

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

**Consolidated financial statements and independent auditor's report
for the year ended 31 December 2019**

Mezzan Holding Company K.S.C.P. (Closed) and subsidiaries

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Independent auditor's report

The Shareholders
Mezzan Holding Company K.S.C.P.
State of Kuwait

Opinion

We have audited the consolidated financial statements of Mezzan Holding Company K.S.C.P ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with 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.

Emphasis of Matter - comparative information

We draw attention to Note 33 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2018 has been restated. Our opinion is not modified in respect of this matter.



Other Matter relating to comparative information

The consolidated financial statements of the Group as at and for the year ended 31 December 2018, excluding the adjustments described in Note 33 to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on 24 March 2019.

As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2019, we audited the adjustment described in Note 33 to the consolidated financial statements that were applied to restate the comparative information presented as at and for the year ended 31 December 2018.

We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended 31 December 2018, other than with respect to the adjustment described in Note 33 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective consolidated financial statements taken as a whole. However, in our opinion, the adjustment described in Note 33 to the consolidated financial statements are appropriate and have been properly applied.

Key Audit Matters

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

Impairment testing of goodwill

See Note 3(e) and 7 to the consolidated financial statements.

The key audit matter

The Group has recognised the final goodwill (excluding provisional goodwill) in the amount of KD10,294,244, which represents 3.95% of the total assets. The significant amount of the goodwill has been allocated to food cash generating unit (CGU).

The annual impairment testing of goodwill is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgement required in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of the CGUs, which is based on the higher of the value in use or fair value less costs to sell, has been derived from discounted forecast cash flow models. These models use several key assumptions, including estimates of future sales volumes and prices, operating costs, terminal value growth rates and the weighted-average cost of capital (discount rate).

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- Reviewed the carrying value of the CGUs by reviewing future cash flow projections, challenging key assumptions and performing sensitivity analysis;
- Involved internal valuation specialists to assist us in evaluating the methodology adopted by management in its impairment assessments;
- Compared the most significant inputs in the discounted cash flow forecasts, including growth rates of future revenue, future margins and cost, with the latest financial budgets approved by the board of directors, historical performance and forecasts;
- Obtained sensitivity analyses of both the discount rates and future cash flows and considering the resulting impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and
- evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.



Revenue

See Note 3(p) and 27 to the consolidated financial statements.

The key audit matter

There are pressures on the Group's management to meet the expectations and financial targets. Additionally, senior and middle management rewards and incentive programs are tied to achievement of profit targets.

The majority of the group's revenue are generated from food and fast-moving consumer goods, the sales arrangements are generally straightforward, revenue is recognized at a point in time basis on transfer of control of goods and services to customers and requires little judgement in revenue recognition. However, there is a risk that revenue may be overstated by management override of key controls over revenue process such as cut-off controls and manual journal entries, resulting from the pressure the management may feel to achieve performance targets. Due to the significance of the above risk, revenue is considered as key audit matter.

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- We understood each business's revenue recognition policies and how they are applied, including the relevant controls, and tested controls over revenue recognition where appropriate;
- Involve internal IT specialists to assist us in assessing the operating effectiveness of those IT controls which were critical to the recognition of revenue;
- We performed cut-off testing for a sample of revenue transactions around the period end date, to check that they were recognised in the appropriate period;
- We performed other audit procedures specifically designed to address the risk of management override of controls including journal entry testing, applying particular focus to the timing of revenue transactions; and
- We assessed the disclosures against the requirements of IFRS 15, Revenue from contracts with customers, in particular in respect of the requirements to disclose rebate and returns arrangements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's annual report, other than the consolidated financial statements and our auditor's report thereon. Prior to the date of this auditor's report, we obtained the Board of Directors' report which forms part of the annual report and the remaining sections of the annual report are expected to be made available to us after that date.

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 have 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.



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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum and Articles of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, or of the Company's Memorandum and Articles of Association during the year ended 31 December 2019 that might have had a material effect on the business of the Group or on its consolidated financial position.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 8 April 2020

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

Consolidated statement of financial position
as at 31 December 2019

	Notes	2019 KD	2018 KD (Restated)
Assets			
Property, plant and equipment	5	78,105,537	79,458,250
Right of use assets	6	3,252,269	-
Intangible assets	7	29,400,613	13,528,571
Investment in associates	8	1,071,824	1,241,225
Investment properties	9	3,990,822	4,095,856
Biological assets	30	722,751	585,810
Investments at fair value through other comprehensive income	30	1,933,479	1,692,239
Non-current assets		<u>118,477,295</u>	<u>100,601,951</u>
Inventories	10	46,308,056	40,971,215
Trade and other receivables	11	78,362,148	58,897,761
Cash and cash equivalents	13	17,182,905	16,677,660
Current assets		<u>141,853,109</u>	<u>116,546,636</u>
Total assets		<u>260,330,404</u>	<u>217,148,587</u>
Equity			
Share capital	14	31,132,500	31,132,500
Treasury shares	15	(4,563,800)	(4,463,160)
Statutory reserve	16	16,601,335	16,601,335
Voluntary reserve	17	16,601,335	16,601,335
Fair value reserve		1,120,264	975,219
Foreign currency translation reserve		(472,540)	(471,149)
Other reserve	18	(1,763,509)	(1,210,669)
Retained earnings		46,939,964	46,177,047
Equity attributable to shareholders of the Company		<u>105,595,549</u>	<u>105,342,458</u>
Non-controlling interests	19	8,024,852	4,489,938
Total equity		<u>113,620,401</u>	<u>109,832,396</u>
Liabilities			
Loans and borrowings	20	1,093,230	2,552,760
Lease liabilities	6	2,030,641	-
Retirement benefit obligation	21	7,275,294	5,845,501
Non-current liabilities		<u>10,399,165</u>	<u>8,398,261</u>
Loans and borrowings	20	85,924,560	50,702,971
Bank overdrafts	13	4,556,790	8,906,974
Lease liabilities	6	975,990	-
Trade and other payables	22	44,853,498	39,307,985
Current liabilities		<u>136,310,838</u>	<u>98,917,930</u>
Total liabilities		<u>146,710,003</u>	<u>107,316,191</u>
Total equity and liabilities		<u>260,330,404</u>	<u>217,148,587</u>

The accompanying notes form an integral part of these consolidated financial statements.

Mohammed Jassim Al Wazzan
Vice Chairman

Garrett Walsh
Chief Executive Officer

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

Consolidated statement of profit or loss
for the year ended 31 December 2019

	Notes	2019 KD	2018 KD (Restated)
Revenues	27	222,466,358	207,471,048
Cost of revenue		<u>(173,721,879)</u>	<u>(163,452,214)</u>
Gross profit		48,744,479	44,018,834
Selling and distribution expenses		(18,462,145)	(16,844,976)
General and administrative expenses		(18,330,064)	(18,549,573)
Other income	23	<u>690,220</u>	<u>1,886,735</u>
Results from operating activities		12,642,490	10,511,020
Finance costs		(3,666,838)	(2,764,974)
Share of (loss) / profit of associates	8	(96,381)	116,918
Impairment of non-financial assets- net	24	<u>(2,244,509)</u>	<u>(748,020)</u>
Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), National Labour Support Tax (“NLST”), Zakat and board of directors’ remuneration		6,634,762	7,114,944
KFAS		(59,326)	(74,030)
NLST		(134,477)	(211,282)
Zakat		(53,138)	(83,697)
Board of directors’ remuneration	12	<u>(50,000)</u>	<u>(75,000)</u>
Profit for the year		<u><u>6,337,821</u></u>	<u><u>6,670,935</u></u>
Profit attributable to:			
Shareholders of the Company		5,635,637	6,959,019
Non-controlling interests	19	<u>702,184</u>	<u>(288,084)</u>
		<u><u>6,337,821</u></u>	<u><u>6,670,935</u></u>
Earnings per share (basic and diluted) (fils)	26	<u>18.50 fils</u>	<u>22.56 fils</u>

The accompanying notes form an integral 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 2019

	2019	2018
	KD	KD
		(Restated)
Profit for the year	6,337,821	6,670,935
<i>Other comprehensive income / (loss)</i>		
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
Foreign currency translation differences on foreign operations	(7,853)	121,294
Net investment hedge- net gain / (loss)	11,200	(75,034)
	<u>3,347</u>	<u>46,260</u>
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Remeasurements of defined benefit obligations	-	(1,196,386)
Change in fair value of investment at fair value through other comprehensive income (Note 30)	145,045	(25,151)
	<u>145,045</u>	<u>(1,221,537)</u>
<i>Total other comprehensive income / (loss)</i>	<u>148,392</u>	<u>(1,175,277)</u>
Total comprehensive income for the year	<u><u>6,486,213</u></u>	<u><u>5,495,658</u></u>
Total comprehensive income attributable to:		
Shareholders of the Company	5,779,291	5,807,017
Non-controlling interests	706,922	(311,359)
Total comprehensive income for the year	<u><u>6,486,213</u></u>	<u><u>5,495,658</u></u>

The accompanying notes form an integral 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 2019

	Attributable to shareholders of the Company										Total equity KD
	Share capital	Treasury shares	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	
Balance at 1 January 2018	31,132,500	(37,500)	16,601,335	16,601,335	46,403	(554,967)	-	46,296,483	110,085,589	5,000,029	115,085,618
Adjustment on initial application of IFRS 9	-	-	-	-	953,967	-	-	(230,405)	723,562	-	723,562
Restated balance at 1 January 2018	31,132,500	(37,500)	16,601,335	16,601,335	1,000,370	(554,967)	-	46,066,078	110,809,151	5,000,029	115,809,180
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	6,959,019	6,959,019	(288,084)	6,670,935
<i>Other comprehensive income</i>											
Foreign currency translation	-	-	-	-	-	83,818	-	-	83,818	(23,275)	60,543
Remeasurements of defined benefit obligations	-	-	-	-	-	-	(1,210,669)	-	(1,210,669)	-	(1,210,669)
Change in fair value (Note 30)	-	-	-	-	(25,151)	-	-	-	(25,151)	-	(25,151)
Total comprehensive income for the year	-	-	-	-	(25,151)	83,818	(1,210,669)	6,959,019	5,807,017	(311,359)	5,495,658
Purchase of treasury shares	-	(4,425,660)	-	-	-	-	-	-	(4,425,660)	-	(4,425,660)
Dividend paid to the shareholders of the Company (Note 14)	-	-	-	-	-	-	-	(6,848,050)	(6,848,050)	-	(6,848,050)
Dividend paid to NCI (Note 19)	-	-	-	-	-	-	-	-	-	(198,732)	(198,732)
Balance at 31 December 2018	31,132,500	(4,463,160)	16,601,335	16,601,335	975,219	(471,149)	(1,210,669)	46,177,047	105,342,458	4,489,938	109,832,396

The accompanying notes form an integral 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 2019

	Attributable to shareholders of the Company										Total equity KD
	Share capital	Treasury shares	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	
Balance at 1 January 2019	31,132,500	(4,463,160)	16,601,335	16,601,335	975,219	(468,207)	(1,210,669)	46,891,407	106,059,760	4,489,938	110,549,698
Impact of correction of error (Note 33)	-	-	-	-	-	(2,942)	-	(714,360)	(717,302)	-	(717,302)
Restated balance at 1 January 2019	31,132,500	(4,463,160)	16,601,335	16,601,335	975,219	(471,149)	(1,210,669)	46,177,047	105,342,458	4,489,938	109,832,396
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	5,635,637	5,635,637	702,184	6,337,821
<i>Other comprehensive income</i>											
Change in fair value (Note 30)	-	-	-	-	145,045	-	-	-	145,045	-	145,045
Foreign currency translation	-	-	-	-	-	(1,391)	-	-	(1,391)	4,738	3,347
Total comprehensive income for the year	-	-	-	-	145,045	(1,391)	-	5,635,637	5,779,291	706,922	6,486,213
Purchase of treasury shares	-	(100,640)	-	-	-	-	-	-	(100,640)	-	(100,640)
Dividend paid to the shareholders of the Company (Note 14)	-	-	-	-	-	-	-	(4,872,720)	(4,872,720)	-	(4,872,720)
Dividend paid to NCI (Note 19)	-	-	-	-	-	-	-	-	-	(219,090)	(219,090)
Acquisition of subsidiary with NCI (Note 4)	-	-	-	-	-	-	-	-	-	3,679,556	3,679,556
Acquisition of NCI without a change in control (Note 1)	-	-	-	-	-	-	(552,840)	-	(552,840)	(632,474)	(1,185,314)
Balance at 31 December 2019	<u>31,132,500</u>	<u>(4,563,800)</u>	<u>16,601,335</u>	<u>16,601,335</u>	<u>1,120,264</u>	<u>(472,540)</u>	<u>(1,763,509)</u>	<u>46,939,964</u>	<u>105,595,549</u>	<u>8,024,852</u>	<u>113,620,401</u>

The accompanying notes form an integral part of these consolidated financial statements.

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

Consolidated statement of cash flows for the year ended 31 December 2019

	Notes	2019 KD	2018 KD (Restated)
Cash flows from operating activities			
Profit for the period before contribution to KFAS, NLST, Zakat and board of directors' remuneration		6,634,762	7,114,944
<i>Adjustment for:</i>			
Depreciation	5,6&9	7,897,675	5,377,644
Amortisation of intangible assets	7	325,363	372,139
Provision for remeasurements of defined benefit obligations	21	1,054,730	1,288,637
Share of (losses) / profits of associates	8	96,381	(116,918)
Provision for obsolete and slow-moving inventories	10	973,893	50,787
Impairment of non-financial assets	24	2,244,509	748,020
(Reversal of) / provision for expected credit losses	11	(214,767)	769,574
Gain on disposal of property, plant and equipment	23	(72,275)	(1,113,324)
Change in fair value of biological assets	30	(134,505)	(116,148)
Loss on disposal of biological assets		3,759	61,371
Write-off of biological assets	30	15,896	24,927
Finance costs		3,666,838	2,764,974
Dividend income	23	(65,250)	(81,563)
Foreign currency exchange gain		(127,085)	(152,356)
		<u>22,299,924</u>	<u>16,992,708</u>
<i>Changes in:</i>			
- inventories		(1,779,095)	(3,507,206)
- trade and other receivables		(11,633,587)	288,505
- changes in related parties balances- net		923,871	542,378
- trade and other payables		2,053,955	(2,676,876)
Employees' end of service benefits paid	21	(927,836)	(1,099,985)
<i>Net cash from operating activities</i>		<u>10,937,232</u>	<u>10,539,524</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(5,031,521)	(8,794,159)
Purchase of intangible assets	7	(221,292)	(286,599)
Purchase of biological assets	30	(108,420)	-
Purchase of investment at fair value through other comprehensive income	30	(96,195)	-
Proceeds from disposal of property, plant and equipment		200,294	1,779,951
Proceeds from disposal of intangible assets		182	16,797
Proceeds from disposal of biological assets		86,329	140,611
Payment of acquisition of additional shares in subsidiary	1	(1,185,314)	-
Acquisition of subsidiary, net cash acquired	4	(22,608,431)	-
Dividend income from investment at fair value through other comprehensive income	23	65,250	81,563
Dividend received from associates	8	73,020	-
<i>Net cash used in investing activities</i>		<u>(28,826,098)</u>	<u>(7,061,836)</u>
Cash flows from financing activities			
Proceeds from loans and borrowings		40,725,550	10,855,341
Repayment of loans and borrowings		(7,623,616)	(1,438,425)
Payment of lease liabilities	6	(1,512,997)	-
Purchase of treasury shares		(100,640)	(4,425,660)
Finance costs paid		(3,666,838)	(2,764,974)
Dividend paid to shareholders of the Company	14	(4,872,720)	(6,848,050)
Dividend paid to non-controlling interests	19	(219,090)	(198,732)
<i>Net cash used in financing activities</i>		<u>22,729,649</u>	<u>(4,820,500)</u>
Effect of foreign exchange differences		14,646	(56,892)
Net change in cash and cash equivalents		<u>4,855,429</u>	<u>(1,399,704)</u>
Cash and cash equivalents at the beginning of the year	13	<u>7,770,686</u>	<u>9,170,390</u>
Cash and cash equivalents at the end of the year	13	<u>12,626,115</u>	<u>7,770,686</u>

The accompanying notes form an integral part of these consolidated financial statements.

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

Notes to the consolidated financial statements *for the year ended 31 December 2019*

1. Reporting entity

Mezzan Holding Company K.S.C.P (“the Company”) is a shareholding company registered and incorporated as a holding company in Kuwait on 3 August 1999. The shares of the Company were listed on Kuwait Stock Exchange (“Boursa Kuwait”) on 11 June 2015.

The principal activities of the 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 Company holds shares or sponsors. In such cases, it is necessary that the participation ratio of the 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 Company 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 Company 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 companies in achieving its objectives in Kuwait or abroad, or may establish, participate in or acquire these entities or affiliate itself to it.

The registered office of the Company is Building no. 287, Block 1, Aradiya, Kuwait.

The consolidated financial statements comprise of the Company and its subsidiaries (together referred to as “the Group”) and its investment in associates.

A list of significant directly and indirectly owned subsidiaries and investment in associates are as follows:

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

Notes to the consolidated financial statements for the year ended 31 December 2019

Name of entity	Country of incorporation	Principal business	Percentage of ownership	
			2019	2018
Subsidiaries				
Conserved Foodstuff Distribution Company W.L.L.*	Kuwait	Manufacturing and whole sale distribution of meat products and general trading in foodstuff	99.99%	99.99%
Al Sabriya International General Trading Company W.L.L.*	Kuwait	General trading and contracting activities	99.88%	99.88%
Al Muntaser Pharmaceutical Company W.L.L.*	Kuwait	Wholesale and retail trade of cosmetics, medicines and other consumer items	99.99%	99.99%
Jassim Al Wazzan Sons General Trading Company W.L.L.*	Kuwait	Wholesale and retail trade of foodstuff	99.99%	99.99%
Al Hoda Kuwaiti Foodstuff Company W.L.L.*x,	Kuwait	Exporting, importing and trading of all kind of foodstuff	99.98%	99.98%
Al Mansouria Consumer Trading Company W.L.L.*	Kuwait	Trading of household goods and cleaning materials	99.94%	99.94%
Al Wazzan Trading and Catering Services Company W.L.L.*	Kuwait	Providing catering services and general trading	99.99%	99.99%
National Canned Food Production and Trading Company W.L.L.*	Kuwait	Manufacturing and trading of all kinds of foodstuffs	99.99%	99.99%
Oriental for Catering Services Company W.L.L.*	Kuwait	Exporting, importing and trading of all kind of food stuff	99.98%	99.98%
Mezzan Industries Company W.L.L.*	Kuwait	Manufacturing of paper and nylon products	99.98%	99.98%
Kuwait Lube Oil Company K.S.C. (Closed)	Kuwait	Recycling and trading of oil, lubricants and related products	93.76%	93.76%
Arla Food Kuwait W.L.L.	Kuwait	Importing and trading of all kind of dairy products	51%	51%
Plastic Industries Company K.S.C. (Closed)	Kuwait	Manufacturing and trading of household goods	55.82%	55.82%
Kuwait Biscuit and Food Products Manufacturing Company W.L.L.*	Kuwait	Manufacturing and sale of biscuits and related products	99.99%	99.99%
Gulf Pastries Manufacturing Company W.L.L.*	Kuwait	Manufacturing and sale of pastries and cakes	99.98%	99.98%
Kuwait Indo Trading Company W.L.L.*	Kuwait	Manufacturing and sale of foodstuff	99.99%	99.99%
Mezzan Logistics for Transport and Storage Company K.S.C. (Closed)*	Kuwait	Logistics services and storage facilities	96%	96%

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

Notes to the consolidated financial statements for the year ended 31 December 2019

Name of entity	Country of incorporation	Principal business	Percentage of ownership	
			2019	2018
Kuwait Saudi Pharmaceutical Company K.S.C. (Closed) (KSPICO)	Kuwait	Manufacturing and distribution of pharmaceutical products	66.99%	-
Al Shifa Pharmaceutical Trading and Industries Company (Abdulrahmanr Al-Awadhi and Partner) W.L.L. (effective shareholding)**	Kuwait	Manufacturing and distribution of pharmaceutical products	32.82%	-
Mezzan Saudi Trading Company L.L.C.	Saudi Arabia	Manufacturing and whole sale distribution of meat products and general trading of foodstuff	100%	100%
Mezzan Foods Company L.L.C.**	Saudi Arabia	Manufacturing and distribution of food and beverage products	99%	70%
Qatar Star Services L.L.C.***	Qatar	Providing catering and cleaning services	50%	50%
Emirates Star Services L.L.C.*	U.A.E	Providing catering services and running restaurants	99%	99%
Afia Trading Services FZE	U.A.E	Trading in food products and providing related services	100%	100%
Al Wazzan Foodstuffs Factory L.L.C.*	U.A.E	Manufacturing and trading of food stuffs	99%	99%
UNITRA International L.L.C.*	U.A.E	Trading of food and beverages	99.67%	99.67%
Middle East Trading Store L.L.C.*	U.A.E	Trading of food and beverages	99.67%	99.67%
Tazweed Commercial Solutions Company P.S.C****	Jordan	Providing catering and retail services	50%	50%
Mezzan Jordan Industries L.L.C.	Jordan	Manufacturing, wholesale and retail trade of cosmetics and other consumer items	100%	100%
Associates				
International Paper Products W.L.L.	Kuwait	Manufacturing	24.34%	24.34%
National Textile Company K.S.C. (Closed)	Kuwait	Manufacturing	31.65%	31.65%

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

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**Al Shifa Pharmaceutical Trading and Industries Company (Abdulrahman Al-Awadhi and Partner) W.L.L. and Mezzan Foods Company L.L.C. are partially owned subsidiaries of Kuwait Saudi Pharmaceutical Company K.S.C. (Closed) and Mezzan Saudi Trading Company L.L.C. respectively.

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

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

The 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.

On 31 August 2019, the Group acquired additional 29% equity interest in Mezzan Food Company for KD 1,185,314, which resulted in increase in ownership from 70% to 99%. The Group recognised this acquisition as a transaction with Shareholders and recognised a decrease in non-controlling interests and other reserves amounting to KD 632,474 and KD 552,840 respectively.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 8 April 2020 and are subject to approval of the shareholders of the Company at the Annual General Assembly, which has the power to amend these consolidated financial statements after issuance, at the Company's Annual General Assembly.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the requirements of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, and the Company's Articles and Memorandum of Association and the Ministerial Order No. 18 of 1990.

This is the first set of the Group's annual financial statements in which IFRS 16 *Leases* have been applied. Changes to significant accounting policies are described in Note 2 (e).

b) Basis of measurement

The consolidated financial statements have been prepared on historical cost or amortised cost basis, except for the derivative financial instruments, biological assets and investments at fair value through other comprehensive income ("FVOCI") which are measured at fair value.

c) Functional and presentation currency

The consolidated financial statements are presented in Kuwaiti Dinars, which is the Company's functional currency.

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d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described below in Note 3(t).

e) Changes in accounting policies

IFRS 16- Leases

The Group applied IFRS 16 using the modified retrospective approach and hence the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(i) ***Definition of a lease***

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

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(ii) *As a lessee*

As a lessee, the Group leases many assets including land, plants, equipment and vehicles. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Leases classified as operating leases under IAS 17

Previously, the Group classified various leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- used hindsight when determining the lease term.

(iii) *As a lessor*

As at the reporting date, the Group has not entered into any contracts in which the Group is a lessor.

(iv) *Impact on transition*

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	KD
Assets	
Right of use assets	2,654,258
Non-current assets	<u>2,654,258</u>
Liabilities	
Lease liabilities	2,217,480
Non-current liabilities	<u>2,217,480</u>
Lease liabilities	436,778
Current liabilities	<u>436,778</u>
Total liabilities	<u>2,654,258</u>

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is within the range of 3.5% to 4%.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the year.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying *IAS 28 Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have any long term interests in its associate and joint venture to which the equity method is not applied.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except as disclosed in Note 2(e) above.

a) Basis of consolidation

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated statement of profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated statement profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in the consolidated statement of profit or loss.

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 profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated statement of profit or loss. Any investment retained is recognised at fair value.

b) Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The consolidated statement of profit or loss 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 profit or loss and represents profit or loss after tax and excluding non-controlling interests in the subsidiaries of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the consolidated statement of profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the

Notes to the consolidated financial statements
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entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to the consolidated statement of profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to the consolidated statement of profit or loss (as a reclassification adjustment) when the associate is disposed off.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to the consolidated statement of profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to the consolidated statement of profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

c) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i. *Financial assets*

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI or FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at FVTPL.

Financial assets at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade and other receivables and cash and cash equivalents.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process, the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

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The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statement of profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment. The Group does not carry any equity instrument designated at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss. The Group does not carry any financial assets at FVTPL.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Under the lifetime ECL, the Group determines whether the financial asset is in one of the three stages in order to determine the amount of ECL to recognize:

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

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Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group methodology for specific provisions remains largely unchanged.

Lifetime ECL are recorded on financial assets that is credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

For trade and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group allocates each exposure to a credit risk grade based on the data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are segmented by geographic region and industry classification and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past three years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The Group has established a provision matrix based on quantitative and qualitative information and analysis, Group's historical credit loss experience, adjusted for forward-looking factors considering the country ratings specific to the receivables and the economic environment. The Group evaluates the probability of default considering the period of past due receivables. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. Except for governmental institutions, the Group considers a financial asset in default when contractual payments are 360 days past due. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group has elected to measure loss allowances at an amount equal to 12 month ECLs for the bank balances and due from related parties, for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

ii. Financial liabilities

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in the consolidated statement of profit or loss.

The Group's financial liabilities include trade and other payables, due to related parties and bank overdrafts.

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

Derecognition

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

iii. *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

iv. *Derivative financial instruments and hedge accounting- net investment hedges*

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of, for a derivative, changes in the fair value of the hedging instrument or, for a non-derivative, foreign exchange gains and losses is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in the consolidated statement of profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

d) Property, plant and equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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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 profit or loss as an expense when 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 profit or loss when the asset is derecognised.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in the consolidated statement of profit or loss. Land and capital work in progress are not depreciated:

The estimated useful lives of property, plant and equipment for current and comparative periods are 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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e) Intangible assets

Identifiable intangible assets are recognised when the group controls the asset, it is probable that future economic benefits attributable to the asset will flow to the group and the cost of the asset can be reliably measured. All intangible assets, other than goodwill and assets with indefinite useful lives, are amortised over their useful economic life.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Notes to the consolidated financial statements
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Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the consideration transferred over the net fair value of the identifiable net assets recognised.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the consideration transferred, the excess is recognised immediately in the consolidated statement of profit and loss as a bargain purchase gain.

Computer software and licenses

The cost of acquiring computer software is capitalized as an intangible asset at purchase price, plus any directly attributable cost of preparing that asset for its intended use. Software costs are amortised on a straight-line basis over their estimated useful lives, which is eight years.

License fees paid to franchisors for absolute rights to sale of products are measured at cost less impairment losses.

Key money

Key money with defined useful life is recorded at the acquisition cost and amortized on a straight-line basis over the minimum lease payments.

Key money represents one-time payments made to the previous tenant or to the lessor when leases are concluded for business sites in a prime location. These assets are not amortized but are tested for impairment annually either individually or at the level of the cash generating unit (or groups of cash generation units). The assessment of indefinite life is reviewed annually to determine whether this assessment continues to be supportable. Otherwise, the change in useful life from indefinite to finite is made on a prospective basis.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the consolidated statement of profit or loss as incurred.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in the consolidated statement of profit or loss.

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 profit or loss. Goodwill is not amortised.

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f) Current versus non-current

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 months after the reporting period; or
- Cash or cash equivalent, unless restricted from being exchanged or used, to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other liabilities as non-current

g) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, inventories, contract assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the consolidated financial statements
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h) Biological assets

Biological assets are measured at fair value less costs to sell, with any change therein recognised in the consolidated statement of profit or loss.

i) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of existing investment properties at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less depreciation and impairment, if any. Land is not depreciated. The estimated useful lives of investment properties i.e. buildings for current and comparative periods are 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 profit or loss 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.

j) Translation of foreign currencies

Transactions in foreign currencies are translated into KD at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into KD at rates of exchange prevailing at the financial position date. The resultant exchange differences are recorded in the consolidated statement of profit or loss.

For 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 profit or loss, all differences are recognised in the consolidated statement of profit or loss.

The assets and liabilities of foreign operations, are translated to KD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to KD at the average exchange rates for current year. Foreign exchange differences arising on translation are recognized in other comprehensive income and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statement of profit or loss as part of gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests.

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k) Retirement obligations

The Group accounts for retirement benefits under IAS 19 “Employee Benefits”. Benefits are payable to the Company’s employees on completion of employment in accordance with the Kuwaiti Labour Law and other labour laws applicable in Kingdom of Saudi Arabia, Qatar, and United Arab Emirates. The subsidiaries have various pension plans in accordance with the local conditions and practices in the Country in which they operate. Benefits payable under these plans are in accordance with the laws in those countries.

The cost of providing defined retirement benefit plans are determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each financial position date. Re-measurement of the Group’s defined benefit obligation which mainly comprises actuarial gain and losses are recognised immediately in statement of other comprehensive income. Past service cost is recognised immediately in the period of plan amendment in the consolidated statement of profit or loss. Interest expense is determined on defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into account any changes in the defined benefit obligation during the period as a result of benefit payments. The liability is not externally funded.

Liabilities for defined contribution plans are expensed as the related service is provided. Further, with respect to its national employees, the Group also makes contributions to social security scheme calculated as a percentage of the employees’ salaries. The Group’s obligations are limited to these contributions, which are expensed when due.

l) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes raw materials, direct labour and all other expenditure incurred in the normal course of business in bringing the products to their present location and condition. Net realisable value is the estimated selling price of inventory on hand less all further costs to completion and all costs expected to be incurred in distribution and selling.

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

m) Treasury shares

Treasury shares consist of the Company’s own issued shares that have been, subsequently reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the cost of the shares acquired is charged to treasury shares account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, the treasury shares reserve, which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any provisional recorded losses in order of reserves, retained earnings and treasury share reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

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n) 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 profit or loss net of any reimbursement.

o) Leases

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- amounts expected to be payable under a residual value guarantee; and

Notes to the consolidated financial statements
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- Payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statement of profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low value assets recognition exemption below KD 2,500. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payment made under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

p) Revenue

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in all of its revenue arrangements since it typically controls the goods or services before transferring them to the customer.

The specific recognition criteria described below must also be met before revenue is recognised.

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Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the product. The normal credit term is 30 to 60 days upon delivery.

In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer (if any).

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group has no material contracts with a right of return and volume rebates.

Generally, the Group receives short-term advances from its customers. The Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good to the customer and when the customer pays for that good will be one year or less. The Group does not receive any long-term advances from customers.

Rendering of services

Revenue from rendering of service is recognised when the service is rendered to the customer.

q) Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The 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.

National Labour Support Tax (NLST)

The Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Zakat

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

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable

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- When receivables and payables are stated with the amount of sales tax included the net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

r) 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.

s) 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.

t) Critical accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are shown below with respect to the judgements/estimates involved.

Significant judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

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Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Fair values of assets and liabilities acquired in a business combination

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

Consolidation of entities in which the Group holds less than majority of voting rights

The Group considers that it controls certain entities even though it owns less than 50% of the voting rights. This is because the Group manages and controls the operations of the entity and all operational and strategic decisions require the approval of the Group. Based on these facts and circumstances, management determined that, in substance, the Group controls this entity.

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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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:

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- 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 goodwill and intangible assets (with indefinite life)

The Group tests goodwill and intangible assets with indefinite life for impairment at least on an annual basis and whenever there are indicators of impairment. 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 asset with indefinite life and goodwill at 31 December 2019 were KD 5,651,650 and KD 22,793,055 respectively (2018: KD 1,087,101 and KD 11,456,341 respectively). More details are given in Note 7.

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance). The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 11.

Valuation 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 is applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

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Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group ‘would have to pay’, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

Retirement Benefit Obligation

The cost of providing retirement benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each financial position date. Actuarial valuations are based on a number of assumptions and require significant judgements made by the management. The management believes that the assumptions used in determining the retirement benefit obligation using actuarial valuation method are reasonable.

4. Business combination

On 6 August 2019, the Group acquired 66.994% of equity shares in Kuwait Saudi Pharmaceutical Industries Company K.S.C.(Closed) (“Acquiree”) for a purchase consideration of KD 19,967,606 and consequently exercises control over the Acquiree. Acquiree is a manufacturer of pharmaceutical products in Kuwait. The Group elected to measure NCI at the proportionate share of net assets of Acquiree.

These consolidated financial statements include the effects of business combination transaction and the results of operations from acquisition date. The fair value of assets acquired, and liabilities assumed have been measured on provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the following amounts or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised. The purchase consideration and the provisional values of the identifiable assets and liabilities assumed as at 6 August 2019 was as follows:

	KD
Property and equipment	6,058,489
Right of use of assets	238,561
Inventories	4,532,022
Trade and other receivables	7,618,835
Cash and cash equivalents	607,398
Employees’ end of service indemnity	(1,301,600)
Bank overdrafts	(3,248,223)
Notes payable	(687,085)
Due to related parties	(54,839)
Lease liability	(272,730)
Trade and other payables	(2,342,477)
Total net identifiable assets acquired	<u>11,148,351</u>
Cash paid	(19,967,606)
Non-controlling interests	<u>(3,679,556)</u>
Goodwill (Note 7)	<u><u>12,498,811</u></u>

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	Cash flow on acquisition KD
Cash paid	19,967,606
Cash and cash equivalents of subsidiary	<u>(607,398)</u>
Net cash out flow on acquisition	19,360,208
Bank overdrafts of the subsidiary	<u>3,248,223</u>
Net cash out flow in the consolidated statement of cash flows	<u><u>22,608,431</u></u>

The valuation techniques used for measuring the fair value of property, plant and equipment includes market comparison technique and cost technique: the valuation considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence, where applicable.

The goodwill recognised is attributable to the expected synergies and other benefits from combining the assets and activities of the Acquiree with those of the Group. Goodwill represents the future business potential and profit growth of the Acquiree. It comprises all of the intangibles that cannot be individually recognised such as the assembled workforce, future client relationships, the presence in geographic markets, the synergies that the Acquiree and the Group will obtain. At the reporting date, the Group is in the process of finalising the purchase price allocation. Consequently, provisional goodwill has not been allocated to any cash generating units and is currently included in “*Corporate Segment*” Note 26.

From the date of acquisition, the Acquiree contributed KD 5,049,131 of revenue and KD 1,615,435 to profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue of the Group would have been KD 226,797,472 and loss before tax for the Group would have been KD 278,239.

Acquisition-related costs amounting to KD 52,680 have been recognised as an expense within the “general and administrative expenses” line item in the consolidated statement of profit or loss.

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5. Property, plant and equipment

	Freehold land	Leasehold land**	Buildings	Plant and machinery	Tools and spare parts	Motor vehicles	Furniture, fixture, office and computer equipment	Capital work in progress	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD
Cost									
Balance at 1 January 2019	12,646,803	5,774,146	47,724,442	53,486,591	2,274,452	10,201,203	6,344,177	7,463,646	145,915,460
Additions	-	-	200,285	265,092	6,541	189,447	577,526	3,792,630	5,031,521
Acquisition through business combination (Note 4)	-	-	6,449,019	7,068,722	-	40,392	3,862,411	-	17,420,544
Disposals	-	-	-	(1,829,785)	(869,087)	(820,548)	(1,901,925)	(66,551)	(5,487,896)
Transfer from capital work in progress	-	-	5,040,941	1,347,298	180,423	254,736	669,331	(7,492,729)	-
Transfer to intangible assets (Note 7)	-	(5,774,146)	-	-	-	-	-	(75,056)	(5,849,202)
Effect of movements in exchange rates	(2,592)	-	(175,959)	(293,327)	5,405	290,141	2,595	135,502	(38,235)
Balance at 31 December 2019	<u>12,644,211</u>	<u>-</u>	<u>59,238,728</u>	<u>60,044,591</u>	<u>1,597,734</u>	<u>10,155,371</u>	<u>9,554,115</u>	<u>3,757,442</u>	<u>156,992,192</u>
Accumulated depreciation and impairment losses									
Balance at 1 January 2019, as previously reported	315,391	-	20,348,347	30,862,625	2,198,863	6,862,788	5,118,234	-	65,706,248
Impact of correction of error (Note 33)	-	-	748,020	-	-	-	-	-	748,020
Effect of movements in exchange rates (Note 33)	-	-	2,942	-	-	-	-	-	2,942
Restated balance at 1 January 2019	315,391	-	21,099,309	30,862,625	2,198,863	6,862,788	5,118,234	-	66,457,210
Impairment loss / (reversal of impairment loss) (Note 24)	-	-	138,614	(251,911)	(6,898)	-	(725)	-	(120,920)
Charge for the year	-	-	1,954,006	2,837,401	40,763	870,228	863,027	-	6,565,425
Acquisition through business combination (Note 4)	-	-	3,718,907	4,237,206	-	33,760	3,372,182	-	11,362,055
Relating to disposals	-	-	-	(1,797,177)	(868,956)	(793,090)	(1,900,904)	-	(5,360,127)
Effect of movements in exchange rates	(229)	-	(5,676)	(8,007)	(318)	(1,038)	(1,720)	-	(16,988)
Balance at 31 December 2019	<u>315,162</u>	<u>-</u>	<u>26,905,160</u>	<u>35,880,137</u>	<u>1,363,454</u>	<u>6,972,648</u>	<u>7,450,094</u>	<u>-</u>	<u>78,886,655</u>
Carrying amount									
At 31 December 2019	<u>12,329,049</u>	<u>-</u>	<u>32,333,568</u>	<u>24,164,454</u>	<u>234,280</u>	<u>3,182,723</u>	<u>2,104,021</u>	<u>3,757,442</u>	<u>78,105,537</u>

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	Freehold land KD	Leasehold land KD	Buildings KD	Plant and machinery KD	Tools and spare parts KD	Motor vehicles KD	Furniture, fixture, office and computer equipment KD	Capital work in progress KD	Total KD
Cost									
Balance at 1 January 2018	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
Additions	-	-	839,323	2,559,018	-	745,340	663,102	3,987,376	8,794,159
Disposals	-	-	5,357,081	7,593,809	2,061	488,588	295,038	(13,736,577)	-
Transfers	(136,871)	-	(243,682)	(589,057)	(6,345)	(867,984)	(110,917)	-	(1,954,856)
Write offs	-	-	(21,649)	(3,028,282)	(304,696)	(162,114)	(3,504,453)	-	(7,021,194)
Effect of movements in exchange rates	18,967	-	160,596	160,398	5,548	25,306	22,453	14,302	407,570
Balance at 31 December 2018	<u>12,646,803</u>	<u>5,774,146</u>	<u>47,724,442</u>	<u>53,486,591</u>	<u>2,274,452</u>	<u>10,201,203</u>	<u>6,344,177</u>	<u>7,463,646</u>	<u>145,915,460</u>
Accumulated depreciation and impairment losses									
Balance at 1 January 2018	313,784	-	19,057,192	31,856,934	2,476,598	6,767,558	8,103,746	-	68,575,812
Impairment loss (Note 24)	-	-	748,020	-	-	-	-	-	748,020
Charge for the year	-	-	1,506,236	2,302,427	28,235	832,277	606,782	-	5,275,957
Relating to disposals	-	-	(243,680)	(347,653)	(6,344)	(590,371)	(110,674)	-	(1,298,722)
Write offs	-	-	(21,646)	(3,022,013)	(304,642)	(162,082)	(3,500,318)	-	(7,010,701)
Effect of movements in exchange rates	1,607	-	53,187	72,930	5,016	15,406	18,698	-	166,844
Balance at 31 December 2018	<u>315,391</u>	<u>-</u>	<u>21,099,309</u>	<u>30,862,625</u>	<u>2,198,863</u>	<u>6,862,788</u>	<u>5,118,234</u>	<u>-</u>	<u>66,457,210</u>
Carrying amount									
At 31 December 2018	<u>12,331,412</u>	<u>5,774,146</u>	<u>26,625,133</u>	<u>22,623,966</u>	<u>75,589</u>	<u>3,338,415</u>	<u>1,225,943</u>	<u>7,463,646</u>	<u>79,458,250</u>

****In accordance with IAS 38**

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In 2019 and 2018, the low market prices and strong continuing competition in the FMCG operations in Jordan led to an operating loss and consequently, the Group assessed the recoverability of property, and equipment. The Group applied the market value approach to estimate the fair value. This method uses inputs that are unobservable, using the best information available in the circumstances for valuing the CGU, and therefore falls into the level 2 category of fair value measurement. This assessment resulted in reversal of impairment loss of KD 120,920 (2018: impairment loss of KD 748,020) compared to the CGU carrying value. There is no goodwill associated with Group's operations in Jordan.

Assets under construction comprise of improvement projects for the existing plants. Such assets are not subject to depreciation until the improvements are tested and available and ready for use.

The depreciation charge for the year was allocated as follows:

	2019 KD	2018 KD
Cost of revenue	3,857,516	3,061,261
Selling and distribution expenses	713,745	467,610
General and administrative expenses	1,994,164	1,747,086
	<u>6,565,425</u>	<u>5,275,957</u>

6. Leases

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year:

	Right of use assets				Lease liabilities
	Land KD	Building KD	Vehicles/ others KD	Total KD	KD
Balance at 1 January					
2019	280,327	786,199	1,587,732	2,654,258	2,654,258
Additions	1,888	973,703	617,049	1,592,640	1,592,640
Depreciation expense	(113,754)	(426,065)	(690,241)	(1,230,060)	-
Acquisition through business combination (Note 4)	238,561	-	-	238,561	272,730
Payments of lease liability	-	-	-	-	(1,512,997)
Net foreign currency differences	(2)	(1,373)	(1,755)	(3,130)	-
Balance at 31 December 2019	<u>407,020</u>	<u>1,332,464</u>	<u>1,512,785</u>	<u>3,252,269</u>	<u>3,006,631</u>

Payment of lease liability include interest expense of KD 133,380 recognised in the consolidated statement of profit or loss. Depreciation charge for the year has been included in the cost of revenue, selling and distribution expenses and general and administrative expenses.

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The rent expense relating to short term leases for the year was allocated as follows:

	2019	2018
	KD	KD
Cost of revenue	1,945,811	-
Selling and distribution expenses	627,739	-
General and administrative expenses	714,289	-
	<u>3,287,839</u>	<u>-</u>

7. Intangible assets

	Goodwill	Computer software	Other intangibles	Capital work in progress	Total
	KD	KD	KD	KD	KD
Cost					
Balance at 1 January 2019	11,456,341	2,848,515	1,723,737	-	16,028,593
Additions	-	204,292	17,000	-	221,292
Acquisition through business combination (Note 4)	12,498,811	-	-	-	12,498,811
Disposals	-	(489)	(34,200)	-	(34,689)
Transfer from property, plant and equipment (Note 5)	-	75,056	5,774,146	-	5,849,202
Effect of movements in exchange rates	(6,265)	(67)	-	-	(6,332)
Balance at 31 December 2019	<u>23,948,887</u>	<u>3,127,307</u>	<u>7,480,683</u>	<u>-</u>	<u>34,556,877</u>
Accumulated depreciation and impairment losses					
Balance at 1 January 2019	-	1,896,786	603,236	-	2,500,022
Charge for the year	-	315,363	10,000	-	325,363
Relating to disposals	-	(309)	(34,198)	-	(34,507)
Impairment loss (Note 24)	1,155,832	-	1,209,597	-	2,365,429
Effect of movements in exchange rates	-	(43)	-	-	(43)
Balance at 31 December 2019	<u>1,155,832</u>	<u>2,211,797</u>	<u>1,788,635</u>	<u>-</u>	<u>5,156,264</u>
Carrying amount					
At 31 December 2019	<u>22,793,055</u>	<u>915,510</u>	<u>5,692,048</u>	<u>-</u>	<u>29,400,613</u>

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	Goodwill KD	Computer software KD	Other intangibles KD	Capital work in progress KD	Total KD
Cost					
Balance at 1 January 2018	11,392,430	2,454,312	1,740,534	107,082	15,694,358
Additions	-	286,599	-	-	286,599
Disposals	-	-	(16,797)	-	(16,797)
Transfers	-	107,082	-	(107,082)	-
Effect of movements in exchange rates	63,911	522	-	-	64,433
Balance at 31 December 2018	<u>11,456,341</u>	<u>2,848,515</u>	<u>1,723,737</u>	<u>-</u>	<u>16,028,593</u>
Accumulated depreciation and impairment losses					
Balance at 1 January 2018	-	1,540,129	587,541	-	2,127,670
Charge for the year	-	356,444	15,695	-	372,139
Effect of movements in exchange rates	-	213	-	-	213
Balance at 31 December 2018	<u>-</u>	<u>1,896,786</u>	<u>603,236</u>	<u>-</u>	<u>2,500,022</u>
Carrying amount					
At 31 December 2018	<u>11,456,341</u>	<u>951,729</u>	<u>1,120,501</u>	<u>-</u>	<u>13,528,571</u>

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

Other intangible assets include key money and license of KD 4,564,549 and KD 1,087,101 (2018: license of KD 1,087,101) having indefinite useful lives.

Impairment testing of goodwill

The goodwill comprises of final goodwill relating to Cash Generating Units (“CGUs”) in UAE, Qatar and Kingdom of Saudi Arabia and provisional goodwill relating to a subsidiary in Kuwait (see Note 4). At each reporting date, the Group performs impairment reviews of CGUs to which goodwill is allocated by comparing their carrying values with the recoverable values. Recoverable amounts are the higher of fair value less costs of disposal and value in use. The key estimates for the VIU calculations are those regarding discount rates and expected changes to future cash flows.

At the reporting, the Group determined that the carrying amount of Kingdom of Saudi Arabia CGU was determined to be higher than its recoverable amount of KD 2,363,342, consequently an impairment loss of KD 1,155,832 was recognised in the current year (2018: nil). The impairment loss was fully used write down the goodwill and included in impairment of non-financial assets on the consolidated statement of profit or loss (Note 24).

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Fair value less cost to sell

The Group uses a market-based valuation technique by comparing comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate trading multiple for each comparable company. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the investee company to measure the fair value and has been classified as Level 3 within the fair value hierarchy.

VIUs

VIUs are calculation using cash flow projections based on five-year financial budgets approved by Group management. The discount rate applied to cash flow projections is 8.24% (2018: 8.67%) and cash flows beyond the 5 year period are extrapolated using rate of 2.4% (2018: 2.9%).

Key assumptions used in value in use calculations and sensitivity to changes in 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

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the intangible asset to exceed its recoverable amount. These are summarised below:

- A rise in the discount rate to 8.7% (2018: 9.2%) (i.e. +0.5%) would result in a decrease in value in use by KD 431,871 (2018: KD 1,067,657); and
- A reduction in the long-term growth rate to 1.90% (2018: 2.4%) (i.e. -0.5%) would result in a decrease in value in use by KD 1,165,789 (2018: 894,371).

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The above sensitivity analyses is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Impairment of key money with indefinite useful lives

Key money with an indefinite useful life represents payments made to former lessee for the right to the lease property. At the reporting date, the Group performed its annual impairment test and appointed independent valuers who have appropriate qualifications and recent experience in the valuation of key money. The fair values were determined based on market approach. Under market approach, fair value is estimated based on comparable transactions. The fair value of key money has been categorised as Level 3 fair value based on the inputs to the valuation technique used.

As a result of above analysis, the Group recognised an impairment loss of KD 1,209,597 (Note 24).

8. Investment in associates

	2019	2018
	KD	KD
International Paper Products W.L.L.	694,839	866,224
National Textile Company K.S.C. (Closed)	376,985	375,001
	<u>1,071,824</u>	<u>1,241,225</u>

At the reporting date, the Group determines whether there is objective evidence the investment in associates is impaired. If such indicators exists, the entire carrying value of the investment in associate will be tested for impairment by comparing the carrying value of the investment to its recoverable amount. Management determined that no indicators of impairment exists at the reporting date and accordingly concluded that impairment assessment is not required for its investment in associates. The associates are private companies and there is no quoted market price available for its shares. At the reporting date, the associates had no contingent liabilities or capital commitments.

Summary of the financial information for equity-accounted investee, not adjusted for the percentage held by the Group, is as follows;

	2019	2018
	KD	KD
Current assets	3,018,615	4,227,157
Non-current assets	4,656,403	4,874,007
Current liabilities	(3,034,908)	(3,675,811)
Non-current liabilities	(594,289)	(791,251)
Net assets	<u>4,045,821</u>	<u>4,634,102</u>
Group's carrying amount of the investment in associates	<u>1,071,824</u>	<u>1,241,225</u>
Revenue	3,197,530	3,395,179
Cost of sales	(3,456,175)	(2,761,232)
Other expenses	(79,770)	(423,858)
Profit and total comprehensive income	<u>(338,415)</u>	<u>210,089</u>
Group's share of (loss) / profit for the year	<u>(96,381)</u>	<u>116,918</u>

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A reconciliation of the above summarised financial information to the carrying amount of the associates is set out below:

	2019	2018
	KD	KD
Balance at the beginning of year	1,241,225	1,124,307
Share of (loss) / profit	(96,381)	116,918
Dividend received	(73,020)	-
Balance at the end of year	<u>1,071,824</u>	<u>1,241,225</u>

9. Investment properties

	2019	2018
	KD	KD
Balance at the beginning of year	4,095,856	4,176,695
Depreciation	(102,190)	(101,687)
Net foreign exchange differences	(2,844)	20,848
Balance at the end of year	<u>3,990,822</u>	<u>4,095,856</u>

The fair value of investment property was determined by external, independent property valuer, having an appropriate recognised professional qualifications and recent experience in the location and category of the property being valued and have used generally accepted valuation techniques. Because of the inherent uncertainty of the valuation of investment property, the estimated fair value may differ from the value that would have been used had a ready market existed for this investment property. At the reporting date, the fair value of land and building amounts to KD 5,170,978 and KD 2,330,410 (2018: land and building of KD 5,410,027 and KD 2,332,137) respectively.

The valuation of investment property was determined using the sales comparison approach. Investment property valued using the sales comparison approach take into account comparable properties in close proximity. These values are adjusted for differences in key attributes such as property size and quality of interior fittings. The most significant input into this valuation approach is price per square meter.

The fair value of investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

At the reporting date, the investment properties include freehold land of KD 1,618,588 (2018: KD 1,619,787) that has an indefinite economic life and is therefore not depreciated.

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10. Inventories

	2019	2018
	KD	KD
Goods for resale	29,768,606	28,357,400
Raw materials and consumables	12,798,231	9,709,988
Finished goods and work in progress	3,216,858	2,034,215
Goods in transit	<u>2,595,085</u>	<u>1,754,750</u>
	48,378,780	41,856,353
Provision for obsolete and slow-moving inventories	<u>(2,070,724)</u>	<u>(885,138)</u>
	<u>46,308,056</u>	<u>40,971,215</u>

During the year, the Group recognized provision for obsolete and slow-moving inventories and wrote offs of KD 973,893 (2018: KD 50,787) and KD 568,118 (2018: KD 134,938) respectively, and is included in cost of revenue in the consolidated statement of profit or loss.

11. Trade and other receivables

	2019	2018
	KD	KD
Trade receivables	66,166,921	47,510,505
Provision for expected credit losses	<u>(7,716,880)</u>	<u>(5,379,015)</u>
	58,450,041	42,131,490
Advances to suppliers	12,043,938	11,366,086
Prepaid expenses	1,642,438	1,528,200
Refundable deposits	846,649	837,394
Due from related parties (Note 12)	35,039	34,524
Other receivables	<u>5,344,043</u>	<u>3,000,067</u>
	<u>78,362,148</u>	<u>58,897,761</u>

The net carrying value of trade receivables is considered a reasonable approximation of fair value. Note 28 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Group's trade receivables. 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.

	2019	2018
	KD	KD
Balance at the beginning of year	5,379,015	4,421,313
Effect of adoption of IFRS 9 on 1 January 2018	-	230,405
	<u>5,379,015</u>	<u>4,651,718</u>
(Reversal) / provision made during the year	(214,767)	769,574
Acquisition through business combination	3,360,160	-
Write offs	(804,209)	(56,249)
Foreign currency exchange differences	<u>(3,319)</u>	<u>13,972</u>
Balance at the end of year	<u>7,716,880</u>	<u>5,379,015</u>

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12. Related party transactions

Related parties represent shareholders who have representation in the Company's board of directors and their close relatives, key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions are carried out on terms approved by the Group's management.

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 2019, the Group has not recorded any provision for expected credit losses relating to amounts owed by related parties (2018: 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.

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.

Details of significant related parties balances and transactions are disclosed below:

	2019	2018
	KD	KD
Balances with related parties		
<i>Due from related parties (Note 11)</i>		
Other related parties	35,039	34,524
<i>Due to related parties (Note 22)</i>		
Shareholders	311,011	74,376
Associates	2,819	1,719
Other related parties	1,669,383	927,893
	<u>1,983,213</u>	<u>1,003,988</u>
Transactions with related parties		
<i>Sales</i>		
Shareholders	18,925	18,037
Other related parties	39,995	169,957
<i>Cost of revenue</i>		
Other related parties	8,538,480	4,316,188
<i>General and administrative expenses</i>		
Other related parties	435,232	445,437
Key management compensation		
Salaries and other short-term benefits	2,329,499	2,163,766
Employees' end of service benefits	102,944	94,677
	<u>2,432,443</u>	<u>2,258,443</u>
Board of directors' remuneration	50,000	75,000

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The board of directors' remuneration for the year ended 31 December 2019 is subject to approval of shareholders in the Annual General Assembly.

13. Cash and cash equivalents

	2019	2018
	KD	KD
Bank balances and cash	17,182,905	16,677,660
Bank overdrafts	<u>(4,556,790)</u>	<u>(8,906,974)</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>12,626,115</u>	<u>7,770,686</u>

Bank overdrafts are repayable on demand and carry an average effective interest rate of 3.75% (2018: 4%) per annum.

14. Share capital

The authorized, issued and fully paid up share capital of the Company comprises of 311,325,000 shares of 100 fils each (2018: 311,325,000 shares of 100 fils each) and is fully contributed in cash.

Proposed dividend

The Board of Directors has recommended the distribution of cash dividend of 15 fils per share (2018: 16 fils per share) on outstanding shares (excluding treasury shares) of the year ended 31 December 2019. Subject to being approved by the shareholders' Annual General Assembly, the dividend shall be payable to the shareholders after obtaining necessary regulatory approvals registered in the Company's records as of the record date, and are not considered as a liability as at 31 December. Dividends for 2018 were approved at the Annual General Assembly of the shareholders held on 21 April 2019.

15. Treasury shares

	2019	2018
	KD	KD
Number of shares	6,775,802	6,578,950
Percentage of share capital	2.18%	2.11%
Cost ("KD")	4,563,800	4,463,160
Market value ("KD")	3,387,901	3,342,107

The weighted average market price of the Company's shares for the year ended 31 December 2019 was 500 fils per share (2018: 508 fils per share).

Reserves equivalent to the cost of the treasury shares held, are not available for distribution during the holding period of such shares as per CMA guidelines.

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16. Statutory reserve

In accordance with the Companies' Law, and the 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 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.

Based on the AGM resolution dated 18 April 2018, the shareholders resolved to discontinue transfers to the statutory reserve as the reserve exceeds 50% of the issued share capital of the Company.

17. Voluntary reserve

In accordance with the Companies' Law, and the 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.

Based on the AGM resolution dated 18 April 2018, the shareholders resolved to discontinue transfers to the voluntary reserve as the reserve exceeds 50% of the issued share capital of the Company.

18. Other reserve

This represents remeasurement gains / (losses) from actuarial changes arising from changes in financial assumptions relating to defined benefit obligations and adjustment on account of acquisition of additional 29% equity interest in Mezzan Foods Company (Note 1).

19. Non-controlling interests

The movement of non-controlling interest is as follows:

	2019 KD	2018 KD
Balance at the beginning of year	4,489,938	5,000,029
Profit / (loss) for the year	702,184	(288,084)
Dividend paid	(219,090)	(198,732)
Acquisition of NCI through business combination (Note 4)	3,679,556	-
Purchase of additional equity in a subsidiary (Note 1)	(632,474)	-
Other comprehensive income/ (loss)	4,738	(23,275)
Balance at the end of year	<u>8,024,852</u>	<u>4,489,938</u>

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The following table summarises the information relating to the Group's subsidiary that has a material NCI;

	2019	2018
	KD	KD
KSPICO		
Statement of financial position		
Non-current assets	6,254,507	-
Current assets	12,956,883	-
Non-current liabilities	(1,313,907)	-
Current Liabilities	<u>(5,282,508)</u>	<u>-</u>
Net assets	<u>12,614,975</u>	<u>-</u>
Net assets attributable to NCI	4,039,212	-
 Statement of profit or loss and other comprehensive income		
Revenue	5,049,131	-
Profit	1,615,435	-
Profit attributable to NCI	533,190	-

On 6 August 2019, the Group acquired 66.994% equity interest in KSPICO (Note 4). Accordingly, the information presented above is only for the period from 6 August to 31 December 2019.

20. Loans and borrowings

	2019	2018
	KD	KD
<i>Current portion denominated in:</i>		
Kuwaiti Dinars	51,987,070	18,864,251
US Dollars	32,479,850	30,380,000
Saudi Riyal	<u>1,457,640</u>	<u>1,458,720</u>
	<u>85,924,560</u>	<u>50,702,971</u>
 <i>Non-Current portion denominated in:</i>		
Saudi Riyal	1,093,230	2,552,760

During the period, the Group signed a short term loan facility ("Facility") of KD 30 million with a local financial institution to meet its working capital requirements. The Facility carries an interest rate of 0.75% per annum over and above the central bank of Kuwait discount rate and is fully repayable in June 2020. The Facility carries covenants which are tested on an annual basis. These covenants includes earnings before interest tax and depreciation allowance or net debt and tangible net worth related measures. At the reporting date, the Group fully utilised the Facility and are in compliance with above said covenants.

Loans and borrowings in Kuwaiti Dinars include KD 11,000,000 (2018: KD 9,496,251) borrowed from a local Islamic banking institution.

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21. Retirement benefit obligation

The Group provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, subject to the completion of a minimum service period, calculated under the provisions of the Labour Law applicable in each regulatory environment, and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the period of employment.

The plan typically exposes the Group to actuarial risks such as: discount rate, salary risk and withdrawal risk.

Discount rate	A decrease in the discount rate will increase the plan liability.
Salary risk	The present value of the end of service benefit plan liability is calculated by reference to the estimated future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.
Withdrawal risk	Benefits are paid when an employee leaves employment either through resignation or retirement. The rate of withdrawal therefore affects the timing of the payment and consequently the liability at the reporting date.

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 31 December 2018. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. The key assumptions in determining the end of service provisions were based on a discount rate ranges from 3.5% to 4.5% (2018: 3.5% to 4.5%) and an expected rate of salary increase in the range of 1% to 2% (2018: 1% to 2%).

Movement in the provision recognised in the statement of financial position are as follows:

	2019	2018
	KD	KD
Balance at the beginning of year	5,845,501	4,449,137
Acquisition through business combination (Note 4)	1,301,600	-
Provided during the year	1,054,730	1,288,637
Re-measurements loss recognised in OCI	-	1,196,386
Benefits paid	(927,836)	(1,099,985)
Exchange differences	1,299	11,326
	<u>7,275,294</u>	<u>5,845,501</u>

Sensitivity analysis:

The sensitivity analyses below have been determined based on reasonably possible changes of the below mentioned assumptions as at the reporting period, while holding all other assumptions constant.

- A reduction in the discount rate by 100 basis points would result in an increase of end of service benefits obligations by KD 263,320 (2018: KD 340,417); and
- An increase in the salary growth rate by 100 basis points would result in increase of end of service benefits obligations by KD 267,097 (2018: KD 346,884).

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There has been no significant change in actuarial assumptions used in determining the retirement benefit obligations as compared with 2018, as a result no actuarial gain or loss is recognized in OCI in 2019.

22. Trade and other payables

	2019	2018
	KD	KD
		Restated
Trade payables	30,954,407	27,275,915
Accrued expenses	8,893,516	8,155,728
Advances from customers	18,995	15,710
Payables to related parties (Note 12)	1,983,213	1,003,988
Other payables	3,003,367	2,856,644
	<u>44,853,498</u>	<u>39,307,985</u>

23. Other income

	2019	2018
	KD	KD
Gain on disposal of property, plant and equipment	72,275	1,113,324
Foreign currency exchange gain	127,085	152,356
Dividend income	65,250	81,563
Other income	425,610	539,492
	<u>690,220</u>	<u>1,886,735</u>

24. Impairment of non-financial assets-net

	2019	2018
	KD	KD
		Restated
(Reversal) / impairment loss on property, plant and equipment (Note 5)	(120,920)	748,020
Impairment loss on goodwill (Note 7)	1,155,832	-
Impairment loss on other intangible assets (Note 7)	1,209,597	-
	<u>2,244,509</u>	<u>748,020</u>

25. Staff costs

	2019	2018
	KD	KD
Cost of revenue	17,434,415	15,406,245
Selling and distribution expenses	7,106,519	7,613,296
General and administrative expenses	8,124,094	8,070,522
	<u>32,665,028</u>	<u>31,090,063</u>

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26. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year less treasury shares.

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

	2019	2018 (Restated)
Profit for the year attributable to the Company (KD)	5,635,637	6,959,019
Weighted average number of ordinary shares outstanding during the year (after excluding treasury shares)	304,549,198	308,530,654
Earnings per share	18.50 fils	22.56 fils

27. 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:

Food segment

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.

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Non-food segment

Fast Moving Consumer Goods (“FMCG”) and Healthcare (“HC”)

FMCG mainly comprises of distribution of health and beauty products, medicines, medical devices, manufacturing of medicine, medical products and household products.

Industrial

Industrial comprises of the manufacturing of goods including plastic materials, lube oil and cartons used for packaging.

Corporate segment

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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i. The following tables present information for the Group's operating segments:

	2019								
	Food				Non-food			Corporate KD	Total KD
	<i>Food KD</i>	<i>Catering KD</i>	<i>Services KD</i>	<i>Sub-total KD</i>	<i>FMCG & HC KD</i>	<i>Industrial KD</i>	<i>Sub-total KD</i>		
Revenues	107,597,706	35,573,095	17,265,258	160,436,059	56,955,255	5,073,844	62,029,099	1,200	222,466,358
Segment profit/ (loss)	2,963,356	1,203,956	2,559,449	6,726,761	5,750,256	326,867	6,077,123	(6,169,122)	6,634,762
Total Assets	113,974,171	28,931,539	8,997,773	151,903,483	73,003,551	11,597,652	84,601,203	23,825,718	260,330,404
Total Liabilities	20,659,875	9,770,413	1,754,592	32,184,880	20,858,618	2,396,938	23,255,556	91,269,567	146,710,003
<i>Other disclosures</i>									
Depreciation and amortisation	4,649,689	1,028,909	279,834	5,958,432	897,718	473,065	1,370,783	893,823	8,223,038
Investment in associates	-	-	-	-	-	-	-	1,071,824	1,071,824
Capital expenditure	2,523,864	877,050	254,495	3,655,409	626,902	732,736	1,359,638	237,766	5,252,813
Impairment of non-financial assets	1,155,832	-	-	1,155,832	(120,920)	-	(120,920)	1,209,597	2,244,509
Share of profit of associates	-	-	-	-	-	-	-	(96,381)	(96,381)

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	2018								
	Food				Non-food			Corporate KD	Total KD
	<i>Food KD</i>	<i>Catering KD</i>	<i>Services KD</i>	<i>Sub-total KD</i>	<i>FMCG & HC KD</i>	<i>Industrial KD</i>	<i>Sub-total KD</i>		
Revenues	101,730,416	37,878,424	15,585,073	155,193,913	46,729,166	5,449,013	52,178,179	98,956	207,471,048
Segment profit/ (loss) (Restated)	5,130,757	555,823	3,340,816	9,027,396	1,965,936	421,896	2,387,832	(4,300,284)	7,114,944
Total Assets (Restated)	113,768,394	27,493,841	10,347,805	151,610,040	42,822,537	10,544,280	53,366,817	12,171,730	217,148,587
Total Liabilities (Restated)	16,646,212	9,714,485	2,129,157	28,489,854	10,062,255	1,808,338	11,870,593	66,955,744	107,316,191
<i>Other disclosures</i> Depreciation and amortisation	3,087,688	814,696	280,210	4,182,594	348,680	407,501	756,181	811,008	5,749,783
Investment in associates	-	-	-	-	-	-	-	1,241,225	1,241,225
Capital expenditure	6,645,291	868,591	28,500	7,542,382	50,220	168,411	218,631	1,319,745	9,080,758
Impairment of non-financial assets (Restated)	-	-	-	-	748,020	-	748,020	-	748,020
Share of profit of associates	-	-	-	-	-	-	-	116,918	116,918

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ii. The following table present information regarding the Group's geographical area of operation:

	Kuwait KD	Kingdom of Saudi Arabia KD	United Arab Emirates KD	Qatar KD	Jordan KD	Afghanistan KD	Iraq KD	Total KD
2019								
Revenue	154,360,373	4,536,389	26,350,490	22,829,891	5,522,894	6,784,127	2,082,194	222,466,358
Non-current assets	83,733,823	7,954,370	12,531,074	13,050,779	1,184,793	22,456	-	118,477,295
2018								
Revenue	144,396,065	3,996,689	24,314,475	21,724,441	5,708,809	5,508,963	1,821,606	207,471,048
Non-current assets (Restated)	65,892,819	8,598,926	11,551,171	13,295,575	1,197,477	65,983	-	100,601,951

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28. Financial risk management

Overview

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 the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Financial management framework

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the risk management committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. No significant changes were made in the risk management objectives and policies during the years ended 31 December 2019 and 31 December 2018.

The Group audit committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

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.

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Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's bank balances, trade and other receivables and due from related parties.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	2019	2018
	KD	KD
Cash and cash equivalents	17,182,905	16,677,660
Trade receivables	58,450,041	42,131,490
Other receivables	5,344,043	3,000,067
Due from related parties	35,039	34,524
	<u>81,012,028</u>	<u>61,843,741</u>

Bank balances and cash

Credit risk from balances with banks and financial institutions is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies. Further, the principal amounts of deposits in local banks (including saving accounts and current accounts) are guaranteed by the Central Bank of Kuwait in accordance with Law No. 30 of 2008 Concerning Guarantee of Deposits at Local Banks in the State of Kuwait which came into effect on 3 November 2008.

Impairment on bank balances and cash has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its bank balances and cash have low credit risk based on the external credit ratings of the counterparties.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments. Outstanding receivables are regularly monitored by management.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, trading history with the Group and existence of previous financial difficulties.

The Group sells its products and renders services to a large number of customers. At the reporting date, its 5 largest customers account for 36.96% of outstanding trade receivables (2018: 22.92%).

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 360 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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The table below provides information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	2019			
	Weighted average loss	Gross carrying amount KD	Loss amount KD	Net carrying amount KD
Current (not past due)				
<i>Past due</i>				
1 - 90 days	0.42%	42,982,084	178,653	42,803,431
91 - 180 days	1.46%	6,265,980	91,361	6,174,619
181 - 270 days	2.72%	3,885,334	105,718	3,779,616
271 – 360 days	6.69%	2,388,935	159,881	2,229,054
More than 360 days	67.46%	<u>10,644,588</u>	<u>7,181,267</u>	<u>3,463,321</u>
		<u>66,166,921</u>	<u>7,716,880</u>	<u>58,450,041</u>

	2018			
	Weighted average loss	Gross carrying amount KD	Loss amount KD	Net carrying amount KD
Current (not past due)				
<i>Past due</i>				
1 - 90 days	0.44%	35,162,030	153,872	35,008,158
91 - 180 days	1.02%	3,376,706	34,451	3,342,255
181 - 270 days	1.47%	1,968,489	28,948	1,939,541
271 – 360 days	21.70%	1,318,978	286,164	1,032,814
More than 360 days	85.77%	<u>5,684,302</u>	<u>4,875,580</u>	<u>808,722</u>
		<u>47,510,505</u>	<u>5,379,015</u>	<u>42,131,490</u>

Due from related parties

Transactions with related parties are carried out on a negotiated contract basis. Impairment on the due from related parties have been measured on the basis of lifetime expected credit losses. The Company considers that these have low credit risk based on historical experiences and experienced credit judgment. At the reporting date, these are neither impaired nor due.

Liquidity risk

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

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

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Liquidity risk is managed by the finance department of the 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. At the reporting date, the liquidity profile of financial liabilities was as follows:

	Total KD	Contractual cash flows			
		On demand KD	Within 3 months KD	3 to 12 months KD	Between 2 and 5 years KD
2019					
Loans and borrowings	89,053,361	-	13,041,210	74,870,305	1,141,846
Trade and other payables	42,870,285	-	42,870,285	-	-
Due to related parties	1,983,213	1,983,213	-	-	-
Bank overdrafts	4,556,790	4,556,790	-	-	-
Lease liabilities	3,006,631	-	86,492	1,182,800	1,737,339
	<u>141,470,280</u>	<u>6,540,003</u>	<u>55,997,987</u>	<u>76,053,105</u>	<u>2,879,185</u>
2018					
Loans and borrowings	56,312,072	-	12,538,923	40,971,016	2,802,133
Trade and other payables	38,303,997	-	38,303,99	-	-
Due to related parties	1,003,988	1,003,988	-	-	-
Bank overdrafts	8,906,974	8,906,974	-	-	-
	<u>104,527,031</u>	<u>9,910,962</u>	<u>50,842,920</u>	<u>40,971,016</u>	<u>2,802,133</u>

Included in loans and borrowings is an amount of KD 81,479,850 (2018: KD 45,376,251) which represents revolving facilities and the management is confident that the facilities will be renewed on expiry.

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.

Interest rate risk

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

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

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

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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 taxes and Board of Directors' remuneration as follows:

	Increase in 25 basis points	
	<i>Decrease in profit before tax and directors' remuneration</i>	
	2019	2018
	KD	KD
Currencies		
Kuwaiti Dinars	128,705	47,161
US Dollars	81,200	75,950
Saudi Riyals	6,377	10,029
	<u>216,282</u>	<u>133,140</u>

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

Foreign currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

The Group is mainly exposed to foreign currency risk on its 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 tax and directors' 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.

	Change in currency rate by + 5%			
	<i>Effect on profit before tax and directors' remuneration</i>		<i>Effect on other comprehensive income</i>	
	2019	2018	2019	2018
	KD	KD	KD	KD
Currencies				
U.A.E. Dirhams	(11,249)	(3,288)	-	-
Euro	(44,408)	(39,103)	-	-
Sterling Pound	(1,578)	(1,263)	-	-
Saudi Riyals	(22,920)	(46,505)	(8,883)	8,757
US Dollars	(380,896)	(703,875)	(240,817)	(233,669)

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

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Equity price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified as at fair value through other comprehensive income (FVOCI). The Group's non-listed equity investment is susceptible to market price risk arising from uncertainties about future values of the investment securities. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Senior Management reviews and approves all major equity investment decisions.

At the reporting date, the exposure to non-listed equity investments at fair value was KD 1,939,897 (2018: KD 1,692,239). Sensitivity analyses of these investments have been provided in Note 29.

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.

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.

29. Hedge of net investment in foreign operations

Included within loans at 31 December 2019 were borrowings denominated in US Dollars and Saudi Riyals amounting to KD 27,701,946 (2018: KD 29,183,270) 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 2019 and 2018.

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

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

30. Fair value measurement

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:

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- 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 by the Group.

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements at fair value 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.

The Group's senior management determines the policies and procedures for recurring fair value measurement, such unquoted equity investments. The Group measures financial instruments such as investment in equity securities, at fair value at each reporting date. Fair-value related disclosures for financial instruments, including the valuation methods, significant estimates and assumptions are disclosed below.

	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
2019				
Financial assets at fair value through other comprehensive income	-	-	1,933,479	1,933,479
2018				
Financial assets at fair value through other comprehensive income	-	-	1,692,239	1,692,239

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

Notes to the consolidated financial statements for the year ended 31 December 2019

The following table shows a reconciliation of investment at fair value through other comprehensive income from the opening balances to the closing balances for Level 3 fair values.

	KD
Balance at 1 January 2018	763,423
Re-measurement adjustment due to adoption of IFRS 9	953,967
Adjusted balance at 1 January 2018	<u>1,717,390</u>
Changes in fair value	(25,151)
Balance at 31 December 2018	<u>1,692,239</u>
Balance at 1 January 2019	1,692,239
Changes in fair value	145,045
Additional shares purchased	96,195
Balance at 31 December 2019	<u>1,933,479</u>

Valuation methods and assumption

The Group invests in a private equity company that is not quoted in an active market. Transactions in such investment do not occur on a regular basis. The Group uses a market-based valuation technique for these positions. The Group determines comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the investee company to measure the fair value. The Group classifies the fair value of these investments as Level 3.

Description of significant unobservable inputs to valuation

	<i>Valuation techniques</i>	<i>Significant unobservable inputs</i>	<i>Range</i>	<i>Sensitivity of the input to fair value</i>
Unquoted investment	Market approach	DLOM *	20% - 30%	Increase (decrease) in the discount would decrease (increase) the fair value.

Discount for lack of marketability (“DLOM”) represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

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Reconciliation and fair value of biological assets

The following table shows a reconciliation and fair value of biological assets from the opening balances to the closing balances for Level 2 fair values.

	KD
Balance at 1 January 2018	696,571
Write offs	(24,927)
Sale of livestock	(201,982)
Changes in fair value	<u>116,148</u>
Balance at 31 December 2018	<u><u>585,810</u></u>
Balance at 1 January 2019	585,810
Write offs	(15,896)
Purchase of livestock	108,420
Sale of livestock	(90,088)
Changes in fair value	<u>134,505</u>
Balance at 31 December 2019	<u><u>722,751</u></u>

31. Contingencies and commitments

i. Contingencies

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

	2019	2018
	KD	KD
Letter of guarantee	16,970,861	15,696,362

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

Further to 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.

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ii. Commitments

	2019	2018
	KD	KD
<i>Capital expenditure commitments</i>		
Property, plant and equipment	9,537,712	5,783,820
Intangible assets	419,498	171,356
	<u>9,957,210</u>	<u>5,955,176</u>
<i>Operating leases</i>		
Future minimum rentals payable		
Within one year	-	3,488,251
After one year but not more than five years	-	247,388
Total contracted operating lease expenditure	<u>-</u>	<u>3,735,639</u>

32. 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 2019 and 31 December 2018. The Group monitors capital at the level of the Company and at each of the subsidiaries.

Based on considerations of various stakeholders, capital at the Company is monitored in terms of debt/equity ratio, which is net debt divided by total capital plus net debt. The 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 Company.

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

	2019	2018
	KD	KD
Loans and borrowings	87,017,790	53,255,731
Bank overdrafts	4,556,790	8,906,974
Less: cash and cash equivalents	<u>(17,182,905)</u>	<u>(16,677,660)</u>
Net debt	74,391,675	45,485,045
Equity attributable to the equity holders of the Company	<u>105,595,549</u>	<u>105,342,458</u>
Total capital	<u>179,987,224</u>	<u>150,827,503</u>
Gearing ratio	41.3%	30.2%

Notes to the consolidated financial statements
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33. Basis of restatement

During 2019, the Group determined that impairment loss relating to property, plant and equipment of a subsidiary, amounting to KD 748,020 had not been recognised in the consolidated financial statements for the year ended 31 December 2018, resulting in primarily overstatement of property, plant and equipment and equity attributable to the shareholders of the Company as at 31 December 2018 and overstatement of net profit and earnings per share for the year ended 31 December 2018. This has been corrected in 2019 by restating each of the affected consolidated financial statement line items for the prior period. The following tables summarise the impacts on the Group's consolidated financial statements;

Consolidated statement of financial position

31 December 2018	Impact of restatement		
	As previously Reported KD	Adjustments KD	As restated KD
Assets			
Property, plant and equipment	80,209,212	(750,962)	79,458,250
Non-current assets	101,352,913	(750,962)	100,601,951
Total assets	217,899,549	(750,962)	217,148,587
Equity			
Foreign currency translation reserve	(468,207)	(2,942)	(471,149)
Retained earnings	46,891,407	(714,360)	46,177,047
Equity attributable to the shareholders of the Company	106,059,760	(717,302)	105,342,458
Total equity	110,549,698	(717,302)	109,832,396
Liabilities			
Trade and other payables	39,341,645	(33,660)	39,307,985
Current liabilities	98,951,590	(33,660)	98,917,930
Total liabilities	107,349,851	(33,660)	107,316,191
Total equity and liabilities	217,899,549	(750,962)	217,148,587

Notes to the consolidated financial statements
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Consolidated statement of profit or loss

For the year ended 31 December 2018	Impact of restatement		
	As previously reported KD	Adjustments KD	As restated KD
Impairment loss on non- financial assets	-	(748,020)	(748,020)
Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), National Labour Support Tax (“NLST”), Zakat and board of directors’ remuneration	7,862,964	(748,020)	7,114,944
KFAS	(81,510)	7,480	(74,030)
NLST	(229,982)	18,700	(211,282)
Zakat	(91,177)	7,480	(83,697)
Profit for the year	7,385,295	(714,360)	6,670,935
Profit attributable to:			
Shareholders of the Company	7,673,379	(714,360)	6,959,019
Non-controlling interests	(288,084)	-	(288,084)
	<u>7,385,295</u>	<u>(714,360)</u>	<u>6,670,935</u>
Earnings per share (basic and diluted) (fils)	<u>24.87</u>	<u>(2.31)</u>	<u>22.56</u>

Notes to the consolidated financial statements
for the year ended 31 December 2019

Consolidated statement of comprehensive income

For the year ended 31 December 2018	Impact of restatement		
	As previously Reported KD	Adjustments KD	As restated KD
Profit for the year	7,385,295	(714,360)	6,670,935
Total of items that are or may be reclassified subsequently to profit or loss	49,202	(2,942)	46,260
Total of items that will not be reclassified subsequently to profit or loss	(1,221,537)	-	(1,221,537)
<i>Other comprehensive loss for the year</i>	(1,172,335)	(2,942)	(1,175,277)
Total comprehensive income for the year	6,212,960	(717,302)	5,495,658
Total comprehensive income attributable to:			
Shareholders of the Company	6,524,319	(717,302)	5,807,017
Non-controlling interests	(311,359)	-	(311,359)
	6,212,960	(717,302)	5,495,658

Consolidated statement of cash flows

For the year ended 31 December 2018	Impact of restatement		
	As previously reported KD	Adjustments KD	As restated KD
Cash flows from operating activities			
Profit for the period before contribution to KFAS, NLST, Zakat and board of directors' remuneration	7,862,964	(748,020)	7,114,944
Impairment loss of non-financial assets	-	748,020	748,020
<i>Net cash from operating activities</i>	10,539,524	-	10,539,524

The Group did not present the opening balances of assets, liabilities and equity as the correction of error did not have any impact on the Group's statement of financial position as at 1 January 2018.

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34. Subsequent event

The coronavirus outbreak (“the outbreak”) since early 2020 has brought about additional uncertainties in the Group’s operating environment and has impacted the Group’s operations across various markets and its financial position subsequent to the financial year.

The Group has been closely monitoring the impact of the developments on its businesses and has put in place appropriate contingency measures. These contingency measures include scaling up production and building up of inventory to meet market requirements, assessing suppliers’ readiness and negotiating with customers on delivery timetable and credit periods and taking all the necessary steps on safety of employees to mitigate the risk of business. The Group will keep contingency measures under review as the situation evolves.

As far as the Group’s businesses are concerned the outbreak has positively impacted the business in certain geographies, but could impact the repayment ability of some debtors and delays are experienced in incoming supplies.

As the situation is fast evolving, the effect of the outbreak is subject to significant levels of uncertainty, with the full range of possible effects unknown.