Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Financial statements and independent auditor's report
for the year ended 31 December 2022

Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Contents

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT LUBE OIL COMPANY K.S.C. (CLOSED), STATE OF KUWAIT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kuwait Lube Oil Company K.S.C. (Closed) (the "Company"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Emphasis of Matter

We draw attention to note 2 (d) of the financial statements, which describes that the financial statements have been prepared on a going concern basis as the Parent Company has committed to providing financial support to the Company to enable it to meet its obligations as they fall due. Our opinion is not modified in respect of this matter.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT LUBE OIL COMPANY K.S.C. (CLOSED), STATE OF KUWAIT (Continued)

Report on the Audit of the Financial Statements (Continued)

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

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Company and the financial statements, together with the contents of the report of the Company's Board of Directors relating to these 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 financial statements incorporate all the information that is required by Companies Law No. 1 of 2016, and its executive regulations, as amended; and by the Company's Memorandum of Incorporation and Articles of Association, as amended; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, and its executive regulations, as amended; or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Company or on its financial position.

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

Kuwait
11 June 2023

Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Statement of financial position - *as at 31 December 2022*

	Notes	2022 KD	2021 KD
Assets			
Property, plant and equipment	4	2,935,333	3,002,138
Right of use assets	5	48,393	54,334
Non-current assets		2,983,726	3,056,472
Inventories	6	439,372	495,030
Trade and other receivables	7	211,456	209,789
Due from related parties	8	330	700
Cash and bank balances	9	32,028	66,997
Current assets		683,186	772,516
Total assets		3,666,912	3,828,988
Equity			
Share capital	10	2,250,000	2,250,000
Statutory reserve	11	396,016	396,016
Other reserve	12	(17,164)	(17,096)
Accumulated losses		(1,212,843)	(1,065,282)
Total equity		1,416,009	1,563,638
Liabilities			
Employees' end of service indemnity	13	149,587	138,362
Lease liabilities	5	31,644	28,083
Non-current liabilities		181,231	166,445
Bank overdraft	9	720,261	937,150
Loan from the Parent Company	8	983,219	807,417
Trade and other payables	14	345,466	300,174
Due to related parties	8	11,384	49,740
Lease liabilities	5	9,342	4,424
Current liabilities		2,069,672	2,098,905
Total liabilities		2,250,903	2,265,350
Total equity and liabilities		3,666,912	3,828,988

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

Jassim Mohammed Jassim Al Wazzan
(Vice - Chairman)

Statement of profit or loss and other comprehensive income - *for the year ended 31 December 2022*

	Notes	2022	2021
		KD	KD
Revenues		2,372,534	1,918,381
Cost of revenue		(2,094,476)	(1,614,988)
Gross profit		278,058	303,393
Selling and distribution expenses		(89,800)	(93,983)
General and administrative expenses	15	(274,137)	(265,501)
Other income		1,083	2,570
Results from operating activities		(84,796)	(53,521)
Finance cost		(62,765)	(56,622)
Loss for the year		(147,561)	(110,143)
Other comprehensive (loss)/income			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit obligations	13	(68)	2,704
Total other comprehensive (loss)/income for the year		(68)	2,704
Total comprehensive loss for the year		(147,629)	(107,439)

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

Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Statement of changes in equity - *for the year ended 31 December 2022*

	Share capital	Statutory reserve	Other reserve	Accumulated losses	Total
	KD	KD	KD	KD	KD
Balance at 1 January 2022	2,250,000	396,016	(17,096)	(1,065,282)	1,563,638
Total comprehensive loss for the year					
Loss for the year	-	-	-	(147,561)	(147,561)
Other comprehensive loss					
Remeasurements of defined benefit obligations (Note 13)	-	-	(68)	-	(68)
Total comprehensive loss for the year	-	-	(68)	(147,561)	(147,629)
Balance at 31 December 2022	2,250,000	396,016	(17,164)	(1,212,843)	1,416,009

	Share capital	Statutory reserve	Other reserve	Accumulated losses	Total
	KD	KD	KD	KD	KD
Balance at 1 January 2021	2,250,000	396,016	(19,800)	(955,139)	1,671,077
Total comprehensive income/(loss) for the year					
Loss for the year	-	-	-	(110,143)	(110,143)
Other comprehensive income					
Remeasurements of defined benefit obligations (Note 13)	-	-	2,704	-	2,704
Total comprehensive income/(loss) for the year	-	-	2,704	(110,143)	(107,439)
Balance at 31 December 2021	2,250,000	396,016	(17,096)	(1,065,282)	1,563,638

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

Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Statement of cash flows - *for the year ended 31 December 2022*

	Notes	2022	2021
		KD	KD
Cash flows from operating activities			
Loss for the year		(147,561)	(110,143)
Adjustment for:			
Depreciation	4 & 5	271,484	275,621
Finance costs		62,765	56,622
Reversal of allowance for expected credit losses (ECL)	7	(13,098)	(15,752)
Provision/(reversal of provision) for obsolete and slow-moving items	6	26,228	(12,141)
Provision for employees' end of service indemnity	13	12,333	15,235
		212,151	209,442
Changes in:			
- Inventories		29,430	(75,287)
- trade and other receivables		11,431	(50,590)
- net movement in balances due from/ due to related parties		(37,986)	43,281
- trade and other payables		45,292	29,401
Employees' end of service indemnity paid	13	(1,176)	(6,148)
Net cash from operating activities		259,142	150,099
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(161,046)	(26,647)
Net cash used in investing activities		(161,046)	(26,647)
Cash flows from financing activities			
Finance costs paid		(62,765)	(56,622)
Proceeds of loan from Parent Company		1,168,285	895,362
Repayment of loan to Parent Company		(992,483)	(852,312)
Principal element of lease liability paid	5	(29,213)	(54,890)
Net cash from/(used in)financing activities		83,824	(68,462)
Net change in cash and cash equivalents		181,920	54,990
Cash and cash equivalents at the beginning of the year	9	(870,153)	(925,143)
Cash and cash equivalents at the end of the year	9	(688,233)	(870,153)

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

1. Reporting entity

Kuwait Lube Oil Company K.S.C. (Closed) (the "Company") is a closed Kuwaiti shareholding company registered and incorporated on 10 February 1981 in Kuwait under commercial registration number 30853 dated 18 March 1981. The Company is a subsidiary of Mezzan Holding Company K.S.C.P. (the "Parent Company"), which is listed on Boursa Kuwait. The Company's registered address is P.O. Box 26266, Safat 13123, Kuwait.

The principal activities of the Company comprise the following:

a) Repairing and remanufacturing all kinds, forms and possible uses of oil and lubricants.
b) Importing plants, equipment, raw materials and packaging materials required for this industry.
c) Trading in all kinds and forms of oil and lubricants inside and outside the country.
d) Importing chemical substances, provided having Environment Public Authority's approval.
e) Extracting and collecting used oil.
f) Processing and refining used oil.

The financial statements of the Company for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 15 May 2023 are subject to approval of the shareholders at the Annual General Meeting.

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

The financial statements are presented in Kuwaiti Dinars ("KD"), which is the Company's functional currency.

d) Going concern

As at 31 December 2022, the Company's current liabilities exceeded its current assets by KD 1,386,486 (2021: KD 1,326,389) and has accumulated losses of KD 1,212,843 (2021: KD 1,065,282). The Company will be able to continue as a going concern with the continuing financial support of its Parent Company and profitable operations. The Parent Company has confirmed to the management of the Company that they will provide adequate financial support to the Company to meet its obligations as they fall due. The Company has assessed that it will be able to manage the resultant liquidity risks and meet its maturing current liabilities as and when they fall due, based on its operating cash flows and the financial support of the Parent Company. Accordingly, these financial statements have been prepared on a going concern basis.

e) Use of estimates and judgements

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

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

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

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

f) New standards and amendments effective from 1 January 2022

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

Standard, interpretation, amendments	**Description**	**Effective date**
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 April 2021
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	*Amendments to IFRS 3, 'Business combinations'* update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date *Amendments to IAS 16, 'Property, plant and equipment'* prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the Company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income. *Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'- Cost of Fulfilling a Contract* The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). *Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.*	Annual periods beginning on or after 1 January 2022.

g) Standards and revisions issued but not yet effective

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

Standard, interpretation, amendments	Description	Effective date
Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. Note that the IASB has issued a new exposure draft proposing changes to this amendment. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.	Deferred until accounting periods starting not earlier than 1 January 2024
IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies	The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.	Annual periods beginning on or after 1 January 2023
Narrow scope amendments to IAS 1, IFRS Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023
IFRS 17, 'Insurance contracts', as amended in June 2020	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023.
A narrow-scope amendment to the transition requirements in IFRS	The amendment relates to insurers' transition to the new Standard only—it does not affect any other requirements in IFRS 17.	Annual periods beginning on or

Standard, interpretation, amendments	Description	Effective date
17 Insurance Contracts	IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.	after 1 January 2023.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

3. Significant accounting policies

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

a) Financial Instruments

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

i. Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of deposits and due from a related party that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

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

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

Subsequent measurement

Subsequent to initial recognition, financial assets at amortized cost. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes due from related parties, trade and other receivables and bank balances.

Business model assessment

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

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

The SPPI test

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

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

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

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

Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the statement of income.

Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income.

Derecognition

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

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

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

Impairment of financial assets

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

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

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

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

Stage 1: 12 months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.
Stage 3: Lifetime ECL – credit impaired

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

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

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

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

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

The Company evaluates the probability of default considering the period of past due receivables. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. Except for governmental institutions, the Company considers a financial asset in default when contractual payments are past due for more than 210 ('default days') based on the analysis of historical defaults. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

Credit impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial; or
- the disappearance of an active market for a security because of financial difficulties.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

ii. Financial liabilities

Financial liabilities – Classification, subsequent measurement and gains and losses

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

The Company's financial liabilities include trade and other payables, bank overdrafts, lease liabilities, loan from the Parent Company and due to related parties.

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

Derecognition

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

iii. Offsetting of financial instruments

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

b) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

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

In carrying out impairment reviews of products in development and marketed products assets a number of significant assumptions have to be made. These include the probability of success in obtaining regulatory approvals, future rate of market growth, discount rates, the market demand for the products acquired, the future profitability of acquired businesses or products, and levels of reimbursement for pharmaceutical products. If actual results should differ, or changes in expectations arise, impairment charges may be required which would adversely impact reported results.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. For assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

c) Property, plant and equipment

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs recognized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for the intended use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is recognized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is recognized only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognized in the statement of profit or loss as an expense when incurred.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

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

Buildings	5 to 20 years
Plant and machinery	3 to 15 years
Motor vehicles	3 to 7 years
Furniture, fixtures and equipment	3 years

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

d) Cash and cash equivalents

Cash on hand, demand and time deposits with banks whose original maturities do not exceed three months, net of bank overdrafts are classified as cash and cash equivalents in the statement of cash flows.

e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is the weighted average cost and includes those expenses incurred in bringing each product to its present location and condition, as follows:

Raw materials, spares and consumables	purchase cost on a weighted average basis.
Work in progress and finished goods	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

f) Current versus non-current

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

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

All other assets are classified as non-current.

A liability is current when either:

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

The Company classifies all other liabilities as non-current.

g) Employees' end of service indemnity

The Company accounts for retirement benefits under IAS 19 "Employee Benefits". Benefits are payable to the Company's employees on completion of employment in accordance with the Kuwaiti Labour Law.

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

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

h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. 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 the risks specific to the liability.

i) Government grants

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

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

j) Leases

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

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Company 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 Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Company's lease liabilities are included in Interest-bearing loans and borrowings.

Short-term leases and leases of low-value assets

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

k) Revenue

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

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

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

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

Variable consideration

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

l) Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Zakat

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

m) Critical accounting judgements and estimates

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

Significant judgements

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

Classification of financial assets

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

Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where management believes the useful lives differs from previous estimates.

Estimates and assumptions

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

Valuation of inventories

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

Retirement Benefit Obligation

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

Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance). The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 17.

4. Property, plant and equipment

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Capital work in progress	Total
	KD	KD	KD	KD	KD	KD
Cost						
Balance at 1 January 2022	2,560,819	3,940,402	333,759	39,227	-	6,874,207
Additions	49,684	3,243	-	-	108,119	161,046
Balance at 31 December 2022	2,610,503	3,943,645	333,759	39,227	108,119	7,035,253
Accumulated depreciation and impairment losses						
Balance at 1 January 2022	1,397,022	2,105,698	333,716	35,633	-	3,872,069
Charge for the year	49,883	177,457	-	511	-	227,851
As at 31 December 2022	1,446,905	2,283,155	333,716	36,144	-	4,099,920
Carrying amount						
As at 31 December 2022	1,163,598	1,660,490	43	3,083	108,119	2,935,333

The buildings are constructed on land leased from Government of Kuwait.

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Capital work in progress	Total
	KD	KD	KD	KD	KD	KD
Cost						
Balance at 1 January 2021	2,560,819	3,918,455	333,759	34,527	-	6,847,560
Additions	-	21,947	-	4,700	-	26,647
Balance at 31 December 2021	2,560,819	3,940,402	333,759	39,227	-	6,874,207
Accumulated depreciation and impairment losses						
Balance at 1 January 2021	1,348,441	1,925,566	333,514	33,893	-	3,641,414
Charge for the year	48,581	180,132	202	1,740	-	230,655
As at 31 December 2021	1,397,022	2,105,698	333,716	35,633	-	3,872,069
Carrying amount						
As at 31 December 2021	1,163,797	1,834,704	43	3,594	-	3,002,138

The depreciation charge for the year was allocated as follows:

	2022	2021
	KD	KD
Cost of revenue	175,166	174,307
Selling and distribution expenses	6,193	6,463
General and administrative expenses	46,492	49,885
	227,851	230,655

5. Leases

The Company has lease contracts for vehicles and land. Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year:

	Right-of-use assets	
	2022	2021
	KD	KD
Balance at 1 January	54,334	37,597
Additions	37,692	61,703
Depreciation	(43,633)	(44,966)
Balance at 31 December	48,393	54,334

	Lease liabilities	
	2022	2021
	KD	KD
Balance at 1 January	32,507	25,694
Additions	37,692	61,703
Finance costs	2,899	7,201
Lease liabilities paid	(32,112)	(62,091)
Balance at 31 December	40,986	32,507

	2022	2021
	KD	KD
Non-current liabilities	31,644	28,083
Current liabilities	9,342	4,424
	40,986	32,507

The Company allocated the depreciation charge for the current and comparative year to the cost of revenue.

6. Inventories

	2022 KD	2021 KD
Raw materials and consumables	397,984	452,713
Finished goods	89,111	63,780
Work in progress	80,405	80,437
	567,500	596,930
Provision for obsolete and slow-moving inventories	(128,128)	(101,900)
	439,372	495,030

Movement of provision for obsolete and slow-moving inventories for the year as follows:

	2022 KD	2021 KD
Balance at the beginning of year	101,900	114,041
Provision/(Reversal) for the year	26,228	(12,141)
Balance at the end of year	128,128	101,900

7. Trade and other receivables

	2022 KD	2021 KD
Trade receivables	425,340	462,126
Provision for expected credit losses	(298,934)	(312,032)
	126,406	150,094
Advances to suppliers	59,477	33,930
Prepaid expenses	21,815	22,164
Other receivables	3,758	3,601
	211,456	209,789

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	Kuwaiti Dinars	
	2022	2021
Kuwaiti Dinars	471,197	514,709
UAE Dirham	8,997	5,551
Saudi Riyals	303	284
US Dollars	29,893	1,277
	510,390	521,821

The net carrying value of trade receivables is considered a reasonable approximation of fair value. Note 17 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Company's trade receivables. Other classes within trade and other receivables do not contain impaired assets.

Movement of the Company's provision for ECL on trade receivables is as follows:

	2022 KD	2021 KD
Balance at the beginning of year	312,032	327,784
Provision for the year	(13,098)	(15,752)
Balance at the end of year	298,934	312,032

8. Related party transactions

Related parties represent shareholders who have representation in the Company's board of directors and their close relatives, key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties

Terms and conditions of transactions with related parties

All related party transactions are carried out on terms approved by the Company's management. Outstanding balances at the year-end are unsecured and interest free, except as disclosed below, and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2022, the provision for expected credit losses relating to amounts owed by related parties (2021: Nil) is not material. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. Related party balances are unsecured and there are no agreed repayment terms, accordingly these balances are treated as receivable/ payable on demand.

In prior year, the Parent Company advanced short-term loans of KD 983,219 (2021: KD 807,417) to the Company at an interest rate of 3.5% (2021: 3.5%) per annum. This facility is unsecured and repayable on demand.
Key management personnel

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company.

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

	2022	2021
	KD	KD
Balances with related parties		
Due from related parties		
Other related parties	330	700
Due to related parties		
Other related parties	11,384	49,740
Loan from the Parent Company		
Parent Company	983,219	807,417
Transactions with related parties		
Sales		
Other related parties	6,685	31,952
Cost of sales		
Other related parties	113,739	122,540
General and administrative expenses		
Parent Company	114,178	94,020
Finance costs		
Parent Company	31,715	26,614
Compensation of key management personnel		
Salaries and other short-term benefits	38,352	37,105
Employees' end of service benefits	1,731	1,731
	40,083	38,836

9. Cash and cash equivalents

	2022 KD	2021 KD
Cash at banks	31,628	22,847
Cash in hand	400	44,150
Cash and bank balances	32,028	66,997
Less: Bank overdrafts	(720,261)	(937,150)
Cash and cash equivalents in the statement of cash flows	(688,233)	(870,153)

The Company has obtained overdraft facility from a local bank to fund working capital requirements, which is repayable on demand. This facility carry effective interest rate of 3.24% (2021: 2.5%) per annum.

The carrying amounts of the Company's cash and bank balances are denominated in the following currencies:

	2022 KD	2021 KD
KD	7,898	51,658
US dollars	24,130	15,339
	32,028	66,997

10. Share capital

The authorised, issued and fully paid share capital comprises of 2,250,000 shares (2021: 2,250,000 shares) of KD 1 (2021: KD 1) per share, which is fully paid in cash.

11. Statutory reserve

In accordance with the Kuwait Companies Law - Law No. (1) of 2016 and the Company's Memorandum of Incorporation and Articles of Association, as amended, a minimum of 10% of the profit for the year before contribution to KFAS, Zakat and Board of Directors' remuneration shall be transferred annually to the statutory reserve. The annual general assembly of the Company may resolve to discontinue such annual transfers, when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. No transfer is required in a year in which the Company has incurred a loss or where accumulated losses exist after net profit and accordingly, there is no transfer during the year.

12. Other reserve

This represents remeasurement losses from actuarial changes arising from changes in financial assumptions relating to defined benefit obligations.

13. Employees' end of service indemnity

The Company provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, subject to the completion of a minimum service period, calculated under the provisions of the Labour Law applicable in each regulatory environment, and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the period of employment. The plan typically exposes the Company to actuarial risks such as: discount rate, salary risk and withdrawal risk. The most recent actuarial valuation of the present value of various defined benefit obligations were carried out at 31 December 2022.

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

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. The key assumptions in determining the end of service provisions were based on a discount rate of 4.20% and an expected rate of salary increase in the range of 1% to 2%.

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

	2022	2021
	KD	KD
Balance at the beginning of year	138,362	131,979
Provision made during the year	12,333	15,235
Re-measurements gain recognised in OCI	68	(2,704)
Benefits paid	(1,176)	(6,148)
	149,587	138,362

Sensitivity analysis:

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

- A reduction in the discount rate by 100 basis points would result in an increase of end of service benefits obligations by KD 8,612; and
- An increase in the salary growth rate by 100 basis points would result in increase of end of service benefits obligations by 8,802 KD.

14. Trade and other payables

	2022	2021
	KD	KD
Trade creditors	226,953	201,077
Accrued expenses	71,235	71,503
Other payables	47,278	27,594
	345,466	300,174

The carrying amounts of the Company's trade and other payables are denominated in the following currencies:

	Kuwaiti Dinars	
	2022	2021
Kuwaiti Dinars	231,417	241,053
UAE Dirham	10,333	1,642
Saudi Riyals	-	(18)
US Dollars	103,716	57,497
	345,466	300,174

15. General and administrative expenses

	2022 KD	2021 KD
Salaries and wages	99,230	114,564
Depreciation on property and equipment	46,492	49,885
Professional services	11,071	19,944
Travel and conveyance	13,462	11,458
Reversal of allowance for ECL	(13,098)	(15,752)
Others	116,980	85,402
	274,137	265,501

16. Contingent liabilities

	2022 KD	2021 KD
Letters of guarantee	40,940	50,640

17. Financial risk management

Overview

The Company is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Financial management framework

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

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. No significant changes were made in the risk management objectives and policies during the years ended 31 December 2022 and 31 December 2021.

The management of the Parent Company is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. The management of the Parent Company reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. At the reporting date, the maximum exposure to credit risks was as follows

	2022	2021
	KD	KD
Bank balances	31,628	22.847
Trade receivables	126,406	150.094
Other receivables	3,758	3.601
Due from related parties	330	700
	162,122	177,242

Bank balances

Balances with banks are held in accounts with banks incorporated in Kuwait. Balances with banks are assessed to have low credit risk of default since these banks are highly regulated by the Central Bank of Kuwait. Accordingly, the management of the Company estimates the loss allowance on balances with banks at the end of the reporting period at an amount equal to 12 month ECL. None of the balances with banks at the end of the reporting period are past due, and taking into account the historical default experience and the current credit ratings of the banks, the management of the Company have assessed that the impairment amount is not material, and hence have not recorded any loss allowances on these balances.

Trade receivables

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

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

The Company sells its products and renders services to a large number of customers. At the reporting date, its 5 largest customers account for 58.11% of outstanding trade receivables (2021: 57.27%).

The Company uses a provision matrix based on the Company's historical observed default rates to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. The Company assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 210 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise. The table below provides information about the credit risk exposure on the Company's trade receivables using a provision matrix:

	2022			
	Weighted average loss	Gross carrying amount	Loss amount	Net carrying amount
		KD	KD	KD
Current	1%	90,457	963	89,494
Past due				
1 - 90 days	5%	32,838	1,548	31,290
91 - 180 days	27%	4,543	1,218	3,325
181 - 270 days	-	-	-	-
271 – 360 days	-	-	-	-
More than 360 days	99%	297,502	295,205	2,297
		425,340	298,934	126,406

	2021			
	Weighted average loss	Gross carrying amount	Loss amount	Net carrying amount
		KD	KD	KD
Current	5%	70,500	3,188	67,312
Past due				
1 - 90 days	14%	83,570	12,063	71,507
91 - 180 days	42%	1,375	584	791
181 - 270 days	52%	288	149	139
271 – 360 days	82%	373	306	67
More than 360 days	97%	306,020	295,742	10,278
		462,126	312,032	150,094

Due from related parties

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

Liquidity risk

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

The Company limits its liquidity risk by ensuring that funds are available from the Parent Company and by monitoring on a regular basis that sufficient funds are available to meet future commitments. The Company's terms of sales require amounts to be paid within 30 to 75 days of the date of sale, unless otherwise covered by a specific contract or agreement. The Company's terms of trade with its principal suppliers generally require the amounts to be paid within periods ranging from 30 to 45 days from the date of purchase unless otherwise covered by specific contract or agreement.

Liquidity risk is managed by the finance department of the Parent Company. To manage this risk, the Company invests in bank accounts that are readily realisable. The maturity profile is monitored by finance department to ensure adequate liquidity is maintained.

At the reporting date, all financial liabilities mature within one year from the date of financial positions, except for non-current portion of lease liabilities.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to change in market prices. Market risks arise for open positions in interest rate, currency and equity product, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. If as at 31 December 2022, interest rates had been 50 basis points higher with all other variables remaining constant, the loss for the year would have been higher by KD 8,517 (2021 – KD 8,723). A 50 basis points decrease in interest rates with all other variables held constant would have had the equal but the opposite effect on the loss.

Foreign currency risk

The Company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Company.

The Company is mainly exposed to foreign currency risk on its bank balances, trade receivables and trade payables denominated in foreign currencies and net investment in foreign operations.

The table below analyses the effect on profit before tax and directors' remuneration (due to change in the fair value of monetary assets and liabilities) and other comprehensive income of an assumed 5% strengthening in the value of the currency rate against the KD from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or other comprehensive income, whereas a positive amount reflects a net potential increase.
At the reporting date, the Company's net long / (short) position to foreign currency risk was as follows:

Currency	Foreign currency denominated balances		Change in currency rate by + 5% and its effect on (loss) profit	
	2022	2021	2022	2021
	KD	KD	KD	KD
Saudi Riyals	303	302	15	15
United Arab Emirates Dinar	(1,336)	3,909	(67)	195
US Dollars	(49,693)	(40,881)	(2,485)	(2,044)

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

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market.

As at 31 December 2022, the Company is not exposed to equity price risk as it does not have any investment marked to market.

18. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. At the reporting date, the estimated fair values of the Company's financial instruments are not significantly different from their carrying values.

19. Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios to support business and maximise shareholders' value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No change were made in the objectives policies or process during the years ended 31 December 2022 and 31 December 2021.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash equivalents. Total capital is calculated as equity (as shown in the statement of financial position) plus net debt.

As of 31 December 2022, the Company is 0.54 (2021: 0.52).

20. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation with no effect on the previously reported profits or equity.