,204,509	875,208	17,198,545	77,113,969

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

3 PROPERTY, PLANT AND EQUIPMENT (continued)

	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
Cost:									
As at 1 January 2016	12,784,378	5,774,146	39,832,367	49,741,067	2,531,566	8,900,834	8,140,809	964,039	128,669,206
Arising on acquisition of subsidiary (Note 17)	-	-	705,171	1,422,608	-	68,330	72,230	-	2,268,339
Transfers to intangible assets (Note 4)	-	-	-	-	-	-	-	(70,154)	(70,154)
Additions	-	-	506,005	1,006,177	25,033	1,856,159	534,030	3,624,639	7,552,043
Disposals	-	-	(2,830)	(6,557,485)	(527)	(948,596)	(46,344)	-	(7,555,782)
Transfers	-	-	66,204	268,522	-	48,557	2,359	(385,642)	-
Exchange differences	32,440	-	131,359	122,600	4,279	17,056	16,700	7,393	331,827
As at 31 December 2016	12,816,818	5,774,146	41,238,276	46,003,489	2,560,351	9,942,340	8,719,784	4,140,275	131,195,479
Depreciation and impairment:									
As at 1 January 2016	315,468	-	16,399,695	33,952,893	2,385,918	6,769,239	7,516,689	-	67,339,902
Charge for the year	-	-	1,344,437	2,099,054	50,315	704,161	410,301	-	4,608,268
Impairment	-	-	-	131,355	-	-	-	-	131,355
Relating to disposals	-	-	(2,697)	(6,465,603)	(527)	(897,045)	(46,341)	-	(7,412,213)
Exchange differences	2,755	-	39,558	51,337	3,568	11,613	14,236	-	123,067
As at 31 December 2016	318,223	-	17,780,993	29,769,036	2,439,274	6,587,968	7,894,885	-	64,790,379
Net book value:									
As at 31 December 2016	12,498,595	5,774,146	23,457,283	16,234,453	121,077	3,354,372	824,899	4,140,275	66,405,100

Capital work-in-progress comprises assets under construction. These are transferred to respective asset groups when it is available for use.

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 (2016: KD 5,774,146) is not depreciated.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

3 PROPERTY, PLANT AND EQUIPMENT (continued)

The depreciation charge for the year was allocated as follows:

	2017 KD	2016 KD
Cost of revenue	2,639,142	2,730,564
Selling and distribution expenses	437,499	400,021
General and administrative expenses	1,666,924	1,477,683
	<u>4,743,565</u>	<u>4,608,268</u>

4 INTANGIBLE ASSETS

	<i>Goodwill</i> KD	<i>Computer software</i> KD	<i>Other intangible assets</i> KD	<i>Asset under development</i> KD	<i>Total</i> KD
Cost:					
As at 1 January 2017	11,560,943	2,423,298	1,572,400	79,533	15,636,174
Additions	-	31,726	228,334	27,549	287,609
Disposals	-	-	(60,200)	-	(60,200)
Exchange differences	(168,513)	(712)	-	-	(169,225)
As at 31 December 2017	<u>11,392,430</u>	<u>2,454,312</u>	<u>1,740,534</u>	<u>107,082</u>	<u>15,694,358</u>
Amortisation and impairment:					
As at 1 January 2017	-	1,240,922	572,368	-	1,813,290
Charge for the year	-	299,546	15,173	-	314,719
Exchange differences	-	(339)	-	-	(339)
As at 31 December 2017	<u>-</u>	<u>1,540,129</u>	<u>587,541</u>	<u>-</u>	<u>2,127,670</u>
Net carrying amount:					
As at 31 December 2017	<u>11,392,430</u>	<u>914,183</u>	<u>1,152,993</u>	<u>107,082</u>	<u>13,566,688</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

4 INTANGIBLE ASSETS (continued)

	Goodwill KD	Computer software KD	Other intangible assets KD	Asset under development KD	Total KD
Cost:					
As at 1 January 2016	10,307,259	2,091,381	1,597,400	42,062	14,038,102
Arising on acquisition of a subsidiary (Note 17)	1,147,852	9,946	-	-	1,157,798
Additions	-	107,619	10,000	181,230	298,849
Transfers from property, plant and equipment (Note 3)	-	70,154	-	-	70,154
Transfers	-	143,759	-	(143,759)	-
Disposals	-	-	(35,000)	-	(35,000)
Exchange differences	105,832	439	-	-	106,271
As at 31 December 2016	11,560,943	2,423,298	1,572,400	79,533	15,636,174
Amortisation and impairment:					
As at 1 January 2016	-	957,432	600,528	-	1,557,960
Charge for the year	-	283,353	6,840	-	290,193
Relating to disposals	-	-	(35,000)	-	(35,000)
Exchange differences	-	137	-	-	137
As at 31 December 2016	-	1,240,922	572,368	-	1,813,290
Net carrying amount:					
As at 31 December 2016	11,560,943	1,182,376	1,000,032	79,533	13,822,884

Amortisation charge for the year is included within general and administrative expenses in the consolidated statement of income.

Goodwill acquired through business combination and license with indefinite lives are allocated to food and fast moving consumer goods cash generating units ("CGU"), which are an operating and reportable segments, and are tested for impairment.

The recoverable amount of the cash generating unit has been determined based on a value in use calculation using cash flow projections based on five year financial budgets approved by Group management. The discount rate applied to cash flow projections is 8.1% (2016: 9.3%) and cash flows beyond the 5 year period are extrapolated using rate of 3.5% (2016: 3.5%).

The calculation of value in use for each cash generating unit is sensitive to the following assumptions:

- Revenue;
- Earnings before depreciation;
- Discount rates; and
- Growth rate used to extrapolate cash flows beyond the budget period.

Revenue and earnings before depreciation

Revenue and earnings before depreciation assumptions are based on average values achieved in the year preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Growth rates

Assumptions are based on industry research by the management.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

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	
			2017	2016	2017 KD	2016 KD
International Paper Products W.L.L.	Kuwait	Manufacturing	24.34	24.34	746,426	624,478
National Textile Company K.S.C. (Closed)	Kuwait	Manufacturing	31.65	31.65	377,881	389,563
					<u>1,124,307</u>	<u>1,014,041</u>

Summarised statement of financial position of the associates is as follows:

	2017 KD	2016 KD
Current assets	3,777,463	3,495,307
Non-current assets	4,577,663	4,506,975
Current liabilities	(2,337,974)	(1,860,044)
Non-current liabilities	(1,484,374)	(1,912,357)
Equity	<u>4,532,778</u>	<u>4,229,881</u>
Group's carrying amount of the investment in associates	<u>1,124,307</u>	<u>1,014,041</u>

Summarised statement of income of the associates is as follows:

	2017 KD	2016 KD
Revenue	2,678,101	3,039,893
Cost of sales	(1,774,290)	(2,412,132)
Other expenses	(619,697)	(487,027)
Profit for the year	<u>284,114</u>	<u>140,734</u>
Total comprehensive income for the year	<u>284,114</u>	<u>140,734</u>
Group's share of profit for the year	<u>110,266</u>	<u>30,277</u>

The associates had no contingent liabilities or capital commitments as at 31 December 2017 or 2016.

The associates are private companies and there is no quoted market price available for its shares/units.

The management of the Parent Company has assessed if any indication of impairment exists at the reporting date that may have an impact on the estimated future cash flows from these investments and concluded that 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.

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6 INVESTMENT PROPERTIES

The movement in investment properties is as follows:

	2017 KD	2016 KD
As at 1 January	4,336,091	4,382,964
Charge for the year	(102,077)	(102,701)
Exchange differences	(57,319)	55,828
As at 31 December	4,176,695	4,336,091

Management has estimated the economic useful life of the buildings to be 5-30 years.

Investment properties include land of KD 1,611,592 (31 December 2016: KD 1,633,379). Land has an indefinite useful life and therefore is not depreciated.

The Group engaged two independent valuation specialists to assess the fair value of investment properties as at the reporting date for the purpose of fair value disclosure. The fair value was disclosed based on the lower of the two values based on Capital Markets Authority (CMA) instructions concerning real estate valuations. As at 31 December 2017, the fair value of investment properties is KD 5,172,366 (2016: KD 5,586,498). All of the Group's investment properties are categorised within Level 3.

7 TRADE AND OTHER RECEIVABLES

	2017 KD	2016 KD
Trade receivables	45,522,137	58,352,305
Less: Allowance for bad and doubtful debts	(4,421,313)	(3,984,518)
Trade receivables – net of doubtful debt allowance	41,100,824	54,367,787
Advance to suppliers	14,776,705	11,249,781
Prepaid expenses	2,035,260	1,809,842
Deposits	698,509	662,841
Other receivables	1,554,397	1,699,813
	60,165,695	69,790,064

As at 31 December 2017, trade receivables with a carrying value of KD 4,421,313 (2016: KD 3,984,518) were impaired and fully provided for.

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

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

	2017 KD	2016 KD
As at 1 January	3,984,518	3,976,363
Charge for the year	532,978	381,837
Amounts written off	(73,978)	(381,609)
Exchange differences	(22,205)	7,927
As at 31 December	4,421,313	3,984,518

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7 TRADE AND OTHER RECEIVABLES (continued)

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

In determining the recoverability of a trade receivables, the Group considers any change in the credit quality of the trade receivables 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:

	Neither past due nor impaired KD	Past due but not impaired					Total KD
		< 30 days KD	30 to 60 days KD	61 to 90 days KD	91 to 120 days KD	> 120 days KD	
2017	20,924,197	5,581,119	4,477,480	2,278,366	2,171,459	5,668,203	41,100,824
2016	30,562,933	7,182,153	4,702,963	2,880,666	2,965,002	6,074,070	54,367,787

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

Refer Note 21.1 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

8 INVENTORIES

	2017 KD	2016 KD
Goods for resale (at lower of cost and net realizable value)	25,554,313	27,613,863
Raw materials, packing materials and consumables (at cost)	9,636,822	7,269,725
Finished goods (at lower of cost and net realizable value) and work in progress (at cost)	1,395,928	1,494,936
Goods in transit (at cost)	1,897,019	1,376,425
	38,484,082	37,754,949
Less: allowance for obsolete and slow moving inventories	(967,934)	(1,145,925)
	37,516,148	36,609,024

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

	2017 KD	2016 KD
As at 1 January	1,145,925	1,674,139
Charge for the year	146,559	97,597
Amounts written off	(321,671)	(627,791)
Exchange differences	(2,879)	1,980
As at 31 December	967,934	1,145,925

9 RELATED PARTY DISCLOSURES

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

9 RELATED PARTY DISCLOSURES (continued)

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

	<i>Major shareholders KD</i>	<i>Associates KD</i>	<i>Other related parties KD</i>	<i>2017 Total KD</i>	<i>2016 Total KD</i>
Consolidated statement of financial position:					
Due from related parties	2,384	-	34,714	37,098	41,011
Due to related parties	73,666	2,545	387,974	464,185	1,342,319

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

	<i>Major shareholders KD</i>	<i>Other related parties KD</i>	<i>2017 Total KD</i>	<i>2016 Total KD</i>
Consolidated statement of income:				
Revenue	37,383	162,568	199,951	206,591
Cost of revenue	(19,453)	-	(19,453)	(15,387)
Other income	-	406,331	406,331	379,512
General and administrative expenses	-	(327,820)	(327,820)	(178,454)

Compensation of key management personnel

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:

	<i>2017 KD</i>	<i>2016 KD</i>
Key management compensation:		
Salaries and other short-term benefits	2,515,518	2,511,358
Employees' end of service benefits	160,578	70,548
	<u>2,676,096</u>	<u>2,581,906</u>

The Board of Directors' remuneration of KD 100,000 for the year ended 31 December 2017 (2016: KD 100,000) is within the amount permissible under local regulations and is subject to approval by the annual general assembly of the equity holders of the Parent Company.

10 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December 2017:

	<i>2017 KD</i>	<i>2016 KD</i>
Cash at bank and on hand	15,726,298	18,156,937
Bank overdrafts	(6,555,908)	(10,192,590)
Cash and cash equivalents	<u>9,170,390</u>	<u>7,964,347</u>

Bank overdrafts are repayable on demand and carry effective interest rates of up to 3.75% (2016: 3.5%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

11 LOANS AND BORROWINGS

Currency	Current		Non – current	
	2017 KD	2016 KD	2017 KD	2016 KD
Kuwaiti Dinars	10,997,800	7,000,000	-	-
US Dollars	27,202,500	23,420,420	-	2,377,740
Saudi Riyals	1,451,340	2,206,440	3,991,185	4,780,620
	<u>39,651,640</u>	<u>32,626,860</u>	<u>3,991,185</u>	<u>7,158,360</u>

Loans and borrowings carry interest at commercial rates.

Changes in liabilities arising from financing activities

	1 January 2017 KD	Cash flows inflow/(outflow) KD	Foreign exchange movement KD	31 December 2017 KD
Current interest-bearing loans and Borrowings	32,626,860	7,640,630	(615,850)	39,651,640
Non-current interest-bearing loans and borrowings	7,158,360	(3,080,652)	(86,523)	3,991,185
Total liabilities from financing activities	<u>39,785,220</u>	<u>4,559,978</u>	<u>(702,373)</u>	<u>43,642,825</u>
	1 January 2016 KD	Cash flows inflow/(outflow) KD	Foreign exchange movement KD	31 December 2016 KD
Current interest-bearing loans and borrowings	21,034,200	11,309,698	282,962	32,626,860
Non-current interest-bearing loans and borrowings	4,607,561	2,463,745	87,054	7,158,360
Total liabilities from financing activities	<u>25,641,761</u>	<u>13,773,443</u>	<u>370,016</u>	<u>39,785,220</u>

12 TRADE AND OTHER PAYABLES

	2017 KD	2016 KD
Trade payables	27,106,089	30,554,264
Accrued expenses	7,303,673	8,694,023
Advances from customers	19,290	21,938
Other payables	6,260,167	5,326,803
	<u>40,689,219</u>	<u>44,597,028</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

13 SHARE CAPITAL, TREASURY SHARES AND RESERVES

a) Share capital

	2017 KD	2016 KD
<i>Authorised, issued and fully paid up in cash:</i>		
311,325,000 (2016: 311,325,000) shares of 100 (2016: 100) fils each	<u>31,132,500</u>	<u>31,132,500</u>

The Extraordinary General Assembly meeting (EGM) of the Parent Company held on 13 April 2016 have approved the Parent Company's authorized capital increase from KD 29,650,000 to KD 31,132,500 through issuance of 14,825,000 shares at a nominal value of 100 fils per share.

b) Treasury shares

	2017	2016
Number of treasury shares	<u>50,000</u>	<u>-</u>
Percentage of issued shares	<u>0.016%</u>	<u>-</u>
Cost of acquisition (KD)	<u>37,500</u>	<u>-</u>
Market value (KD)	<u>38,750</u>	<u>-</u>

The weighted average market price of the Parent Company's shares for the year ended 31 December 2017 was 775 fils per share (31 December 2016: 930 fils per share).

Reserves of the Parent Company equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable in the Parent Company.

c) Statutory reserve

In accordance with the Companies' Law, and the Parent Company's articles of association, 10% of the profit for the year before tax and board of directors' remuneration is required to be transferred to the statutory reserve. The Parent Company may resolve to discontinue such transfers when the reserve exceeds 50% of the issued share capital. The reserve is not available for distribution and can only be used to eliminate losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend and the absence of other distributable reserves that allow the distribution of such profits.

c) Voluntary reserve

In accordance with the Companies' Law, and the Parent Company's articles of association, 10% of the profit for the year before tax and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

14 OTHER INCOME

	2017 KD	2016 KD
Gain (loss) on disposal of property, plant and equipment and intangible assets	10,466	(20,060)
Other miscellaneous income	1,499,783	1,498,871
Foreign exchange (loss) gain	(4,843)	133,475
Dividends	73,406	65,250
	<u>1,578,812</u>	<u>1,677,536</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

15 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	2017 KD	2016 KD
Staff costs	29,811,275	26,926,848
Rental – operating leases	5,813,352	5,350,245
Inventories recognised as expense upon sale of goods and rendering services	141,153,810	141,179,631

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 during the year after adjusting for treasury shares:

	2017	2016
Profit for the year (KD)	12,939,671	17,180,233
Weighted average number of ordinary shares outstanding during the year (shares)	311,319,384	311,325,000
Basic and diluted earnings per share (Fils)	41.56	55.18

Basic and diluted earnings per share for the comparative period are adjusted to reflect the effect of bonus shares issued on 13 April 2016 (Note 13). As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

17 BUSINESS COMBINATION

On 23 August 2016, Mezzan Saudi Trading Company (L.L.C.), a subsidiary of Parent Company, acquired 70% equity interest of Al Safi Food Company L.L.C. (“Mezzan Foods” or the “subsidiary”) through capital injection, a company incorporated in the Kingdom of Saudi Arabia (KSA) from a third party. Principal activities of Mezzan Foods are manufacturing and distribution of food and beverage products.

In 2016, the Group finalised the Purchase Price Allocation (“PPA”) exercise and determined that the fair values of the assets and liabilities acquired do not materially differ from their provisionally determined fair values as at the acquisition date.

The capital introduced and the values of the assets acquired and liabilities assumed, as at the acquisition date, and non-controlling interests measured at the fair value, are summarised as follows:

	SAR	KD
Assets:		
Property, plant and equipment	28,153,643	2,268,339
Intangible assets	123,453	9,946
Trade and other receivables	2,230,405	179,704
Inventories	2,130,207	171,632
Due from related parties	84,568	6,814
Bank balances and cash	91,129,226	7,342,282
	123,851,502	9,978,717

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

17 BUSINESS COMBINATION (continued)

	SAR	KD
Liabilities:		
Employees' end of service benefits	776,664	62,576
Trade and other payables	7,666,392	617,681
Due to related parties	6,115,821	492,752
	<u>14,558,877</u>	<u>1,173,009</u>
Total identifiable net assets at fair values	<u>109,292,625</u>	<u>8,805,708</u>
Consideration paid	90,751,500	7,311,848
Non-controlling interest in a subsidiary recognised at fair value	32,787,788	2,641,712
Goodwill on purchase	<u>14,246,663</u>	<u>1,147,852</u>
Capital introduced	(90,751,500)	(7,311,848)
Cash and cash equivalents in the subsidiary acquired	<u>91,129,226</u>	<u>7,342,282</u>
Cash inflow on acquisition	<u>377,726</u>	<u>30,434</u>

The goodwill amounting to KD 1,147,852 (SAR 14,246,663) arising on acquisition of Mezzan Foods was recognised in the consolidated statement of financial position (Note 4).

18 CONTINGENCIES AND COMMITMENTS

(a) Contingencies:

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

	2017 KD	2016 KD
Letters of guarantee	<u>14,894,886</u>	<u>15,065,833</u>

Letters of guarantee 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:

	2017 KD	2016 KD
Capital expenditure commitments		
Future estimated capital expenditure contracted for at the reporting date:		
Property, plant and equipment	10,824,279	8,987,279
Intangible assets	<u>272,931</u>	<u>254,507</u>
	<u>11,097,210</u>	<u>9,241,786</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

18 CONTINGENCIES AND COMMITMENTS (continued)

(b) Commitments (continued):

	2017 KD	2016 KD
<i>Operating lease commitments as lessee:</i>		
Future minimum lease payments:		
Within one year	3,595,019	2,619,823
After one year but not more than five years	346,254	663,163
Total operating lease expenditure contracted for at the reporting date	<u>3,941,273</u>	<u>3,282,986</u>
<i>Operating lease commitments as lessor:</i>		
Future minimum lease payments:		
Within one year	645,040	572,040
After one year but not more than five years	1,128,820	1,797,840
Total operating lease income contracted for at the reporting date	<u>1,773,860</u>	<u>2,369,880</u>

19 SEGMENT INFORMATION

For management reporting purposes, the Group is organised into five major operating segments and a corporate segment 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:

(a) Food

- 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 mainly meat products, cakes, biscuits, potato chips, snacks, canned food products, dairy products and water.
- 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.
- 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.

(b) Non-food

- Fast Moving Consumer Goods ("FMCG") : FMCG mainly comprises of distribution of health and beauty products, medicines, medical products and household products.
- Industrial : Industrial comprises of the manufacturing of goods including plastic materials, lube oil and cartons used for packaging.

(c) 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.

The Group's chief executive officer reviews the internal management reports of each reportable segment at least quarterly. Segment performance is evaluated based on segmental return on investments. Statutory contributions and Board of Directors' remuneration are managed on an overall basis and are not allocated to the operating segments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2017

19 SEGMENT INFORMATION (continued)

a) The following table presents information regarding the Group's operating segments.

	Year ended 31 December 2017										
	Food					Non-food					Corporate
	Food KD	Catering KD	Services KD	Sub-total KD	FMCG KD	Industrial KD	Sub-total KD	KD	KD	KD	Total KD
Revenue	110,322,528	29,409,292	14,418,566	154,150,386	44,657,505	5,661,815	50,319,320	78,319	204,548,025		
Segment profit (loss)	10,082,253	(113,697)	3,092,851	13,061,407	2,178,713	1,047,291	3,226,004	(2,703,670)	13,583,741		
Total assets	107,583,058	25,448,756	11,500,144	144,531,958	45,784,368	10,590,265	56,374,633	9,980,301	210,886,892		
Total liabilities	18,854,188	7,306,416	2,191,531	28,352,135	10,671,494	2,082,345	12,753,839	54,695,300	95,801,274		
<i>Other disclosures:</i>											
Depreciation and amortisation	2,806,353	807,328	288,322	3,902,003	327,369	391,533	718,902	539,456	5,160,361		
Investment in associates	-	-	-	-	-	-	-	1,124,307	1,124,307		
Capital expenditure (excluding goodwill)	11,847,247	1,296,344	116,670	13,260,261	1,914,225	1,067,205	2,981,430	692,495	16,934,186		
Impairment of property, plant and equipment	-	-	-	-	260,829	-	260,829	-	260,829		
Share of results of associates	-	-	-	-	-	-	-	110,266	110,266		

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19 SEGMENT INFORMATION (continued)

Year ended 31 December 2016

	Food				Non-food			Corporate	Total KD
	Food KD	Catering KD	Services KD	Sub-total KD	FMCG KD	Industrial KD	Sub-total KD		
Revenue	109,178,611	26,681,443	19,408,558	155,268,612	46,353,487	5,683,281	52,036,768	127,823	207,433,203
Segment profit (loss)	12,422,827	(364,582)	3,092,991	15,151,236	4,143,516	629,307	4,772,823	(1,516,971)	18,407,088
Total assets	100,109,532	25,091,935	15,863,396	141,064,863	52,801,429	8,758,398	61,559,827	9,066,761	211,691,451
Total liabilities	17,197,511	7,360,047	6,993,816	31,551,374	9,184,751	2,558,851	11,743,602	56,695,497	99,990,473
<i>Other disclosures:</i>									
Depreciation and amortisation	2,738,259	685,517	292,796	3,716,572	338,984	396,147	735,131	549,459	5,001,162
Investment in associates	-	-	-	-	-	-	-	1,014,041	1,014,041
Capital expenditure (excluding goodwill)	5,188,401	1,678,219	60,025	6,926,645	76,145	305,658	381,803	542,444	7,850,892
Impairment of property, plant and equipment	54,850	76,505	-	131,355	-	-	-	-	131,355
Share of results of associates	-	-	-	-	-	-	-	30,277	30,277

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19 SEGMENTAL INFORMATION (continued)

b) The following table presents information regarding the Group's geographical area of operations.

	<i>Kuwait</i> KD	<i>Saudi Arabia</i> KD	<i>U.A.E</i> KD	<i>Qatar</i> KD	<i>Jordan</i> KD	<i>Afghanistan</i> KD	<i>Iraq</i> KD	<i>Total</i> KD
<i>Year ended 31 December 2017</i>								
Revenue	136,998,966	4,880,016	30,357,404	20,280,228	5,746,214	4,306,698	1,978,499	204,548,025
Non-current assets	63,814,618	8,593,111	10,821,216	12,028,448	2,114,637	69,623	-	97,441,653
<i>Year ended 31 December 2016</i>								
Revenue	134,573,151	1,420,806	34,767,337	19,657,841	10,408,912	5,132,301	1,472,855	207,433,203
Non-current assets	55,244,851	8,754,314	8,334,160	12,138,727	2,515,640	106,723	-	87,094,415

20 PROPOSED DIVIDEND

The Board of Directors of the Parent Company proposed to distribute cash dividends of 22 fils per share (2016: 28 fils) aggregating to KD 6,848,050 (2016: KD 8,717,100) to the Parent Company shareholders on records as of the date of the general assembly (excluding treasury shares). This proposal is subject to the approval of the shareholders in the annual general meeting (AGM).

For the year ended 31 December 2016, cash dividend of 28 fils per share amounting to KD 8,717,100 was approved by shareholders at the AGM held on 10 April 2017 and subsequently paid during the year.

21 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, loans and borrowings and payables 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, receivables from 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.

21.1 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 and amounts due from related parties.

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 2017 and 31 December 2016.

The Group sells its products and renders services to a large number of customers. Its 5 largest customers account for 18% of outstanding trade receivables at 31 December 2017 (2016: 29%).

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. The Group minimizes its credit risk by placing funds in reputed institutions with appropriate credit ratings. As to receivables from related parties, these are monitored on an ongoing basis by management and considered recoverable.

21.2 Liquidity risk

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

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**21.2 Liquidity risk (continued)**

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 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:

2017	<i>On demand KD</i>	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Loans and borrowings	-	4,413,261	37,641,232	3,600,752	45,655,245
Trade and other payables	-	40,669,929	-	-	40,669,929
Due to related parties	464,185	-	-	-	464,185
Bank overdrafts	6,555,908	-	-	-	6,555,908
Total undiscounted liabilities	7,020,093	45,083,190	37,641,232	3,600,752	93,345,267
Capital expenditure commitments	-	2,227,996	3,557,752	5,311,462	11,097,210
2016	<i>On demand KD</i>	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Loans and borrowings	-	2,316,652	30,733,492	7,690,703	40,740,847
Trade and other payables	-	44,575,090	-	-	44,575,090
Due to related parties	1,142,319	100,000	100,000	-	1,342,319
Bank overdrafts	10,192,590	-	-	-	10,192,590
Total undiscounted liabilities	11,334,909	46,991,742	30,833,492	7,690,703	96,850,846
Capital expenditure commitments	-	1,132,658	3,995,319	4,113,809	9,241,786

Included in loans and borrowings is an amount of KD 34,202,500 (2016: KD 28,151,950) which represents revolving facilities and the management is confident that the facilities will be renewed on expiry.

21.3 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.

21.3.1 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.

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

21.3 Market risk (continued)

21.3.1 Interest rate risk (continued)

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:

Currency	<i>Increase of 25 basis points Decrease in profit before KFAS, NLST, Zakat and Board of Director's remuneration</i>	
	2017 KD	2016 KD
Kuwaiti Dinars	27,494	17,500
US Dollars	68,006	64,495
Saudi Riyals	13,606	17,468

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

21.3.2 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.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted.

The Group is mainly exposed to foreign currency risk on its bank balances, trade receivables and trade 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 Board of Director's remuneration</i>		<i>Effect on other comprehensive income</i>	
	2017 KD	2016 KD	2017 KD	2016 KD
U.A.E. Dirhams	4,964	(5,562)	-	-
Euro	(15,557)	(18,510)	-	-
British Pound	(1,974)	(7,542)	-	-
Saudi Riyals	(53,482)	(64,146)	19,561	2,011
US Dollars	(428,535)	(199,046)	43,128	(24,351)

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

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**21.3 Market risk (continued)****21.3.3 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.

The Group's financial assets available for sale measured at cost comprise of unquoted equity securities which are not sensitive to market movements. Accordingly, the Group is not exposed to equity price risk at the reporting date.

21.4 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.

21.5 Operational 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.

22 FAIR VALUE MEASUREMENT**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 borrowings, trade and other payables and due to related parties.

The fair values of financial instruments, except for unquoted equity securities measured at cost for which fair value cannot be measured reliably, 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 their fair values. This assumption is also applied to variable rate financial instruments.

23 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 three months. As at 31 December 2017, there were no outstanding derivative instruments.

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

Derivative financial instruments

	Positive fair value KD	Negative fair value KD	Notional amount KD	Notional amounts by term to maturity	
				Up to 3 months KD	3-12 months KD
Forward foreign exchange contracts	-	31,220	5,486,680	5,486,680	-

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.

As at and for the year ended 31 December 2017

23 HEDGING ACTIVITIES AND DERIVATIVES (continued)**Hedge of net investments in foreign operations**

Included within loans at 31 December 2017 were borrowings denominated in US Dollars and Saudi Riyals amounting to KD 25,904,850 (2016: KD 28,861,380) which have been designated as hedge for the net investments in the subsidiaries in United Arab Emirates, Qatar and Kingdom of Saudi Arabia. These borrowings are being used to hedge the Group's exposure to the US Dollars and Saudi Riyals foreign exchange risk on these borrowings. Gains or losses on the retranslation of these borrowings are recorded in other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries. There is no ineffectiveness for the years ended 31 December 2017 and 2016.

24 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 shareholders' 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 2017 and 31 December 2016. 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.

	<i>2017</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>
Loans and borrowings	43,642,825	39,785,220
Bank overdrafts	6,555,908	10,192,590
Less: Bank balances and cash	<u>(15,726,298)</u>	<u>(18,156,937)</u>
Net debt	<u>34,472,435</u>	<u>31,820,873</u>
Equity attributable to the equity holders of the Parent Company	<u>110,085,589</u>	<u>106,353,526</u>
Total capital plus net debt	<u>144,558,024</u>	<u>138,174,399</u>
Debt : Equity ratio	<u>24:76</u>	<u>23:77</u>

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