

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

**Consolidated financial statements and independent auditor's report  
for the year ended 31 December 2023**

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

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Mezzan Holding Company K.S.C.P. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy 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 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standards) (IFRSs).

#### Basis for Opinion

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

#### Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment of goodwill</b></p> <p>As at 31 December 2023, goodwill is carried at KD 23 million which represents 8% of the total assets.</p> <p>The impairment test of goodwill performed by management is significant to our audit because the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires management to apply significant judgments and make significant estimates. Estimates of future cash flows are based on management's views of variables such as the growth in the sales, economic growth, expected inflation rates and yield.</p>	<p>Our audit procedures included, but were not limited, to the following:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of management's process to identify the cash generating units (CGU) and the related discounted cash flows;</li> <li>• We evaluated controls over the impairment assessment process to determine if they had been appropriately designed and implemented;</li> <li>• With the support of our internal valuation experts, we benchmarked and challenged key assumptions forming the Group's value-in-use calculation including the cash flow projections and discount rate;</li> <li>• We compared actual historical cash flows with previous forecasts and assessed differences, if any, were within an acceptable range. We assessed the overall reasonableness of the cash flow forecasts and compared the discount rate and growth rate to market data;</li> </ul>

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

**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p>Therefore, we identified the impairment testing of goodwill as a key audit matter.</p> <p>The Group's policy on assessing impairment of goodwill is set out in note 3 (f) and related disclosures are made in note 6 to the consolidated financial statements</p>	<ul style="list-style-type: none"> <li>• We analyzed the sensitivities such as the impact on the valuation if the growth rate would be decreased, or the discount rate would be increased; and</li> </ul> <p>We assessed the Group's disclosures relating to this matter against the requirements of IFRSs.</p>

**Other Information**

Management is responsible for the other information. The other information comprises of the information included in the Annual Report of the Group for the year ended 31 December 2023. The other information does not include the consolidated financial statements and our auditor's report thereon. We obtained the report of the Company's Board of Directors prior to the date of our auditor's report and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2023 after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's 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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MEZZAN HOLDING COMPANY K.S.C.P. (CONTINUED)

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

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

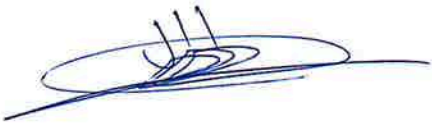
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our 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

Furthermore, in our opinion proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended; and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive Regulations, as amended; or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2023 that might have had a material effect on the business of the Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations, as amended, during the year ended 31 December 2023, that might have had a material effect on the business of the Company or on its financial position.



**Talal Y. Al-Muzaini**  
**Licence No. 209A**  
**Deloitte & Touche - Al Wazzan & Co.**

Kuwait  
10 March 2024

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

Consolidated statement of financial position - as at 31 December 2023

	Notes	2023 KD	2022 KD
<b>Assets</b>			
Property, plant and equipment	4	78,043,089	78,490,178
Right of use assets	5	3,169,189	3,183,773
Intangible assets	6	34,976,184	35,008,071
Investment in associates	7	997,181	1,446,667
Investment property	8	3,625,290	3,717,125
Biological assets	30	1,113,020	917,619
Investments at fair value through other comprehensive income	30	2,334,854	2,478,845
<b>Non-current assets</b>		<b>124,258,807</b>	<b>125,242,278</b>
Inventories	9	57,439,544	59,596,241
Trade and other receivables	10	71,418,025	66,802,343
Cash and bank balances	12	28,072,654	20,455,951
<b>Current assets</b>		<b>156,930,223</b>	<b>146,854,535</b>
<b>Total assets</b>		<b>281,189,030</b>	<b>272,096,813</b>
<b>Equity</b>			
Share capital	13	31,132,500	31,132,500
Treasury shares	14	(431,305)	(267,585)
Treasury shares reserve		80,155	-
Statutory reserve	15	16,601,335	16,601,335
Voluntary reserve	16	17,799,282	16,601,335
Fair value reserve		1,521,639	1,665,630
Foreign currency translation reserve		(407,063)	(323,790)
Other reserve	17	(4,483,433)	(4,252,426)
Retained earnings		48,158,221	41,613,040
<b>Equity attributable to shareholders of the Company</b>		<b>109,971,331</b>	<b>102,770,039</b>
Non-controlling interests	18	9,526,494	8,584,364
<b>Total equity</b>		<b>119,497,825</b>	<b>111,354,403</b>
<b>Liabilities</b>			
Lease liabilities	5	2,019,951	1,925,749
Retirement benefit obligation	20	8,643,683	8,744,216
<b>Non-current liabilities</b>		<b>10,663,634</b>	<b>10,669,965</b>
Loans and borrowings	19	76,413,945	70,206,985
Bank overdrafts	12	10,786,891	14,488,373
Lease liabilities	5	1,215,167	1,365,954
Trade and other payables	21	62,611,568	64,011,133
<b>Current liabilities</b>		<b>151,027,571</b>	<b>150,072,445</b>
<b>Total liabilities</b>		<b>161,691,205</b>	<b>160,742,410</b>
<b>Total equity and liabilities</b>		<b>281,189,030</b>	<b>272,096,813</b>

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

  
 Motasem Jassim Mohamed Al - Wazzan  
 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 2023

	Notes	2023 KD	2022 KD
Revenue	27	271,178,465	255,172,090
Cost of revenue		(209,645,608)	(204,073,284)
<b>Gross profit</b>		61,532,857	51,098,806
Selling and distribution expenses		(23,670,885)	(21,193,241)
General and administrative expenses	22	(19,378,736)	(31,454,910)
Other income	23	462,781	3,080,831
<b>Results from operating activities</b>		18,946,017	1,531,486
Finance costs		(5,806,346)	(3,570,543)
Share of results of associates	7	109,029	486,758
<b>Profit/(loss) for the year before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and board of directors' remuneration</b>		13,248,700	(1,552,299)
KFAS	24	(126,925)	-
NLST		(226,928)	(100,432)
Zakat		(90,772)	(39,572)
Board of directors' remuneration	11	(75,000)	-
<b>Profit/(loss) for the year</b>		12,729,075	(1,692,303)
<b>Profit/(loss) attributable to:</b>			
Shareholders of the Company		11,459,840	(1,967,563)
Non-controlling interests	18	1,269,235	275,260
		12,729,075	(1,692,303)
<b>Earnings/loss per share (basic and diluted) (fils)</b>	26	36.95 fils	(6.38 fils)

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

Consolidated statement of comprehensive income - for the year ended 31 December 2023

	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
Profit/(Loss) for the year	12,729,075	(1,692,303)
<b>Other comprehensive (loss) / income</b>		
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
Foreign currency translation differences on foreign operations	(78,419)	(42,360)
Net investment hedge - net (loss)/gain	(5,246)	278,443
	<u>(83,665)</u>	<u>236,083</u>
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Remeasurements of defined benefit obligations (Note 20)	(230,905)	231,419
Change in fair value of investment at fair value through other comprehensive income (Note 30)	(143,991)	(609,041)
	<u>(374,896)</u>	<u>(377,622)</u>
<i>Other comprehensive loss</i>	<u>(458,561)</u>	<u>(141,539)</u>
<b>Total comprehensive income/(loss) for the year</b>	<u>12,270,514</u>	<u>(1,833,842)</u>
<b>Total comprehensive income/(loss) attributable to:</b>		
Shareholders of the Company	11,001,569	(2,098,669)
Non-controlling interests	1,268,945	264,827
<b>Total comprehensive income/(loss) for the year</b>	<u>12,270,514</u>	<u>(1,833,842)</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 2023

	Attributable to shareholders of the Company											
	Share capital	Treasury shares	Treasury shares reserve	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
<b>Balance at 1 January 2023</b>	31,132,500	(267,585)	-	16,601,335	16,601,335	1,665,630	(323,790)	(4,252,426)	41,613,040	102,770,039	8,584,364	111,354,403
Profit for the year	-	-	-	-	-	-	-	-	11,459,840	11,459,840	1,269,235	12,729,075
<i>Other comprehensive (loss)/income</i>												
Change in fair value (Note 30)	-	-	-	-	-	(143,991)	-	-	-	(143,991)	-	(143,991)
Foreign currency translation	-	-	-	-	-	-	(83,273)	-	-	(83,273)	(392)	(83,665)
Re measurement loss on defined benefit obligation (Note 20)	-	-	-	-	-	-	-	(231,007)	-	(231,007)	102	(230,905)
<b>Total comprehensive (loss)/income for the year</b>	-	-	-	-	-	(143,991)	(83,273)	(231,007)	11,459,840	11,001,569	1,268,945	12,270,514
Transfer to reserve	-	-	-	-	1,197,947	-	-	-	(1,197,947)	-	-	-
Dividends (Note 13)	-	-	-	-	-	-	-	-	(3,716,712)	(3,716,712)	-	(3,716,712)
Dividend paid by subsidiaries (Note 18)	-	-	-	-	-	-	-	-	-	-	(326,815)	(326,815)
Purchase of treasury shares	-	(346,275)	-	-	-	-	-	-	-	(346,275)	-	(346,275)
Sale of treasury shares	-	182,555	80,155	-	-	-	-	-	-	262,710	-	262,710
<b>Balance at 31 December 2023</b>	31,132,500	(431,305)	80,155	16,601,335	17,799,282	1,521,639	(407,063)	(4,483,433)	48,158,221	109,971,331	9,526,494	119,497,825

The accompanying notes form an integral part of these consolidated financial statement

Consolidated statement of changes in equity - for the year ended 31 December 2023

	Attributable to shareholders of the Company											
	Share capital	Treasury shares	Treasury shares Reserve	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
<b>Balance at 1 January 2022</b>	31,132,500	(2,343,017)	228,415	16,601,335	16,601,335	2,274,671	(540,831)	(4,513,320)	51,987,607	111,428,695	8,640,318	120,069,013
(Loss)/profit for the year	-	-	-	-	-	-	-	-	(1,967,563)	(1,967,563)	275,260	(1,692,303)
<i>Other comprehensive (loss) / income</i>												
Change in fair value (Note 30)	-	-	-	-	-	(609,041)	-	-	-	(609,041)	-	(609,041)
Foreign currency translation	-	-	-	-	-	-	217,041	-	-	217,041	19,042	236,083
Re measurement loss on defined benefit obligation (Note 20)	-	-	-	-	-	-	-	260,894	-	260,894	(29,475)	231,419
<b>Total comprehensive (loss) / income for the year</b>	-	-	-	-	-	(609,041)	217,041	260,894	(1,967,563)	(2,098,669)	264,827	(1,833,842)
Dividends (Note 13)	-	-	-	-	-	-	-	-	(4,879,536)	(4,879,536)	-	(4,879,536)
Dividend paid by subsidiaries (Note 18)	-	-	-	-	-	-	-	-	-	-	(320,781)	(320,781)
Purchase of treasury shares	-	(1,680,451)	-	-	-	-	-	-	-	(1,680,451)	-	(1,680,451)
Treasury shares given to shareholders as dividend	-	3,755,883	(228,415)	-	-	-	-	-	(3,527,468)	-	-	-
<b>Balance at 31 December 2022</b>	31,132,500	(267,585)	-	16,601,335	16,601,335	1,665,630	(323,790)	(4,252,426)	41,613,040	102,770,039	8,584,364	111,354,403

The accompanying notes form an integral part of these consolidated financial statement

**Mezzan Holding Company K.S.C.P and subsidiaries**
**Consolidated statement of cash flows - for the year ended 31 December 2023**

	Notes	2023 KD	2022 KD
<b>Cash flows from operating activities</b>			
Profit/(Loss) for the year before contribution to KFAS, NLST, Zakat and board of directors' remuneration		13,248,700	(1,552,299)
<i>Adjustment for:</i>			
Depreciation	4,5&8	8,445,754	9,090,805
Amortisation of intangible assets	6	433,881	476,032
Provision for retirement benefit obligation	20	1,398,905	1,478,725
Share of results of associates	7	(109,029)	(486,758)
Provision for obsolete and slow-moving inventories	9	616,989	1,126,050
(Reversal of)/provision for expected credit losses	10	(32,312)	7,115,231
Loss on sale of investment in an associate		131,165	-
(Gain)/loss on disposal of property, plant and equipment	23	(241,438)	104,365
Loss on derecognition of lease liability		18,786	-
Gain on revaluation of biological assets	30	(102,639)	(132,619)
Gain on disposal of biological assets		(15,353)	(10,145)
Write-off of biological assets	30	18,739	29,286
Finance costs		5,806,346	3,570,543
Interest income		(106,795)	(851)
Dividend income	23	(65,558)	(60,095)
Foreign currency exchange loss	23	40,733	292,791
		<u>29,486,874</u>	<u>21,041,061</u>
<i>Changes in:</i>			
- inventories		1,540,368	(5,912,930)
- trade and other receivables		(4,069,673)	(3,528,003)
- related parties balances- net		(3,649,131)	(129,910)
- trade and other payables		1,536,127	1,221,741
Cash generated from operating activities		<u>24,844,565</u>	<u>12,691,959</u>
Employees' retirement benefit obligation paid	20	<u>(1,732,952)</u>	<u>(1,281,129)</u>
<i>Net cash from operating activities</i>		<u>23,111,613</u>	<u>11,410,830</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(6,924,282)	(8,597,095)
Proceeds from disposal of property, plant and equipment		601,601	56,342
Purchase of intangible assets	6	(49,386)	(2,146,846)
Purchase of biological assets	30	(194,190)	(92,213)
Proceeds from disposal of biological assets		98,042	81,163
Movement in term deposits	12	(2,252,740)	(64,465)
Movement in restricted balance and margin deposits	12	(8,753)	(252,146)
Dividend from investment at fair value through other comprehensive income	23	65,558	60,095
Dividend received from associates	7	36,510	342,026
<i>Net cash used in investing activities</i>		<u>(8,627,640)</u>	<u>(10,613,139)</u>
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings		21,159,585	9,416,480
Repayment of loans and borrowings		(14,649,245)	(8,045,620)
Payment of lease liabilities	5	(1,653,402)	(1,697,352)
Dividend paid to shareholders of the Company		(3,715,472)	(4,879,536)
Dividend paid by subsidiaries	18	(326,815)	(320,781)
Purchase of treasury shares		(346,275)	(1,680,451)
Proceeds from sale of treasury shares		262,710	-
Payment of finance costs		(5,654,415)	(3,570,543)
<i>Net cash used in financing activities</i>		<u>(4,923,329)</u>	<u>(10,777,803)</u>
Effect of foreign exchange differences		(503,952)	220,420
<b>Net change in cash and cash equivalents</b>		9,056,692	(9,759,692)
<b>Cash and cash equivalents at the beginning of the year</b>	12	5,650,967	15,410,659
<b>Cash and cash equivalents at the end of the year</b>	12	<u>14,707,659</u>	<u>5,650,967</u>

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

**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:

Name of entity	Country of incorporation	Principal business	Percentage of Ownership	
			2023	2022
<b>Subsidiaries</b>				
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.*	Kuwait	Exporting, importing and trading of all kind of foodstuff	99.98%	99.98%

**Mezzan Holding Company K.S.C.P and subsidiaries**
**Notes to the consolidated financial statements - for the year ended 31 December 2023**

Name of entity	Country of incorporation	Principal business	Percentage of ownership	
			2023	2022
<b>Subsidiaries</b>				
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%
Emirates Star Services L.L.C.*	U.A.E.	Providing catering services and running restaurants	99%	99%
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) (PIC)	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 2023**

Name of entity	Country of incorporation	Principal Business	Percentage of ownership	
			2023	2022
<b>Subsidiaries</b>				
Kuwait Saudi Pharmaceutical Company K.S.C. (Closed) (KSPICO)****	Kuwait	Manufacturing and distribution of pharmaceutical product:	66.99%	66.99%
Al Shifa Pharma Pharmaceutical Trading and Industries Company W.L.L. (“Shifa”) (effective shareholding)	Kuwait	Manufacturing and distribution of pharmaceutical product:	67.32%	67.32%
Pest Protection for Insects and Rodents Control Company W.L.L.	Kuwait	Trading of insects’ protection products	100%	100%
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%	99%
Qatar Star Services L.L.C.**	Qatar	Providing catering and cleaning services	50%	50%
Conserved Foodstuffs Distributing Company W.L.L.	Qatar	Production and sale of purified water and trading consumer goods	99.9%	99.9%
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%
Tazweed Al Khair Food Industries Co	Jordan	Manufacturing and sale of foodstuff	50%	50%
Mezzan Africa (PYT) Limited	South Africa	Manufacturing and trading of fresh fruits	100%	100%
Mezzan Security Services WLL	Qatar	Providing security services	100%	100%
Mezzan Star Catering Services Company LLC	Saudi Arabia	Providing catering services and general	100%	-
Alwazzan Refrigeration Co. L.L.C	UAE	Providing storage facilities	99%	99
<b>Associates</b>				

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

### Notes to the consolidated financial statements - for the year ended 31 December 2023

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International Paper Products W.L.L.	Kuwait	Manufacturing	24.34%	24.34%
National Textile Company K.S.C. (Closed)	Kuwait	Manufacturing	-	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%.

\*\* 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.

\*\*\*\* Subsequent to the year, the Group's ownership in the entity increased from 66.99% to 80.04%.

In addition, the Group owns a sole proprietorship concern (Khazan Meat Factory) and a branch (Khazan Food Stuff) in United Arab Emirates.

These consolidated financial statements were authorized for issue by the Board of Directors on 10 March 2024 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.

### b) Basis of measurement

The consolidated financial statements have been prepared on historical cost or amortised cost basis, except 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.

### d) Going Concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to realise its assets and discharge its liabilities in the normal course of business, as management expects that maturing financial obligations can be met through cash inflows from operations and utilization of undrawn facilities. The consolidated financial statements do not include any adjustments that might arise due to uncertainty of the Group's ability to continue as a going concern.

### e) 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(u).

## **2.1 New standards and amendments effective from 1 January 2023**

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these consolidated financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- IFRS Accounting Standard 17, 'Insurance contracts' – This standard replaces IFRS Accounting Standard 4, which permits a wide variety of practices in accounting for insurance contracts. IFRS Accounting Standard 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- Amendments to IAS 1 and IFRS Accounting Standards Practice statement 2 – Disclosure of accounting policies – The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material' accounting policy information. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.
- Amendments to IAS 8 - The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.
- Amendment to IAS 12 - International tax reform - pillar two model rules - These amendments give companies temporary exception from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. Following the amendments, an entity is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes.

## 2.2 Standards and revisions issued but not yet effective

At the date of authorization of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Standard, interpretation, amendments	Description	Effective date
		1 January 2024
Amendment to IAS 1 – Current and Non-current liabilities	Classification of liabilities as current or non-current: The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.	
Non-current liabilities with covenants	Non-current liabilities with covenants - The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity’s right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent).	
Amendments to IAS 7 and IFRS accounting standard 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company’s liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB’s response to investors’ concerns that some companies’ supplier finance arrangements are not sufficiently visible, hindering investors’ analysis.	1 January 2024
Amendment to IFRS accounting standard 16 – Leases on sale and leaseback	The amendments to IFRS accounting standard 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS accounting standard 15 to be accounted for as a sale. The amendments require the seller-lessee to determine ‘lease payments’ or ‘revised lease payments’ such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS accounting standard 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.	1 January 2024

Amendments to IAS 21 - Lack of Exchangeability	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.	Annual periods beginning on or after 1 January 2025 (early adoption is available)
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Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

### 3. Material 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 2.1 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.

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 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 Financial assets at fair value through profit or loss (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).

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
- 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.

#### 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.

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 past due for more than the specified number of days ('default days') determined by the subsidiaries based on the analysis of historical defaults. Such default days range from 90 to 330 days. 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.

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.

*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, licenses and marketed products*

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.

Marketed products include approved product rights which are amortised over the licensing period in the major market to which the approval relates. All products are assessed for impairment indicators at the end of each reporting period.

*Key money*

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

*Definite useful life*

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

*Indefinite useful life*

Key money with indefinite useful life is not amortized but is 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.

f) 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.

g) 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

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.

k) Retirement obligations

The Group accounts for retirement benefits under IAS 19 "Employee Benefits". Benefits are payable to the Group'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.

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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Group as a lessee The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

*Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group's lease liabilities are included in Interest-bearing loans and borrowings

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (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 to leases of office equipment that are considered to be low value. 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.

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 determines whether it is an agent or principal based on the criteria in IFRS 15.

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

*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.

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.

*Commission income*

The Group recognizes commission income on rendering of services when the Group acts in the capacity of an agent rather than as a principal.

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
- 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) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

u) 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.

*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.

*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:

- 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. More details are given in Note 6.

*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 10.

*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.

*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. Property, plant and equipment

	Freehold 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
<b>Cost</b>								
Balance at 1 January 2023	14,188,499	63,911,638	65,466,340	2,260,912	10,918,476	11,155,773	9,968,740	177,870,378
Additions	-	230,273	954,201	-	121,126	240,533	5,378,149	6,924,282
Disposals/write offs	-	(409,798)	(1,476,413)	(39,805)	(998,044)	(482,729)	-	(3,406,789)
Transfer from capital work in progress	-	2,655,398	2,626,588	288,704	-	379,633	(5,950,323)	-
Transfer to intangible assets (Note 6)	-	-	-	-	-	-	(337,577)	(337,577)
Effect of movements in exchange rates	10,030	27,991	35,840	952	6,088	4,443	8,066	93,410
Balance at 31 December 2023	14,198,529	66,415,502	67,606,556	2,510,763	10,047,646	11,297,653	9,067,055	181,143,704
<b>Accumulated depreciation and impairment losses</b>								
Balance at 1 January 2023	467,002	34,143,832	44,804,211	1,670,920	8,396,583	9,897,652	-	99,380,200
Charge for the year	-	2,352,706	2,836,751	241,568	617,573	672,589	-	6,721,187
Relating to disposals/ write offs	-	(409,791)	(1,136,328)	(39,789)	(978,521)	(482,197)	-	(3,046,626)
Effect of movements in exchange rates	672	15,240	22,327	746	2,917	3,952	-	45,854
Balance at 31 December 2023	467,674	36,101,987	46,526,961	1,873,445	8,038,552	10,091,996	-	103,100,615
<b>Carrying amount</b>								
At 31 December 2023	13,730,855	30,313,515	21,079,595	637,318	2,009,094	1,205,657	9,067,055	78,043,089

	Freehold 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
<b>Cost</b>								
Balance at 1 January 2022	12,637,443	61,495,240	64,118,811	1,898,389	9,763,777	10,508,042	8,859,547	169,281,249
Additions	1,506,206	13,501	497,035	-	105,816	129,284	6,345,253	8,597,095
Disposals	-	-	(405,102)	-	(122,442)	(8,595)	-	(536,139)
Transfer from capital work in progress	-	2,152,385	1,004,939	355,599	1,138,491	495,877	(5,147,291)	-
Transfer to intangible assets (Note 6)	-	-	-	-	-	-	(110,738)	(110,738)
Effect of movements in exchange rates	44,850	250,512	250,657	6,924	32,834	31,165	21,969	638,911
Balance at 31 December 2022	14,188,499	63,911,638	65,466,340	2,260,912	10,918,476	11,155,773	9,968,740	177,870,378
<b>Accumulated depreciation and impairment losses</b>								
Balance at 1 January 2022	461,231	31,717,184	41,592,502	1,507,951	7,691,200	9,210,061	-	92,180,129
Charge for the year	-	2,307,079	3,311,637	156,941	804,731	667,341	-	7,247,729
Relating to disposals	-	-	(247,166)	-	(119,697)	(8,569)	-	(375,432)
Effect of movements in exchange rates	5,771	119,569	147,238	6,028	20,349	28,819	-	327,774
Balance at 31 December 2022	467,002	34,143,832	44,804,211	1,670,920	8,396,583	9,897,652	-	99,380,200
<b>Carrying amount</b>								
At 31 December 2022	13,721,497	29,767,806	20,662,129	589,992	2,521,893	1,258,121	9,968,740	78,490,178

Notes to the consolidated financial statements - for the year ended 31 December 2023

Capital work in progress comprise of improvement projects on the existing plants and renovation to buildings. 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:

	2023	2022
	KD	KD
Cost of revenue	4,603,217	5,073,926
Selling and distribution expenses	606,408	722,523
General and administrative expenses	1,511,562	1,451,280
	<u>6,721,187</u>	<u>7,247,729</u>

5. 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			
	Land	Building	Vehicles/ others	Total
	KD	KD	KD	KD
Balance at 1 January 2022	389,004	2,114,202	1,222,263	3,725,469
Additions	127,727	409,327	902,680	1,439,734
Retirements	-	(260,455)	-	(260,455)
Depreciation expense	(156,534)	(774,109)	(809,424)	(1,740,067)
Net foreign currency differences	-	13,146	5,946	19,092
Balance at 31 December 2022	<u>360,197</u>	<u>1,502,111</u>	<u>1,321,465</u>	<u>3,183,773</u>
Additions	60,308	354,176	1,376,071	1,790,555
Retirements	-	(187,092)	-	(187,092)
Depreciation expense	(145,532)	(672,250)	(803,436)	(1,621,218)
Net foreign currency differences	-	1,826	1,345	3,171
Balance at 31 December 2023	<u>274,973</u>	<u>998,771</u>	<u>1,895,445</u>	<u>3,169,189</u>
			Lease liabilities	
			2023	2022
			KD	KD
Balance at 1 January			3,291,703	3,809,777
Additions			1,790,555	1,439,734
Interest accrued during the year			199,961	165,870
Retirements			(168,306)	(243,461)
Lease liabilities paid			(1,853,363)	(1,863,222)
Net foreign currency differences			(25,432)	(16,995)
Balance at 31 December			<u>3,235,118</u>	<u>3,291,703</u>
			2023	2022
			KD	KD
Non-current liabilities			2,019,951	1,925,749
Current liabilities			<u>1,215,167</u>	<u>1,365,954</u>
			<u>3,235,118</u>	<u>3,291,703</u>

Payment of lease liability include interest expense of KD 199,961 (2022: KD 165,870) 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.

## Notes to the consolidated financial statements - for the year ended 31 December 2023

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

	2023	2022
	KD	KD
Cost of revenue	2,875,796	3,104,071
Selling and distribution expenses	899,502	747,670
General and administrative expenses	1,000,476	1,190,047
	<u>4,775,774</u>	<u>5,041,788</u>

## 6. Intangible assets

	Goodwill	Computer software	Other intangibles	Total
	KD	KD	KD	KD
<b>Cost</b>				
Balance at 1 January 2023	24,362,232	3,508,898	12,321,872	40,193,002
Additions	-	9,355	40,031	49,386
Transfer from property, plant and equipment (Note 4)	-	258,327	79,250	337,577
Effect of movements in exchange rates	14,935	264	-	15,199
Balance at 31 December 2023	<u>24,377,167</u>	<u>3,776,844</u>	<u>12,441,153</u>	<u>40,595,164</u>
<b>Accumulated amortisation and impairment losses</b>				
Balance at 1 January 2023	1,155,832	3,091,681	937,418	5,184,931
Charge for the year	-	155,955	277,926	433,881
Effect of movements in exchange rates	-	168	-	168
Balance at 31 December 2023	<u>1,155,832</u>	<u>3,247,804</u>	<u>1,215,344</u>	<u>5,618,980</u>
<b>Carrying amount</b>				
At 31 December 2023	<u>23,221,335</u>	<u>529,040</u>	<u>11,225,809</u>	<u>34,976,184</u>
<b>Cost</b>				
Balance at 1 January 2022	24,233,960	3,401,031	10,171,026	37,806,017
Additions	-	-	2,146,846	2,146,846
Transfer from property, plant and equipment (Note 4)	-	106,738	4,000	110,738
Effect of movements in exchange rates	128,272	1,129	-	129,401
Balance at 31 December 2022	<u>24,362,232</u>	<u>3,508,898</u>	<u>12,321,872</u>	<u>40,193,002</u>
<b>Accumulated amortisation and impairment losses</b>				
Balance at 1 January 2022	1,155,832	2,881,539	670,800	4,708,171
Charge for the year	-	209,414	266,618	476,032
Effect of movements in exchange rates	-	728	-	728
Balance at 31 December 2022	<u>1,155,832</u>	<u>3,091,681</u>	<u>937,418</u>	<u>5,184,931</u>
<b>Carrying amount</b>				
At 31 December 2022	<u>23,206,400</u>	<u>417,217</u>	<u>11,384,454</u>	<u>35,008,071</u>

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

*Impairment testing of goodwill*

A cash-generating unit ("CGU") or group of CGUs, to which goodwill has been allocated is tested for impairment annually, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. At the reporting date, the carrying value of the goodwill amounting to KD 23,221,335 (2022: KD 23,206,400) pertains to Group's various investments in businesses operating in Qatar, UAE and Kuwait.

The carrying value of goodwill is assessed by reference to its value in use to perpetuity reflecting the projected cash flows of each of the CGUs or group of CGUs. These projections are based on the most recent budget approved by the board covering a five-year period, and have been extrapolated using a steady terminal growth rate. Long-term growth rates for periods not covered by the budget reflects the products, industries and countries in which the relevant CGU, or group of CGUs operate.

The key assumptions used in the most recent annual budget, on which the cash flow projections are based, are discount rate, sales growth rate, terminal value used for extrapolation of cash flows beyond the budget period of 5 years and the factors used in computing terminal value.

- The cash flow projections have been discounted using varying discount rates adjusted for country, industry and market risk. The discount rate applied to cash flow projections varies between 9.20% to 12.63% (2022: 9.31% to 12.44%) as relevant for each CGU.
- The sales growth in the forecast period has been estimated using compound annual growth rate ranging from 4.70% to 7.7% (2022: 5.4% to 21.5%).
- Terminal growth rate is based on the long-term forecast, which varies from 2.44% to 3.10% (2022: 2.66% to 4.24%) is used to estimate the recoverable amount of this cash generating unit.

The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors results in any of the goodwill allocated to appropriate cash generating units being impaired.

These calculations use cash flow projections based on financial budgets approved by management covering five-year period. The recoverable amounts so obtained were higher than the carrying amount of the CGUs.

**7. Investment in associates**

	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
International Paper Products W.L.L.	997,181	976,592
National Textile Company K.S.C. (Closed)	-	470,075
	<u>997,181</u>	<u>1,446,667</u>

At each reporting date, the Group reviews the investment in associates to determine if there are any objective evidences of impairment. If impairment indicators exist, the investments are tested for impairment by comparing the carrying value of the investment with its recoverable amount. At 31 December 2023, the Group determined that no indicators of impairment exists and accordingly concluded that no impairment assessment is required for its investment in associate. The associates are closely held companies and there is no quoted market price available for their shares. At the reporting date, the associates had no contingent liabilities or capital commitments.

Notes to the consolidated financial statements - for the year ended 31 December 2023

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

	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
Current assets	1,703,285	3,415,809
Non-current assets	3,841,699	4,310,427
Current liabilities	(1,303,562)	(1,719,397)
Non-current liabilities	(144,542)	(509,319)
<b>Net assets</b>	<b>4,096,880</b>	<b>5,497,520</b>
Group's carrying amount of the investment in associates	997,181	1,446,667
Revenue	2,608,461	3,669,846
Cost of sales	(2,044,598)	(2,724,895)
Other expenses	(225,813)	627,862
Profit for the year	338,050	1,572,813
Group's share of profit for the year	109,029	486,758

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

	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
Balance at the beginning of year	1,446,667	1,301,935
Sale of investment	(522,005)	-
Share of profit	109,029	486,758
Dividend received	(36,510)	(342,026)
Balance at the end of year	997,181	1,446,667

**8. Investment property**

	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
Balance at the beginning of year	3,717,125	3,779,805
Depreciation	(103,349)	(103,009)
Net foreign exchange differences	11,514	40,329
Balance at the end of year	3,625,290	3,717,125

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. The valuation of investment property was determined using the sales comparison approach taking 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. At the reporting date, the fair value of land and building amounted to KD 4,756,617 and 4,104,297 (2022: KD 3,438,025 and KD 2,116,024), respectively.

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 1,637,776 (2022: KD 1,632,779) that has an indefinite economic life and is therefore not depreciated.

Notes to the consolidated financial statements - for the year ended 31 December 2023

**9. Inventories**

	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
Goods for resale	39,008,412	39,687,453
Raw materials and consumables	14,138,480	14,942,583
Finished goods and work in progress	4,542,717	3,363,225
Goods in transit	998,382	3,151,881
	<u>58,687,991</u>	<u>61,145,142</u>
Provision for obsolete and slow-moving inventories	<u>(1,248,447)</u>	<u>(1,548,901)</u>
	<u>57,439,544</u>	<u>59,596,241</u>

The movement in the provision for slow moving and obsolete items during the year was as follows:

	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
Balance at the beginning of year	1,548,901	2,073,235
Provision made during the year	616,989	1,126,050
Write offs	(918,104)	(1,654,383)
Foreign currency exchange differences	661	3,999
Balance at the end of year	<u>1,248,447</u>	<u>1,548,901</u>

**10. Trade and other receivables**

	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
Trade receivables	67,906,501	67,505,790
Provision for expected credit losses	<u>(14,466,933)</u>	<u>(16,768,386)</u>
	53,439,568	50,737,404
Advances to suppliers and prepayments	13,818,079	12,252,888
Refundable deposits	786,236	802,511
Due from related parties (Note 11)	9,476	9,566
Other receivables	<u>3,364,666</u>	<u>2,999,974</u>
	<u>71,418,025</u>	<u>66,802,343</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.

	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
Balance at the beginning of year	16,768,386	10,380,414
Provision made during the year	(32,312)	7,115,231
Write offs	(2,285,290)	(772,390)
Foreign currency exchange differences	16,149	45,131
Balance at the end of year	<u>14,466,933</u>	<u>16,768,386</u>

**11. Related party transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include 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.

*Terms and conditions of transactions with related parties*

All related party transactions are carried out on terms approved by the Company's management. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no

**Notes to the consolidated financial statements - for the year ended 31 December 2023**

guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2023, the provision for expected credit losses relating to amounts owed by related parties are not material (2022: 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:

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
<b>Balances with related parties</b>		
<i>Due from related parties (Note 10)</i>		
Other related parties	9,476	9,566
<i>Due to related parties (Note 21)</i>		
Shareholders	49,015	46,158
Associates	3,668	7,228
Other related parties	2,683,121	6,331,639
	<u>2,735,804</u>	<u>6,385,025</u>
<b>Transactions with related parties</b>		
<i>Sales</i>		
Shareholders	16,667	9,176
Other related parties	5,133	8,150
<i>Cost of revenue</i>		
Other related parties	13,141,712	14,133,906
<i>General and administrative expenses</i>		
Other related parties	281,109	318,233
<b>Key management compensation</b>		
Salaries and other short-term benefits	2,224,960	2,517,022
Employees' end of service benefits	108,692	110,730
	<u>2,333,652</u>	<u>2,627,752</u>
Board of directors' remuneration	75,000	-

The board of directors' remuneration for the year ended 31 December 2023 is subject to approval of shareholders in the Annual General Assembly.

**12. Cash and cash equivalents**

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Cash on hand	583,571	1,357,684
Current accounts with banks	25,171,878	19,033,802
Term deposits with banks	2,317,205	64,465
Cash and bank balances	28,072,654	20,455,951
Less: Bank overdrafts	(10,786,891)	(14,488,373)
Less: Restricted balance	(69,819)	(68,579)
Less: Margin deposits	(191,080)	(183,567)
Less: Term deposits with original maturities of three months or more	(2,317,205)	(64,465)
Cash and cash equivalents in the consolidated statement of cash flows	<u>14,707,659</u>	<u>5,650,967</u>

Term deposits are denominated in Kuwaiti Dinars and are placed with local banks carrying an effective rate of interest of 5.25% (2022: 1.25%) per annum.

**Notes to the consolidated financial statements - for the year ended 31 December 2023**

Bank overdrafts are denominated in Kuwaiti Dinars, Qatari Riyals and Jordanian Dinars and are from local and foreign commercial/Islamic banks. These are repayable on demand and carry an average effective interest rate of 5% to 7% (2022: 4.5% to 5.5%) per annum.

Balances with banks include margin deposits which are held against letters of guarantee facilities from local commercial banks.

Restricted balance represents balance with a bank restricted for dividend payments to the shareholders.

**13. Share capital**

The authorized, issued and fully paid up share capital of the Company comprises of 311,325,000 shares of 100 fils each (2022: 311,325,000 shares of 100 fils each) and is fully contributed in cash.

*Proposed dividend*

The Board of Directors, in their meeting dated 10 March 2024, has recommended the distribution of cash dividend of 20 fils per share (2022: 12 fils per share) on outstanding shares (excluding treasury shares) (2022: excluding treasury shares) for the year ended 31 December 2023. Dividend is payable to the shareholders registered in the Company's records as of the record date, on approval from shareholders' Annual General Assembly. Proposed dividend is not considered as a liability as at 31 December 2023.

Dividends for 2022 were approved at the Annual General Assembly of the shareholders held on 14 May 2023.

**14. Treasury shares**

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Number of shares	1,157,765	750,000
Percentage of share capital	0.37%	0.24%
Cost ("KD")	431,305	267,585
Market value ("KD")	665,715	294,750

The weighted average market price of the Company's shares for the year ended 31 December 2023 was 456 fils per share (2022: 460 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.

The Company has a Securities Loan Agreement ('the Agreement') with an investment company accredited by Boursa Kuwait. According to the terms of the Agreement, the Company lends its treasury shares to the investment company for promoting trading in the Company's shares in Boursa Kuwait.

**15. 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.

**16. 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

Notes to the consolidated financial statements - for the year ended 31 December 2023

annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

**17. Other reserve**

This represents remeasurement losses from actuarial changes arising from changes in financial assumptions relating to defined benefit obligations and adjustment on account of acquisition of additional equity interest in existing subsidiaries of the Group.

**18. Non-controlling interests**

The movement of non-controlling interest is as follows:

	2023	2022
	KD	KD
Balance at the beginning of year	8,584,364	8,640,318
Profit for the year	1,269,235	275,260
Dividend paid	(326,815)	(320,781)
Other comprehensive income	(290)	(10,433)
Balance at the end of year	9,526,494	8,584,364

The following table summarises the information relating to the Group's subsidiaries that have material NCI:

**Statement of financial position**

	Food		FMCG & HC		Others	
	2023	2022	2023	2022	2023	2022
	KD	KD	KD	KD	KD	KD
Non-current assets	2,658,549	2,366,170	9,414,233	8,397,346	6,270,059	5,983,750
Current assets	18,970,092	17,643,015	23,584,609	11,341,439	5,859,080	5,268,075
Non-current liabilities	(348,971)	(292,558)	(879,472)	(862,139)	(406,537)	(375,697)
Current liabilities	(29,575,201)	(25,308,613)	(17,569,981)	(6,537,248)	(2,780,634)	(2,494,14)
<b>Net assets</b>	<b>(8,295,531)</b>	<b>(5,591,986)</b>	<b>14,549,389</b>	<b>12,339,398</b>	<b>8,941,968</b>	<b>8,381,983</b>
Net assets attributable to NCI	1,302,822	1,300,706	4,843,272	4,116,592	3,380,400	3,167,066

**Statement of profit or loss and other comprehensive income**

	Food		FMCG & HC		Others	
	2023	2022	2023	2022	2023	2022
	KD	KD	KD	KD	KD	KD
Revenue	41,805,921	39,860,653	17,589,117	9,855,544	7,193,340	6,924,410
(Loss) / profit	(1,991,624)	(2,360,364)	2,222,812	(672,836)	897,024	535,995
OCI	(7,726)	(28,003)	13,235	105,742	(7,969)	(11,658)
Profit / (loss) allocated to NCI	173,933	204,401	733,661	(221,752)	361,641	292,611
OCI allocated to NCI	24	(279)	4,368	34,904	(4,102)	(5,150)

**19. Loans and borrowings**

	2023	2022
	KD	KD
<i>Current portion denominated in:</i>		
Kuwaiti Dinars	63,294,370	42,134,785
US Dollars	13,119,575	28,072,200

Notes to the consolidated financial statements - for the year ended 31 December 2023

76,413,945      70,206,985

The Group obtained various unsecured revolving credit facilities from local and foreign banks to fund its operational requirements. These loans carry effective interest rates of 4.5% to 7.31% (2022: 4.25% to 6.05%) per annum. Certain credit facilities carry customary covenants which are tested on an annual basis. At the reporting date, the Group is in compliance with the covenants.

Loans and borrowings in Kuwaiti Dinars include KD 19,500,000 (2022: KD 12,139,785) borrowed from a local Islamic banking institution.

**20. 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 country, 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 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, such as discount rate ranges from 4.48% to 5.11% (2022: 4.20% to 4.92%) and expected rate of salary increase ranges from 1% to 2% (2022: 1% to 2%).

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

	2023	2022
	KD	KD
Balance at the beginning of year	8,744,216	8,758,725
Provided during the year	1,398,905	1,478,725
Re-measurements loss/(gain) recognised in OCI	230,905	(231,419)
Benefits paid	(1,732,952)	(1,281,129)
Exchange differences	2,609	19,314
	<u>8,643,683</u>	<u>8,744,216</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 519,974 (2022: KD 450,202); and
- An increase in the salary growth rate by 100 basis points would result in increase of end of service benefits obligations by KD 533,195 (2022: KD 460,259).

**21. Trade and other payables**

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Trade payables	35,639,849	33,619,901
Accrued expenses	19,727,333	20,084,581
Advances from customers	26,712	61,065
Due to related parties (Note 11)	2,735,804	6,385,025
KFAS payable (Note 24)	126,925	-
Other payables	4,354,945	3,860,561
	<u>62,611,568</u>	<u>64,011,133</u>

**22. General and administrative expense**

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Staff costs	9,104,266	9,862,061
Depreciation and amortization	2,152,503	2,132,659
Other administrative and provision expenses	8,121,967	19,460,190
	<u>19,378,736</u>	<u>31,454,910</u>

**23. Other income**

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Commission income	-	2,258,706
Gain/(Loss) on disposal of property, plant and equipment	222,652	(104,365)
Foreign currency exchange loss	(40,733)	(292,791)
Dividend income	65,558	60,095
Other income	215,304	1,159,186
	<u>462,781</u>	<u>3,080,831</u>

**24. Kuwait Foundation for the Advancement of Sciences**

Contribution for KFAS (including the KFAS payable in Note 21) includes an amount of KD 37,112 which relates to contribution to KFAS from subsidiaries in the Group which are Kuwaiti Closed Shareholding Companies.

**25. Staff costs**

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Cost of revenue	14,096,519	18,171,220
Selling and distribution expenses	11,542,068	10,466,526
General and administrative expenses	9,104,266	9,862,061
	<u>34,742,853</u>	<u>38,499,807</u>

**26. Basic and diluted earnings/(loss) per share**

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year less treasury shares.

Diluted earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year 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.

	<b>2023</b>	<b>2022</b>
Profit/(loss) for the year attributable to shareholders of the Company (KD)	11,459,840	(1,967,563)
Weighted average number of ordinary shares outstanding during the year (after excluding treasury shares)	310,166,447	308,581,665
Earnings/(loss) per share	36.95 fils	(6.38 fils)

**27. Segment information**

For management reporting purposes, the Group is organized 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.

**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.
<b>Corporate segment</b>	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.

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

**Notes to the consolidated financial statements**  
for the year ended 31 December 2023

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

	2023								
	Food				FMCG & HC	Non-food		Corporate	Total
	Food	Catering	Services	Sub-total		Industrial	Sub-total		
KD	KD	KD	KD	KD	KD	KD	KD	KD	
Revenues	143,194,664	21,058,131	13,988,256	178,241,051	86,403,825	6,531,549	92,935,374	2,040	271,178,465
Segment profit/(loss)	8,985,826	784,116	2,187,198	11,957,140	7,733,516	1,161,973	8,895,489	(7,603,929)	13,248,700
Total Assets	128,584,802	21,656,360	13,216,874	163,458,036	102,445,047	12,828,704	115,273,751	2,457,243	281,189,030
Total Liabilities	26,964,531	7,778,385	3,387,472	38,130,388	30,413,939	2,145,878	32,559,817	91,001,000	161,691,205
<i>Other disclosures</i>									
Depreciation and amortisation	4,685,647	1,184,217	346,584	6,216,448	1,696,305	488,015	2,184,320	478,867	8,879,635
Investment in associates	-	-	-	-	-	-	-	997,181	997,181
Capital expenditure	3,337,914	288,113	104,209	3,730,236	1,975,131	789,597	2,764,728	478,704	6,973,668
Share of profit of associates	-	-	-	-	-	-	-	109,029	109,029

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

**Notes to the consolidated financial statements**  
for the year ended 31 December 2023

	2022								
	Food				Non-food			Corporate	Total
	Food	Catering	Services	Sub-total	FMCG & HC	Industrial	Sub-total		
	KD	KD	KD	KD	KD	KD	KD	KD	KD
Revenues	132,076,037	29,835,025	13,113,887	175,024,949	73,790,088	6,353,573	80,143,661	3,480	255,172,090
Segment profit/ (loss)	1,417,357	(5,505,182)	1,805,601	(2,282,224)	3,898,403	639,716	4,538,119	(3,808,194)	(1,552,299)
Total Assets	128,921,670	27,358,833	12,632,706	168,913,209	89,195,731	12,127,102	101,322,833	1,860,771	272,096,813
Total Liabilities	27,462,992	13,869,096	4,017,244	45,349,332	23,343,711	2,401,135	25,744,846	89,648,232	160,742,410
<i>Other disclosures</i>									
Depreciation and amortisation	4,754,007	1,751,175	223,192	6,728,374	1,793,939	523,441	2,317,380	521,083	9,566,837
Investment in associates	-	-	-	-	-	-	-	1,446,667	1,446,667
Capital expenditure	4,692,067	1,273,474	1,674,683	7,640,224	1,835,583	745,907	2,581,490	522,227	10,743,941
Share of profit of associates	-	-	-	-	-	-	-	486,758	486,758

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

**Notes to the consolidated financial statements**

*for the year ended 31 December 2023*

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

	Kuwait	Kingdom of Saudi Arabia	United Arab Emirates	Qatar	Jordan	Iraq	Total
	KD	KD	KD	KD	KD	KD	KD
<b>2023</b>							
Revenue	195,579,333	7,530,023	35,249,492	19,229,409	10,657,038	2,933,170	271,178,465
Non-current assets	91,687,964	8,530,145	10,634,398	12,663,497	742,803	-	124,258,807
<b>2022</b>							
Revenue	178,075,945	7,372,286	34,883,829	22,952,632	9,143,014	2,744,384	255,172,090
Non-current assets	91,656,397	8,187,275	10,491,886	14,054,774	851,946	-	125,242,278

## 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 2023 and 31 December 2022.

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.

### 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:

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Current accounts and term deposits with banks	27,489,083	19,098,267
Trade receivables	53,439,568	50,737,404
Other receivables	3,364,666	2,999,974
Refundable deposits	786,236	802,511
Due from related parties	9,476	9,566
	<u>85,089,029</u>	<u>73,647,722</u>

*Current accounts and term deposits with banks*

Credit risk from current accounts and term deposits with banks 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 current accounts and term deposits with banks has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its current accounts and term deposits with banks 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 35.8% of outstanding trade receivables (2022: 31.60%).

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 past due for more than default days, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

	<b>2023</b>			
	<b>Weighted average loss</b>	<b>Gross carrying amount</b>	<b>Loss amount</b>	<b>Net carrying amount</b>
		<b>KD</b>	<b>KD</b>	<b>KD</b>
Current (not past due)	1.21%	31,177,455	376,500	30,800,955
<i>Past due</i>				
1 - 90 days	5.65%	13,535,566	765,212	12,770,354
91 - 180 days	12.68%	6,770,773	858,872	5,911,901
181 - 270 days	40.34%	4,150,237	1,674,068	2,476,169
271 – 360 days	54.42%	1,553,199	845,264	707,935
More than 360 days	92.80%	10,719,271	9,947,017	772,254
		<u>67,906,501</u>	<u>14,466,933</u>	<u>53,439,568</u>
	<b>2022</b>			
	<b>Weighted average loss</b>	<b>Gross carrying amount</b>	<b>Loss amount</b>	<b>Net carrying amount</b>
		<b>KD</b>	<b>KD</b>	<b>KD</b>
Current (not past due)	2.58%	31,934,996	825,482	31,109,514
<i>Past due</i>				
1 - 90 days	10.92%	14,402,848	1,572,335	12,830,513
91 - 180 days	24.92%	4,834,539	1,204,875	3,629,664
181 - 270 days	46.30%	2,369,441	1,097,059	1,272,382
271 – 360 days	64.33%	1,796,722	1,155,744	640,978
More than 360 days	89.69%	12,167,244	10,912,891	1,254,353
		<u>67,505,790</u>	<u>16,768,386</u>	<u>50,737,404</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 Group 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 maturity profile is monitored by Group's management to ensure adequate liquidity is maintained.

Liquidity risk is managed by the finance department of the Group. To manage this risk, the Group invests in bank deposits or other investments that are readily realisable.

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:

	Carrying amount	Contractual cash flows				Total
		On demand	Within 3 months	3 to 12 months	Between 2 and 5 years	
	KD	KD	KD	KD	KD	KD
<b>2023</b>						
Loans and borrowings	76,413,945	-	20,475,000	60,058,191	-	80,533,191
Trade and other payables	59,875,764	-	59,875,764	-	-	59,875,764
Due to related parties	2,735,804	2,735,804	-	-	-	2,735,804
Bank overdrafts	10,786,891	10,786,891	-	-	-	10,786,891
Lease liabilities	3,235,118	-	210,765	1,124,114	2,019,951	3,354,830
	<u>153,047,522</u>	<u>13,522,695</u>	<u>80,561,529</u>	<u>61,182,305</u>	<u>2,019,951</u>	<u>157,286,480</u>
<b>2022</b>						
Loans and borrowings	70,206,985	-	12,655,726	61,069,511	-	73,725,237
Trade and other payables	57,626,108	-	57,626,108	-	-	57,626,108
Due to related parties	6,385,025	6,385,025	-	-	-	6,385,025
Bank overdrafts	14,488,373	14,488,373	-	-	-	14,488,373
Lease liabilities	3,291,703	-	487,081	996,977	1,925,749	3,409,807
	<u>151,998,194</u>	<u>20,873,398</u>	<u>70,768,915</u>	<u>62,066,488</u>	<u>1,925,749</u>	<u>155,634,550</u>

Included in loans and borrowings is an amount of KD 76,413,945 (2022: KD 70,206,985) 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.

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:

	<b>Increase in 25 basis points</b>	
	<i>Decrease in profit before tax and directors' remuneration</i>	
	<b>2023</b>	<b>2022</b>
	<b>KD</b>	<b>KD</b>
<b>Currencies</b>		
Kuwaiti Dinars	158,235	70,181
US Dollars	32,800	105,337
	<b>191,035</b>	<b>175,518</b>

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%			
	Effect on profit before tax and directors' remuneration		Effect on other comprehensive income	
	2023	2022	2023	2022
	KD	KD	KD	KD
<b>Currencies</b>				
U.A.E. Dirhams	589,420	654,711	-	-
Euro	(15,483)	48,506	-	-
Sterling Pound	281	(158)	-	-
Saudi Riyals	1,238,837	1,273,150	-	-
US Dollars	(325,871)	(684,387)	348,952	306,654

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

#### 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 2,334,854 (2022: KD 2,478,845). Sensitivity analyses of these investments have been provided in Note 30.

#### 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.

#### Commodity price risk

Commodity price risk in the Group primarily arises from price fluctuations and the availability of biological assets. The Group may enter into derivative transactions to limit these risks. The Group is not exposed to significant commodity price risk.

### 29. Hedge of net investment in foreign operations

Included within loans and borrowings at 31 December 2023 were borrowings denominated in US Dollars amounting to KD 13,119,575 (2022: KD 13,100,360) 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 foreign exchange risk on net investments in the foreign operations. 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 2023 and 2022.

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:

- 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 as 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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>
<b>2023</b>				
Financial assets at fair value through other comprehensive income	-	-	2,334,854	2,334,854

<b>2022</b>				
Financial assets at fair value through other comprehensive income	-	-	2,478,845	2,478,845

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.

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Opening balance	2,478,845	3,087,886
Changes in fair value	(143,991)	(609,041)
Closing balance	<u>2,334,854</u>	<u>2,478,845</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*

	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Rate</b>	<b>Sensitivity of the input to fair value</b>
Unquoted investment securities	Market approach	DLOM *	25%	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.

*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.

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Opening balance	917,619	793,091
Write offs	(18,739)	(29,286)
Purchase of livestock	194,190	92,213
Sale of livestock	(82,689)	(71,018)
Changes in fair value	<u>102,639</u>	<u>132,619</u>
Closing balance	<u>1,113,020</u>	<u>917,619</u>

**31. Contingencies and commitments**

*i. Contingencies*

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

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Letters of guarantee	22,693,092	22,203,946
Letters of credit	8,694,650	7,132,806

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. The legal counsel of the Group believes that these matters will not have a material adverse effect on the accompanying consolidated financial statements.

*ii. Commitments*

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
<i>Capital expenditure commitments</i>		
Property, plant and equipment	45,457,972	32,350,777
Intangible assets	<u>2,216,426</u>	<u>1,287,892</u>
	<u>47,674,398</u>	<u>33,638,669</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 2023 and 31 December 2022. The Group monitors capital at the level of the Company and at each of the subsidiaries.

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

### Notes to the consolidated financial statements - for the year ended 31 December 2023

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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.

	<u>2023</u>	<u>2022</u>
	<u>KD</u>	<u>KD</u>
Loans and borrowings	76,413,945	70,206,985
Bank overdrafts	10,786,891	14,488,373
Less: cash and bank balances	<u>(28,072,654)</u>	<u>(20,455,951)</u>
Net debt	59,128,182	64,239,407
Equity attributable to the equity holders of the Company	<u>109,971,331</u>	<u>102,770,039</u>
Total capital employed	<u>169,099,513</u>	<u>167,009,446</u>
Gearing ratio	34.9%	38.4%