

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

**Consolidated financial statements and independent  
auditors' report**  
For the year ended 31 December 2016

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

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## INDEPENDENT AUDITORS' 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 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the 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 2016, 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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") 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 AUDITORS' 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)**

##### **Property, plant and equipment capital expenditures and depreciation**

During the year the Group incurred a significant capital work in progress expenditure on property, plant and equipment which includes amounts that were capitalised as part of machinery and furniture, as detailed in note 7, primarily relating to costs incurred on the construction of machineries in the Group's plants at United Arab Emirates and Kuwait. In addition, the depreciation charge is significant expense to the consolidated statement of income. There are elements of judgement in both capitalising and depreciating the property, plant and equipment. The assessment and timing of whether assets meet the capitalisation criteria set out in IAS 16 Property, Plant and Equipment, the estimation of appropriate useful economic lives and the assessment of whether any impairment indicators are present, such as redundant assets, all require judgment.

##### **Inventory levels and provisions**

Inventories at the year end of as disclosed in note 9, is a material balance for the Group which requires management judgment in determining an appropriate costing basis. There are also judgments required in determining inventories old and obsolescence provision as these are based on forecast inventories usage and assessing if the provision level is adequate.

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

As part of our procedures,

- We tested a sample of fixed asset additions to third party evidence such as purchase invoice and bank statement to assess the validity, valuation and appropriateness of capitalisation of those additions.
- We tested both the timing of when depreciation begun and the appropriateness of the depreciation period by comparing useful economic lives to the actual usage of the assets and performing substantive analytics over the depreciation expense.
- We challenged management's assumptions in estimating the useful economic lives of existing and new assets in accordance to best practice.
- We considered the circumstances as to whether any additions or prevailing events would give rise to indicators of impairment such as redundant assets.

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

As part of our procedures,

- We attended inventories counts at all components, and performed detailed substantive testing on a sample of items at significant components to assess the cost basis of inventories.
- We compared the inventories old and obsolescence provision to the Group's policy and challenged management's judgment of its adequacy by performing a review of the level of provisions on a unit basis as well as understanding the levels of demand for significant items.
- We investigated adjustments made to the application of the inventories obsolescence provisioning policy, and assessed the appropriateness of the final provision.





## **INDEPENDENT AUDITORS' 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 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 2016, but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of the Group for the year ended 31 December 2016 is expected to be made available to us after the date of our auditors' 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 and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

#### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

## **INDEPENDENT AUDITORS' 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)**

#### **Auditors' 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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





## **INDEPENDENT AUDITORS' 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)**

#### **Auditors' 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **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 2016 that might have had a material effect on the business or financial position of the Parent Company.

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

**Barrak Al-Ateeqi**  
License No. 69 "A"  
Al-Ateeqi Certified Accountants  
Member firm of B.K.R. International

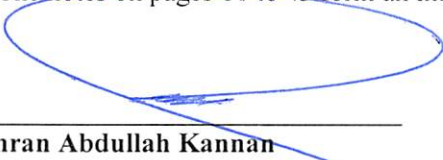
**Kuwait: 12 February 2017**

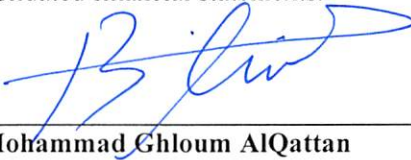
**Shuaiba Industrial Company K.P.S.C. and its subsidiary  
State of Kuwait**

**Consolidated statement of financial position  
As at 31 December 2016**

	Notes	2016 KD	2015 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	10,319,933	8,640,567
Investment in an associate	8	2,561,086	2,567,131
		<u>12,881,019</u>	<u>11,207,698</u>
<b>Current assets</b>			
Inventories	9	2,782,405	4,694,207
Trade receivables	10	2,423,511	2,463,022
Other receivables	11	177,759	776,733
Financial assets at fair value through profit or loss	12	102,457	176,072
Term deposits	13	1,650,000	100,000
Cash and cash equivalents	14	3,736,731	2,570,291
		<u>10,872,863</u>	<u>10,780,325</u>
<b>Total assets</b>		<u>23,753,882</u>	<u>21,988,023</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	15	8,055,343	6,444,275
Share premium		2,294,444	2,294,444
Statutory reserve	16	2,185,527	1,985,638
Voluntary reserve	16	2,094,519	1,894,630
Treasury shares	17	(164,740)	(164,740)
Treasury shares reserve		471,283	471,283
Foreign currency translation reserve		566,221	492,544
Retained earnings		3,334,954	4,744,837
<b>Total equity</b>		<u>18,837,551</u>	<u>18,162,911</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employees' end of service benefits		678,162	589,997
Non-current portion of term loans	18	1,685,644	272,000
		<u>2,363,806</u>	<u>861,997</u>
<b>Current liabilities</b>			
Due to a related party	23	-	24,927
Current portion of term loans	18	184,000	184,000
Trade and other payables	19	2,368,525	2,754,188
		<u>2,552,525</u>	<u>2,963,115</u>
<b>Total liabilities</b>		<u>4,916,331</u>	<u>3,825,112</u>
<b>Total equity and liabilities</b>		<u>23,753,882</u>	<u>21,988,023</u>

The notes on pages 11 to 43 form an integral part of these consolidated financial statements.

  
**Saleh Omran Abdullah Kannan**  
Chairman

  
**Bader Mohammad Ghouloum 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 2016**

	Notes	<b>2016</b> KD	<b>2015</b> KD
Sales		14,658,206	15,341,191
Cost of sales		(10,829,261)	(11,783,461)
<b>Gross profit</b>		<b>3,828,945</b>	<b>3,557,730</b>
Other income		109,590	57,226
Foreign exchange gain		16,634	24,793
Gain on disposal of property, plant and equipment		199	109
Impairment of property, plant and equipment	7	(62,945)	-
Share of results of an associate	8	72,846	35,851
Impairment loss on available for sale financial assets		-	(36,843)
Write back of provision for old and obsolete inventories	9	4,032	-
Provisions for old and obsolete inventories	9	(96,623)	(24,919)
Write back of provision for doubtful debts	10	1,452	13,119
Provision for doubtful debts	10	(11,423)	-
Realised gain on financial assets at fair value through profit or loss		24,242	-
Unrealised gain/(loss) on financial assets at fair value through profit or loss		36,821	(77,334)
General and administrative expenses	20	(898,267)	(830,204)
Selling and distribution expenses	21	(972,154)	(861,362)
Finance costs		(54,457)	(34,157)
<b>Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Directors' remuneration</b>		<b>1,998,892</b>	<b>1,824,009</b>
KFAS		(17,990)	(16,416)
NLST		(52,170)	(48,286)
Zakat		(22,523)	(19,387)
Directors' remuneration		(35,000)	(30,000)
<b>Profit for the year</b>		<b>1,871,209</b>	<b>1,709,920</b>
<b>Basic and diluted earnings per share (fils)</b>	<b>22</b>	<b>23.57</b>	<b>21.54</b>

The notes on pages 11 to 43 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 2016**

	<u>2016</u> KD	<u>2015</u> KD
<b>Profit for the year</b>	<u>1,871,209</u>	<u>1,709,920</u>
<b>Other comprehensive income items:</b>		
<i>Items that may be reclassified subsequently to the consolidated statement of profit or loss:</i>		
Available for sale financial assets		
- Change in fair value	-	36,843
- Transferred to consolidated statement of profit or loss on impairment	-	(36,843)
Exchange differences on translation of foreign operations	<u>73,677</u>	<u>228,706</u>
<b>Total other comprehensive income for the year</b>	<u>73,677</u>	<u>228,706</u>
<b>Total comprehensive income for the year</b>	<u>1,944,886</u>	<u>1,938,626</u>

The notes on pages 11 to 43 form an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity**  
**For the year ended 31 December 2016**

	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 2015</b>	6,444,275	2,294,444	1,803,237	1,712,229	(253,265)	404,979	263,838	4,659,964	17,329,701
Profit for the year	-	-	-	-	-	-	-	1,709,920	1,709,920
Other comprehensive income for the year	-	-	-	-	-	-	228,706	-	228,706
Total comprehensive income for the year	-	-	-	-	-	-	228,706	1,709,920	1,938,626
Sale of treasury shares	-	-	-	-	88,525	66,304	-	-	154,829
Dividends (Note 28)	-	-	-	-	-	-	-	(1,260,245)	(1,260,245)
Transfer to reserves	-	-	182,401	182,401	-	-	-	(364,802)	-
<b>At 31 December 2015</b>	<b>6,444,275</b>	<b>2,294,444</b>	<b>1,985,638</b>	<b>1,894,630</b>	<b>(164,740)</b>	<b>471,283</b>	<b>492,544</b>	<b>4,744,837</b>	<b>18,162,911</b>
<b>At 1 January 2016</b>	6,444,275	2,294,444	1,985,638	1,894,630	(164,740)	471,283	492,544	4,744,837	18,162,911
Profit for the year	-	-	-	-	-	-	-	1,871,209	1,871,209
Other comprehensive income for the year	-	-	-	-	-	-	73,677	-	73,677
Total comprehensive income for the year	-	-	-	-	-	-	73,677	1,871,209	1,944,886
Issue of bonus shares (Note 28)	1,611,068	-	-	-	-	-	-	(1,611,068)	-
Dividends (Note 28)	-	-	-	-	-	-	-	(1,270,246)	(1,270,246)
Transfer to reserves	-	-	199,889	199,889	-	-	-	(399,778)	-
<b>At 31 December 2016</b>	<b>8,055,343</b>	<b>2,294,444</b>	<b>2,185,527</b>	<b>2,094,519</b>	<b>(164,740)</b>	<b>471,283</b>	<b>566,221</b>	<b>3,334,954</b>	<b>18,837,551</b>

The notes on pages 11 to 43 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 2016**

	Notes	2016 KD	2015 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year		1,871,209	1,709,920
<i>Adjustments for:</i>			
Foreign exchange gain		(16,634)	(24,793)
Depreciation	7	468,286	454,016
Gain on sale of property, plant and equipment		(199)	(109)
Impairment on property, plant and equipment	7	62,945	-
Share of results of an associate	8	(72,846)	(35,851)
Impairment loss on available for sale financial assets		-	36,843
Write back of provision for old and obsolete inventories	9	(4,032)	-
Provisions for old and obsolete inventories	9	96,623	24,919
Write back of provision for doubtful debts	10	(1,452)	(13,119)
Provision for doubtful debts	10	11,423	-
Realised gain on financial assets at fair value through profit or loss		(24,242)	-
Unrealised (gain)/loss on financial assets at fair value through profit or loss		(36,821)	77,334
Provision for employees' end of service benefits		99,476	123,046
Finance costs		54,457	34,157
		<u>2,508,193</u>	<u>2,386,363</u>
<i>Changes in working capital:</i>			
Inventories		1,819,709	(1,024,316)
Trade receivables		29,540	(175,206)
Other receivables		598,974	(535,644)
Due to a related party		(24,927)	24,927
Trade and other payables		(322,176)	706,471
<b>Cash flows generated from operations</b>		<u>4,609,313</u>	<u>1,382,595</u>
Employees' end of service benefits paid		(11,597)	(15,139)
<b>Net cash flows generated from operating activities</b>		<u>4,597,716</u>	<u>1,367,456</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	7	(2,173,652)	(435,792)
Placement of term deposit		(1,550,000)	(100,000)
Proceeds from sale of financial assets at fair value through profit or loss		134,678	-
Proceeds from sale of property, plant and equipment		200	110
Dividend received from an associate	8	97,080	128,160
<b>Net cash flows used in investing activities</b>		<u>(3,491,694)</u>	<u>(407,522)</u>
<b>FINANCING ACTIVITIES</b>			
Net movement in term loans		1,413,644	(241,941)
Proceeds from sale of treasury shares		-	154,829
Dividends paid		(1,317,099)	(1,164,514)
Finance costs paid		(54,457)	(34,157)
<b>Net cash flows generated from/(used in) financing activities</b>		<u>42,088</u>	<u>(1,285,783)</u>
Effect of foreign currency translation		18,330	41,553
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>1,166,440</u>	<u>(284,296)</u>
<b>Cash and cash equivalents at beginning of the year</b>		<u>2,570,291</u>	<u>2,854,587</u>
<b>Cash and cash equivalents at end of the year</b>	14	<u>3,736,731</u>	<u>2,570,291</u>

The Group has the following non-cash transactions during the year which are not presented in the consolidated statement of cash flows.

**NON CASH TRANSACTIONS :**

Issue of bonus shares	28	(1,611,068)	-
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The notes on pages 11 to 43 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 2016**

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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.

The Parent Company had 405 employees as at 31 December 2016 (2015: 344 employees).

These consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for issue by the Parent Company's Board of Directors on 12 February 2017. 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.

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

**a) New standards, interpretations and amendments effective from 1 January 2016**

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:

*IFRS 14 – Regulatory Deferral Accounts*

This standard, effective for an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016, permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous accounting standards, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. Since the Group is an existing IFRS preparer, this standard would not apply.

*Amendments to IFRS 11 – Accounting for acquisitions of interests in joint operations*

The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business requiring the acquirer to apply all the principles on business combinations accounting in IFRS 3 and other IFRSs. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with earlier application being permitted. These amendments are not expected to have any material impact to the Group.

*Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization*

The amendments to these standards which are effective for annual periods beginning on or after 1 January 2016 clarify that the determination of the accumulated depreciation or amortization under the revaluation method does not depend on the selection of the valuation technique. They also clarify that the accumulated depreciation or amortization is computed as the difference between the gross and the net carrying amounts. Consequently, when the residual value, the useful life or the depreciation or amortization method has been re-estimated before a revaluation, restatement of the accumulated depreciation or amortization is not proportionate to the change in the gross carrying amount of the asset. These amendments are not expected to have any material impact to the Group.

*Amendments to IAS 27 – Equity method in separate financial statements*

The amendment, effective for annual periods beginning on or after 1 January 2016, allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments are not expected to have any material impact to the Group.

*Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants*

The amendments to these standards which are effective for annual periods beginning on or after 1 January 2016 require that bearer plants (a subset of biological assets used solely to grow produce over several periods) should be accounted for in the same way as property, plant and equipment in IAS 16 because their operation is similar to that of manufacturing, unlike all other biological assets related to agricultural activity which are measured at fair value less costs to sell. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41, and the produce growing on bearer plants will remain within the scope of IAS 41. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.



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

**a) New standards, interpretations and amendments effective from 1 January 2016 (continued)**

**Annual Improvements to IFRS – 2012 – 2014 Cycle:**

These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Group. They include:

*Amendments to IFRS 5 – Non Current Assets Held for Sale and Discounted Operations*

When an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.

*Amendments to IFRS 7 – Financial Instruments: Disclosures*

Specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition. Additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.

*Amendments to IAS 19 – Employee Benefits*

When determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.

*Amendment to IAS 34 – Interim Financial Reporting*

What is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information.

*Amendments to IAS 1 – Disclosure Initiative*

The amendments to this standard which are effective for annual periods beginning on or after 1 January 2016 clarify some judgments used in the presentation of financial reports. The amendments make changes about:

- *Materiality*, where it clarifies that, (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
- *Statement of financial position and statement of profit or loss and other comprehensive income*, where they (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant. They introduce additional guidance on subtotals in these statements as well, and (2) clarify that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
- *Notes*, where they add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes.

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

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

**a) New standards, interpretations and amendments effective from 1 January 2016 (continued)**

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

The amendments to these standards which are effective for annual periods beginning on or after 1 January 2016 confirm that the exemption from preparing consolidated financial statements under IFRS 10 continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. However, if a subsidiary provides investment-related services or activities to the investment entity, it should be consolidated. The amendments clarify that this exception only applies to subsidiaries that are not themselves investment entities and whose main purpose are to provide services and activities that are related to the investment activities of the investment entity parent. All other subsidiaries of an investment entity should be measured at fair value.

Consequential amendments have been made to IAS 28 to confirm that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity, even if the investment entity parent measures all its subsidiaries at fair value. IAS 28 has been also amended to permit an entity to retain the fair value measurement applied by an associate or joint venture that is an investment entity to its interests in subsidiaries rather than applying uniform accounting policies.

Amendments to IFRS 12 clarified that an investment entity that measures all its subsidiaries at fair value should provide the IFRS 12 disclosures related to investment entities. These amendments are not expected to have any material impact to 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:

*IFRS 9 - Financial Instruments*

The standard, 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.

The Directors of the Parent Company anticipate that the application of IFRS 9 in the future may not have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Parent Company undertakes a detailed review.

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

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

**IFRS 15 - Revenue from contracts with customers**

The standard, 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

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

**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.

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

**Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses**

The amendments to this standard which are effective retrospectively for annual periods beginning on or after 1 January 2017 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

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

**Amendment to IAS 7 – Disclosure Initiative**

The amendment to this standard which is effective prospectively for annual periods beginning on or after 1 January 2017 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liability arising from financing activities, including both changes arising from cash flows and non-cash changes, early application of this amendment is permitted.

These amendments are not expected to have any material 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)**

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

This standard will be 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.

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

**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 affects 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 losses 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.

**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 2016**

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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>
Advance Technologies International Agencies Company W.L.L.	Commercial agencies	99%	State of Kuwait

**5.2 Business combinations**

Acquisitions of businesses combination 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.

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.

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

### **5.2 Business combinations (continued)**

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.

### **5.4 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.



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

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

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 requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 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.

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.

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

**5.5 Impairment of non-financial assets (continued)**

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.

**5.7 Financial assets**

***Classification, initial recognition and measurement***

Financial assets within the scope of IAS 39 are classified as “loans and receivables”, “financial assets at fair value through profit or loss” (“FVTPL”), “Held-to-maturity investments”, “available for sale financial assets” (“AFS”). The classification depends on the purpose for which financial assets were acquired and it is determined at initial recognition.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss.

A “regular way” purchase of financial assets is recognised using the trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

The Group’s financial assets include trade and other receivables, financial assets at fair value through profit or loss, term deposits and cash and cash equivalents.

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

**5.7 Financial assets (continued)**

*Classification, initial recognition and measurement (continued)*

The Group has not classified any of its financial assets as held to maturity.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

An investment at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective yield method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's trade receivables and most other receivables fall into this category of financial instruments.

*Cash and cash equivalents*

Bank accounts, time deposits with maturities do not exceed a period of three months from placement date, cash balance with portfolio manager and cash on hand, are classified as cash and cash equivalents.

*Effective yield method*

The effective yield method is a method of calculating the amortised cost of a financial asset and of allocating yield income over the relevant period. The effective yield rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

*Available for sale financial assets*

AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Investments in financial assets available for sale are initially measured at cost which is the fair value of consideration given. Subsequent to initial recognition, financial assets available for sale are measured at fair value. For investments traded in organised financial markets, fair value is determined by reference to the last quoted bid price at the close of business on the financial position date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected cash flows or the underlying net asset base of the investment. Investments whose fair value cannot be reliably measured are carried at cost less any impairment loss.

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

**5.7 Financial assets (continued)**

***Subsequent measurement (continued)***

***Available for sale financial assets (continued)***

Gains or losses arising from changes in fair value of financial assets available for sale are recognised in other comprehensive income and accumulated in the fair value reserve until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognised in the fair value reserve is reclassified to profit or loss for the period in which they arise.

Dividends on available for sale equity instruments are recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established.

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

For financial assets classified as financial assets available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

When a financial asset available for sale is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to consolidated statement of profit or loss in the period.

With the exception of financial asset available for sale, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of financial asset available for sale, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

**5.8 Financial liabilities**

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include term loans, due to a related party and trade and other payables.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

*Term loans*

Term loans are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, term loans are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated statement of profit or loss over the period of the loans on an effective yield basis.

*Trade and other payables*

Liabilities are recognised for amount to be paid in the future for goods or services received, whether billed or not. Trade and other payables are subsequently measured at amortised cost using the effective yield method.

*Derecognition of financial liabilities*

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

**Offsetting of financial instruments**

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 recognised 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 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and other similar allowances.

- Revenues from sale of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer. These risks and rewards are transferred to the buyer on delivery.
- Yield income from deposits is recognised on a time proportion basis using the effective yield method.

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

### **5.14 Revenue recognition (continued)**

- Gain or loss from sale of investment securities is recognised when the transaction is consummated.
- Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

### **5.15 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.

### **5.16 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.

#### **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.

### **5.17 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.

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

**5.17 Taxation (continued)**

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

**5.18 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:

*Classification of financial instruments*

Management decides on acquisition of an investment whether it should be classified as financial assets at fair value through profit or loss or as available for sale financial assets.

Classification of financial assets at fair value through profit or loss depends on how management monitors the performance of these financial assets. The Group classifies financial assets at held for trading if they are acquired primarily for the purpose of short term profit making. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of income in the management accounts, they are classified as designated at fair value through income.

Classification of assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

*Impairment of financial assets available for sale*

The Group treats financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

**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.

**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:

*Fair value measurement and valuation techniques*

Some of the Group's assets and liabilities 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 or a liability, 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 and liabilities are disclosed in (Note 26).

*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.

*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.

*Impairment of receivables*

An estimate of the collectible amount of receivables are made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

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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 2015	555,000	3,659,871	7,131,952	762,341	228,421	-	12,337,585
Additions	-	67,518	331,903	31,521	4,500	350	435,792
Disposals	-	-	-	-	(1,850)	-	(1,850)
Foreign currency translation difference	-	57,880	68,078	4,185	1,279	-	131,422
At 31 December 2015	555,000	3,785,269	7,531,933	798,047	232,350	350	12,902,949
Additions	-	-	-	-	-	2,173,652	2,173,652
Transfers	-	-	697,663	11,253	-	(708,916)	-
Disposals	-	-	-	-	(2,775)	-	(2,775)
Foreign currency translation difference	-	12,586	19,069	1,035	270	9,655	42,615
At 31 December 2016	555,000	3,797,855	8,248,665	810,335	229,845	1,474,741	15,116,441
<b>Accumulated depreciation and impairment</b>							
At 1 January 2015	-	996,553	2,005,856	609,047	185,071	-	3,796,527
Charge for the year	-	140,754	238,822	56,984	17,456	-	454,016
Relating to disposals	-	-	-	-	(1,849)	-	(1,849)
Foreign currency translation difference	-	5,181	5,925	1,891	691	-	13,688
At 31 December 2015	-	1,142,488	2,250,603	667,922	201,369	-	4,262,382
Charge for the year	-	129,659	266,723	57,293	14,611	-	468,286
Relating to disposals	-	-	-	-	(2,774)	-	(2,774)
Impairment	-	-	62,945	-	-	-	62,945
Foreign currency translation difference	-	2,046	2,526	830	267	-	5,669
At 31 December 2016	-	1,274,193	2,582,797	726,045	213,473	-	4,796,508
<b>Net book value</b>							
At 31 December 2016	555,000	2,523,662	5,665,868	84,290	16,372	1,474,741	10,319,933
At 31 December 2015	555,000	2,642,781	5,281,330	130,125	30,981	350	8,640,567
<b>Annual depreciation rates</b>	-	3.33%-20%	3.33%	20%	20%	-	-

Certain property, plant and equipment have been assigned as security against term loans (Note 18).

Buildings are constructed on leasehold lands from the government of Kuwait and the government of Dubai for a period of 5 year 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;

	<b>2016</b>	<b>2015</b>
	KD	KD
Cost of sales	446,227	428,490
General and administrative expenses (Note 20)	21,091	24,558
Selling and distribution expenses	968	968
	<u>468,286</u>	<u>454,016</u>

**8. INVESTMENT IN AN ASSOCIATE**

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

<b>Name of associate</b>	<b>Country of incorporation</b>	<b>Voting rights and equity interest (%)</b>		<b>Measurement method</b>	<b>Activity</b>	<b>Carrying value</b>	
		<b>2016</b>	<b>2015</b>			<b>2016</b>	<b>2015</b>
		%	%			KD	KD
Yanbu Saudi Kuwaiti Paper Products Company L.t.d.	Kingdom of Saudi Arabia	40	40	Equity method	Paper products	<u>2,561,086</u>	<u>2,567,131</u>

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

	<b>2016</b>	<b>2015</b>
	KD	KD
<i>Current assets</i>	3,929,242	4,059,047
<i>Non-current assets</i>	3,088,558	3,273,782
Total assets	<u>7,017,800</u>	<u>7,332,829</u>
<i>Current liabilities</i>	(116,945)	(131,332)
<i>Non-current liabilities</i>	(498,141)	(783,669)
Total liabilities	<u>(615,086)</u>	<u>(915,001)</u>
Net assets	<u>6,402,714</u>	<u>6,417,828</u>
Group's share of associate's net assets	<u>2,561,086</u>	<u>2,567,131</u>
Revenues	6,438,296	4,976,458
Expenses	(6,256,181)	(4,886,830)
Net profit	<u>182,115</u>	<u>89,628</u>
Other comprehensive income	-	-
Group's share of results of an associate	<u>72,846</u>	<u>35,851</u>
Dividend received	<u>97,080</u>	<u>128,160</u>

**9. INVENTORIES**

	<b>2016</b>	<b>2015</b>
	KD	KD
Raw materials	2,365,823	3,543,756
Finished goods	261,503	289,850
Packing materials	31,200	24,188
Goods in transit	106,954	760,880
Spare parts	228,588	194,107
	<u>2,994,068</u>	<u>4,812,781</u>
Provision for old and obsolete inventories	<u>(211,663)</u>	<u>(118,574)</u>
	<u>2,782,405</u>	<u>4,694,207</u>

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**9. INVENTORIES (CONTINUED)**

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

	<u>2016</u>	<u>2015</u>
	KD	KD
At 1 January	118,574	98,150
Charge for the year	96,623	24,919
Write back during the year	(4,032)	-
Write off during the year	-	(4,495)
Foreign currency translation difference	498	-
At 31 December	<u>211,663</u>	<u>118,574</u>

**10. TRADE RECEIVABLES**

	<u>2016</u>	<u>2015</u>
	KD	KD
Trade receivables	2,494,261	2,523,801
Less: provision for doubtful debts	<u>(70,750)</u>	<u>(60,779)</u>
	<u>2,423,511</u>	<u>2,463,022</u>

As at 31 December, the movement in the provision for doubtful debts is as follows:

	<u>2016</u>	<u>2015</u>
	KD	KD
At 1 January	60,779	73,898
Charge for the year	11,423	-
Write back during the year	<u>(1,452)</u>	<u>(13,119)</u>
At 31 December	<u>70,750</u>	<u>60,779</u>

Trade receivables are non-interest bearing generally due within 90 days. Unimpaired receivable are expected on the basis of past experience to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables. The ageing analysis of the gross trade receivables at the reporting date is as follows:

	<i>Neither past due nor impaired</i>	<i>Past due not impaired</i>	<i>Past due and impaired</i>	<i>Total</i>
	<u>KD</u>	<u>91-180 days</u>	<u>180-365 days</u>	<u>KD</u>
2016	2,362,243	61,268	-	2,494,261
2015	2,447,291	13,509	2,222	2,523,801

In determining the recoverability of a trade receivable, the management considers any change in the credit quality of trade receivables from the date credit was initially granted up to the financial position date. The concentration of credit risk is limited due to that, the large number of customers. Accordingly, the management believes that there is no further provision required.

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**11. OTHER RECEIVABLES**

	<u>2016</u> KD	<u>2015</u> KD
Advance to suppliers	-	618,901
Prepayments	101,848	90,386
Refundable deposits	53,333	52,069
Staff receivables	15,107	12,326
Others	7,471	3,051
	<u>177,759</u>	<u>776,733</u>

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

	<u>2016</u> KD	<u>2015</u> KD
Local quoted security	<u>102,457</u>	<u>176,072</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).

**13. 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 1% to 1.125 % (2015: 0.62 %) per annum.

**14. CASH AND CASH EQUIVALENTS**

	<u>2016</u> KD	<u>2015</u> KD
Short term deposits	-	200,000
Bank balances	3,730,803	2,364,942
Cash on hand and with portfolio manager	5,928	5,349
	<u>3,736,731</u>	<u>2,570,291</u>

Short term deposits are placed with local banks and denominated in Kuwaiti Dinars with an average yield rate of Nil % (2015: 0.62%) per annum and mature within three months from the date of placement.

**15. SHARE CAPITAL**

The authorized, issued and paid up share capital is KD 8,055,343 (2015: KD 6,444,275) comprising of 80,553,436 shares of 100 fils each (2015: 64,442,750 shares of 100 fils each) and all shares are paid in cash.

The Extraordinary General Meeting of the shareholders held on 30 March 2016 approved the increase in authorised share capital by 25% through 16,110,686 bonus shares declared amounting to KD 1,611,068 (Note 28). The Parent Company's Memorandum of Incorporation and Articles of Association has been amended on 10 April 2016 to reflect the increase in share capital.

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**16. RESERVES**

*Statutory reserve*

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contributions to KFAS, Zakat and Directors' remuneration has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

*Voluntary reserve*

In accordance with the Parent Company's Articles of Association 10% of the profit for the year before contributions to KFAS, Zakat and Directors' remuneration has been transferred to voluntary reserve. There are no restrictions on the distribution of the voluntary reserve.

**17. TREASURY SHARES**

	<u>2016</u>	<u>2015</u>
Number of shares	1,163,077	930,462
Percentage to issued shares (%)	1.44%	1.44%
Market value (KD )	343,108	362,880
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.

**18. TERM LOANS**

	<u>2016</u>	<u>2015</u>
	KD	KD
Non-current portion	1,685,644	272,000
Current portion	184,000	184,000
	<u>1,869,644</u>	<u>456,000</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% semi annually (2015: 3.5%) and repayable as shown below.

Facility amount	Payable Amount	Current portion	Non-current portion	Maturity date
KD	KD	KD	KD	
700,000	140,000	140,000	-	October 2017
220,000	132,000	44,000	88,000	December 2019
2,800,000	1,597,644	-	1,597,644	November 2022

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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**19. TRADE AND OTHER PAYABLES**

	<u>2016</u>	<u>2015</u>
	KD	KD
Trade payables	1,499,046	1,971,189
Dividends payable	222,550	269,403
Staff payable	341,003	274,364
Accrued expenses	145,894	115,157
Advances from customers	30,002	7,283
KFAS	17,990	16,416
NLST	52,170	48,286
Zakat	24,870	22,090
Directors' remuneration	35,000	30,000
	<u>2,368,525</u>	<u>2,754,188</u>

**20. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2016</u>	<u>2015</u>
	KD	KD
Staff costs	682,678	618,421
Depreciation (Note 7)	21,091	24,558
Rent	26,313	20,975
Communication expenses	29,657	27,809
Professional fees	38,003	20,085
Travel expense	39,233	31,892
Stationery expenses	21,863	23,189
Others	39,429	63,275
	<u>898,267</u>	<u>830,204</u>

**21. SELLING AND DISTRIBUTION EXPENSES**

	<u>2016</u>	<u>2015</u>
	KD	KD
Transportation expenses	500,862	392,428
Staff costs	163,753	162,442
Packing expenses	232,067	235,530
Others	75,472	70,962
	<u>972,154</u>	<u>861,362</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>2016</u>	<u>2015</u>
Profit for the year (KD)	<u>1,871,209</u>	<u>1,709,920</u>
<i>Weighted average number of shares outstanding:</i>		
Number of issued shares	80,553,436	80,553,436
Less: Weighted average number of treasury shares	<u>(1,163,077)</u>	<u>(1,163,077)</u>
Weighted average number of shares outstanding	<u>79,390,359</u>	<u>79,390,359</u>
<b>Basic and diluted earnings per share (fils)</b>	<u>23.57</u>	<u>21.54</u>

Earnings per share were 27.01 fils for the year ended 31 December 2015, before retrospective adjustment to the number of shares following the bonus issue during the period (Note 28).



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**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>	<b>2016</b> KD	<b>2015</b> KD
Due to a related party		
• <i>Yanbu Saudi Kuwaiti Paper Product Company Ltd</i>	-	24,927
Directors' remuneration payable (Note 19)	35,000	30,000

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

	<b>2016</b> KD	<b>2015</b> KD
<b>Compensation to key management personnel</b>		
• Salaries and short-term benefits	263,246	253,164
• Post employment benefits	22,528	20,760
• Directors' remuneration	35,000	30,000

**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.

**Notes to the consolidated financial statements**  
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**24. SEGMENT REPORTING (CONTINUED)**

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

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	KD	KD	KD	KD
	<u>Revenue</u>		<u>Segment results</u>	
Industrial packaging division	9,485,118	10,348,917	2,313,649	2,173,624
Commercial packaging division	4,039,903	3,875,862	1,295,513	1,295,894
Flexible packaging division	1,106,145	920,126	218,432	67,555
Trading division	27,040	196,286	1,351	20,657
	<u>14,658,206</u>	<u>15,341,191</u>	<u>3,828,945</u>	<u>3,557,730</u>
Other income			109,590	57,226
Foreign exchange gain			16,634	24,793
Gain on disposal of property, plant and equipment			199	109
Impairment on property, plant and equipment			(62,945)	-
Share of results of an associate			72,846	35,851
Impairment loss on available for sale financial assets			-	(36,843)
Write back of provision for old and obsolete inventories			4,032	-
Provisions for old and obsolete inventories			(96,623)	(24,919)
Write back of provision for doubtful debts			1,452	13,119
Provision for doubtful debts			(11,423)	-
Realised gain on financial assets at fair value through profit or loss			24,242	-
Unrealised gain/(loss) on financial assets at fair value through profit or loss			36,821	(77,334)
General and administrative expenses			(898,267)	(830,204)
Selling and distribution expenses			(972,154)	(861,362)
Finance costs			(54,457)	(34,157)
Other deductions			<u>(127,683)</u>	<u>(114,089)</u>
<b>Profit for the year</b>			<u><b>1,871,209</b></u>	<u><b>1,709,920</b></u>

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

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	KD	KD	KD	KD
	<u>Revenue</u>		<u>Segment results</u>	
Kuwait	5,170,675	5,183,665	1,646,802	1,403,468
GCC	7,505,598	8,002,922	1,726,748	1,736,168
Asia	1,329,958	1,264,477	306,915	229,824
Africa	651,975	890,127	148,480	188,270
	<u>14,658,206</u>	<u>15,341,191</u>	<u>3,828,945</u>	<u>3,557,730</u>

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

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	KD	KD	KD	KD
	<u>Assets</u>		<u>Liabilities</u>	
Kuwait	16,362,265	16,076,230	4,396,949	2,717,641
GCC	7,391,617	5,911,793	519,382	1,107,471
	<u>23,753,882</u>	<u>21,988,023</u>	<u>4,916,331</u>	<u>3,825,112</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, profit 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 entity in the Group to manage the foreign risk against its currency of operation. The Group tracks and manages these risks by:

- 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:

	2016 KD	2015 KD
United States Dollar	166,675	436,398
Saudi Riyal	2,620,096	2,624,884
United Arab Emirate Dirhams	5,177,099	5,554,466
Omani Riyal	63,161	76,194
Euro	544,261	380,234

The tables below analyse the effect of a 5% strengthening in value of the currency rate against the Kuwaiti Dinar 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.

	Change in currency rate (%)	Effect on profit for the year		Effect on equity	
		2016 KD	2015 KD	2016 KD	2015 KD
United States Dollar	+5%	8,334	21,820	8,334	21,820
Saudi Arabian Riyals	+5%	3,642	4,680	128,054	133,037
United Arab Emirate Dirhams	+5%	23,088	25,797	327,568	277,723
Omani Riyal	+5%	3,158	3,810	3,158	3,810
Euro	+5%	27,213	19,012	27,213	19,012

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

### 25.1 Market risk (continued)

#### b) Profit 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.

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	
		2016 KD	2015 KD
Kuwait Stock Exchange	+5%	5,123	8,804

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 an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of bank balances, term deposits, trade and other receivables. The Group's bank balances, short term bank deposits and term deposit are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

#### 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 financial position date is as follows:

	2016 KD	2015 KD
Trade receivables	2,423,511	2,463,022
Other receivables (excluding advance to suppliers and prepayments)	75,911	67,446
Term deposits	1,650,000	100,000
Short term deposits	-	200,000
Bank balances	3,730,803	2,364,942
	<u>7,880,225</u>	<u>5,195,410</u>

At the financial position date, 44.7% of the net trade receivables are due from 10 customers (2015 – 48.4% of the net trade receivables are due from 10 customers).

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**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> <u>KD</u>	<u>Other</u> <u>KD</u>	<u>Total</u> <u>KD</u>
<b>2016</b>			
Trade receivables	2,385,256	38,255	2,423,511
Other receivables (excluding advance to suppliers and prepayments)	75,911	-	75,911
Term deposits	1,650,000	-	1,650,000
Bank balances	3,730,803	-	3,730,803
	<u>7,841,970</u>	<u>38,255</u>	<u>7,880,225</u>
<b>2015</b>			
Trade receivables	2,463,022	-	2,463,022
Other receivables (excluding advance to suppliers and prepayments)	67,446	-	67,446
Term deposit	100,000	-	100,000
Short term deposits	200,000	-	200,000
Bank balances	2,364,942	-	2,364,942
	<u>5,195,410</u>	<u>-</u>	<u>5,195,410</u>
	<u>2016</u> <u>KD</u>	<u>2015</u> <u>KD</u>	
<i>Industry sector:</i>			
Manufacturing	2,499,422	2,530,468	
Banks and financial institutions	5,380,803	2,664,942	
	<u>7,880,225</u>	<u>5,195,410</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.

The table below analyses the Company'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.

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

**25.3 Liquidity risk (continued)**

2016	Less than 3 months KD	3 to 12 months KD	1 to 2 years KD	2 to 5 years KD	Total KD
Term loans	-	184,000	644,000	1,078,102	1,906,102
Trade and other payables (excluding advances)	1,499,185	839,338	-	-	2,338,523
Financial guarantee contracts	-	190,703	-	-	190,703
Operating lease commitments	-	69,667	58,417	175,251	303,335
2015	Less than 3 months KD	3 to 12 months KD	1 to 2 years KD	2 to 5 years KD	Total KD
Term loans	-	184,000	193,520	91,080	468,600
Due to a related party	-	24,927	-	-	24,927
Trade and other payables (excluding advances)	1,510,804	1,236,101	-	-	2,746,905
Capital commitments	-	1,158,850	-	-	1,158,850
Financial guarantee contracts	-	105,514	-	-	105,514
Operating lease commitments	-	62,061	53,061	159,183	274,305

**25.4 Capital risk management**

The Group's objective when managing capital are to safeguard the 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.



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

**25.4 Capital risk management (continued)**

	<u>2015</u> KD	<u>2015</u> KD
Term loans	1,869,644	456,000
Less: cash and cash equivalents	<u>(3,736,731)</u>	<u>(2,570,291)</u>
Net debt	(1,867,087)	(2,114,291)
Equity	<u>18,837,551</u>	<u>18,162,911</u>
Capital invested	<u>16,970,464</u>	<u>16,048,620</u>
Gearing ratio	<u>0%</u>	<u>0%</u>

In order to achieve this overall objective, the Group's capital management, amongst other things, 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 as assets 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.

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.

**Notes to the consolidated financial statements**  
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**26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The Group's carrying value of the financial assets and liabilities are stated in the consolidated statement of financial position as follows:

	<b>Carried at fair value</b>	<b>Carried at cost</b>	<b>Carried at amortised cost</b>	<b>Total</b>
	<b>KD</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>
<b>2016</b>				
<b>Financial assets:</b>				
Trade receivables	-	-	2,423,511	2,423,511
Other receivables (excluding advance to suppliers and prepayments)	-	-	75,911	75,911
Financial assets at fair value through profit or loss	102,457	-	-	102,457
Term deposits	-	-	1,650,000	1,650,000
Cash and cash equivalents	-	-	3,736,731	3,736,731
	<u>102,457</u>	<u>-</u>	<u>7,886,153</u>	<u>7,988,610</u>
<b>Financial liabilities:</b>				
Term loans	-	-	1,869,644	1,869,644
Trade and other payables (excluding advances from customers)	-	-	2,338,523	2,338,523
	<u>-</u>	<u>-</u>	<u>4,208,167</u>	<u>4,208,167</u>
	<b>Carried at fair value</b>	<b>Carried at cost</b>	<b>Carried at amortised cost</b>	<b>Total</b>
	<b>KD</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>
<b>2015</b>				
<b>Financial assets:</b>				
Trade receivables	-	-	2,463,022	2,463,022
Other receivables (excluding advances to suppliers and prepayments)	-	-	67,446	67,446
Financial assets at fair value through profit or loss	176,072	-	-	176,072
Term deposit	-	-	100,000	100,000
Cash and cash equivalents	-	-	2,570,291	2,570,291
	<u>176,072</u>	<u>-</u>	<u>5,200,759</u>	<u>5,376,831</u>
<b>Financial liabilities:</b>				
Term loans	-	-	456,000	456,000
Due to a related party	-	-	24,927	24,927
Trade and other payables (excluding advances from customers)	-	-	2,746,905	2,746,905
	<u>-</u>	<u>-</u>	<u>3,227,832</u>	<u>3,227,832</u>

**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.

**Notes to the consolidated financial statements**  
For the year ended 31 December 2016

**26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial instruments measured at fair value (continued)**

- 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:

2016	Level 1 KD	Level 3 KD	Total KD
<b>Financial assets at fair value through profit or loss</b>			
Local quoted securities	102,457	-	102,457
<b>2015</b>	<b>Level 1 KD</b>	<b>Level 3 KD</b>	<b>Total KD</b>
<b>Financial assets at fair value through profit or loss</b>			
Local quoted securities	176,072	-	176,072

The fair value of financial instruments traded in active markets is based on quoted market prices at the 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.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in the consolidated statement of profit or loss, total assets, total liabilities or total equity.

**Reconciliation of Level 3 fair value measurements of financial assets**

	2016 KD	2015 KD
<b>Financial assets at fair value through profit or loss</b>		
At 1 January	-	64,500
Change in fair value	-	(64,500)
At 31 December	-	-

**Notes to the consolidated financial statements**  
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**26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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.

**ii) Investment in portfolio-fund**

The underlying investments of Investment in portfolio-fund comprise of unquoted securities. The fair value of the unquoted underlying securities has been determined using valuation techniques that are normally used by fund managers.

**27. COMMITMENTS AND CONTINGENT LIABILITIES**

	<u>2016</u> KD	<u>2015</u> KD
<b>Capital commitments</b>		
For the purchase of property, plant and equipment	-	1,158,850
<b>Contingent liabilities</b>		
Letters of credit	106,111	377,173
Letters of guarantee	190,703	105,514
	<u>296,814</u>	<u>482,687</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 (Note 7). The operating lease agreement has five years life. 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>2016</u> KD	<u>2015</u> KD
Not later than one year	69,667	62,061
Later than one year but not later than five years	233,668	212,244

**28. ANNUAL GENERAL ASSEMBLY MEETING**

The Annual General Assembly meetings of shareholders held on 30 March 2016, approved the annual audited consolidated financial statements of the Group for the year ended 31 December 2015 and approved the payment of cash dividend of 20% equivalents to 20 fils per share on outstanding shares excluding treasury shares (2014: 20% equivalent to 20 fils per share) and bonus share of 25% equivalent to 25 shares for each 100 shares (31 December 2014: nil) to the shareholders of the Parent Company's record as of the date of the Annual General Assembly Meeting.

An Extraordinary General Meeting of the shareholders was held on 30 March 2016 to approve the increase in authorised share capital by 25% due to bonus shares declared amounting to 16,110,686 shares.