

**Shuaiba Industrial Company K.P.S.C. and its subsidiary  
State of Kuwait**

**Consolidated financial statements and independent  
auditor's report  
For the year ended 31 December 2018**

**Shuaiba Industrial Company K.P.S.C. and its subsidiary  
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## INDEPENDENT AUDITOR'S REPORT

To The Shareholders of Shuaiba Industrial Company K.P.S.C.  
State of Kuwait

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

#### *Opinion*

We have audited the consolidated financial statements of Shuaiba Industrial Company K.P.S.C. ("the Parent Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards ("IFRSs").

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, 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. We identified the following key audit matters:



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To The Shareholders of Shuaiba Industrial Company K.P.S.C.  
State of Kuwait

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

#### *Key Audit Matters (continued)*

##### **First-time adoption of IFRS 9: Financial Instruments**

The Group adopted IFRS 9: Financial Instruments from 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the consolidated financial statements. As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures and recorded an adjustment of KD 25,940 to the opening retained earnings as at 1 January 2018.

The changes required to processes, system and controls to comply with IFRS 9 were complex and significant, as the standard requires a fundamental change to the way, when Expected Credit Losses (ECL) are recognised and how these are measured.

There was a risk that:

- Judgements, assumptions and estimates, which includes adopting a 'default' definition is inadequate;

- Inadequate data, as well as lack of uniformity in the data are used which makes it difficult to develop models, which are sufficient for IFRS 9 impairment requirements.

Refer to the following notes of the consolidated financial statements:

- (Note 4.c-A)- Application of IFRS 9
- (Note 5.7)- Summary of significant accounting policies on financial instruments
- (Note 25.2)- Financial risk and capital management

##### **How our audit addressed the matter**

We updated our understanding of the Group's adoption of IFRS 9 and evaluated the reasonableness of management's key judgment and estimates made in preparing the transition adjustments.

In addition, our work performed include the below procedures:

- We evaluated, with the assistance of our specialists, the reasonableness of management's key judgments and estimates made in the ECL calculation, which include but not limited to, the selection of methods, models assumptions and data sources.
- We evaluated the appropriateness and test the mathematical accuracy of the ECL model applied.
- We evaluated post model adjustments and management overlays in order to assess the reasonableness of these adjustments
- We evaluated the appropriateness of the financial statements disclosures for IFRS 9 first-time adoption.



## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

To The Shareholders of Shuaiba Industrial Company K.P.S.C.  
State of Kuwait

### **Report on the Audit of the Consolidated Financial Statements (Continued)**

#### ***Other matter - Scope of Audit***

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion of those consolidated financial statements on 12 March 2018.

#### ***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group for the year ended 31 December 2018, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report of the Group for the year ended 31 December 2018 is expected to be made available to us 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 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.

#### ***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 (CONTINUED)

To The Shareholders of Shuaiba Industrial Company K.P.S.C.  
State of Kuwait

### 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 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.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To The Shareholders of Shuaiba Industrial Company K.P.S.C.  
State of Kuwait

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

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

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

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

In our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies' Law No. 1 of 2016, its Executive Regulations, and by the Parent 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, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2018 that might have had a material effect on the business or financial position of the Parent Company.

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**Qais M. Al-Nisf**  
**License No. 38 "A"**  
**BDO Al Nisf & Partners**

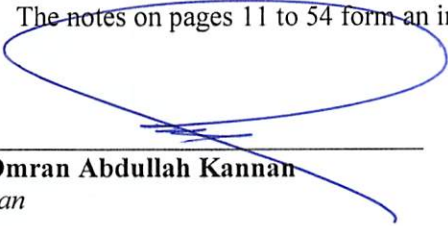
**Kuwait: 19 March 2019**

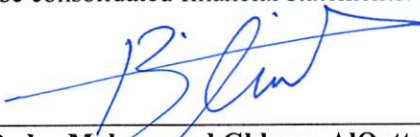
**Shuaiba Industrial Company K.P.S.C. and its subsidiary  
State of Kuwait**

**Consolidated statement of financial position  
As at 31 December 2018**

	Notes	2018 KD	2017 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	9,557,095	9,928,073
Investment in an associate	8	2,597,148	2,556,991
		<u>12,154,243</u>	<u>12,485,064</u>
<b>Current assets</b>			
Inventories	9	5,893,109	4,636,060
Trade and other receivables	10	3,780,641	3,634,708
Financial assets at fair value through profit or loss ("FVTPL")	11	71,584	66,118
Term deposits	12	620,000	600,000
Cash and cash equivalents	13	879,565	2,776,342
		<u>11,244,899</u>	<u>11,713,228</u>
<b>Total assets</b>		<u>23,399,142</u>	<u>24,198,292</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	10,069,180	10,069,180
Share premium		2,294,444	2,294,444
Statutory reserve	15	2,495,568	2,387,708
Voluntary reserve	15	1,827,831	1,827,831
Treasury shares	16	(164,740)	(164,740)
Treasury shares reserve		471,283	471,283
Foreign currency translation reserve		506,784	443,310
Retained earnings		880,171	1,699,081
<b>Total equity</b>		<u>18,380,521</u>	<u>19,028,097</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employees' end of service benefits		778,500	749,909
Term loans	17	507,988	1,299,292
		<u>1,286,488</u>	<u>2,049,201</u>
<b>Current liabilities</b>			
Term loans	17	644,000	386,352
Trade and other payables	18	3,088,133	2,734,642
		<u>3,732,133</u>	<u>3,120,994</u>
<b>Total liabilities</b>		<u>5,018,621</u>	<u>5,170,195</u>
<b>Total equity and liabilities</b>		<u>23,399,142</u>	<u>24,198,292</u>

The notes on pages 11 to 54 form an integral part of these consolidated financial statements.

  
Saleh Omran Abdullah Kannan  
Chairman

  
Bader Mohammad Ghloum AlQattan  
Vice chairman



**Shuaiba Industrial Company K.P.S.C. and its subsidiary  
State of Kuwait**

**Consolidated statement of profit or loss  
For the year ended 31 December 2018**

	Notes	<u>2018</u> KD	<u>2017</u> KD
Sales	19	14,741,495	15,829,010
Cost of sales		<u>(12,509,923)</u>	<u>(12,710,916)</u>
<b>Gross profit</b>		2,231,572	3,118,094
Share of results of an associate	8	164,200	129,554
Other income	19	126,456	165,316
Write back of provision for old and obsolete inventories	9	6,424	84,753
Provision for expected credit losses	10	(17,197)	-
Write-back of provision for expected credit losses	10	11,519	9,031
Realized gain on financial assets at ("FVTPL")		1,284	-
Unrealized gain/(loss) on financial assets at ("FVTPL")		11,249	(36,339)
Foreign exchange gain/(loss)		11,869	(11,462)
General and administrative expenses	20	(875,360)	(820,142)
Selling and distribution expenses	21	(526,646)	(528,254)
Finance costs		<u>(66,769)</u>	<u>(88,739)</u>
<b>Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Directors' remuneration</b>		1,078,601	2,021,812
KFAS		(9,707)	(18,196)
NLST		(27,653)	(52,349)
Zakat		(11,061)	(20,003)
Directors' remuneration		<u>(30,000)</u>	<u>(30,000)</u>
<b>Profit for the year</b>		<u>1,000,180</u>	<u>1,901,264</u>
<b>Basic and diluted earnings per share (fils)</b>	22	<u>10.08</u>	<u>19.16</u>

The notes on pages 11 to 54 form an integral part of these consolidated financial statements.

**Shuaiba Industrial Company K.P.S.C. and its subsidiary  
State of Kuwait**

**Consolidated statement of comprehensive income**  
For the year ended 31 December 2018

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Profit for the year</b>	<u>1,000,180</u>	<u>1,901,264</u>
<b>Other comprehensive income items:</b>		
<i>Items that will not be reclassified subsequently to the consolidated statement of profit or loss:</i>		
Share of associate's other comprehensive income	8 1,752	-
<i>Items that may be reclassified subsequently to the consolidated statement of profit or loss:</i>		
Foreign exchange differences on translation of foreign operations	<u>63,474</u>	<u>(122,911)</u>
<b>Total other comprehensive income/(loss) for the year</b>	<u>65,226</u>	<u>(122,911)</u>
<b>Total comprehensive income for the year</b>	<u>1,065,406</u>	<u>1,778,353</u>

The notes on pages 11 to 54 form an integral part of these consolidated financial statements.

Shuaiba Industrial Company K.P.S.C. and its subsidiary  
State of Kuwait

Consolidated statement of changes in equity  
For the year ended 31 December 2018

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Total equity KD
<b>At 1 January 2017</b>	8,055,343	2,294,444	2,185,527	2,094,519	(164,740)	471,283	566,221	3,334,954	18,837,551
Profit for the year	-	-	-	-	-	-	-	1,901,264	1,901,264
Other comprehensive loss for the year	-	-	-	-	-	-	(122,911)	-	(122,911)
Total comprehensive (loss)/income for the year	-	-	-	-	-	-	(122,911)	1,901,264	1,778,353
Issue of bonus shares (Note 28)	2,013,837	-	-	(266,688)	-	-	-	(1,747,149)	-
Dividends (Note 28)	-	-	-	-	-	-	-	(1,587,807)	(1,587,807)
Transfer to reserves	-	-	202,181	-	-	-	-	(202,181)	-
<b>At 31 December 2017 ("as previously reported")</b>	10,069,180	2,294,444	2,387,708	1,827,831	(164,740)	471,283	443,310	1,699,081	19,028,097
Impact on adoption of IFRS 9 at 1 January 2018 (Note 4-c.a.ii)	-	-	-	-	-	-	-	(25,940)	(25,940)
<b>At 1 January 2018 ("Restated")</b>	10,069,180	2,294,444	2,387,708	1,827,831	(164,740)	471,283	443,310	1,673,141	19,002,157
Profit for the year	-	-	-	-	-	-	-	1,000,180	1,000,180
Other comprehensive income for the year	-	-	-	-	-	-	63,474	1,752	65,226
Total comprehensive income for the year	-	-	-	-	-	-	63,474	1,001,932	1,065,406
Dividends (Note 28)	-	-	-	-	-	-	-	(1,687,042)	(1,687,042)
Transfer to reserve	-	-	107,860	-	-	-	-	(107,860)	-
<b>At 31 December 2018</b>	10,069,180	2,294,444	2,495,568	1,827,831	(164,740)	471,283	506,784	880,171	18,380,521

The notes on pages 11 to 54 form an integral part of these consolidated financial statements.

**Shuaiba Industrial Company K.P.S.C. and its subsidiary  
State of Kuwait**

**Consolidated statement of cash flows  
For the year ended 31 December 2018**

	Notes	2018 KD	2017 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year		1,000,180	1,901,264
<i>Adjustments for:</i>			
Depreciation	7	487,105	493,911
Share of results of an associate	8	(164,200)	(129,554)
Gain on sale of property, plant and equipment		-	(2,107)
Profit income	19	(7,557)	(8,335)
Write back of provision for old and obsolete inventories	9	(6,424)	(84,753)
Provision for expected credit losses	10	17,197	-
Write back of provision for expected credit loss	10	(11,519)	(9,031)
Realised gain on financial assets at fair value through profit or loss		(1,284)	-
Unrealised (gain)/loss on financial assets at fair value through profit or loss		(11,249)	36,339
Foreign exchange (gain) /loss		(11,869)	11,462
Provision for employees' end of service benefits		135,052	85,504
Finance costs		66,769	88,739
		<u>1,492,201</u>	<u>2,383,439</u>
<i>Changes in working capital:</i>			
Inventories		(1,250,496)	(1,768,902)
Trade and other receivables		(165,692)	(1,024,407)
Trade and other payables		335,203	411,585
<b>Cash flows generated from operations</b>		<u>411,216</u>	<u>1,715</u>
Employees' end of service benefits paid		(106,790)	(13,341)
<b>Net cash flows generated from / (used in) operating activities</b>		<u>304,426</u>	<u>(11,626)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	7	(86,997)	(151,643)
Proceeds from sale of property, plant and equipment		-	2,239
Proceeds from sale of financial assets at fair value through profit or loss		7,067	-
Profit income received		7,557	8,335
(Placement) maturity of term deposit		(20,000)	1,050,000
Dividend received from an associate	8	143,086	97,587
<b>Net cash flows generated from investing activities</b>		<u>50,713</u>	<u>1,006,518</u>
<b>FINANCING ACTIVITIES</b>			
Net movement in term loans		(533,656)	(184,000)
Dividends paid		(1,668,754)	(1,678,928)
Finance costs paid		(66,769)	(54,692)
<b>Net cash flow used in financing activities</b>		<u>(2,269,179)</u>	<u>(1,917,620)</u>
Effect of foreign currency translation		17,263	(37,661)
<b>Net decrease in cash and cash equivalents</b>		<u>(1,896,777)</u>	<u>(960,389)</u>
<b>Cash and cash equivalents at beginning of the year</b>		<u>2,776,342</u>	<u>3,736,731</u>
<b>Cash and cash equivalents at end of the year</b>	13	<u>879,565</u>	<u>2,776,342</u>

The notes on pages 11 to 54 form an integral part of these consolidated financial statements.

**Shuaiba Industrial Company K.P.S.C. and its subsidiary  
State of Kuwait**

**Notes to the consolidated financial statements  
For the year ended 31 December 2018**

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**1. GENERAL INFORMATION**

Shuaiba Industrial Company K.P.S.C. (“the Parent Company”), is a public shareholding company incorporated in 1978 under the Laws of the State of Kuwait and is listed on the Kuwait Stock Exchange.

The Group comprises of the Parent Company and its subsidiary as described in Note 5.1 (together referred to as the “Group”).

The Parent Company’s objectives are as follows:

1. Manufacture of paper cement bags for packing of cement and similar products.
2. Import and export material required for the Company’s objectives.

The Parent Company may have interests or participate in any suitable way with entities that engage in similar business activities or that may help the Parent Company achieve its objectives inside Kuwait and abroad. The Parent Company may also purchase such entities or affiliate them.

At the Annual General Assembly held on 29 March 2010, the shareholders approved the Group to conduct its activities in accordance with Islamic Sharia Principles.

The address of the Parent Company’s registered office is P.O. Box, 10088, Shuaiba 65451, State of Kuwait.

These consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue by the Parent Company’s Board of Directors on 19 March 2019. The shareholders General Assembly has the power to amend these consolidated financial statements after issuance.

**2. BASIS OF PREPARATION**

These consolidated financial statements have been prepared under the historical cost convention except for certain financial assets at fair value through profit or loss that are measured at fair value.

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

**3. STATEMENT OF COMPLIANCE**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and the IFRS interpretations Committee applicable to Companies reporting under IFRS as issued by the International Accounting Standards Board (“IASB”), and applicable requirements of the Companies Law.

The preparation of consolidated financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the Group’s management to exercise judgement in applying the Group’s accounting policies. The areas of significant judgements and estimates made in preparing the consolidated financial statements and their effect are disclosed in Note 6.

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

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**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)**

**a) New standards, interpretations and amendments effective from 1 January 2018**

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of 1 January 2018:

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

The amendments are effective for annual periods beginning on or after 1 January 2018, the amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The adoption of these amendments did not have any impact on the Group.

*Amendments to IFRS 4 – Insurance contracts (Applying IFRS 9 financial instruments)*

The amendments is effective for annual periods beginning on or after 1 January 2018, the amendments address concerns arising from implementing the new standard IFRS 9 (Financial instruments), before implementing IFRS 17, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The adoption of these amendments did not have any impact on the Group.

*IFRS 9 - Financial Instruments*

The standard is effective for annual periods beginning on or after 1 January 2018, replaces the existing guidance in IAS 39: Financial Instruments: Recognition and Measurement. IFRS 9 specifies how an entity should classify and measure its financial instruments and includes a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

For the initial application of IFRS 9 and its effects, kindly refer to Note (4. c-A) below.

*IFRS 15 - Revenue from contracts with customers*

The standard is effective for annual periods beginning on or after 1 January 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the following existing standards and interpretations upon its effective date:

- IAS 18 – Revenue,
- IAS 11 – Construction Contracts,
- IFRIC 13 – Customer Loyalty Programs,
- IFRIC 15 – Agreements for the Construction of Real Estate,
- IFRIC 18 – Transfers of Assets from Customers, and,
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services.

For the initial application of IFRS 15 kindly refer to Note (4. c-B) below.

**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**a) New standards, interpretations and amendments effective from 1 January 2018 (Continued)**

***IFRIC 22 - Foreign Currency Transactions and Advance Consideration***

The interpretation is effective for annual periods beginning on or after 1 January 2018 and clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

This interpretation did not have any impact on the Group.

***Amendments to IAS 40 Investment Property – Transfers of Investment Property***

The amendments are effective for annual periods beginning on or after 1 January 2018 and clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The adoption of these amendments did not have any impact on the Group.

***Annual Improvements to IFRSs 2014 – 2016 Cycle***

***Amendments to IAS 28 – Investment in Associates and Joint Ventures***

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted.

The amendments clarify that:

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

The adoption of these amendments did not have any impact on the Group.

**b) Standards and interpretations issued but not effective**

The following new and amended IASB Standards have been issued but are not yet effective, and have not been adopted by the Group:

**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**b) Standards and interpretations issued but not effective (Continued)**

**IFRS 16 - Leases**

This standard will be effective for annual periods beginning on or after 1 January 2019. This standard will be replacing IAS 17 "Leases" and will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The new standard does not significantly change the accounting for leases for lessors. Early application is permitted provided that IFRS 15 is applied on the same date.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

**IFRS 17 – Insurance Contracts**

This standard will be effective for annual periods beginning on or after 1 January 2022 and replaces IFRS 4 - Insurance Contracts. The new standard applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (Variable fee approach).
- A simplified approach (premium allocation approach) mainly for short duration contracts.

This standard is not expected to have any impact to the Group.

**Amendments to IFRS 9: Prepayment features with negative compensation**

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments are not expected to have any impact to the Group.

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

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

These amendments are not expected to have any impact to the Group.



**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**b) Standards and interpretations issued but not effective (Continued)**

*Annual Improvements to IFRSs 2015 – 2017 Cycle (issued in December 2017)*

***IFRS 3 – Business Combinations***

The amendments apply to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2019, with early application permitted. The amendments clarify that, obtaining control of a business that is a joint operation is a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

***IFRS 11 – Joint Arrangements***

The amendments apply to transactions in which it obtains joint control on or after the first annual reporting period beginning on or after 1 January 2019, with early application permitted. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

***IAS 23 – Borrowing Costs***

The amendments will be effective for annual periods beginning on or after 1 January 2019 with early application permitted. The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

These amendments are not expected to have any impact to the Group.

**c) Application of new standards effective from 1 January 2018**

The Group has initially adopted IFRS 9 “Financial Instruments” (see (A) below) and IFRS 15 “Revenue from Contracts with Customers” (see (B) below) from 1 January 2018 as follow:

***A. IFRS 9: Financial Instruments***

IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial items. This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

**i. Classification and measurement of the financial assets and liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and financial assets available for sale.

4. **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

c) **Application of new standards effective from 1 January 2018 (Continued)**

A. **IFRS 9: Financial Instruments (continued)**

i. **Classification and measurement of the financial assets and liabilities (continued)**

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below:

Under IFRS 9, on initial adoption, the financial asset is classified as measured at amortised cost, fair value through other comprehensive income – debt investments, fair value through other comprehensive income, equity investments or fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

**Financial asset is measured at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Debt investment at fair value through other comprehensive**

A debt investment is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Equity securities at fair value through other comprehensive**

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

**Equity securities at fair value through profit or loss**

All financial assets, other than those classified as financial assets measured at amortised cost or fair value through other comprehensive income as described above, are measured at fair value through profit or loss. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as financial asset recognized at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not recognized at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

***A. IFRS 9: Financial Instruments (Continued)***

**i. Classification and measurement of the financial assets and liabilities (Continued)**

The following accounting policies apply to the subsequent measurement of financial assets.

<b><i>Financial assets at fair value through profit or loss</i></b>	These assets are subsequently measured at fair value. Net gains and losses, including any interests or dividends income, are recognised in profit or loss.
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<b><i>Financial assets carried at amortised cost</i></b>	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange profits and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
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<b><i>Debt investments at fair value through other comprehensive income</i></b>	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net profits and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
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<b><i>Equity investments at fair value through other comprehensive income</i></b>	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss.
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**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**c) Application of new standards effective from 1 January 2018 (continued)**

**A. IFRS 9: Financial Instruments (Continued)**

**i. Classification and measurement of the financial assets and liabilities (Continued)**

Impact of adoption of IFRS 9 on the carrying amounts of the financial assets at 1 January 2018 is further described below.

**Classification of financial assets and financial liabilities**

The following table and accompanying notes show reconciliation of original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for each category of financial assets and financial liabilities of the Group as at 1 January 2018:

<u>Financial assets</u>	Notes	Original Classification Under IAS 39	New classification Under IFRS 9	Original carrying amount under IAS 39 KD	New carrying value under IFRS 9 KD	Impact of adoption of IFRS 9 KD
Trade and other receivables (excluding prepayments)	a)	Loans and receivables Designated as at	Amortised cost Mandatorily at	3,520,321	3,494,381	(25,940)
Equity securities	b)	FVTPL Loans and receivables	FVTPL Amortised cost	66,118 600,000	66,118 600,000	- -
Term deposits Cash and cash equivalents		Loans and receivables	Amortised cost	2,776,342	2,776,342	-
<b>Total</b>				<b>6,962,781</b>	<b>6,936,841</b>	<b>(25,940)</b>
<b><u>Financial liabilities</u></b>						
Term loans		Amortised cost	Amortised cost	1,685,644	1,685,644	-
Trade and other payables (excluding advances from customers)		Amortised cost	Amortised cost	2,726,438	2,726,438	-
<b>Total</b>				<b>4,412,082</b>	<b>4,412,082</b>	<b>-</b>

- a) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of KD 25,940 in the provision for expected credit losses over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9. There are no trade and other receivables recognised at 1 January 2018 on the adoption of IFRS 15.

**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

**A. IFRS 9: Financial Instruments (Continued)**

**i. Classification and measurement of the financial assets and liabilities (Continued)**

- b) These equity securities represent investments that the Group intends to hold for the short term for trading purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at fair value through profit or loss. The relative profit or loss will be recognized in profit or loss.

**ii. Impairment of Financial Assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade and other receivables, term deposits and cash and cash equivalents.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities, bank balances, and term deposits (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure; using the simplified approach, loss allowances for trade and other receivables at an amount equal to lifetime ECLs.

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. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

c) Application of new standards effective from 1 January 2018 (Continued)

A. IFRS 9: Financial Instruments (Continued)

ii. Impairment of Financial Assets (Continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are 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.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade and other receivables, including contract assets, are presented separately in consolidated statement of profit or loss.

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows:

Loss allowance as at 1 January 2018	Amount (KD)
Additional impairment recognised at 1 January 2018 on:	
Retained earnings	(25,940)

**Receivables**

The following analysis provides further detail about the calculation of ECLs related to trade and other receivables on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past 3-5 years. The Group performed the calculation of ECL rates for its customers.

Exposures within each Group were segmented based on common credit risk characteristics such as credit risk grade, geographic region and industry, delinquency status, age of relationship and type of product purchased where applicable.

**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

***A. IFRS 9: Financial Instruments (Continued)***

**ii. Impairment of Financial Assets (Continued)**

Actual credit loss experience was adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the trade and other receivables.

At 1 January 2018, as a result of adoption of IFRS 9, the Group recognized an additional provision for expected credit losses of KD 25,940 (Note 10).

**iii. Transition**

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss.

**B. IFRS 15: Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31.

Adoption of IFRS 15 by the Group on 1 January 2018 had no impact on the Group's consolidated financial statements as at 31 December 2017 and the consolidated financial statements for the year ended 31 December 2018 as majority of the Group's revenues that fall within the scope of IFRS 15 are represented by the following:

**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

***B. IFRS 15: Revenue from Contracts with Customers (Continued)***

**Manufacturing and sale of papers products:**

Performance obligations related to the Group's manufacturing and sale of paper products are satisfied at a point in time typically on delivery of the products as the Group predominantly manufactures those products to specific orders.

**Other revenue:**

The Group's other revenue types are waste sales which is recognised at a point in time and net investment income that fall outside the scope of IFRS 15.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**5.1 Basis of consolidation**

***Subsidiaries***

The consolidated financial statements incorporate the financial statements of the Parent Company and entities (including structured entities) controlled by the Parent Company and its subsidiary. Control is achieved when the Parent Company (a) has power over the investee (b) is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns.

De-facto control exists in situations where the Parent Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Parent Company considers all relevant facts and circumstances, including:

- The size of the Parent Company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the Parent Company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance

The Parent Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three components of controls listed above. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control over subsidiary. Specifically, income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss or other comprehensive income from the date the Parent Company gains control until the date when Parent Company ceases to control the subsidiary.

Profit and loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interest. Total comprehensive income of subsidiary is attributed to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.



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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.1 Basis of consolidation (Continued)**

*Subsidiaries (continued)*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policy.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Parent Company's ownership interests in subsidiaries that do not result in the Parent Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Parent Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Parent Company.

When the Parent Company loses control of a subsidiary, a gain or loss is recognised in profit and loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Parent Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/ permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The details of the wholly owned subsidiary is as follows:

<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Voting rights and equity interest</u>		<u>Country of incorporation</u>
		<u>2018</u>	<u>2017</u>	
Advance Technologies International Agencies Company W.L.L.	Commercial agencies	99%	99%	State of Kuwait

The Group has also an operating Branch in Jebel Ali Free Zone, Dubai. The details of the Branch are as follows:

<u>Name of the Branch</u>	<u>Principal activity</u>	<u>Country of incorporation</u>
Shuaiba Industrial Company, Jebel Ali Free Zone.	Manufacturing and selling of paper products	United Arab Emirates

**5.2 Business combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit and loss as incurred.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.2 Business combinations (continued)**

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except deferred tax assets or liabilities, liabilities or equity instruments related to share based payment arrangements and assets that are classified as held for sale in which cases they are accounted for in accordance with the related IFRS.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit and loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit and loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit and loss where such treatment would be appropriate if that interest were disposed off.

**5.3 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. In situations, where it is clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised.

Depreciation is calculated based on estimated useful life of the applicable assets on a straight line basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The assets' residual values, useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Gains or losses on disposals are determined by the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.3 Property, plant and equipment (continued)**

Work in progress for purposes of production works or administrative usage are stated at cost less any recognised impairment loss. Cost includes professional fees and borrowing costs capitalized on assets that meet the conditions of capitalizing the borrowing costs in accordance with the Group's accounting policy. These properties are classified within the appropriate categories of items of property, plant and equipment when finished and being considered ready for use. Depreciation of such assets commences when they are ready for use for their intended purpose in the same way as other items of property, plant and equipment.

**5.4 Investment in an associate**

An associate is an entity over which the Group has significant influence 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: Current Assets Held for Sale and Discontinued Operations.

Under the equity method, an investment in an associate is initially recognised 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, 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition 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, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in consolidated statement of profit or loss.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised 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.

When a Group entity transacts with its associate, 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.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.4 Investment in an associate (continued)**

The associate's financial statements are prepared either to the Parent Company's financial position date or to a date not earlier than three months of the Parent Company's financial position date. Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Where practicable, adjustments are made for the effect of significant transactions or other events that occurred between the financial position date of the associates and the Parent Company's financial position date.

**5.5 Impairment of non-financial assets**

At each consolidated financial position date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, group assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

**5.6 Inventories**

Finished goods are stated at the lower of cost and net realisable value. The cost of finished products includes direct materials, direct labour and fixed and variable manufacturing overhead and other costs incurred in bringing inventories to their present location and condition. Net realisable value is based on the selling price less the estimated cost till completion and sale of inventory.

Spare parts are not intended for resale and are valued at cost after making provision for any old and obsolete items. Cost is determined on a weighted average basis.

All other inventory items are valued at the lower of purchased cost or net realisable value using the weighted average method after making provision for old and obsolete stocks. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.7 Financial instruments**

The Group classifies its financial instruments as financial assets and financial liabilities. Financial assets and financial liabilities are recognized when the Group becomes a party of the contractual provisions of such instruments.

Financial assets and financial liabilities carried on the consolidated statement of financial position include trade and other receivables, financial assets at fair value through profit or loss, term deposits, cash and cash equivalents, term loans and trade and other payables.

**5.7.1 Financial assets**

**Recognition, initial measurement and derecognition**

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives and in order to generate contractual cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios.

Purchases and sales of those financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at FVPL.

A financial asset is derecognized either when: the contractual rights to receive the cash flows from the financial asset have expired; or the Group has transferred its rights to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset. Where the Group has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

**Classification of financial assets**

Financial assets are classified in the consolidated financial statements into the following categories upon initial recognition:

- Financial assets at amortised cost; and
- Equity instruments at Fair value through profit or loss.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.7 Financial instruments (Continued)**

**5.7.1 Financial assets (continued)**

**Subsequent Measurement**

*Financial assets at amortized cost*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are subsequently measured at amortized cost using the effective yield method adjusted for impairment losses if any. Gains and losses are recognized in consolidated statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets carried at amortised cost consist of trade and other receivables, term deposits and cash and cash equivalents.

*Trade receivables*

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business and recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

*Term deposits*

Term deposits are placed with banks and have a contractual maturity of more than three months from placement date.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and at banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*Financial assets at FVPL*

The Group classifies financial assets as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there evidence of a recent pattern of short-term profit is taking. Held-for-trading assets are recorded and measured in the consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair value, gain or loss on disposal, interest income and dividends are recorded in consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

The financial assets at FVPL are represented in quoted equity investments.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.7 Financial instruments (Continued)**

**5.7.1 Financial assets (continued)**

**Impairment of financial assets**

IFRS 9 replaces the “incurred loss” model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

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. The shortfall is then discounted at an approximation to the asset’s original effective interest rate.

For trade and other receivables, the Group has applied the standard’s simplified approach and has calculated ECLs based on lifetime expected credit losses. Accordingly, the Group does not track changes in credit risk and assesses impairment on a collective basis. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the customers and the economic environment. Exposures were segmented based on common credit characteristics such as credit risk grade, geographic region and industry, delinquency status and age of relationship where applicable.

In applying this forward-looking approach, the Group applies a three stage assessment to measuring ECL as follows:

- Stage 1 - financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk; and
- Stage 2 (not credit impaired) - financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low.
- Stage 3 (credit impaired) - financial assets that have objective evidence of impairment at the reporting date and assessed as credit impaired when one or more events have a detrimental impact on the estimated future cash flows have occurred.

▪12-month expected credit losses’ are recognized for Stage 1 while ‘lifetime expected credit losses’ are recognized for Stage 2.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. ECLs for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and charged to consolidated statement of profit or loss.

**5.7.2 Financial liabilities**

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity’s own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to consolidated statement of profit or loss.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.7 Financial instruments (Continued)**

**5.7.2 Financial liabilities (continued)**

*Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates

*Accounts payable*

Accounts payable include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non - current liabilities.

**Derecognition of financial liabilities**

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

**5.8 Offsetting of financial assets and liabilities**

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

**5.9 Employees' end of service benefits**

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the financial position date.

With respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.



**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.10 Provisions**

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**5.11 Treasury shares**

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued, sold or cancelled. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the treasury shares. Consideration paid or received is directly recognised in equity. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (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 and then to reserves.

Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and treasury shares 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.

**5.12 Dividends**

The dividends attributable to shareholders of the Parent Company are recognised as liabilities in the consolidated financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

**5.13 Contingent assets and contingent liabilities**

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

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

**5.14 Lease contracts**

Lease contracts, in which the Group holds a significant portion of risks and rewards related to ownership and in which the Group is the lessor, are classified as operating lease contracts. Amounts received under operating lease contracts, less any incentives provided to customers, are recognised as income in the statement of comprehensive income on a straight-line basis over the lease contract period.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.14 Lease contracts (continued)**

*Where the Group is the lessee - operating lease:*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

*Where the Group is the lessee - finance lease:*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the asset leased and the present value of minimum lease payments.

**5.15 Revenue recognition**

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group follows a 5-step process:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognising revenue when/as performance obligation(s) are satisfied.

The total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

Revenue is recognised at a point in time when the Group satisfies performance obligations by transferring the control of promised goods to its customers.

The Group considers the following factors in determining whether control of an asset has been transferred:

- The Group has a present right to payment for the goods.
- The customer has legal title to the goods.
- The Group has transferred physical possession of the goods.
- The customer has the significant risks and rewards of ownership of the goods.
- The customer has accepted the goods.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.15 Revenue recognition (Continued)**

Revenue for the Group arises from:

**Sale of goods**

Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when or as the Group transfers control of the goods to the customer. For standalone sales, that are neither customized by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods. Delivery occurs when the goods have been shipped to the specific location, have been purchased at store by the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

**Dividend income**

Dividend income is recognised when the right to receive payment is established.

**Interest income**

Interest income is recognised using the effective interest rate method.

**Other income and expenses**

Other income and expenses are recognized on an accrual basis.

**5.16 Finance costs**

Finance costs primarily comprise interest on the Group's financing. Finance costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other finance costs are expensed in the period in which they are incurred and are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

**5.17 Foreign currencies**

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kuwaiti Dinars' (KD).

Transactions and balances

Foreign currency transactions are translated to Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. Monetary items in foreign currencies are re-translated at the dates of the consolidated statement of financial position. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.17 Foreign currencies (Continued)**

*Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency (except for companies which are operated in countries with very high inflation rates) are translated into the presentation currency as follows:

- Assets and liabilities for each reporting date presented are translated at the closing rate at the reporting date.
- Income and expenses for each statement of profit or loss are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of other comprehensive income.

**5.18 Taxation**

**KFAS and Zakat**

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and Zakat represent levies/taxes imposed on the Parent Company at the flat percentage of profit for the year less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent levies/taxes regulations, no carry forward of losses is permitted and there are no significant differences between the levies/taxes bases of assets and liabilities and their carrying amounts for financial reporting purposes.

<i>Tax/statutory levy</i>	<i>Rate</i>
<i>Contribution to KFAS</i>	1.0% of net profit less permitted deductions
<i>Zakat</i>	1.0% of net profit less permitted deductions

**National Labour Support tax**

The Group calculates National Labour Support Tax ("NLST") in accordance with the Ministry of Finance resolution No.19 of 2000. NLST is imposed at 2.5% of net profit attributable to the equity holders of the Parent Company, less permitted deductions.

**6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

**Significant management judgements**

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

**6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY  
(CONTINUED)**

**Significant management judgements (continued)**

*Useful lives of tangible assets*

As described in Note 7, the Group reviews the estimated useful lives over which its tangible assets are depreciated. The Group's management is satisfied that the estimates of useful lives are appropriate.

*Classification of financial instruments*

On acquisition of a financial asset, the Group decides whether it should be classified as "at fair value through profit or loss", "at fair value through other comprehensive income" or "at amortised cost". IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets of the instrument's contractual cash flow characteristics. The Group follows the guidance of IFRS 9 on classifying its financial assets and is explained in (Note 5).

*Principal versus agent considerations*

The Group enters into contracts to sell goods and render services to its customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group determined that it is a principal in all its contracts with its customers.

- The Group controls the promised goods or services before the Group transfers the goods or services to the customer.
- The Group satisfies the performance obligations by itself and does not engage another party in satisfying its performance obligations in its contracts with customers.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial position 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 discussed below:

*Impairment of non-financial assets*

The Group reviews tangible assets on a continuous basis to determine whether a provision for impairment should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

*Impairment of investment in an associate*

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in "share of gain in associate" in the consolidated statement of profit or loss.

*Fair value measurement and valuation techniques*

Some of the Group's assets are measured at fair value for financial reporting purposes. The Group's management determines the appropriate valuation techniques and input for fair value measurement. In estimating the fair value of an asset, the management uses market observable data to the extent it is available. In case no market observable data are available, the Group shall assign an external qualified valuer to carry out the valuation process. Information about valuation techniques and input used in determining the fair value of various assets are disclosed in (Note 26).

**6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY  
(CONTINUED)**

**Estimation uncertainty (continued)**

*Impairment of inventories*

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

*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 geographical region, services type, customer and type). 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, stock market capitalization) are expected to deteriorate over the next year which can lead to an increased number of defaults in the paper 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 ECL on the Group's trade receivables is disclosed in (Note 25).

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**7. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold land KD	Buildings KD	Machinery KD	Furniture and fixtures KD	Motor vehicles KD	Capital work in progress KD	Total KD
<b>Cost</b>							
At 1 January 2017	555,000	3,797,855	8,248,665	810,335	229,845	1,474,741	15,116,441
Additions	-	-	-	-	-	151,643	151,643
Disposals	-	-	-	-	(7,930)	-	(7,930)
Transfers	-	45,000	1,549,164	22,577	9,643	(1,626,384)	-
Foreign currency translation difference	-	(21,100)	(35,534)	(1,759)	(461)	-	(58,854)
At 31 December 2017	555,000	3,821,755	9,762,295	831,153	231,097	-	15,201,300
Additions	-	-	-	5,824	-	81,173	86,997
Transfers	-	-	57,629	13,405	-	(71,034)	-
Foreign currency translation difference	-	11,372	23,060	1,028	257	-	35,717
At 31 December 2018	555,000	3,833,127	9,842,984	851,410	231,354	10,139	15,324,014
<b>Accumulated depreciation and impairment</b>							
At 1 January 2017	-	1,274,193	2,582,797	726,045	213,473	-	4,796,508
Charge for the year	-	130,456	308,581	43,294	11,580	-	493,911
Related to disposals	-	-	-	-	(7,798)	-	(7,798)
Foreign currency translation difference	-	(3,376)	(4,283)	(1,342)	(393)	-	(9,394)
At 31 December 2017	-	1,401,273	2,887,095	767,997	216,862	-	5,273,227
Charge for the year	-	130,885	322,854	27,010	6,356	-	487,105
Foreign currency translation difference	-	2,292	3,234	855	206	-	6,587
At 31 December 2018	-	1,534,450	3,213,183	795,862	223,424	-	5,766,919
<b>Net book value</b>							
At 31 December 2018	555,000	2,298,677	6,629,801	55,548	7,930	10,139	9,557,095
At 31 December 2017	555,000	2,420,482	6,875,200	63,156	14,235	-	9,928,073
<b>Annual depreciation (in years)</b>		30	30	5	5		

Certain property, plant and equipment with a carrying value of KD 5,262,470 (2017: KD 5,483,937) have been assigned as security against term loans (Note 17).

Buildings are constructed on leasehold lands from the government of Kuwait and the government of Dubai for a period of 5 years and 15 years respectively, renewable for similar periods.

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**7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Depreciation charges are included in the consolidated statement of profit or loss under the following categories;

	<u>2018</u>	<u>2017</u>
	KD	KD
Cost of sales	480,950	483,000
General and administrative expenses (Note 20)	6,155	10,184
Selling and distribution expenses	-	727
	<u>487,105</u>	<u>493,911</u>

**8. INVESTMENT IN AN ASSOCIATE**

The details of the Group's associate are as follows:

<u>Name of associate</u>	<u>Country of incorporation</u>	<u>Voting rights and equity interest (%)</u>		<u>Measurement method</u>	<u>Activity</u>	<u>Carrying value</u>	
		<u>2018</u>	<u>2017</u>			<u>2018</u>	<u>2017</u>
		<u>%</u>	<u>%</u>			<u>KD</u>	<u>KD</u>
Yanbu Saudi Kuwaiti Paper Products Company L.t.d.	Kingdom of Saudi Arabia	40	40	Equity method	Paper products	<u>2,597,148</u>	<u>2,556,991</u>

Summarised financial information in respect of the Group's associate is set out below:

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Associate's financial position</b>		
Non-current assets	3,537,129	3,502,220
Current assets	4,951,667	3,693,234
Total assets	<u>8,488,796</u>	<u>7,195,454</u>
Non-current liabilities	(158,131)	(652,332)
Current liabilities	(1,837,796)	(150,644)
Total liabilities	<u>(1,995,927)</u>	<u>(802,976)</u>
Net assets	<u>6,492,869</u>	<u>6,392,478</u>
Group's share of associate's net assets	<u>2,597,148</u>	<u>2,556,991</u>
<b>Associate's revenue and results</b>		
Revenues	<u>8,188,302</u>	<u>6,348,391</u>
Net income	<u>410,500</u>	<u>323,884</u>
Other comprehensive income	<u>4,380</u>	<u>-</u>
Group's share of profit	<u>164,200</u>	<u>129,554</u>
Group's share of other comprehensive income	<u>1,752</u>	<u>-</u>
Dividend received	<u>143,086</u>	<u>97,587</u>



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**9. INVENTORIES**

	<u>2018</u>	<u>2017</u>
	KD	KD
Raw materials	4,370,664	3,639,290
Finished goods	202,006	195,547
Packing materials	48,594	46,369
Goods in transit	1,077,454	630,875
Spare parts	314,573	250,456
	<u>6,013,291</u>	<u>4,762,537</u>
Provision for old and obsolete inventories	<u>(120,182)</u>	<u>(126,477)</u>
	<u>5,893,109</u>	<u>4,636,060</u>

As at 31 December, the movement in the provision for old and obsolete inventories is as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
At 1 January	126,477	211,663
Write back during the year	(6,424)	(84,753)
Foreign currency translation difference	129	(433)
At 31 December	<u>120,182</u>	<u>126,477</u>

In 2018, inventories of KD 9,782,829 (2017: KD 10,039,310) were recognized as an expense and included in 'cost of sales'.

**10. TRADE AND OTHER RECEIVABLES**

	<u>2018</u>	<u>2017</u>
	KD	KD
Trade receivables	3,629,410	3,482,835
Less: provision for expected credit losses	<u>(93,327)</u>	<u>(61,719)</u>
	3,536,083	3,421,116
Prepayments	113,301	114,387
Refundable deposits	78,774	69,588
Staff receivables	16,423	20,090
Other receivables	36,060	9,527
	<u>3,780,641</u>	<u>3,634,708</u>

As at 31 December, the movement in the provision for expected credit losses is as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
At 1 January	61,719	70,750
Impact on adoption of IFRS 9 (Note 4.c.A)	25,940	-
Charge for the year	17,197	-
Write back during the year	(11,519)	(9,031)
Foreign currency translation difference	(10)	-
At 31 December	<u>93,327</u>	<u>61,719</u>

Disclosures relating to the credit risk exposures and analysis relating to the provision for expected credit losses are set forth in Note 25).

**11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<u>2018</u>	<u>2017</u>
	KD	KD
Local quoted security	<u>71,584</u>	<u>66,118</u>

Financial assets at fair value through profit or loss are managed by a portfolio manager, under a portfolio management agreement.

Valuation techniques of financial assets at fair value through profit or loss are disclosed in (Note 26).

**12. TERM DEPOSITS**

Time deposits represent deposits placed at local bank denominated in Kuwaiti Dinars having an original maturity period of three months or more from the date of placement and yield an average rate of 2.74 % (2017: 1.69 %) per annum.

**13. CASH AND CASH EQUIVALENTS**

	<u>2018</u>	<u>2017</u>
	KD	KD
Bank balances	869,651	2,221,620
Cash on hand and with portfolio manager	9,914	4,722
Short term deposits	-	550,000
	<u>879,565</u>	<u>2,776,342</u>

Short term deposits represent Wakala deposit placed at local bank and denominated in Kuwaiti Dinars having an original maturity of less than three months from the date of placement and yield an average profit rate of Nil% (2017: 1.88%) per annum.

**14. SHARE CAPITAL**

The authorized, issued and paid up share capital is KD 10,069,180 (2017: KD 10,069,180) comprising of 100,691,795 shares of 100 fils each (2017: 100,691,795 shares of 100 fils each) and all shares are paid in cash.

**15. RESERVES**

***Statutory reserve***

As required by the Companies' Law, as amended, and the Parent Company's Articles of Association, as amended, at least 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax, Zakat and Board of Directors' remuneration is transferred per annum to statutory reserve as per a resolution issued by the Parent Company's ordinary General Assembly. Such Transfer may be discontinued as per a resolution issued by the Company's ordinary General Assembly when the reserve exceeds 50% of the share capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

***Voluntary reserve***

As required by the Companies' Law, as amended, and the Parent Company's Articles of Association, as amended, no more than 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax, Zakat and Board of Directors' remuneration may be deducted per annum, as per a resolution issued by the Parent Company's ordinary General Assembly, in order to form voluntary reserve, which is allocated for the purposes specified by the assembly.

The Board of Directors in their meeting dated 12 February 2017 approved to discontinue the transfer of profits to voluntary reserve

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**16. TREASURY SHARES**

	<u>2018</u>	<u>2017</u>
Number of shares	1,454,028	1,454,028
Percentage to issued shares (%)	1.44%	1.44%
Market value (KD )	273,357	350,421
Cost (KD)	164,740	164,740

The Parent Company is committed to retain reserves, share premium and retained earnings equivalent to the cost of treasury shares throughout the year, in which they are held by the Parent Company, pursuant to instructions of the relevant regulatory authorities.

**17. TERM LOANS**

	<u>2018</u>	<u>2017</u>
	KD	KD
Non-current portion	507,988	1,299,292
Current portion	644,000	386,352
	<u>1,151,988</u>	<u>1,685,644</u>

Term loans represents credit refinance facilities (the “facilities”) obtained from a local bank. The facilities are used to finance purchases of equipment and machinery to expand the Group’s plant. The facilities carry a profit rate of 3.5% semiannually (2017: 3.5%) and repayable as shown below.

**2018**

<u>Facility amount</u>	<u>Payable Amount</u>	<u>Current portion</u>	<u>Non-current portion</u>	<u>Maturity date</u>
KD	KD	KD	KD	
220,000	44,000	44,000	-	December 2019
2,800,000	1,107,988	600,000	507,988	November 2022
	<u>1,151,988</u>	<u>644,000</u>	<u>507,988</u>	

**2017**

<u>Facility amount</u>	<u>Payable Amount</u>	<u>Current portion</u>	<u>Non-current portion</u>	<u>Maturity date</u>
KD	KD	KD	KD	
220,000	88,000	44,000	44,000	December 2019
2,800,000	1,597,644	342,352	1,255,292	November 2022
	<u>1,685,644</u>	<u>386,352</u>	<u>1,299,292</u>	

The facilities are secured by certain property, plant and equipment (Note 7) in favour of the bank. It also requires, among other matters, certain restrictions on the payment of dividends and a requirement to maintain a minimum leverage ratio (current assets to current liabilities) of 1.5:1.

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**18. TRADE AND OTHER PAYABLES**

	<u>2018</u>	<u>2017</u>
	KD	KD
Trade payables	2,462,427	2,104,760
Dividends payable	149,717	131,429
Accrued expenses	121,860	66,601
Staff payables	226,380	295,066
Accrued profit	-	8,034
Advances from customers	49,328	8,204
KFAS	9,707	18,196
NLST	27,653	52,349
Zakat	11,061	20,003
Directors' remuneration	30,000	30,000
	<u>3,088,133</u>	<u>2,734,642</u>

**19. REVENUE**

	<u>For the year ended 31 December 2018</u>					
	<u>Industrial Packaging Division</u>	<u>Consumer Packaging Division</u>	<u>Flexible Packaging Division</u>	<u>Trading Division</u>	<u>Other income</u>	<u>Total</u>
	KD	KD	KD	KD	KD	KD
Sale of multi-wall paper	9,259,165	-	-	-	-	9,259,165
Sale of superior value and high quality bags and wrapping sheets	-	4,490,118	-	-	-	4,490,118
Sale of multi-ply printed and laminated films	-	-	989,426	-	-	989,426
Sale of other types	-	-	-	2,786	-	2,786
Waste sale	-	-	-	-	118,899	118,899
<b>Total revenue from contracts with customers</b>	<u>9,259,165</u>	<u>4,490,118</u>	<u>989,426</u>	<u>2,786</u>	<u>118,899</u>	<u>14,860,394</u>
Profit income	-	-	-	-	7,557	7,557
<b>Total revenue</b>	<u>9,259,165</u>	<u>4,490,118</u>	<u>989,426</u>	<u>2,786</u>	<u>126,456</u>	<u>14,867,951</u>
<b>Geographical markets</b>						
Kuwait	2,121,528	1,689,864	952,856	2,786	85,208	4,852,242
GCC	3,704,867	2,617,565	36,570	-	33,691	6,392,693
Asia	2,032,755	182,689	-	-	-	2,215,444
Africa	1,400,015	-	-	-	-	1,400,015
<b>Total revenue from contracts with customers</b>	<u>9,259,165</u>	<u>4,490,118</u>	<u>989,426</u>	<u>2,786</u>	<u>118,899</u>	<u>14,860,394</u>
Profit income	-	-	-	-	7,557	7,557
<b>Total revenue</b>	<u>9,259,165</u>	<u>4,490,118</u>	<u>989,426</u>	<u>2,786</u>	<u>126,456</u>	<u>14,867,951</u>
<b>Timing of revenue recognition</b>						
Goods transferred at a point in time	9,259,165	4,490,118	989,426	2,786	118,899	14,860,394
<b>Total revenue from contracts with customers</b>	<u>9,259,165</u>	<u>4,490,118</u>	<u>989,426</u>	<u>2,786</u>	<u>118,899</u>	<u>14,860,394</u>
Profit income	-	-	-	-	7,557	7,557
<b>Total revenue</b>	<u>9,259,165</u>	<u>4,490,118</u>	<u>989,426</u>	<u>2,786</u>	<u>126,456</u>	<u>14,867,951</u>
<b>Revenue</b>						
External customers	9,259,165	4,490,118	989,426	2,786	118,899	14,860,394
<b>Total revenue from contracts with customers</b>	<u>9,259,165</u>	<u>4,490,118</u>	<u>989,426</u>	<u>2,786</u>	<u>118,899</u>	<u>14,860,394</u>
Profit income	-	-	-	-	7,557	7,557
<b>Total Revenue</b>	<u>9,259,165</u>	<u>4,490,118</u>	<u>989,426</u>	<u>2,786</u>	<u>126,456</u>	<u>14,867,951</u>

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**19. REVENUE (CONTINUED)**

	For the year ended 31 December 2017					Total KD
	Industrial Packaging Division KD	Consumer Packaging Division KD	Flexible Packaging Division KD	Trading Division KD	Other income KD	
Sale of multi-wall paper	10,067,090	-	-	-	-	10,067,090
Sale of superior value and high quality bags and wrapping sheets	-	4,485,238	-	-	-	4,485,238
Sale of multi-ply printed and laminated films	-	-	1,261,140	-	-	1,261,140
Sale of other types	-	-	-	15,542	-	15,542
Waste sales	-	-	-	-	156,981	156,981
<b>Total revenue from contracts with customers</b>	<b>10,067,090</b>	<b>4,485,238</b>	<b>1,261,140</b>	<b>15,542</b>	<b>156,981</b>	<b>15,985,991</b>
Profit income	-	-	-	-	8,335	8,335
<b>Total revenue</b>	<b>10,067,090</b>	<b>4,485,238</b>	<b>1,261,140</b>	<b>15,542</b>	<b>165,316</b>	<b>15,994,326</b>
<b>Geographical markets</b>						
Kuwait	2,090,085	1,901,595	1,261,140	15,542	102,890	5,371,252
GCC	4,815,926	2,373,769	-	-	54,091	7,243,786
Asia	2,632,647	159,958	-	-	-	2,792,605
Africa	528,432	40,528	-	-	-	568,960
USA	-	9,388	-	-	-	9,388
<b>Total revenue from contracts with customers</b>	<b>10,067,090</b>	<b>4,485,238</b>	<b>1,261,140</b>	<b>15,542</b>	<b>156,981</b>	<b>15,985,991</b>
Profit income	-	-	-	-	8,335	8,335
<b>Total revenue</b>	<b>10,067,090</b>	<b>4,485,238</b>	<b>1,261,140</b>	<b>15,542</b>	<b>165,316</b>	<b>15,994,326</b>
<b>Timing of revenue recognition</b>						
Goods transferred at a point in time	10,067,090	4,485,238	1,261,140	15,542	156,981	15,985,991
<b>Total revenue from contracts with customers</b>	<b>10,067,090</b>	<b>4,485,238</b>	<b>1,261,140</b>	<b>15,542</b>	<b>156,981</b>	<b>15,985,991</b>
Profit income	-	-	-	-	8,335	8,335
<b>Total revenue</b>	<b>10,067,090</b>	<b>4,485,238</b>	<b>1,261,140</b>	<b>15,542</b>	<b>165,316</b>	<b>15,994,326</b>
<b>Revenue</b>						
External customers	10,067,090	4,485,238	1,261,140	15,542	156,981	15,985,991
<b>Total revenue from contracts with customers</b>	<b>10,067,090</b>	<b>4,485,238</b>	<b>1,261,140</b>	<b>15,542</b>	<b>156,981</b>	<b>15,985,991</b>
Profit income	-	-	-	-	8,335	8,335
<b>Total Revenue</b>	<b>10,067,090</b>	<b>4,485,238</b>	<b>1,261,140</b>	<b>15,542</b>	<b>165,316</b>	<b>15,994,326</b>

The Group recognised provision for expected credit losses on accounts receivable arising from contracts with customers, included in the statement of comprehensive income, amounting to KD 17,197 for the year ended 31 December 2018 (2017: Nil).

**20. GENERAL AND ADMINISTRATIVE EXPENSES**

	2018 KD	2017 KD
Staff costs	598,385	590,235
Depreciation (Note 7)	6,155	10,184
Rent	36,600	31,600
Communication expenses	32,630	29,716
Professional fees	73,603	47,160
Travel expense	42,738	38,072
Stationery expenses	29,757	27,756
Others	55,492	45,419
	<b>875,360</b>	<b>820,142</b>

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**21. SELLING AND DISTRIBUTION EXPENSES**

	<u>2018</u>	<u>2017</u>
	KD	KD
Staff costs	179,901	156,892
Packing expenses	261,568	262,672
Others	85,177	108,690
	<u>526,646</u>	<u>528,254</u>

**22. BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	<u>2018</u>	<u>2017</u>
Profit for the year (KD)	<u>1,000,180</u>	<u>1,901,264</u>
Weighted average number of shares outstanding:		
Number of issued shares	100,691,795	100,691,795
Less: Weighted average number of treasury shares	<u>(1,454,028)</u>	<u>(1,454,028)</u>
Weighted average number of shares outstanding	<u>99,237,767</u>	<u>99,237,767</u>
<b>Basic and diluted earnings per share (fils)</b>	<u>10.08</u>	<u>19.16</u>

**23. RELATED PARTY TRANSACTIONS AND BALANCES**

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

Significant related party transactions and balances are as follows:

<b>Consolidated statement of financial position:</b>	<u>2018</u>	<u>2017</u>
	KD	KD
Investment in an associate (Note 8)	2,597,148	2,556,991
Dividends payable (Note 18)	149,717	131,429
Board of Directors' remuneration (Note 18)	30,000	30,000

Amounts due to related parties are payable on demand and are non-profit bearing.

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Consolidated statement of profit or loss</b>		
Share of result of an associate	164,200	129,554
<i>Key management compensation</i>		
Salaries and other short-term benefits	200,414	269,705
Termination benefits	41,776	22,528
Board of Directors' committees' remuneration	<u>30,000</u>	<u>30,000</u>

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**24. SEGMENT REPORTING**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group conducts its activities through the below main operating segments:

**Industrial Packaging Division:** Produces and supplies multi-wall paper sacks for industrial use.

**Consumer Packaging Division:** Produces and supplies various types of superior value and high quality bags and wrapping sheets to major regional and international flagships and chains.

**Flexible Packaging Division:** Produces and supplies multi-ply printed and laminated films, including aluminium foil lamination.

**Trading Division:** Importing and trading various types of paper related products such as photo copier paper, offset paper, NCR, coated paper and ink.

The following is an analysis of the Group's revenue and results by operating segments for the year:

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	KD	KD	KD	KD
	<u>Revenue</u>		<u>Segment results</u>	
Industrial packaging division	9,259,165	10,067,090	984,774	1,505,860
Commercial packaging division	4,490,118	4,485,238	1,146,634	1,332,344
Flexible packaging division	989,426	1,261,140	103,803	286,985
Trading division	2,786	15,542	(3,639)	(7,095)
	<u>14,741,495</u>	<u>15,829,010</u>	<u>2,231,572</u>	<u>3,118,094</u>
Share of results of an associate			164,200	129,554
Other income			126,456	165,316
Write back of provision for old and obsolete inventories			6,424	84,753
Provision for expected credit losses			(17,197)	-
Write-back of provision for expected credit losses			11,519	9,031
Realized gain on financial assets at ("FVTPL")			1,284	-
Unrealized gain/(loss) on financial assets at ("FVTPL")			11,249	(36,339)
Foreign exchange gain/(loss)			11,869	(11,462)
General and administrative expenses			(875,360)	(820,142)
Selling and distribution expenses			(526,646)	(528,254)
Finance costs			(66,769)	(88,739)
KFAS			(9,707)	(18,196)
NLST			(27,653)	(52,349)
Zakat			(11,061)	(20,003)
Director's remuneration			(30,000)	(30,000)
<b>Profit for the year</b>			<u>1,000,180</u>	<u>1,901,264</u>

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**24. SEGMENT REPORTING (CONTINUED)**

The following is an analysis of the Group's revenue and segment results by geographical area for the year:

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	KD	KD	KD	KD
	<u>Revenue</u>		<u>Segment results</u>	
Kuwait	4,767,034	5,268,362	1,083,625	1,580,888
GCC	6,359,002	7,189,695	856,708	1,127,102
Asia	2,215,444	2,792,605	95,555	309,866
Africa	1,400,015	568,960	195,684	98,060
USA	-	9,388	-	2,178
	<u>14,741,495</u>	<u>15,829,010</u>	<u>2,231,572</u>	<u>3,118,094</u>

The following is an analysis of the Group's assets and liabilities by geographical area for the year:

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	KD	KD	KD	KD
	<u>Assets</u>		<u>Liabilities</u>	
Kuwait	14,867,477	16,219,394	3,584,360	3,991,565
GCC	8,531,665	7,978,898	1,434,261	1,178,630
	<u>23,399,142</u>	<u>24,198,292</u>	<u>5,018,621</u>	<u>5,170,195</u>

**25. FINANCIAL RISK AND CAPITAL MANAGEMENT**

The Group's activities expose it to variety of financial risks: e.g. market risk (i.e. foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group management policies for reducing each of the risks are discussed below. The Group does not use derivative financial instruments based on future speculations.

**Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 5 to the consolidated financial statements.

**25.1 Market risk**

Market risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market prices. Market risk comprises of, foreign currency risk, profit rate risk and equity price risk.

**a) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates that affects the Group's cash flows or the valuation of the monetary assets and liabilities denominated in foreign currency.

The Group has set policies for the management of foreign exchange risk which require each company in the Group to manage the foreign risk against its currency of operation. The Group tracks and manages these risks by:



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**25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**25.1 Market risk (continued)**

**a) Foreign currency risk (continued)**

- Monitoring the changes in foreign currency exchange rates on regular basis.
- Set up tide limits for dealing in foreign currencies for the basic objectives of the Group's activities.

The following is net foreign currencies positions as at the date of the consolidated financial statements:

	<u>2018</u>	<u>2017</u>
	KD	KD
United States Dollars	(571,498)	226,488
Saudi Riyal	149	59,507
United Arab Emirates Dirhams	935,310	1,254,915
Omani Riyal	-	28,333
Euro	(315,580)	(138,745)

The tables below analyse the effect of a 5% strengthening in value of the currency rate against the Kuwaiti Dinars from levels applicable at 31 December, with all other variables held constant on the consolidated statement of profit or loss and consolidated statement of equity. The effect of decreases in foreign currency is expected to be equal and opposite to the effect of the increases shown.

	<u>Change in currency rate (%)</u>	<u>Effect on profit for the year and equity</u>	
		<u>2018</u>	<u>2017</u>
		KD	KD
United States Dollars	+5%	28,575	(11,324)
Saudi Arabian Riyal	+5%	(7)	(2,975)
United Arab Emirates Dirhams	+5%	(46,765)	(62,746)
Omani Riyal	+5%	-	(1,417)
Euro	+5%	15,779	6,937

**b) Interest rate risk**

Profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market profit rates. At present, the Group is not exposed to a significant risk, since the term deposits and term loans carries a fixed profit rate. The Group has no other interest bearing financial assets or financial liabilities at the reporting date.

**c) Equity price risk**

Equity price risk is the risk that fair values of equity instruments change as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in quoted equity securities classified as "financial assets at fair value through profit or loss". To manage such risks, the Group diversifies its investments in different sectors within its investment portfolio.

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25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

25.1 Market risk (continued)

c) Equity price risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in quoted equity indices as a result of change in the fair value of these equity instruments, to which the Group had significant exposure as of the reporting date:

Market indices	Change in equity instrument price	Effect on profit of the year	
		2018 KD	2017 KD
Kuwait Stock Exchange	+5%	3,579	3,306

The effect of decreases in equity prices is expected to be equal and opposite to the effect of increases shown. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

25.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge a contractual obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of trade and other receivables, term deposits and cash and cash equivalents.

*Trade receivables*

The Group applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, trade receivables have been assessed on a collective basis and grouped based on shared credit risk characteristics and the days past due.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, service type and customer type). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

31 December 2018	<i>Past due but not impaired</i>				Total KD
	0-90 days KD	91-180 days KD	181-365 days KD	Above 365 days KD	
Expected credit loss rate (%)	0.28%	5.0%	10%	100%	
Gross carrying amount	3,499,789	24,382	25,361	79,878	3,629,410
Expected credit losses	9,694	1,219	2,536	79,878	93,327

**25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**25.2 Credit risk (Continued)**

*Trade receivables (Continued)*

31 December 2017	<i>Past due but not impaired</i>				Total KD
	0-90 days KD	91-180 days KD	181-365 days KD	Above 365 days KD	
Expected credit loss rate (%)	0%	0%	0%	100%	
Gross carrying amount	3,239,700	111,810	69,606	61,719	3,482,835
Expected credit losses	-	-	-	61,719	61,719

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery. Failure to make payments within 365 days from the invoice date and failure to engage with the Group on alternative payment arrangement among others is considered indicators of no reasonable expectation of recovery and therefore is considered as credit impaired

*Financial instruments, term deposits and cash and bank balances*

The Group's deposits, bank balances and short term deposits measured at amortized cost are considered to have a low credit risk and the loss allowance is based on the 12 months expected loss. The Group's deposits, bank balances and short term deposits are placed with high credit rating financial institutions with no recent history of default. Based on management's assessment, the expected credit loss impact arising from such financial assets are insignificant to the Group as the risk of default has not increased significantly since initial recognition.

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum net exposure to credit risk by class of assets at the reporting date is as follows:

	2018 KD	2017 KD
Trade and other receivables (excluding prepayments)	3,667,340	3,520,321
Term deposits	620,000	600,000
Short term deposits	-	550,000
Bank balances and cash with portfolio manager	878,055	2,222,804
	<u>5,165,395</u>	<u>6,893,125</u>

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

**25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**25.2 Credit risk (Continued)**

**Geographic concentration of maximum exposure to credit risk**

The maximum exposure to credit risk for financial assets at the reporting date by geographical region and industry wise sector as follows:

	<u>GCC</u> KD	<u>Other</u> KD	<u>Total</u> KD
<b>2018</b>			
Trade and other receivables (excluding prepayments)	3,093,174	574,166	3,667,340
Term deposits	620,000	-	620,000
Bank balances and cash with portfolio manager	878,055	-	878,055
	<u>4,591,229</u>	<u>574,166</u>	<u>5,165,395</u>
<b>2017</b>			
Trade and other receivables (excluding prepayments)	2,963,906	556,415	3,520,321
Term deposit	600,000	-	600,000
Short term deposits	550,000	-	550,000
Bank balances and cash with portfolio manager	2,222,804	-	2,222,804
	<u>6,336,710</u>	<u>556,415</u>	<u>6,893,125</u>
		<u>2018</u> KD	<u>2017</u> KD
<i>Industry sector:</i>			
Manufacturing		3,667,340	3,520,321
Banks and financial institutions		1,498,055	3,372,804
		<u>5,165,395</u>	<u>6,893,125</u>

**25.3 Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

**Notes to the consolidated financial statements**

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**25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**25.3 Liquidity risk (Continued)**

The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2018	<u>Less than 3 months</u> KD	<u>3 to 12 months</u> KD	<u>1 to 2 years</u> KD	<u>2 to 5 years</u> KD	<u>Total</u> KD
Term loans	-	678,684	520,115	-	1,198,799
Trade and other payables (excluding advances)	2,819,275	219,530	-	-	3,038,805
2017	<u>Less than 3 months</u> KD	<u>3 to 12 months</u> KD	<u>1 to 2 years</u> KD	<u>2 to 5 years</u> KD	<u>Total</u> KD
Term loans	-	443,681	429,110	965,693	1,838,484
Trade and other payables (excluding advances)	2,288,717	437,711	-	-	2,726,428

**25.4 Capital risk management**

The Group's objective when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of gearing ratio, which is calculated by net debt value divided by total invested capital. Net debt is calculated as the total debt less cash and cash equivalents, and the total capital invested is calculated as the total equity and net debt.

	<u>2018</u> KD	<u>2017</u> KD
Term loans	1,151,988	1,685,644
Less: cash and cash equivalents	(879,565)	(2,776,342)
Net debt	272,423	(1,090,698)
Equity	18,380,521	19,028,097
Capital invested	18,652,944	17,937,399
Gearing ratio	1.46%	-

**25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**25.4 Capital risk management (continued)**

In order to achieve this overall objective, the Group's capital management, among others, aims to ensure that it meets financial covenants attached to the term loans that define capital structure requirements. Breaches in meeting the financial covenants would permit lending banks and providers of the debt to immediately call loans and borrowings due from the Group. There have been no breaches in the financial covenants of any interest bearing loans and borrowings in the current financial year. No changes were made in the objectives, policies and processes for managing capital during the year ended 31 December.

The Group's policy is to keep the gearing ratio around the optimal debt ratio which is estimated based on cost of capital rate. The optimal debt ratio represents the ratio of debt on which the Group maximises the Parent Company's value to its shareholders and simultaneously keeping the cost of capital at the lowest level.

**26. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value represents the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. In the opinion of the Group's management, the carrying value of the financial assets and liabilities as at 31 December approximate its fair value.

**Financial instruments measured at fair value**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

<b>2018</b>	<u>Level 1</u> KD	<u>Level 3</u> KD	<u>Total</u> KD
<b>Financial assets at fair value through profit or loss</b>			
Local quoted securities	<u>71,584</u>	<u>-</u>	<u>71,584</u>
<b>2017</b>	<u>Level 1</u> KD	<u>Level 3</u> KD	<u>Total</u> KD
<b>Financial assets at fair value through profit or loss</b>			
Local quoted securities	<u>66,118</u>	<u>-</u>	<u>66,118</u>

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments measured at fair value (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

All other financial assets and financial liabilities carried at amortised cost approximate their fair values at the financial position date.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

*i) Quoted securities*

All the listed equity securities are publicly traded on a recognised stock exchange. Fair value has been determined by referring to their quoted bid prices at the reporting date.

27. COMMITMENTS AND CONTINGENT LIABILITIES

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Capital commitments</b>		
For the purchase of property, plant and equipment	<u>1,092,012</u>	<u>1,202,356</u>
<b>Contingent liabilities</b>		
Letters of credit	4,730	339,382
Letters of guarantee	<u>85,779</u>	<u>80,340</u>
	<u>90,509</u>	<u>419,722</u>

**Operating lease commitments – Group as lessee**

The Group has entered in to an operating lease agreements on certain lands obtained from the Government of Kuwait and the Government of Dubai for a period of 5 years and 15 years respectively (Note 7). There are no restrictions placed upon the Group by entering in to these leases.

Future minimum rental payables under non-cancellable operating lease as at 31 December are as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Not later than one year	79,184	74,377
Later than one year but not later than five years	93,429	134,015

28. ANNUAL GENERAL ASSEMBLY MEETING

The Board of Directors in their meeting held on 19 March 2019 proposed to distribute directors' remuneration amounting to KD 30,000. This proposal is subject to the approval of the shareholders in the Annual General Assembly.

**28. ANNUAL GENERAL ASSEMBLY MEETING (CONTINUED)**

The Annual Ordinary General Assembly of the shareholders of the Parent Company held on 22 April 2018 approved the following:

- The consolidated financial statements of the Group for the financial year ended 31 December 2017.
- Distribution of cash dividends of 17% equivalent to 17 fils per share on outstanding shares excluding treasury shares, amounting to KD 1,687,042 for the financial year ended 31 December 2017 to the shareholders of the Parent Company's record as at the accrual date (2016: KD 1,587,807 and KD 2,013,837 representing cash dividends and bonus shares, respectively. The bonus shares were issued through utilization of retained earnings and voluntary reserve by KD 1,747,149 and KD 266,688, respectively).
- KD 30,000 as a remuneration to be paid to the Board of Directors for the financial year ended 31 December 2017 (2016: KD 35,000).