

**Al Eid Food Company
K.S.C. (Public)
Kuwait**

**Financial statements
for the financial year ended December 31, 2016
with
Independent auditors' report**

**Al Eid Food Company
K.S.C. (Public)
Kuwait**

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Independent auditors' report**

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Rödl

Middle East

Burgan-International Accountants

Ali Al Hassawi & Partners

P.O. Box: 22351 Safat 13084 Kuwait

Sharq - Dasman Complex - Block 2 -9 Floor

Tel : 22464574-6 / 22426862-3 Fax : 22414956

Email: info-kuwait@rodlme.com

www.rodlme.com



Kuwaiti Accountant Auditing

Certified Public Accountants, Consultants • Business Advisers • Tax experts

Ahmed Al Jaber Street, Al-Matrouk Tower, 2nd Floor,

P.O. Box 26888, Safat 13129, Kuwait.

Fax: 22403205 - Tel.: 22449454

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Independent auditors' report

**The Shareholders,
Al Eid Food Company
K.S.C. (Public)
Kuwait**

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Al Eid Food Company - K.S.C. - (Public) which comprise the statement of financial position as of December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Al Eid Food Company - K.S.C. - (Public) as of December 31, 2016, and its financial performance and its 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 Auditors' Responsibilities for the Audit of the Financial Statements" section of our report on the audit of financial statements. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Company's financial statements, 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 judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have identified the following key audit matters:

Trade receivables

The trade receivables are considered to be a key audit matter for the company as it is the most significant item of the working capital, in addition to its related good or doubtful debts and the adequacy of provision for doubtful debts formed for this purpose. The accounting policies related to trade receivables and the impairment in their value are mentioned in note (3/6) to the financial statements.

As a part of audit procedures, we examined among other procedures adequate samples from trade receivables balances, also verified the confirmations received from some receivables at the financial position date in addition to reviewing the aging of account receivables prepared by the management to determine the adequacy of provision for doubtful debts formed to cover any uncollectible amounts from these receivables, also we studied the subsequent collections for the main receivables along with the adequacy of necessary disclosures included in the accompanying financial statements.

Other information included in the Board of director Report

Other information consists of the information included in the Board of director Report, other than the financial statements and auditors' report thereon. Management is responsible for the other information. We obtained the report of the Company's Board of Directors prior to the date of auditors' report.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted for use by the State of Kuwait and for such internal control as management determines is necessary to enable the preparation of 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 preparation of financial reporting process.

Auditors' 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

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 risks 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 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 auditors' 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 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 among other matters, regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 financial statements of the current year and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Furthermore, in our opinion, proper books of account have been kept by the Company, physical counting was carried out in accordance with recognized practices, the financial statements together with the financial contents of the report of the Board of Directors are in accordance therewith. Also, we have obtained the information and explanations that we required for the purpose of our audit and the financial statements incorporate the information that is required by the Companies' Law no. 1 of year 2016, and related Executive Regulations and the Company's memorandum and articles of association. According to the information available to us, there were no violations have occurred of either the Companies' Law no. 1 of year 2016, and related Executive Regulations or the Company's memorandum and articles of association during the financial year ended December 31, 2016 that might have had a material effect on the Company's business or its financial position.



Ali Abdul Rahman Al Hasawi
License No. 30-A
Rödl Middle East
Burgan - International Accountants

March 6, 2017

State of Kuwait



Adel Al- Sanea
Auditors Registry No. 86 Category (A)
Kuwaiti Accounting Auditing
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Al Eid Food Company
K.S.C. (Public)
Kuwait

Statement of financial position as of December 31, 2016

"All amounts are in Kuwaiti Dinar"

	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	4	595,369	325,418
Accounts receivable and other debit balances	5	10,916,046	10,380,621
Inventory	6	8,133,443	7,547,250
		<u>19,644,858</u>	<u>18,253,289</u>
Non-current assets			
Intangible assets	8	85,008	170,009
Property and equipment	9	366,601	428,800
		<u>451,609</u>	<u>598,809</u>
Total assets		<u>20,096,467</u>	<u>18,852,098</u>
Liabilities and equity			
Current liabilities			
Murabahat payables	10	4,436,519	3,460,234
Accounts payable and other credit balances	11	248,177	217,136
		<u>4,684,696</u>	<u>3,677,370</u>
Non-current liabilities			
Murabahat payables	10	1,523,672	2,677,009
Provision for end of service indemnity		213,635	188,934
		<u>1,737,307</u>	<u>2,865,943</u>
Equity			
Share capital	12	10,045,588	10,045,588
Statutory reserve	13	1,233,864	1,090,920
Voluntary reserve	14	304,080	161,136
Retained earnings		2,090,932	1,011,141
		<u>13,674,464</u>	<u>12,308,785</u>
Total liabilities and equity		<u>20,096,467</u>	<u>18,852,098</u>

Fahed Saud Al Mutaury
Chairman

Abdullah Saud Al Mutaury
Vice Chairman and Chief
Executive Officer

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

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Statement of profit or loss and other comprehensive income for the financial year ended December 31, 2016

"All amounts are in Kuwaiti Dinar"

	Note	2016	2015
Revenue			
Sales		15,168,419	13,719,155
Cost of sales	15	(12,711,137)	(11,484,304)
Gross profit		2,457,282	2,234,851
Other income		141,405	118,906
Total revenue		2,598,687	2,353,757
Expenses and other charges			
General and administrative expenses	16	566,645	453,513
Finance charges		402,553	367,639
Depreciation and amortization		147,200	147,200
Provisions		52,851	46,855
Total expenses and other charges		1,169,249	1,015,207
Net profit for the year before KFAS, Zakat and National Labour Support Tax		1,429,438	1,338,550
Contribution to Kuwait Foundation for the Advancement of Science		(12,865)	(12,047)
Zakat		(14,541)	(13,615)
National Labour Support Tax		(36,353)	(34,037)
Net profit for the year		1,365,679	1,278,851
Other comprehensive income		-	-
Total comprehensive income		1,365,679	1,278,851
Earning per share/(Fils)	17	13.59	12.73

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

Al Eid Food Company
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Exhibit - C

Statement of changes in equity for the financial year ended December 31, 2016
"All amounts are in Kuwaiti Dinar"

	Share capital	Statutory reserve	Voluntary reserve	Retained earnings	Total
Balance at January 1, 2015	9,050,080	957,065	128,787	894,002	11,029,934
Issue of bonus shares	995,508	-	(101,506)	(894,002)	-
Net profit for the year	-	-	-	1,278,851	1,278,851
Transferred to reserves	-	133,855	133,855	(267,710)	-
Balance at December 31, 2015	10,045,588	1,090,920	161,136	1,011,141	12,308,785
Balance at January 1, 2016	10,045,588	1,090,920	161,136	1,011,141	12,308,785
Net profit for the year	-	-	-	1,365,679	1,365,679
Transferred to reserves	-	142,944	142,944	(285,888)	-
Balance at December 31, 2016	10,045,588	1,233,864	304,080	2,090,932	13,674,464

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

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Statement of cash flows for the financial year ended December 31, 2016
"All amounts are in Kuwaiti Dinar"

	Note	2016	2015
Cash flows from operating activities			
Net profit for the year		1,365,679	1,278,851
Adjustments:			
Depreciation and amortization		147,200	147,200
Provision for end of service indemnity		24,701	22,918
Finance charges		402,553	367,639
Operating profit before the effect of changes in working capital items		1,940,133	1,816,608
Accounts receivable and other debit balances		(535,425)	(1,464,967)
Inventory		(586,193)	(908,765)
Accounts payable and other credit balances		31,041	23,818
Net cash generated from/(used in) operating activities		849,556	(533,306)
Cash flows from investment activities			
Property and equipment		-	(85,995)
Net cash used in investing activities		-	(85,995)
Cash flows from financing activities			
Murabahat payables		(177,052)	(43,868)
Finance charges paid		(402,553)	(367,639)
Net cash used in financing activities		(579,605)	(411,507)
Net increase/(decrease) in cash and cash equivalents		269,951	(1,030,808)
Cash and cash equivalents at beginning of the year		325,418	1,356,226
Cash and cash equivalents at end of the year	4	595,369	325,418

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

Al Eid Food Company

K.S.C. (Public)

Kuwait

Notes to the financial statements for the financial year ended December 31, 2016

"All amounts are in Kuwaiti Dinar unless stated otherwise"

1- Incorporation and activities

Al Eid for General Trading and Contracting Company (Abdullah Saud Murdy Al Mutairy and Partners) was incorporated as W.L.L Company in accordance with the Articles of Association dated on March 4, 1994 and subsequent amendments.

The legal entity of the company has been transferred from (limited liability company) to a shareholding company (Public), under the name of Al Eid Food Company as per the Articles of Association dated on June 2, 2004 by transferring all assets and obligations to the new company based on evaluation made by an independent expert.

The objectives for which the company was established are:

- Managing and operating all works related to nutrition supplies in restaurants, hospitals, schools, universities, companies, factories and military camps, parks, commercial and residential complexes, clubs, institutes, entertainment cities, guest houses, residential houses, theaters, cinemas, recreational, sports and tourism projects and shops in various grades and levels including all indigenous and assistance services and facilities thereto and other necessary services, whether directly or to the benefit of others.
- Making food and beverages, foodstuffs and other consumables (after the approval of the General Authority of Industry), importing, selling, storing, packaging and distributing them in the manner that the company deems appropriate, wholesale or retail.
- Opening and managing restaurants, including fast-food restaurants.
- Purchasing and importing devices, supplies and equipment necessary for the implementation of the objectives of the company.
- Representation of companies and participation in similar tenders for these purposes.
- Ownership of movables and real estate for the performance of its activities to acceptable limits in accordance with the law.
- Utilizing the financial surpluses that available to the company through investing them in financial portfolios managed by specialized companies and authorities.

The company may conduct the previous mentioned business objectives inside and outside the State of Kuwait by itself or as an agent.

The company has the right to participate or subscribe in any way, in other institutions which operate in the same field or those which would assist in achieving its objectives in Kuwait or abroad and to construct, participate or purchase these institutions or join them.

The registered address of the company is: Ardiya – P.O. Box 41081, Postal Code 85851 Kuwait.

The company is owned directly by percentage of 51% by Dalqan Holding Group Company K.S.C. (Holding).

These financial statements were authorized for issue by the Board of Directors on March 6, 2017.

The Shareholders' General Assembly has the authority to amend these financial statements after their issuance.

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2- Application of new and revised International Financial Reporting Standards (IFRSs)

2/1) Amendments to IFRSs those are mandatorily effective for the current financial year:

In the current year, the following effective amendments to IFRSs issued by the International Accounting Standards Board (IASB) are mandatorily for the accounting period beginning on or after January 1, 2016:

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

(Effective for annual periods beginning on or after January 1, 2016)

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10.

- **Amendments to IFRS 11 "Accounting for Acquisitions of Interest in Joint Operations"**

(Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 "Business Combinations". A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

- **Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"**

(Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset.

- **Amendments to IAS 27 "Separate Financial Statements"**

(Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).

The amendments allowed an entity to account for its investment in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost; or
- In accordance with IFRS 9; or
- Using the equity method

Also, clarified that when the parent ceases or becomes an investment entity, it should account for the change from the date when the change in status occurs.

2/2) New and revised IFRSs in issue but not yet effective:

The Company has not applied the following new and revised IFRSs that have been issued but are not yet mandatorily effective:

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

(Effective for annual periods beginning on or after January 1, 2018)

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• **IFRS 9 "Financial Instruments"**

(Effective for annual periods beginning on or after January 1, 2018 with earlier application permitted).

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.

The final version of IFRS 9 was issued in July 2014, which adds a new expected loss impairment model and limited amendments to the classification and measurement requirements by introducing the "fair value through other profits or losses" (FVTOCI) measurement category for certain simple debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test. The final version supersedes all previous versions of IFRS 9 and replaces IAS 39. The Company is in the process to quantify the effect on the financial statements.

• **IFRS 14 "Regulatory Deferral Accounts"**

(Effective for annual periods beginning on or after January 1, 2016)

This standard is applied by first-time adopters of IFRS. The standard is designed as a limited scope Standard to provide short-term solution for rate-regulated entities that have not yet adopted IFRS.

• **IFRS 15 "Revenue from Contracts with Customers"**

(Effective for annual periods beginning on or after January 1, 2018 with earlier application permitted).

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and related Interpretations when it becomes effective. The standard introduces a five-step approach for revenue recognition to be applied to all contracts with customers.

• **IFRS 16 "Leases"**

(Effective for annual periods beginning on or after January 1, 2019).

IFRS 16 provides a comprehensive model for identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

• **Amendments to IAS 7 "Disclosure Initiative"**

(Effective for annual periods beginning on or after January 1, 2017)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The management anticipates that the new or revised standards will be adopted in the Company's accounting policies for the period beginning on or after the effective date of the pronouncement, and those new and revised standards that have been issued but are not relevant to the Company's operations are expected not to have a material impact on

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"All amounts are in Kuwaiti Dinar unless stated otherwise"

3- Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below:

3/1) Basis of preparation

- The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and Commercial Companies' Law requirements in Kuwait.
- The accounting policies used in preparation of these financial statements are consistent with those used in preparation of the financial statements for previous year.

3/2) Accounting convention

- These financial statements are prepared under the historical cost convention on accrual basis.
- The financial statements are prepaid in Kuwaiti Dinar.

3/3) Critical accounting estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge, the actual results may differ from those estimates.

3/4) Recognition and de-recognition of financial assets and liabilities

A financial assets or a financial liability is recognized when the company become a party to the contractual provisions of the instrument. A financial asset is de-recognized either when the contractual rights to cash flows from the financial asset expire, the company has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards, but no longer has control over the asset or a proportion of the asset. A financial liability is de-recognized when the obligation specified in the contract is discharged, cancelled or expired.

3/5) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and at banks and short term bank deposits with a maturity date not exceeding three months from the date of deposit.

3/6) Trade receivable

Accounts receivable are recognized at its nominal value less the provision for doubtful debts. The management estimates this provision based on reviewing the customers periodically on individual basis, the current economic circumstances, the previous experience and other related factors.

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"All amounts are in Kuwaiti Dinar unless stated otherwise"

3/7) Impairment of financial assets

An assessment for the Company's financial assets is made at each financial position date to determine whether there is objective evidence that a specific Company of financial asset may be impaired. If such evidence exists, an impairment loss is recognized in the Statement of profit or loss and other comprehensive income directly. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value.
- For assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

3/8) Inventory

Inventory is valued at the lower of cost and net realizable value after making allowance for any slow moving and obsolete stocks. Cost is determined on first in first out method. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

3/9) Intangible assets

Intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized on a straight - line basis over their estimated useful life, over 10 years.

3/10) Property and equipment

Property and equipment are stated at the historical cost less accumulated depreciation. The realizable values of fixed assets are reviewed at each financial position date to determine whether the book value exceeds the realizable value in which case the book value is written down to the realizable value. If the useful lives of property and equipment are different from the estimated lives of those assets, then the useful lives are adjusted from the beginning of the year in which the change occurred in without going into retroactive periods.

The profits/losses of selling the property and equipment range in the Statement of profit or loss and other comprehensive income at the difference between the selling of value and the net book value.

Property and equipment are depreciated on straight line basis to reduce its value to their residual value over their estimated useful lives as follows:

Buildings	20 years
Machinery and equipment	5 years
Vehicles	5 years
Decorations	5 years

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"All amounts are in Kuwaiti Dinar unless stated otherwise"

3/11) Impairment of non-financial assets

The carrying value of the company's non-financial assets is reviewed at the financial position date to determine whether there is any objective evidence of impairment. If any such evidence exists, the assets recoverable amount is estimated and an impairment loss is recognized in the Statement of profit or loss and other comprehensive income whenever the carrying value of an asset exceeds its recoverable value.

Reversal of impairment losses recognized in prior years are recorded as revenue when there is an indication that the impairment losses recognized no longer exist or have decreased.

3/12) Murabahat payables

Murabahat payables are recognized with the value of contracts received net of cost of transaction. Subsequently Murabahat are measured at the amortized cost provided that the difference between the net receivables and the amount to be settled will be charged to the Statement of profit or loss and other comprehensive income for the period covering that finance by the effective cost method.

3/13) Accounts payable

Accounts payable are stated at their nominal value.

3/14) Provision for end of service indemnity

Provision for staff end of service indemnity has been made as per the Labour Law in the private sector and signed contracts on the assumption of ending the services of all staff at the financial position date. This obligation is not funded. The management expects that based on this method of calculation a reasonable estimate is made of the obligation of the company towards employees indemnity for past and current periods.

3/15) Revenue recognition

- Revenue from sales is recognized when the significant risks and rewards are transferred to the buyer, and no significant uncertainties remain regarding the derivation of consideration, associated or the possible return of goods.
- Other categories of income are recognized when earned, at the time the related services are rendered and/ or on the basis of the terms of the contractual agreement of each activity.

3/16) Provisions

Provisions are recognized when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of the resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each financial position date and adjusted to reflect the current best estimate.

3/17) Borrowing costs

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The capitalized borrowing costs should commence when expenditures for the asset have been incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- Borrowing costs that are not directly attributable to acquiring, constructing or producing a qualifying asset are recognized as an expense in the statement of profit or loss and other comprehensive income within period in which they are incurred on

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Notes to the financial statements for the financial year ended December 31, 2016

"All amounts are in Kuwaiti Dinar unless stated otherwise"

3/18) Foreign currencies

The functional currency of the company is the Kuwaiti Dinar ("KD") and accordingly, the Financial statements are presented in KD. Transactions denominated in foreign currencies are translated into KD at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into KD at rates of exchange prevailing at the financial position date. The resultant exchange differences are taken to the Statement of profit or loss and other comprehensive income.

3/19) Kuwait Foundation for the Advancement of Science

The Company's contribution to KFAS is recognized as an expense and is calculated as 1% of profit after transfer to statutory reserve and before Board of Directors' remuneration, National Labour Support Tax and Zakat.

3/20) National Labour Support Tax

The Company's contribution to NLST is recognized as an expense and is calculated in accordance with Minister of Finance resolution No. 24/2012 and law number 19/2000.

3/21) Zakat

The Company's contribution to Zakat is recognized as an expense and is calculated in accordance with Minister of Finance resolution No. 58/2007 and 46/2006.

3/22) Contingencies

Contingent liabilities are not recognized in the financial statements. They are not disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but not disclosed when an inflow of economic benefits is probable.

4- Cash and cash equivalents

	2016	2015
Cash on hand	48,891	72,917
Current accounts at banks	546,478	252,501
	<u>595,369</u>	<u>325,418</u>

5- Accounts receivable and other debit balances

	2016	2015
Trade receivables	8,340,754	7,785,108
Provision for doubtful debts	(402,320)	(402,320)
	7,938,434	7,382,788
Cheques under collection	2,975,637	2,995,858
Refundable deposits	1,975	1,975
	<u>10,916,046</u>	<u>10,380,621</u>

As on December 31, the trade receivables aging were as follows:

2016					
During 30 days	30-60 days	60-90 days	90-120 days	<120 days	Total
994,114	1,238,703	1,077,933	1,084,566	3,945,438	8,340,754
2015					
During	30-60	60-90	90-120	<120	

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The carrying value of accounts receivable and other debit balances approximates their fair value and trade receivables that are less than 3 months past due are not considered impaired.

The other items within accounts receivable and other debit balances do not contain impaired assets. The maximum exposure to credit risks at the financial statements date is the fair value of each class of receivables mentioned above. The company does not hold any guarantees for collections.

6- Inventory

	<u>2016</u>	<u>2015</u>
Ending inventory	4,973,498	4,764,759
Provision for slow moving goods	(114,460)	(114,460)
	4,859,038	4,650,299
Goods in transit	3,274,405	2,896,951
	<u>8,133,443</u>	<u>7,547,250</u>

7- Transactions with related parties

Transactions with related parties represent transactions with shareholders, Board of Directors Members, the company's key management personnel, their families and companies in which they own significant shares or significantly influenced by them. The terms and the conditions of these transactions are approved by the Company's Board of Directors. The related parties' transactions are subject to the approval of the shareholders' General Assembly.

The balances of transactions due from/to related parties are interest free and have no specific maturity date.

The company is owned directly by percentage of 51% by Dalqan Holding Group Company K.S.C. (Holding).

The balances and transactions with related parties which are included in the financial statements are as follows:

Statement of financial position

Statement of financial position does not include any balances with related parties.

Statement of profit or loss and other comprehensive income

Remunerations and benefits for key
management personnel:
Salaries and other benefits

<u>2016</u>	<u>2015</u>
15,000	15,000

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8- Intangible assets

This item represent in key money that have been amortized over its estimated useful life of 10 years are as follows:

	<u>2016</u>	<u>2015</u>
Cost		
Balance at January 1	<u>850,017</u>	<u>850,017</u>
Balance at December 31	<u>850,017</u>	<u>850,017</u>
Accumulated amortization		
Balance at January 1	<u>680,008</u>	<u>595,007</u>
Charged for the year	<u>85,001</u>	<u>85,001</u>
Balance at December 31	<u>765,009</u>	<u>680,008</u>
Net book value at December 31	<u>85,008</u>	<u>170,009</u>

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9- Property and equipment

	Machinery and equipment				Total
	Buildings		Vehicles	Decorations	
Cost					
Balance at January 1, 2016	900,000	290,609	419,815	425,642	2,036,066
Balance at December 31, 2016	900,000	290,609	419,815	425,642	2,036,066
Accumulated depreciation					
Balance at January 1, 2016	540,000	290,608	351,018	425,640	1,607,266
Charged for the year	45,000	-	17,199	-	62,199
Balance at December 31, 2016	585,000	290,608	368,217	425,640	1,669,465
Net book value					
At December 31, 2016	315,000	1	51,598	2	366,601
At December 31, 2015	360,000	1	68,797	2	428,800

- The buildings are mortgaged against Murabahat (note -10).

- The fair value of buildings at the end of the year was amounted to KD 1,380,000 which was evaluated based on 2 evaluations by two independent evaluators as one of them was local bank. The accounting policies relevant to the buildings were mentioned note (3/10) on the financial statements.

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10- Murabahat payables

This item represents the value of Murabahat with islamic financial institutions.

The installments which are due within a year from the financial position date are classified as current liabilities and those which are due afterwards are classified as non-current liabilities as follows:

	<u>2016</u>	<u>2015</u>
Current portion	4,436,519	3,460,234
Non-current portion	1,523,672	2,677,009
	<u>5,960,191</u>	<u>6,137,243</u>

Effective cost rate is ranging from 8% to 8.5% on the financial position date (2015: 8% to 8.5%).

Murabahat is secured by personal guarantee and solidarity guarantee by the shareholders (Dalqan Holding Company K.S.C (Holding)) and also by mortgage of the company's building located in Ardiya Area and mortgage of shares owned by a related party.

11- Accounts payable and other credit balances

	<u>2016</u>	<u>2015</u>
Vehicles purchase payables	11,250	33,750
Provision for staff leave	28,150	23,937
KFAS	35,564	22,699
Zakat	59,528	44,987
National Labour Support Tax	113,685	91,763
	<u>248,177</u>	<u>217,136</u>

12- Share capital

The authorized, issued and full paid-up capital is KD 10,045,588 distributed on 100,455,880 shares with nominal value 100 Fils of each share and all shares are in cash.

13- Statutory reserve

In accordance with the requirements of Companies' Law and the company's Articles of Association, 10% of the annual net profit before Board of Directors' remuneration, contribution to Kuwait Foundation for the Advancement of Science, Zakat and National Labour Support Tax is transferred to the statutory reserve. The company may discontinue such transfer when the reserve equals 50% of share capital. Statutory reserve is not available for distribution except in cases stipulated by law.

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14- Voluntary reserve

As required by the company's Articles of Association, 10% of the annual net profit before Board of Directors' remuneration, contribution to Kuwait Foundation for the Advancement of Science, Zakat and National Labor Support Tax is transferred to the voluntary reserve. Such annual transfers may be discontinued with a resolution from the General Assembly of shareholders upon a recommendation from the Board of Directors.

15- Cost of sales

	2016	2015
Beginning inventory	4,764,759	3,974,108
Purchases	12,919,876	12,274,955
	17,684,635	16,249,063
Ending inventory	(4,973,498)	(4,764,759)
	12,711,137	11,484,304

16- General and administrative expenses

	2016	2015
Staff cost	345,366	318,496
Rents	163,104	81,418
Maintenance expenses	20,463	24,029
Postage and telephone	15,547	15,103
Other	22,165	14,467
	566,645	453,513

17- Earning per share/(Fils)

Earning per share is calculated through dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2016	2015
Net profit for the year	1,365,679	1,278,851
Weighted average number of issued and outstanding shares during the year	100,455,880	100,455,880
Earning per share/(Fils)	13.59	12.73

18- Contingent liabilities

At the financial position date the company had contingent liabilities as follows:

	2016	2015
Letters of guarantee	48,645	203,645

Al Eid Food Company**K.S.C. (Public)****Kuwait****Notes to the financial statements for the financial year ended December 31, 2016***"All amounts are in Kuwaiti Dinar unless stated otherwise"***19- Proposed dividends and Board of Directors' remuneration**

On March 6, 2017 the Board of Directors has proposed not to distribute remuneration for the Board of Directors members for the financial year ended December 31, 2016 (2015: Nil) and no distribute dividend for the financial year ended December 31, 2016.

These proposals are subject to the approval of the General Assembly of Shareholders.

20- General Assembly of Shareholders

The Ordinary General Assembly of Shareholders had been held on May 29, 2016 has approved the financial statements for the financial year ended December 31, 2015 and no dividends for the financial year ended December 31, 2015 and no remuneration for the Board of Directors' for the financial year ended December 31, 2015.

21- Financial instruments and risks management**Categories of financial instruments**

In the ordinary course of business, the company deals in set of financial instruments which are classified in the statement of financial position as financial assets and financial liabilities as follows:

Financial Assets

	2016	2015
Cash and cash equivalents	595,369	325,418
Accounts receivable and other debit balances	10,916,046	10,380,621
	<u>11,511,415</u>	<u>10,706,039</u>

Financial Liabilities

	2016	2015
Murabahat Payables	5,960,191	6,137,243
Accounts payable and other credit balances	248,177	217,136
	<u>6,208,368</u>	<u>6,354,379</u>

Fair value of financial instruments

Fair value of financial instruments is defined as the amount at which an asset could be exchanged or a liability settled in a current transaction between knowledgeable willing parties in an arm's length transaction. The company used recognized assumptions and methods to estimate the fair value of the financial instruments. The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid market (if any) is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar financial instruments.

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- The fair values of financial instruments carried at amortized cost are not significantly different from their carrying values.

Financial risks management

The company uses financial instruments that are exposed to variety of financial risks such as credit risks, liquidity risks and market risks.

The company continuously reviews its risks exposures and takes the necessary procedures to limit these risks to acceptable levels.

• Credit risks

Credit risks are the risks that one party to a financial instrument will fail to pay an obligation causing the other party to bear a financial loss. Financial assets, which potentially expose the Company to credit risk, consist principally of cash and cash equivalents and accounts receivable. Cash and cash equivalents are placed in financial institutions with high credit repute. Receivables are carried by net after deducting the provision for doubtful debts.

• Liquidity risks

Liquidity risks are the risks that the company will be unable to meet its cash obligations. The management of liquidity risks consists of keeping sufficient cash and arranging financing sources through enough facilities, retaining highly liquid assets and monitoring liquidity on a periodical basis through the method of future cash flows.

The maturity of assets and liabilities stated below is based on the period from the financial position date to the contractual maturity date. In the case of financial instruments that do not have a contractual maturity date, the maturity is based on management's estimate of time period in which the asset will be collected or disposed and the liability settled.

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The maturity analysis of liabilities as of December 31, 2016 is as follows:

	Within one year	From 1 to 5 years	More than 5 years	Total
Murabahat payables	4,436,519	1,523,672	-	5,960,191
Accounts payable and other credit balances	248,177	-	-	248,177
Provision for end of service indemnity	-	-	213,635	213,635
	<u>4,684,696</u>	<u>1,523,672</u>	<u>213,635</u>	<u>6,422,003</u>

The maturity analysis of liabilities as of December 31, 2015 is as follows:

	Within one year	From 1 to 5 years	More than 5 years	Total
Murabahat payables	3,460,234	2,677,009	-	6,137,243
Accounts payable and other credit balances	217,136	-	-	217,136
Provision for end of service indemnity	-	-	188,934	188,934
	<u>3,677,370</u>	<u>2,677,009</u>	<u>188,934</u>	<u>6,543,313</u>

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• **Market risks**

Market risks, comprise of foreign currency risk, interest rate risk and equity price risk. These risks arise due to changes in market prices of assets, interest rates and foreign currencies rates.

Foreign currencies risks

Foreign currency risks are the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currencies risks arise from transactions in foreign currencies. The company manages these risks by setting limits on transactions in foreign currencies and parties and limiting its transaction business in major currencies with reputable parties.

Interest rate risks

Interest rate risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate due to changes in interest rates in the market.

The Company's interest rate risks arise from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flows interest rate risks.

Interest rate risks arise from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risks.

Currently, the Company is not exposed to interest rate risks as it does not have any borrowings or other bank facilities.

Equity price risks

Equity price risks are the risks that the fair values of equities fluctuate as the result of changes in the levels of equity indices and the value of individual stocks. This risk results due to the changes in the fair value of the investments in stocks.

Currently, the company is not exposed to equity price risks as the company does not retain financial investments.

22- Capital risks management

The company's objectives when managing capital are:

- To safeguard the company's ability to continue as a going concern to be able to provide returns for shareholders and benefits for other stakeholders.
- To maintain an optimal returns to shareholders by pricing its products and services commensurately with risk level.

The company monitors capital on the basis of net debt to the total adjusted capital ratio. This ratio is calculated through dividing net debt by the total adjusting capital. Net debt is calculated as total Murabahat payables, shown in the statement of financial position less cash and cash equivalents.

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Total adjusted capital comprises all components of equity (share capital, reserves and retained earnings) plus net debt.

The debt to equity ratio is as follows:

	2016	2015
Debt	5,960,191	6,137,243
Less: Cash and cash equivalents	(595,369)	(325,418)
Net debt	5,364,822	5,811,825
Total equity	13,674,464	12,308,785
Total adjusted capital	19,039,286	18,120,610
Debt to equity ratio	%28	%32