

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

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

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

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

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**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF 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 subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements, including material accounting policy information .

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We identified the following key audit matters:

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF SHUAIBA INDUSTRIAL COMPANY K.P.S.C.
STATE OF KUWAIT**

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

Key Audit Matters (continued)

Expected credit losses ("ECL") on trade receivables

As at 31 December 2023, trade and other receivables amounted to KD 3,502,768 (excluding advance paid towards acquisition of a subsidiary, advances to suppliers and prepayments) (2022: KD 3,832,904) and net of provision for expected credit losses of KD 238,853 (2022: KD 271,577) (Note 10).

The Group has recognised provision for expected credit losses on trade receivables for the year ended 31 December 2023 amounting to KD 21,959 (2022: KD 57,035).

The Group applies the simplified approach under IFRS 9: 'Financial Instruments' ("IFRS 9") to measure ECL on trade receivables, which allows for lifetime ECL to be recognised from initial recognition of the trade receivables. The Group determines the ECL on trade receivables by using a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the individual trade receivables and the economic environment. Due to the significance of trade receivables and the complexity involved in the ECL calculation, this was considered as a key audit matter.

Refer to the following notes to the consolidated financial statements:

- Note 5.8.1 – Financial assets;
- Note 6 – Material accounting judgements and estimation uncertainty;
- Note 10 – Trade and other receivables;
- Note 27.2 – Credit risk.

How our audit addressed the matter

Our work performed include the below procedures:

- We assessed the reasonableness of the assumptions used in the ECL calculation by comparing them with historical data adjusted for current market conditions and forward-looking information;
- We performed substantive procedures to test, on a sample basis, the completeness and accuracy of the information included in the debtors' ageing report;
- We tested the subsequent settlements made for the selected sample of customers;
- We considered management's criteria of aggregating trade receivables into segments and assessed whether the criteria for each segment is indicative of similar credit characteristics;
- We also considered the adequacy of the Group's disclosures relating to the ECL, management's assessment of the credit risk and their responses to such risks.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF SHUAIBA INDUSTRIAL COMPANY K.P.S.C.
STATE OF KUWAIT**

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

Key Audit Matters (continued)

Carrying value of inventories

The Group held inventories at the lower of cost and net realizable value of KD 5,171,706 (2022: KD 7,925,825) net of provision for old and obsolete inventories of KD 325,893 (2022: KD 194,381) as at 31 December 2023.

The Group has significant level of inventories at the year end, assessing carrying value is an area of significant judgement, particularly with regards to the estimation of provision for old and obsolete inventories to ensure that inventories are carried at lower of cost and net realisable value. Also, arriving to the value of finished goods involves the use of raw materials and allocation of payroll costs and overheads using technical process, hence considered a key audit matter.

Refer to the following notes to the consolidated financial statements:

Note 5.6 - Inventories;
Note 6 - Material accounting judgements and estimation uncertainty;
Note 9 - Inventories.

How our audit addressed the matter

Our work performed include the below procedures:

- Obtained an understanding and evaluated the management's process in place to identify and recognise provision for old and obsolete inventories.
- For samples of selected inventory items, determined the net realisable value by reference to recent selling prices compared with net realisable value as determined by management.
- Evaluating the appropriateness of the assumptions used based on our knowledge and information of the Group and the industry.
- Physically inspected samples of the inventory items in order to check whether there are any damaged or obsolete items.
- Tested the ageing report used by the management to check whether management correctly aged inventory items by agreeing samples of aged inventory items to the last recorded invoice.
- Verified on a test basis whether the Group absorbed production overheads on a systematic basis.
- Assessing whether the Group policies have been consistently applied and the adequacy of the Group's disclosures in respect of inventories.



**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF SHUAIBA INDUSTRIAL COMPANY K.P.S.C.
STATE OF KUWAIT**

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

Other 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 2023, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report of the Group for the year ended 31 December 2023 is expected to be made available to us after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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



**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF SHUAIBA INDUSTRIAL COMPANY K.P.S.C.
STATE OF KUWAIT**

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF SHUAIBA INDUSTRIAL COMPANY K.P.S.C.
STATE OF KUWAIT**

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

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

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

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

Report on Other Legal and Regulatory Requirements

In our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies' Law No. 1 of 2016, its Executive Regulations, as amended, or Law No. 7 of 2010 concerning the establishment of Capital Markets Authority and Organization of Securities Activity and its Executive Regulations, as amended, 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, as amended, or Law No. 7 of 2010 concerning the establishment of Capital Markets Authority and Organization of Securities Activity and its Executive Regulations, as amended, or the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2023 that might have had a material effect on the business of the Group or its consolidated financial position.



Faisal Saqer Al Saqer
License No. 172 - A
BDO Al Nisf & Partners

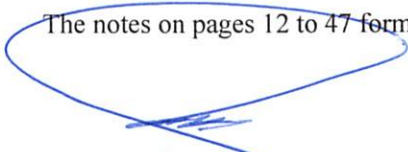
Kuwait: 5 March 2024


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

Consolidated statement of financial position
As at 31 December 2023

| | Notes | 2023 KD | 2022 KD |
|--------------------------------------|-------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 8,448,847 | 7,747,136 |
| Right of use assets | 8 | 1,201,816 | 1,202,606 |
| | | <u>9,650,663</u> | <u>8,949,742</u> |
| Current assets | | | |
| Inventories | 9 | 5,171,706 | 7,925,825 |
| Trade and other receivables | 10 | 4,107,453 | 4,414,964 |
| Term deposits | 11 | 2,783,260 | - |
| Bank balances and cash | 12 | 2,950,883 | 2,622,592 |
| | | <u>15,013,302</u> | <u>14,963,381</u> |
| Total assets | | <u>24,663,965</u> | <u>23,913,123</u> |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 13 | 10,069,180 | 10,069,180 |
| Share premium | | 2,294,444 | 2,294,444 |
| Statutory reserve | 14 | 3,082,610 | 2,928,668 |
| Voluntary reserve | 14 | 1,423,325 | 1,423,325 |
| Treasury shares | 15 | (164,740) | (164,740) |
| Treasury shares reserve | | 471,283 | 471,283 |
| Foreign currency translation reserve | | 452,836 | 435,798 |
| Retained earnings | | 1,297,411 | 1,205,452 |
| Total equity | | <u>18,926,349</u> | <u>18,663,410</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Employees' end of service benefits | 16 | 993,898 | 1,005,976 |
| Lease liabilities | 8 | 824,827 | 792,258 |
| Term loan | 17 | 717,939 | - |
| | | <u>2,536,664</u> | <u>1,798,234</u> |
| Current liabilities | | | |
| Lease liabilities | 8 | 60,528 | 47,059 |
| Trade and other payables | 18 | 2,650,832 | 3,023,108 |
| Contract liabilities | 20 | 69,592 | 131,312 |
| Murabaha payable | 19 | 250,000 | 250,000 |
| Term loan | 17 | 170,000 | - |
| | | <u>3,200,952</u> | <u>3,451,479</u> |
| Total liabilities | | <u>5,737,616</u> | <u>5,249,713</u> |
| Total equity and liabilities | | <u>24,663,965</u> | <u>23,913,123</u> |

The notes on pages 12 to 47 form an integral part of these consolidated financial statements.


Saleh Omran Abdullah Kannan
Chairman


Bader Mohammad Ghloum AlQattan
Vice chairman

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

Consolidated statement of profit or loss
For the year ended 31 December 2023

| | Notes | <u>2023</u> KD | <u>2022</u> KD |
|---|-------|---------------------|---------------------|
| Sales | 20 | 15,007,678 | 14,542,615 |
| Cost of sales | | <u>(12,067,040)</u> | <u>(11,940,925)</u> |
| Gross profit | | 2,940,638 | 2,601,690 |
| Share of results of an associate | | - | 26,660 |
| Gain on disposal of an associate | | - | 111,296 |
| Other income | 20 | 86,737 | 114,833 |
| Provision for slow moving inventories | 9 | (131,300) | - |
| Provision for expected credit losses | 10 | (21,959) | (57,035) |
| Foreign exchange gain | | 8,101 | 13,587 |
| General and administrative expenses | 21 | (1,117,544) | (1,177,632) |
| Selling and distribution expenses | 22 | (177,941) | (158,169) |
| Finance costs | | <u>(47,308)</u> | <u>(33,098)</u> |
| Profit before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), National Labour Support Tax (“NLST”), Zakat and Board of Directors’ remuneration | | 1,539,424 | 1,442,132 |
| KFAS | 18 | (13,855) | (12,978) |
| NLST | | (42,011) | (38,785) |
| Zakat | | (16,804) | (15,352) |
| Board of Directors’ remuneration | 25,30 | <u>(30,000)</u> | <u>(30,000)</u> |
| Profit for the year | | <u>1,436,754</u> | <u>1,345,017</u> |
| Basic and diluted earnings per share (fils) | 23 | <u>14.48</u> | <u>13.55</u> |

The notes on pages 12 to 47 form an integral part of these consolidated financial statements.

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

**Consolidated statement of comprehensive income
For the year ended 31 December 2023**

| | <u>2023</u> | <u>2022</u> |
|---|------------------|------------------|
| | KD | KD |
| Profit for the year | <u>1,436,754</u> | <u>1,345,017</u> |
| Other comprehensive income items: | | |
| <i>Items that may be reclassified subsequently to the consolidated statement of profit or loss:</i> | | |
| Foreign exchange differences on translation of foreign operations | <u>17,038</u> | <u>86,294</u> |
| Total other comprehensive income for the year | <u>17,038</u> | <u>86,294</u> |
| Total comprehensive income for the year | <u>1,453,792</u> | <u>1,431,311</u> |

The notes on pages 12 to 47 form an integral part of these consolidated financial statements.

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

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

| | Share capital | Share premium | Statutory reserve | Voluntary reserve | Treasury shares | Treasury shares reserve | Foreign currency translation reserve | Retained earnings | Total equity |
|---|-------------------|------------------|----------------------|----------------------|--------------------|-------------------------------|---|----------------------|-------------------|
| | KD | KD | KD | KD | KD | KD | KD | KD | KD |
| At 1 January 2022 | 10,069,180 | 2,294,444 | 2,784,455 | 1,423,325 | (164,740) | 471,283 | 454,075 | 1,195,501 | 18,527,523 |
| Profit for the year | - | - | - | - | - | - | - | 1,345,017 | 1,345,017 |
| Other comprehensive income for the year | - | - | - | - | - | - | 86,294 | - | 86,294 |
| Total comprehensive income for the year | - | - | - | - | - | - | 86,294 | 1,345,017 | 1,431,311 |
| Effect of disposal of an associate | - | - | - | - | - | - | (104,571) | - | (104,571) |
| Dividends (Note 30) | - | - | - | - | - | - | - | (1,190,853) | (1,190,853) |
| Transfer to statutory reserve | - | - | 144,213 | - | - | - | - | (144,213) | - |
| At 31 December 2022 | <u>10,069,180</u> | <u>2,294,444</u> | <u>2,928,668</u> | <u>1,423,325</u> | <u>(164,740)</u> | <u>471,283</u> | <u>435,798</u> | <u>1,205,452</u> | <u>18,663,410</u> |
| At 1 January 2023 | 10,069,180 | 2,294,444 | 2,928,668 | 1,423,325 | (164,740) | 471,283 | 435,798 | 1,205,452 | 18,663,410 |
| Profit for the year | - | - | - | - | - | - | - | 1,436,754 | 1,436,754 |
| Other comprehensive income for the year | - | - | - | - | - | - | 17,038 | - | 17,038 |
| Total comprehensive income for the year | - | - | - | - | - | - | 17,038 | 1,436,754 | 1,453,792 |
| Dividends (Note 30) | - | - | - | - | - | - | - | (1,190,853) | (1,190,853) |
| Transfer to statutory reserve | - | - | 153,942 | - | - | - | - | (153,942) | - |
| At 31 December 2023 | <u>10,069,180</u> | <u>2,294,444</u> | <u>3,082,610</u> | <u>1,423,325</u> | <u>(164,740)</u> | <u>471,283</u> | <u>452,836</u> | <u>1,297,411</u> | <u>18,926,349</u> |

The notes on pages 12 to 47 form an integral part of these consolidated financial statements.

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

Consolidated statement of cash flows
For the year ended 31 December 2023

| | Notes | <u>2023</u> KD | <u>2022</u> KD |
|--|-------|--------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Profit for the year | | 1,436,754 | 1,345,017 |
| <i>Adjustments for:</i> | | | |
| Share of results of an associate | | - | (26,660) |
| Gain on disposal of an associate | | - | (111,296) |
| Profit income from term deposits | 20 | (25,966) | (30,542) |
| Gain on disposal of property, plant and equipment | 20 | (1,749) | - |
| Provision for slow moving inventories | 9 | 131,300 | - |
| Provision for expected credit losses | 10 | 21,959 | 57,035 |
| Foreign exchange gain | | (8,101) | (13,587) |
| Depreciation | 7 | 683,362 | 586,007 |
| Amortization | 8 | 95,605 | 93,112 |
| Finance costs | | 47,308 | 33,098 |
| Loss on lease modification | | 5,393 | - |
| Provision for employees' end of service benefits | 16 | 124,223 | 97,892 |
| Contribution to KFAS | 18 | 13,855 | 12,978 |
| | | <u>2,523,943</u> | <u>2,043,054</u> |
| <i>Changes in working capital:</i> | | | |
| Inventories | | 2,623,031 | (4,376,471) |
| Trade and other receivables | | 309,488 | (1,340,790) |
| Trade and other payables | | (428,701) | 50,130 |
| Contract liabilities | | (61,720) | 95,085 |
| Net cash flows generated from / (used in) operations | | <u>4,966,041</u> | <u>(3,528,992)</u> |
| Employees' end of service benefits paid | 16 | (136,488) | (50,316) |
| KFAS paid | 18 | (25,931) | - |
| Net cash flows generated from / (used in) operating activities | | <u>4,803,622</u> | <u>(3,579,308)</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 7 | (1,375,284) | (240,520) |
| Proceeds from disposal of property, plant and equipment | | 1,749 | - |
| Proceeds from disposal of an associate | | - | 2,623,536 |
| (Placement) / maturity of term deposits | | (2,783,260) | 650,000 |
| Profit income from term deposits received | | 10,389 | 30,542 |
| Net cash flows (used in) / generated from investing activities | | <u>(4,146,406)</u> | <u>3,063,558</u> |
| FINANCING ACTIVITIES | | | |
| Term loan | 19,24 | 887,939 | - |
| Payment of principal portion of lease liabilities | 24 | (54,031) | (45,728) |
| Murabaha payable | 24 | - | 250,000 |
| Dividends paid | 24 | (1,132,239) | (1,141,342) |
| Finance costs paid | | (37,421) | (33,098) |
| Net cash flows used in financing activities | | <u>(335,752)</u> | <u>(970,168)</u> |
| Effect of foreign currency translation differences | | 6,827 | 33,257 |
| Net increase /(decrease) in bank balances and cash | | 328,291 | (1,452,661) |
| Bank balances and cash at the beginning of the year | | <u>2,622,592</u> | <u>4,075,253</u> |
| Bank balances and cash at the end of the year | 12 | <u>2,950,883</u> | <u>2,622,592</u> |
| The Group has the following material non-cash transactions during the year which is not reflected in the consolidated statement of cash flows: | | | |
| Non-cash transactions: | | | |
| Lease modification on right of use assets | 8 | <u>98,846</u> | - |
| Lease modification on lease liabilities | 8 | <u>93,453</u> | - |
| Dividends payable | | <u>58,614</u> | <u>49,511</u> |

The notes on pages 12 to 47 form an integral part of these consolidated financial statements.

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

Notes to the consolidated financial statements
For the year ended 31 December 2023

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 Boursa Kuwait.

The Group comprises of the Parent Company and its subsidiaries 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 Parent 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 consolidated financial statements of the Group for the year ended 31 December 2023 were authorised for issue by the Parent Company’s Board of Directors on 5 March 2024. The shareholders Annual 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.

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

3. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”) and the IFRS Accounting Standards interpretations Committee applicable to companies reporting under IFRS Accounting Standards and applicable requirements of the Companies Law No. 1. of 2016 and its Executive Regulations, as amended (the “Companies Law”).

The preparation of consolidated financial statements in compliance with adopted IFRSs 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 material judgements and estimates made in preparing the consolidated financial statements and their effect are disclosed in Note 6.

Notes to the consolidated financial statements

For the year ended 31 December 2023

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS ACCOUNTING STANDARDS”)

a) New standards, interpretations, and amendments effective from 1 January 2023

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies

The amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments had no material impact on the Group’s consolidated financial statements.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

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

The new standard had no impact on the Group’s consolidated financial statements.

Amendments to IAS 8 - Definition of Accounting Estimates

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Group’s consolidated financial statements.

There are other amendments related to IAS 12 “Income Taxes” that has no impact on the Group’s consolidated financial statements.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

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

b) New standards, interpretations and amendments not yet effective (Continued)

The following amendments are effective for the period beginning 1 January 2024:

- *Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases);*
- *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements);*
- *Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements); and*
- *Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures)*

The following amendments are effective for the period beginning 1 January 2025:

- *Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates)*

The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities, as the conversion feature in its convertible debt instruments is classified as an equity instrument and therefore, does not affect the classification of its convertible debt as a non-current liability. The Group does not expect any other standards issued by the IASB, but are yet to be effective, to have a material impact on the Group.

5. MATERIAL 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 subsidiaries. Control is achieved when the Parent Company (a) has power over the investee (b) is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns.

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

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

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

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

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

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.1 Basis of consolidation (Continued)

Subsidiaries (continued)

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.

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.

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

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

The details of the subsidiaries / branch are as follows:

| Name of subsidiary | Principal activity | Voting rights and equity interest | | Country of incorporation |
|--|---------------------|-----------------------------------|------|--------------------------|
| | | 2023 | 2022 | |
| * Al-Lub Industrial Company S.P.C. | Manufacturing | 100% | - | Kingdom of Saudi Arabia |
| **Advance Technologies International Agencies Company W.L.L. | Commercial agencies | 99% | 99% | State of Kuwait |

*During the year ended 31 December 2023, the Group incorporated a single person company in the Kingdom of Saudi Arabia, "Al-Lub Industrial Company S.P.C. (the "Subsidiary").

Al-Lub Industrial Company S.P.C. (the "Subsidiary") paid an advance towards acquiring a new subsidiary Al-Aber Global Industrial Company S.P.C., as per the agreement dated 15 October 2023. Al-Aber Global Industrial Company S.P.C. is a single person company incorporated in the Kingdom of Saudi Arabia (Note 10).

As at the reporting date, the Group has not obtained control over Al-Aber Global Industrial Company S.P.C.

**The non-controlling interests waived their ownership in the subsidiary as per letters of assignment in favor of the Parent Company.

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

| Name of the Branch | Principal activity | Country of incorporation |
|--|---|--------------------------|
| Shuaiba Industrial Company, Jebel Ali Free Zone, Dubai | Manufacturing and selling of paper products | United Arab Emirates |

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.2 Business combinations

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

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 Accounting Standard.

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 Accounting Standard.

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.

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.3 Property, plant and equipment (Continued)

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.

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

5.4 Leases

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

Right of use assets

The Group recognizes right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated amortization and impairment losses, and adjusted for any re-measurement of lease liabilities, the cost of right of use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right of use assets are amortized on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.4 Leases (Continued)

Short-term leases and leases of low-value assets

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

The Group as a lessor

The Group does not act as a lessor during the year ended 31 December.

5.5 Investment in an associate

An associate is an entity over which the Group has significant influence that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5: Current Assets Held for Sale and Discontinued Operations.

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

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

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

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

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.5 Investment in an associate (Continued)

The associate's financial statements are prepared either to the Group's consolidated financial position date or to a date not earlier than three months of the Group's consolidated 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 Group's consolidated financial position date.

When the Group discontinues the use of the equity method as a result of disposal of the investment in an associate, the Group shall account for all amounts previously recognised in the consolidated statement of comprehensive income in relation to the investment in an associate on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from the consolidated statement of equity to the consolidated statement of profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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 and 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 Impairment of non-financial assets

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

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

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

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.7 Impairment of non-financial assets (Continued)

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.

5.8 Financial instruments

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

Financial assets and financial liabilities carried on the consolidated statement of financial position include trade and other receivables (excluding advance paid towards acquisition of a subsidiary, advances to suppliers and prepayments), term deposits, bank balances and cash, lease liabilities, term loan, trade and other payables, and murabaha payable (accounting policy related to lease liabilities is included in Note 5.4).

5.8.1 Financial assets

Recognition, initial measurement and derecognition

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

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

Purchases and sales of those financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component are measured at the transaction price.

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

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.8 Financial instruments (Continued)

5.8.1 Financial assets (continued)

Classification of financial assets

Financial assets are classified in the consolidated financial statements at “financial assets at amortized cost”.

Subsequent measurement

Financial assets at amortized cost

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

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

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

Financial assets carried at amortised cost consist of trade and other receivables (excluding advance paid towards acquisition of a subsidiary, advances to suppliers and prepayments), term deposits and bank balances and cash.

Effective profit rate method (“EIR”)

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

Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business and recognized initially at transaction price. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less provision for impairment.

Receivables which are not designated under any of the above are classified as “other receivables”.

Term deposits

Term deposits are placed with banks and have an original maturity of more than three months from placement date and less than one year from the consolidated statement of financial position date.

Bank balances and cash

Bank balances and cash comprise of current accounts at banks, and cash on hand and with portfolio manager. Bank balances and cash with portfolio manager are subject to an insignificant risk of changes in value.

Impairment of financial assets

The Group recognises a provision for expected credit losses (ECLs) for financial assets measured at amortised cost.

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.8 Financial instruments (Continued)

5.8.1 Financial assets (continued)

Impairment of financial assets (continued)

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

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

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

For term deposits and bank balances and cash with portfolio manager for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, the Group's policy to measure ECLs on such instruments on a 12-month basis.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment that includes forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.8 Financial instruments (Continued)

5.8.1 Financial assets (continued)

Impairment of financial assets (continued)

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

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

5.8.2 Financial liabilities

All financial liabilities within IFRS 9 are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Trade payables

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

Term loan and murabaha payable

After initial recognition, profit-bearing term loan and murabaha payable are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

Derecognition of financial liabilities

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

5.9 Offsetting of financial assets and liabilities

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

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.10 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.

5.11 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.

5.12 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.

5.13 Dividends

The dividends are recognised as liabilities in the consolidated financial statements in the period in which the dividends are approved by the Parent Company's shareholders in the Annual General Assembly meeting.

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.14 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.

5.15 Revenue recognition

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

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

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

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

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

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

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

Revenue for the Group arises from:

Sale of goods

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

5. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.15 Revenue recognition (Continued)

Dividend income

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

Profit income from term deposits

Profit income from term deposits is recognised using the effective profit rate method.

Other income

Other income mainly represents waste sales which are recognized when or as the Group transfers control of the goods to the customer.

Contract liabilities

Contract liabilities are recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer).

5.16 Finance costs

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

5.17 Foreign currencies

Functional and presentation currency

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

Transactions and balances

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

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. MATERIAL ACCOUNTING POLICIES (CONTINUED)

5.18 Taxation

KFAS and Zakat

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

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

National Labour Support tax

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

6. MATERIAL 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.

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:

Useful lives of tangible assets

As described in Note 5, 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.

6. MATERIAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (CONTINUED)

Judgements (Continued)

Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised. The Group has lease contracts that include extension options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the options to renew these leases. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew (e.g., construction of significant leasehold improvements or significant customisation to the leased asset). The Group included the renewal period as part of the lease term for leases of land with shorter non-cancellable period. The Group typically exercises its option to renew for this leases because there will be a significant negative effect on production if a replacement asset is not readily available.

Classification of financial instruments

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

Principal versus agent considerations

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

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of non-financial assets

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

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

Estimation uncertainty (Continued)

Estimating the incremental borrowing rate for leases

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

Impairment of inventories

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

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geographical region, services type, customer and type). The provision matrix is initially based on the Group's historical observed default rates.

The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

For instance, if forecast economic conditions (i.e., gross domestic product, stock market capitalization) are expected to deteriorate over the next year which can lead to an increased number of defaults in the paper manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Group's trade receivables is disclosed in (Note 27).

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7. PROPERTY, PLANT AND EQUIPMENT

| | <u>Buildings</u> | <u>Machinery</u> | <u>Furniture and fixtures</u> | <u>Motor vehicles</u> | <u>Capital work in progress</u> | <u>Total</u> |
|--|------------------|-------------------|-----------------------------------|---------------------------|-------------------------------------|-------------------|
| | KD | KD | KD | KD | KD | KD |
| Cost | | | | | | |
| At 1 January 2022 | 3,890,235 | 10,221,469 | 991,200 | 271,444 | - | 15,374,348 |
| Additions | - | - | - | - | 240,520 | 240,520 |
| Transfers | 11,933 | 1,462 | 17,551 | 68,912 | (99,858) | - |
| Foreign currency translation differences | 21,434 | 45,984 | 14,570 | (11,528) | 51 | 70,511 |
| At 31 December 2022 | <u>3,923,602</u> | <u>10,268,915</u> | <u>1,023,321</u> | <u>328,828</u> | <u>140,713</u> | <u>15,685,379</u> |
| Additions | - | 483,410 | 125,233 | 71,449 | 695,192 | 1,375,284 |
| Disposals | - | (137,307) | - | (5,150) | - | (142,457) |
| Foreign currency translation differences | 4,316 | (65,182) | 532 | 133 | 429 | (59,772) |
| At 31 December 2023 | <u>3,927,918</u> | <u>10,549,836</u> | <u>1,149,086</u> | <u>395,260</u> | <u>836,334</u> | <u>16,858,434</u> |
| Accumulated depreciation | | | | | | |
| At 1 January 2022 | 1,913,376 | 4,304,804 | 868,743 | 244,345 | - | 7,331,268 |
| Charge for the year | 134,970 | 397,948 | 40,899 | 12,190 | - | 586,007 |
| Foreign currency translation differences | 6,846 | 11,603 | 2,046 | 473 | - | 20,968 |
| At 31 December 2022 | <u>2,055,192</u> | <u>4,714,355</u> | <u>911,688</u> | <u>257,008</u> | <u>-</u> | <u>7,938,243</u> |
| Charge for the year | 133,651 | 464,560 | 58,899 | 26,252 | - | 683,362 |
| Related to disposals | - | (137,307) | - | (5,150) | - | (142,457) |
| Foreign currency translation differences | 16,478 | (86,596) | 452 | 105 | - | (69,561) |
| At 31 December 2023 | <u>2,205,321</u> | <u>4,955,012</u> | <u>971,039</u> | <u>278,215</u> | <u>-</u> | <u>8,409,587</u> |
| Net book value | | | | | | |
| At 31 December 2023 | <u>1,722,597</u> | <u>5,594,824</u> | <u>178,047</u> | <u>117,045</u> | <u>836,334</u> | <u>8,448,847</u> |
| At 31 December 2022 | <u>1,868,410</u> | <u>5,554,560</u> | <u>111,633</u> | <u>71,820</u> | <u>140,713</u> | <u>7,747,136</u> |
| Annual depreciation (in years) | <u>5-30</u> | <u>5-30</u> | <u>5</u> | <u>5</u> | | |

Buildings are constructed on leasehold land from the Government of Kuwait and the Government of Dubai for a period of 5 years and 15 years, respectively, with a renewable option.

Capital work in progress mainly represents warehouse construction, and machinery which are expected to be completed during the year ending 31 December 2024.

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7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

| | <u>2023</u> | <u>2022</u> |
|---|-----------------------|-----------------------|
| | KD | KD |
| Cost of sales | 639,258 | 564,770 |
| General and administrative expenses (Note 21) | <u>44,104</u> | <u>21,237</u> |
| | <u><u>683,362</u></u> | <u><u>586,007</u></u> |

8. LEASES

The carrying amount of the Group's right of use assets and the movement during the year is as follows:

| | <u>2023</u> | <u>2022</u> |
|--|-------------------------|-------------------------|
| | KD | KD |
| At 1 January | 1,202,606 | 1,288,602 |
| Amortization charges | (95,605) | (93,112) |
| Lease modification | 93,453 | - |
| Foreign currency translation differences | <u>1,362</u> | <u>7,116</u> |
| At 31 December | <u><u>1,201,816</u></u> | <u><u>1,202,606</u></u> |

Amortization charges are included in the consolidated statement of profit or loss under the following categories:

| | <u>2023</u> | <u>2022</u> |
|---|----------------------|----------------------|
| | KD | KD |
| Cost of sales | 90,379 | 88,120 |
| General and administrative expenses (Note 21) | <u>5,226</u> | <u>4,992</u> |
| | <u><u>95,605</u></u> | <u><u>93,112</u></u> |

Set out below, are the carrying amounts of the Group's lease liabilities and the movement during the year:

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------|-----------------------|
| | KD | KD |
| At 1 January | 839,317 | 877,359 |
| Finance costs | 37,421 | 33,098 |
| Lease modification | 98,846 | - |
| Payments during the year | (91,452) | (78,826) |
| Foreign currency translation differences | <u>1,223</u> | <u>7,686</u> |
| At 31 December | <u><u>885,355</u></u> | <u><u>839,317</u></u> |

The lease liabilities are classified in the consolidated statement of financial position as follows:

| | <u>2023</u> | <u>2022</u> |
|---------------------|-----------------------|-----------------------|
| | KD | KD |
| Non-current portion | 824,827 | 792,258 |
| Current portion | <u>60,528</u> | <u>47,059</u> |
| | <u><u>885,355</u></u> | <u><u>839,317</u></u> |

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8. LEASES (CONTINUED)

Rent expense from short term leases are included in the consolidated statement of profit or loss under the following categories:

| | <u>2023</u> | <u>2022</u> |
|---|----------------|----------------|
| | KD | KD |
| Cost of sales | 160,382 | 162,895 |
| General and administrative expenses (Note 21) | 31,426 | 30,596 |
| | <u>191,808</u> | <u>193,491</u> |

9. INVENTORIES

| | <u>2023</u> | <u>2022</u> |
|--|------------------|------------------|
| | KD | KD |
| Raw materials | 4,351,747 | 6,096,076 |
| Finished goods | 218,204 | 404,676 |
| Packing materials | 47,847 | 78,559 |
| Goods in transit | 295,999 | 1,019,636 |
| Spare parts | 583,802 | 521,259 |
| | <u>5,497,599</u> | <u>8,120,206</u> |
| Provision for old and obsolete inventories | <u>(325,893)</u> | <u>(194,381)</u> |
| | <u>5,171,706</u> | <u>7,925,825</u> |

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

| | <u>2023</u> | <u>2022</u> |
|--|----------------|----------------|
| | KD | KD |
| At 1 January | 194,381 | 240,461 |
| Charged during the year | 131,300 | - |
| Utilized during the year | - | (47,136) |
| Foreign currency translation differences | 212 | 1,056 |
| At 31 December | <u>325,893</u> | <u>194,381</u> |

The cost of inventories recognized as an expense amounted to KD 10,697,471 (2022: KD 9,165,516) and are included under 'cost of sales'.

10. TRADE AND OTHER RECEIVABLES

| | <u>2023</u> | <u>2022</u> |
|--|------------------|------------------|
| | KD | KD |
| Trade receivables | 3,593,829 | 3,960,471 |
| Less: *provision for expected credit losses | <u>(238,853)</u> | <u>(271,577)</u> |
| | 3,354,976 | 3,688,894 |
| **Advance paid towards acquisition of a subsidiary | 329,100 | - |
| Advances to suppliers | 167,626 | 466,015 |
| Prepayments | 107,959 | 116,045 |
| Refundable deposits | 81,500 | 71,462 |
| Staff receivables | 8,747 | 11,765 |
| Other receivables | 57,545 | 60,783 |
| | <u>4,107,453</u> | <u>4,414,964</u> |

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10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

| | <u>2023</u> | <u>2022</u> |
|--|----------------|----------------|
| | KD | KD |
| At 1 January | 271,577 | 213,950 |
| Charged for the year | 21,959 | 57,035 |
| Utilized during the year | (54,941) | - |
| Foreign currency translation differences | 258 | 592 |
| At 31 December | <u>238,853</u> | <u>271,577</u> |

Disclosures relating to credit risk exposures and analysis relating to the provision for expected credit losses are set forth in Note 27.2.

**This represents an amount paid by one of the Group's subsidiaries' "Al-Lub Industrial Company S.P.C." (the "Subsidiary") towards acquiring a new subsidiary, "Al-Aber Global Industrial Company S.P.C." (Note 5.1).

11. TERM DEPOSITS

As at 31 December 2023, term deposits represent deposits denominated in Kuwaiti Dinars and placed with a local bank having an original maturity period of more than three months from the placement date and less than one year from the consolidated statement of financial position date and yield an average profit rate ranging from 4% to 4.5% per annum.

12. BANK BALANCES AND CASH

| | <u>2023</u> | <u>2022</u> |
|-----------------------------|------------------|------------------|
| | KD | KD |
| Bank balances | 2,949,317 | 2,613,962 |
| Cash with portfolio manager | 207 | 208 |
| Cash on hand | 1,359 | 8,422 |
| | <u>2,950,883</u> | <u>2,622,592</u> |

13. SHARE CAPITAL

The authorized, issued and paid up share capital is KD 10,069,180 (2022: KD 10,069,180) comprising of 100,691,795 shares of 100 fils each (2022: 100,691,795 shares of 100 fils each) and all shares are paid in cash.

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14. RESERVES

Statutory reserve

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

Voluntary reserve

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

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

15. TREASURY SHARES

| | <u>2023</u> | <u>2022</u> |
|---------------------------------|-------------|-------------|
| Number of shares | 1,454,028 | 1,454,028 |
| Percentage to issued shares (%) | 1.44% | 1.44% |
| Market value (KD) | 229,736 | 234,099 |
| 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.

16. EMPLOYEES' END OF SERVICE BENEFITS

| | <u>2023</u> | <u>2022</u> |
|--|----------------|------------------|
| | KD | KD |
| At 1 January | 1,005,976 | 957,503 |
| Charge for the year | 124,223 | 97,892 |
| Payment during the year | (136,488) | (50,316) |
| Foreign currency translation differences | 187 | 897 |
| At 31 December | <u>993,898</u> | <u>1,005,976</u> |

17. TERM LOAN

| | <u>2023</u> | <u>2022</u> |
|---------------------|----------------|-------------|
| | KD | KD |
| Non-current portion | 717,939 | - |
| Current portion | 170,000 | - |
| | <u>887,939</u> | <u>-</u> |

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17. TERM LOAN (CONTINUED)

Term loan represents credit refinance facility (the “facility”) obtained from a local bank. The facility is used to finance purchases of equipment to expand the Group’s production capacity and the establishment of a new warehouse. The facility carries a profit rate of 3.5% per annum and is repayable as shown below:

| Facility amount | Payable amount | Non - current portion | Current portion | Repayment date | |
|-----------------|----------------|-----------------------|-----------------|---------------------|-----------------|
| | | | | Non-current portion | Current portion |
| KD | KD | KD | KD | | |
| 2,090,000 | 887,939 | 717,939 | 170,000 | 15 February 2030 | 15 August 2024 |

The facilities are secured by mortgage of the entire factory in favor of the bank. It also requires, among other matters, certain restrictions on the payment of dividends and disposal of its certain movable or immovable assets and a requirement to maintain a minimum leverage ratio (current assets to current liabilities) of 1.5:1. It also restricts the Group to merge with another company or alter its legal form or trade name.

18. TRADE AND OTHER PAYABLES

| | 2023 | 2022 |
|---|------------------|------------------|
| | KD | KD |
| Trade payables | 1,307,443 | 1,805,998 |
| Dividends payable | 292,647 | 234,033 |
| Accrued expenses | 467,447 | 381,398 |
| Staff payable | 463,882 | 487,675 |
| Accrued finance charges | 11,156 | - |
| KFAS* | 13,855 | 25,931 |
| NLST | 46,648 | 42,127 |
| Zakat | 17,754 | 15,946 |
| Board of Directors’ remuneration (Note 25,30) | 30,000 | 30,000 |
| | <u>2,650,832</u> | <u>3,023,108</u> |

*Movement in KFAS payable is as follows:

| | 2023 | 2022 |
|----------------------|---------------|---------------|
| | KD | KD |
| At 1 January | 25,931 | 12,953 |
| Charge for the year | 13,855 | 12,978 |
| Paid during the year | (25,931) | - |
| At 31 December | <u>13,855</u> | <u>25,931</u> |

19. MURABAHA PAYABLE

| | 2023 | 2022 |
|-------------------------------|----------------|----------------|
| | KD | KD |
| Gross amount | 252,836 | 252,836 |
| Less: deferred profit payable | (2,836) | (2,836) |
| | <u>250,000</u> | <u>250,000</u> |

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19. MURABAHA PAYABLE (CONTINUED)

Murabaha payable represents short term Islamic banking facilities amounted to KD 250,000 obtained by the Parent Company from a local bank, carrying a profit rate of 1.5% per annum over the Central Bank of Kuwait discount rate and maturing on 29 January 2024, which has been subsequently renewed for a further period of three months. The facilities are used to finance the working capital of the Group to cover the Group's operational requirements.

20. REVENUE

| | For the year ended 31 December 2023 | | | | |
|--|--|--|--|-------------------------|-------------------|
| | Industrial Packaging Division | Consumer Packaging Division | Flexible Packaging Division | Other income | Total |
| | KD | KD | KD | KD | KD |
| Type of revenue | | | | | |
| Sale of multi-wall paper | 5,952,656 | - | - | - | 5,952,656 |
| Sale of superior value and high quality bags and wrapping sheets | - | 7,415,062 | - | - | 7,415,062 |
| Sale of multi-ply printed and laminated films | - | - | 1,639,960 | - | 1,639,960 |
| Waste sale | - | - | - | 59,022 | 59,022 |
| Total revenue from contracts with customers | <u>5,952,656</u> | <u>7,415,062</u> | <u>1,639,960</u> | <u>59,022</u> | <u>15,066,700</u> |
| Profit income from term deposits | - | - | - | 25,966 | 25,966 |
| Gain on disposal of an associate | - | - | - | 1,749 | 1,749 |
| Total revenue | <u>5,952,656</u> | <u>7,415,062</u> | <u>1,639,960</u> | <u>86,737</u> | <u>15,094,415</u> |
| Geographical markets | | | | | |
| Kuwait | 2,584,387 | 2,209,867 | 1,589,935 | 25,860 | 6,410,049 |
| GCC | 2,624,184 | 4,930,331 | 50,025 | 33,162 | 7,637,702 |
| Asia | 148,880 | 274,864 | - | - | 423,744 |
| Africa | 595,205 | - | - | - | 595,205 |
| Total revenue from contracts with customers | <u>5,952,656</u> | <u>7,415,062</u> | <u>1,639,960</u> | <u>59,022</u> | <u>15,066,700</u> |
| Timing of revenue recognition | | | | | |
| Goods transferred at a point in time | 5,952,656 | 7,415,062 | 1,639,960 | 59,022 | 15,066,700 |
| Total revenue from contracts with customers | <u>5,952,656</u> | <u>7,415,062</u> | <u>1,639,960</u> | <u>59,022</u> | <u>15,066,700</u> |
| Type of customer | | | | | |
| External customers | 5,952,656 | 7,415,062 | 1,639,960 | 59,022 | 15,066,700 |
| Total revenue from contracts with customers | <u>5,952,656</u> | <u>7,415,062</u> | <u>1,639,960</u> | <u>59,022</u> | <u>15,066,700</u> |

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20. REVENUE (CONTINUED)

| | For the year ended 31 December 2022 | | | | |
|--|--|--|--|-------------------------|-------------------|
| | Industrial Packaging Division | Consumer Packaging Division | Flexible Packaging Division | Other income | Total |
| | KD | KD | KD | KD | KD |
| Type of revenue | | | | | |
| Sale of multi-wall paper | 5,595,221 | - | - | - | 5,595,221 |
| Sale of superior value and high quality bags and wrapping sheets | - | 7,389,565 | - | - | 7,389,565 |
| Sale of multi-ply printed and laminated films | - | - | 1,557,829 | - | 1,557,829 |
| Waste sale | - | - | - | 84,291 | 84,291 |
| Total revenue from contracts with customers | <u>5,595,221</u> | <u>7,389,565</u> | <u>1,557,829</u> | <u>84,291</u> | <u>14,626,906</u> |
| Profit income from term deposits | - | - | - | 30,542 | 30,542 |
| Total revenue | <u>5,595,221</u> | <u>7,389,565</u> | <u>1,557,829</u> | <u>114,833</u> | <u>14,657,448</u> |
| Geographical markets | | | | | |
| Kuwait | 2,052,925 | 2,479,489 | 1,501,702 | 41,530 | 6,075,646 |
| GCC | 3,034,825 | 4,586,126 | 56,127 | 42,761 | 7,719,839 |
| Asia | - | 323,950 | - | - | 323,950 |
| Africa | 507,471 | - | - | - | 507,471 |
| Total revenue from contracts with customers | <u>5,595,221</u> | <u>7,389,565</u> | <u>1,557,829</u> | <u>84,291</u> | <u>14,626,906</u> |
| Timing of revenue recognition | | | | | |
| Goods transferred at a point in time | 5,595,221 | 7,389,565 | 1,557,829 | 84,291 | 14,626,906 |
| Total revenue from contracts with customers | <u>5,595,221</u> | <u>7,389,565</u> | <u>1,557,829</u> | <u>84,291</u> | <u>14,626,906</u> |
| Type of customer | | | | | |
| External customers | 5,595,221 | 7,389,565 | 1,557,829 | 84,291 | 14,626,906 |
| Total revenue from contracts with customers | <u>5,595,221</u> | <u>7,389,565</u> | <u>1,557,829</u> | <u>84,291</u> | <u>14,626,906</u> |
| Contract balances | | | | 2023 | 2022 |
| | | | | KD | KD |
| Contract liabilities | | | | <u>69,592</u> | <u>131,312</u> |

The contract liabilities represent advances received from customers as at 31 December 2023 to deliver goods to customers during the year ending 31 December 2024. Performance obligations related to contract liabilities for the year ended 31 December 2022, were satisfied during the year ended 31 December 2023.

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21. GENERAL AND ADMINISTRATIVE EXPENSES

| | <u>2023</u> | <u>2022</u> |
|---|------------------|------------------|
| | KD | KD |
| Staff costs | 664,797 | 629,513 |
| Withholding tax on disposal of an associate | - | 216,025 |
| Depreciation (Note 7) | 44,104 | 21,237 |
| Amortization (Note 8) | 5,226 | 4,992 |
| Rent – operating leases (Note 8) | 31,426 | 30,596 |
| Communication and internet | 14,979 | 25,285 |
| Professional fees and licenses | 122,677 | 99,952 |
| Travel expenses | 36,450 | 35,284 |
| Stationery and maintenance expenses | 25,265 | 23,404 |
| Others | 172,620 | 91,344 |
| | <u>1,117,544</u> | <u>1,177,632</u> |

22. SELLING AND DISTRIBUTION EXPENSES

| | <u>2023</u> | <u>2022</u> |
|-------------|----------------|----------------|
| | KD | KD |
| Staff costs | 138,539 | 122,993 |
| Others | 39,402 | 35,176 |
| | <u>177,941</u> | <u>158,169</u> |

23. BASIC AND DILUTED EARNINGS PER SHARE (FILS)

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 after deducting treasury shares as follows:

| | <u>2023</u> | <u>2022</u> |
|---|--------------------|--------------------|
| | KD | KD |
| Profit for the year | <u>1,436,754</u> | <u>1,345,017</u> |
| <i>Weighted average number of shares outstanding:</i> | | |
| Number of issued shares | 100,691,795 | 100,691,795 |
| Less: weighted average number of treasury shares | <u>(1,454,028)</u> | <u>(1,454,028)</u> |
| Weighted average number of shares outstanding | <u>99,237,767</u> | <u>99,237,767</u> |
| Basic and diluted earnings per share (fils) | <u>14.48</u> | <u>13.55</u> |

Notes to the consolidated financial statements
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24. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Term loan | Lease liabilities | Murabaha payable | Dividends payable | Total |
|---|----------------------|------------------------------|-----------------------------|------------------------------|------------------|
| | KD | KD | KD | KD | KD |
| At 1 January 2023 | - | 839,317 | 250,000 | 234,033 | 1,323,350 |
| Distribution of dividends | - | - | - | 1,190,853 | 1,190,853 |
| Dividends paid | - | - | - | (1,132,239) | (1,132,239) |
| Lease modification | - | 98,846 | - | - | 98,846 |
| Payment of principal portion of lease liabilities | - | (54,031) | - | - | (54,031) |
| Proceeds from term loan | 887,939 | - | - | - | 887,939 |
| Finance costs accrued | - | 37,421 | - | - | 37,421 |
| Finance costs paid | - | (37,421) | - | - | (37,421) |
| Foreign currency translation differences | - | 1,223 | - | - | 1,223 |
| At 31 December 2023 | <u>887,939</u> | <u>885,355</u> | <u>250,000</u> | <u>292,647</u> | <u>2,315,941</u> |
| 1 January 2022 | - | 877,359 | - | 184,522 | 1,061,881 |
| Distribution of dividends | - | - | - | 1,190,853 | 1,190,853 |
| Dividends paid | - | - | - | (1,141,342) | (1,141,342) |
| Proceeds from murabaha payable | - | - | 250,000 | - | 250,000 |
| Payment of principal portion of lease liabilities | - | (45,728) | - | - | (45,728) |
| Finance costs accrued | - | 33,098 | - | - | 33,098 |
| Finance costs paid | - | (33,098) | - | - | (33,098) |
| Foreign currency translation differences | - | 7,686 | - | - | 7,686 |
| At 31 December 2022 | <u>-</u> | <u>839,317</u> | <u>250,000</u> | <u>234,033</u> | <u>1,323,350</u> |

25. RELATED PARTY BALANCES AND TRANSACTIONS

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 balances and transactions are as follows:

| Consolidated statement of financial position: | <u>2023</u> | <u>2022</u> |
|--|----------------|----------------|
| | KD | KD |
| Board of Directors' remuneration (Note 18,30) | <u>30,000</u> | <u>30,000</u> |
| | <u>2023</u> | <u>2022</u> |
| | KD | KD |
| Consolidated statement of profit or loss | | |
| <i>Key management compensation</i> | | |
| Salaries and other short-term benefits | <u>174,209</u> | <u>239,295</u> |
| End of service benefits | <u>16,558</u> | <u>16,563</u> |
| Board of Directors' remuneration (Note 30) | <u>30,000</u> | <u>30,000</u> |

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26. 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 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 chains.

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

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

| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
|---------------------------------------|-------------------|-------------------|------------------------|------------------|
| | KD | KD | KD | KD |
| | <u>Revenue</u> | | <u>Segment results</u> | |
| Industrial packaging division | 5,952,656 | 5,595,221 | 829,659 | 556,479 |
| Consumer packaging division | 7,415,062 | 7,389,565 | 1,857,590 | 1,843,109 |
| Flexible packaging division | 1,639,960 | 1,557,829 | 253,389 | 202,102 |
| | <u>15,007,678</u> | <u>14,542,615</u> | <u>2,940,638</u> | <u>2,601,690</u> |
| Share of results of an associate | | | - | 26,660 |
| Gain on disposal of an associate | | | - | 111,296 |
| Other income | | | 86,737 | 114,833 |
| Provision for expected credit losses | | | (21,959) | (57,035) |
| Provision for slow moving inventories | | | (131,300) | - |
| Foreign exchange gain | | | 8,101 | 13,587 |
| General and administrative expenses | | | (1,117,544) | (1,177,632) |
| Selling and distribution expenses | | | (177,941) | (158,169) |
| Finance costs | | | (47,308) | (33,098) |
| KFAS | | | (13,855) | (12,978) |
| NLST | | | (42,011) | (38,785) |
| Zakat | | | (16,804) | (15,352) |
| Board of Directors' remuneration | | | (30,000) | (30,000) |
| Profit for the year | | | <u>1,436,754</u> | <u>1,345,017</u> |

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26. SEGMENT REPORTING (CONTINUED)

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

| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
|--------|-------------------|-------------------|------------------------|------------------|
| | KD | KD | KD | KD |
| | <u>Revenue</u> | | <u>Segment results</u> | |
| Kuwait | 6,379,994 | 6,034,116 | 1,298,637 | 1,190,631 |
| GCC | 7,608,735 | 7,677,078 | 1,434,647 | 1,215,325 |
| Asia | 423,744 | 323,950 | 85,007 | 93,832 |
| Africa | 595,205 | 507,471 | 122,347 | 101,902 |
| | <u>15,007,678</u> | <u>14,542,615</u> | <u>2,940,638</u> | <u>2,601,690</u> |

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

| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
|--------|-------------------|-------------------|--------------------|------------------|
| | KD | KD | KD | KD |
| | <u>Assets</u> | | <u>Liabilities</u> | |
| Kuwait | 16,020,198 | 14,894,168 | 4,114,365 | 2,896,929 |
| GCC | 8,643,767 | 9,018,955 | 1,623,251 | 2,352,784 |
| | <u>24,663,965</u> | <u>23,913,123</u> | <u>5,737,616</u> | <u>5,249,713</u> |

27. 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's management policies for reducing each of the risks are discussed below. The Group does not use derivative financial instruments based on future speculations.

Material accounting policies

Details of the material 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.

27.1 Market risk

Market risk is the risk that the fair value or future cash flows of a 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 currencies.

The Group has set policies for the management of foreign exchange risk which require each company in the Group to manage the foreign exchange 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.

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27. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

27.1 Market risk (Continued)

a) Foreign currency risk (continued)

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

| | <u>2023</u> | <u>2022</u> |
|------------------------------|-------------|-------------|
| | KD | KD |
| United States Dollars | 642,733 | 716,765 |
| Saudi Arabian Riyal | - | 25,888 |
| United Arab Emirates Dirhams | 722,561 | 1,073,368 |
| Euro | 2,408 | (217,959) |

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

| | <u>Change in currency rate</u> (%) | <u>Effect on profit for the</u> <u>year and equity</u> | |
|------------------------------|---------------------------------------|---|-------------|
| | | <u>2023</u> | <u>2022</u> |
| | | KD | KD |
| United States Dollars | +5% | 32,137 | 35,838 |
| Saudi Arabian Riyal | +5% | - | 1,294 |
| United Arab Emirates Dirhams | +5% | 36,128 | 53,668 |
| Euro | +5% | 120 | (10,898) |

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. The Group is not exposed to profit rate risk on term deposits, lease liabilities and term loan since they carry a fixed profit rate.

The following table demonstrates the sensitivity of the consolidated statement of profit or loss and equity to reasonably possible changes in profit rates, with all other variables held constant.

The sensitivity of the consolidated statement of profit or loss and equity is the effect of the assumed changes in profit rates on the Group's profit for the year and equity, based on the floating rate financial assets and liabilities held at 31 December.

| | <u>2023</u> | <u>Change in</u> <u>interest rate</u> | <u>Effect on profit</u> <u>for the year and</u> <u>equity</u> |
|------------------|-------------|--|---|
| | KD | | KD |
| Murabaha payable | 250,000 | 5% | 625 |

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27. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

b) Profit rate risk (continued)

| | 2022 KD | Change in interest rate | Effect on profit for the year and equity KD |
|------------------|------------|----------------------------|--|
| Murabaha payable | 250,000 | 5% | 625 |

c) Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices. Currently, the Group is not exposed to equity price risk as it has no equity instruments as at 31 December.

27.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge a contractual obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of trade and other receivables (excluding advance paid towards acquisition of a subsidiary, advances to suppliers and prepayments), term deposits, and bank balances and cash with portfolio manager.

Trade receivables

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

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

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

| 31 December 2023 | 0-90 days KD | 91-180 days KD | 181-365 days KD | Above 365 days KD | Total KD |
|-------------------------------|--------------------|----------------------|-----------------------|-------------------------|-------------|
| Expected credit loss rate (%) | 0.25% | 7.71% | 12.48% | 100% | |
| Gross carrying amount | 2,929,997 | 173,812 | 310,668 | 179,352 | 3,593,829 |
| Expected credit losses | 7,345 | 13,399 | 38,757 | 179,352 | 238,853 |
| 31 December 2022 | 0-90 days KD | 91-180 days KD | 181-365 days KD | Above 365 days KD | Total KD |
| Expected credit loss rate (%) | 2.43% | 10.83% | 53.13% | 100% | |
| Gross carrying amount | 3,635,294 | 147,002 | 23,316 | 154,859 | 3,960,471 |
| Expected credit losses | 88,409 | 15,922 | 12,387 | 154,859 | 271,577 |

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27. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

27.2 Credit risk (Continued)

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

Term deposits, and bank balances and cash with portfolio manager

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

Exposure to credit risk

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

| | <u>2023</u> | <u>2022</u> |
|---|------------------|------------------|
| | KD | KD |
| Trade and other receivables (excluding advance paid towards acquisition of a subsidiary, advances to suppliers and prepayments) | 3,502,768 | 3,832,904 |
| Term deposits | 2,783,260 | - |
| Bank balances and cash with portfolio manager | <u>2,949,524</u> | <u>2,614,170</u> |
| | <u>9,235,552</u> | <u>6,447,074</u> |

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>Other</u> | <u>Total</u> |
|---|------------------|------------------|------------------|
| | KD | KD | KD |
| 2023 | | | |
| Trade and other receivables (excluding advance paid towards acquisition of a subsidiary, advances to suppliers and prepayments) | 3,385,549 | 117,219 | 3,502,768 |
| Term deposits | 2,783,260 | - | 2,783,260 |
| Bank balances and cash with portfolio manager | <u>2,949,524</u> | <u>-</u> | <u>2,949,524</u> |
| | <u>9,118,333</u> | <u>117,219</u> | <u>9,235,552</u> |
| | <u>GCC</u> | <u>Other</u> | <u>Total</u> |
| | KD | KD | KD |
| 2022 | | | |
| Trade and other receivables (excluding advances to suppliers and prepayments) | 3,752,587 | 80,317 | 3,832,904 |
| Bank balances and cash with portfolio manager | <u>2,614,170</u> | <u>-</u> | <u>2,614,170</u> |
| | <u>6,366,757</u> | <u>80,317</u> | <u>6,447,074</u> |
| | <u>2023</u> | <u>2022</u> | |
| | KD | KD | |
| <i>Industry sector:</i> | | | |
| Manufacturing | 3,502,768 | 3,832,904 | |
| Banks and financial institutions | <u>5,732,784</u> | <u>2,614,170</u> | |
| | <u>9,235,552</u> | <u>6,447,074</u> | |

27. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

27.3 Liquidity risk (Continued)

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 Group's non-derivative financial liabilities based on the remaining period at the consolidated financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The carrying amounts of the Group's liabilities with maturity less than 12 months are not materially different from their contractual undiscounted figures.

| 2023 | Less than 3 months | 3 to 12 months | 1 to 2 years | 2 to 5 years | Total |
|--------------------------|-----------------------|-------------------|-----------------|------------------|------------------|
| | KD | KD | KD | KD | KD |
| Lease liabilities | 13,687 | 75,397 | 93,858 | 893,381 | 1,076,323 |
| Term loan | - | 175,950 | 362,250 | 380,817 | 919,017 |
| Trade and other payables | 1,833,241 | 817,591 | - | - | 2,650,832 |
| Murabaha payable | 252,836 | - | - | - | 252,836 |
| | <u>2,099,764</u> | <u>1,068,938</u> | <u>456,108</u> | <u>1,274,198</u> | <u>4,899,008</u> |
| 2022 | Less than 3 months | 3 to 12 months | 1 to 2 years | 2 to 5 years | Total |
| | KD | KD | KD | KD | KD |
| Lease liabilities | 13,485 | 65,454 | 78,939 | 945,960 | 1,103,838 |
| Trade and other payables | 2,171,805 | 851,303 | - | - | 3,023,108 |
| Murabaha payable | 252,836 | - | - | - | 252,836 |
| | <u>2,438,126</u> | <u>916,757</u> | <u>78,939</u> | <u>945,960</u> | <u>4,379,782</u> |

27.4 Capital risk management

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

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

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

27. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

27.4 Capital risk management (Continued)

| | <u>2023</u> | <u>2022</u> |
|------------------------------|--------------------|--------------------|
| | KD | KD |
| Lease liabilities | 885,355 | 839,317 |
| Term loan | 887,939 | - |
| Murabaha payable | 250,000 | 250,000 |
| Less: term deposits | (2,783,260) | - |
| Less: bank balances and cash | <u>(2,950,883)</u> | <u>(2,622,592)</u> |
| Net debt | (3,710,849) | (1,533,275) |
| Total equity | 18,926,349 | 18,663,410 |
| Capital invested | <u>15,215,500</u> | <u>17,130,135</u> |
| Gearing ratio | <u>-</u> | <u>-</u> |

In order to achieve this overall objective, the Group's capital management, among others, aims to ensure that it meets financial covenants attached to the term loan and murabaha payable that define capital structure requirements. Breaches in meeting the financial covenants would permit lending banks and providers of the debt to immediately call the borrowings due from the Group. There have been no breaches in the financial covenants of any interest-bearing 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 Group's value to the shareholders and simultaneously keeping the cost of capital at the lowest level.

28. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value represents the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

In the opinion of Group's management, the fair value of financial assets and financial liabilities are not materially different from their carrying values at the consolidated financial position date.

29. COMMITMENTS AND CONTINGENT LIABILITIES

| | <u>2023</u> | <u>2022</u> |
|-------------------------------|---------------|----------------|
| | KD | KD |
| Contingent liabilities | | |
| Letters of credit | - | 90,171 |
| Letters of guarantee | <u>62,602</u> | <u>40,731</u> |
| | <u>62,602</u> | <u>130,902</u> |

30. ANNUAL GENERAL ASSEMBLY MEETING

The Annual Ordinary General Assembly of the shareholders of the Parent Company held on 20 April 2023 approved the following:

- The consolidated financial statements of the Group for the financial year ended 31 December 2022.
- Distribution of cash dividend of 12% equivalent to 12 fils per share (2021: 12% equivalent to 12 fils per share) on outstanding shares excluding treasury shares, amounting to KD 1,190,853 for the financial year ended 31 December 2022 to the shareholders of the Parent Company's record as at the accrual date (2021: KD 1,190,853).
- KD 30,000 as a remuneration to be paid to the Board of Directors' for the financial year ended 31 December 2022 (2021: KD 30,000).

The Board of Directors in their meeting held on 5 March 2024 proposed to distribute Board of Directors' remuneration of KD 30,000 (2022: KD 30,000), and to distribute dividends of 13%, equivalent to 13 Fils per share (on the outstanding shares, excluding treasury shares) amounting to KD 1,290,091 for the financial year ended 31 December 2023. This proposal is subject to the approval of the Shareholders' Annual General Assembly.