

**FIRST INVESTMENT COMPANY K.S.C.P.  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2019**

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P.**

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

#### *Opinion*

We have audited the consolidated financial statements of First Investment Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International' *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.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P.

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

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

##### *Valuation of unquoted equity securities*

The Group's investment securities amounted to KD 28,301,593 representing 37% of the Group's total assets as at 31 December 2019, including unquoted equity investments of KD 27,508,442 designated at fair value through other comprehensive income (FVOCI) and categorised within Level 3 of the fair value hierarchy as disclosed in Note 23 to the consolidated financial statements.

The Group has engaged their internal management expert to assist in the valuation of investment securities that cannot be measured based on quoted prices in active markets, and their fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Given the size and complexity of the valuation of unquoted equity securities and the importance of the disclosures relating to the assumptions used in the valuation, we addressed this as a key audit matter.

Our audit procedures included, among others, the following:

- ▶ For valuations, which used significant unobservable inputs, we have tested the source data used in the valuations, to the extent possible, to independent sources and externally available market data to evaluate the data's relevance, completeness and accuracy.
- ▶ We evaluated whether the internal management expert has the necessary competency, capabilities and objectivity for audit purposes.
- ▶ We assessed the adequacy and the appropriateness of the Group's disclosures concerning the Group's exposure to financial instrument valuation risk, fair value measurement of investment securities and the sensitivity to changes in unobservable inputs in Note 23 to the consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)

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

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

##### *Impairment of investment in associates*

The Group exercises significant influence over certain entities assessed to be associates amounting to KD 25,465,649 as at 31 December 2019, including listed associates with a carrying value of KD 8,851,585.

Investment in associates are accounted for under the equity method of accounting for associate, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associates less any impairment provisions. Management determines at the end of each reporting period the existence of any objective evidence through which the Group's investment in associates may be impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

As at 31 December 2019, the management identified an impairment trigger for certain associates, and the carrying value of the associate was determined to be higher than the recoverable amount. As a result, management has recognised an impairment loss of KD 21,793,808 in the current year.

Due to the level of judgement required in determining whether there is an indication that the carrying value of associates may be impaired and the key assumptions used to determine the recoverable amount if such indication exists, we identified this area as a key audit matter.

Our audit procedures included, among others, the following:

- ▶ We evaluated management's assessment as to whether objective evidence of impairment exists in relation to the Group's interest in the associate and the qualitative and quantitative factors used such as the investee's financial performance including dividends, and market, economic or legal environment in which the associate operates. Whenever there is such indication, we challenged the significant assumptions and valuation methods used by the management in assessing impairment and the reasonableness and appropriateness of those assumptions and methods in the circumstances.
- ▶ We have tested source data used in these valuations, to the extent possible, with the relevant supporting documents, independent sources and externally available market data to evaluate the data's relevance, completeness and accuracy.
- ▶ We evaluated the adequacy of the Group's disclosures in Note 11 to the consolidated financial statements, including disclosures of key assumptions and judgements.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)

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

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

##### *Valuation of investment properties*

Investment properties represent 15% of the Group's total assets and are measured at fair value for an amount of KD 11,463,260 as at 31 December 2019.

The management of the Group engages professionally qualified external valuers to assess the fair value of its investment properties on an annual basis.

The valuation of investment properties is highly dependent on estimates and assumptions, such as rental value, occupancy rates, discount rates, maintenance status, and financial stability of tenants, market knowledge and historical transactions. Given the size of investment properties and the complexity of valuation and the importance of disclosures relating to assumptions used in the valuation, we considered the valuation of investment properties as a key audit matter.

Our audit procedures included, among others, the following:

- We assessed the competence, independence and objectivity of the external valuers.
- We assessed for valuation reports obtained whether the valuation methods as applied by the external valuers are acceptable for the purpose of the valuation of the underlying investment property.
- We assessed the appropriateness of the property related data, including key estimates and assumptions as used by the external valuers by and compared these, to the extent possible, to other publicly available information of the property industry.
- We performed audit procedures on a sample of the investment properties, to test whether property specific standing data provided to the external valuers by management reflected the underlying property records held by the Group.
- We assessed the adequacy and the appropriateness of the Group's disclosures concerning investment properties in Note 13 and Note 23 to the consolidated financial statements.

##### *Claims, litigations and contingent liabilities*

The Group is involved in various litigations and court proceedings. At 31 December 2019, the Group held provisions of KD 20,616,878 (2018: KD 75,648) in respect of actual legal actions brought against the Parent Company and disclosures have been made in Note 25 in relation to these provisions.

The evaluation of management's judgements, including those that involve estimations in assessing the likelihood that a pending claim will succeed, or a liability will arise, and the quantification of the ranges of potential financial settlement have been a matter of most significance during the current year audit. Due to these uncertainties we considered this area as a key audit matter.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)**

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

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

##### *Claims, litigations and contingent liabilities (continued)*

Our procedures also included among others:

- ▶ We assessed the Group's process for identifying and monitoring significant adverse developments arising from potential claims, litigations, and contingencies;
- ▶ We assessed the progress of all significant litigations and contingencies, including reviewing the Group's public announcements and the underlying basis for the announcements made;
- ▶ We held regular meetings with the management and the Group's in-house legal counsel to update our understanding of the status of ongoing litigations, obtained external legal confirmation and compared these with management's information and legal position; and
- ▶ We have also assessed the adequacy of the recognised provisions and disclosures of contingent liabilities in the consolidated financial statements.

#### *Other information included in the Group's 2019 Annual Report*

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2019 Annual Report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's 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 for Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)

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

#### *Responsibilities of Management and Those Charged for Governance for the Consolidated Financial Statements (continued)*

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

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

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C.P. (CONTINUED)**

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

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

- ✦ Evaluate the overall presentation, structure, content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ✦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

### **Report on Other Legal and Regulatory Requirements**

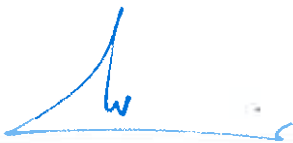
Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory count was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2019, that might have had a material effect on the business of the Parent Company or on its financial position.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST  
INVESTMENT COMPANY K.S.C.P. (CONTINUED)**

**Report on Other Legal and Regulatory Requirements (continued)**

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2019 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER  
LICENCE NO. 207-A  
EY  
AL AIBAN, AL OSAIMI & PARTNERS

22 April 2020  
Kuwait

# First Investment Company K.S.C.P. and its Subsidiaries

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 KD	2018* KD
<b>INCOME</b>			
Revenue from construction contracts		-	122,923
Revenue from contracts with customers		709,382	752,133
		<u>709,382</u>	<u>875,056</u>
Cost of construction contracts		-	(282,417)
Cost of sales		(365,406)	(386,058)
		<u>(365,406)</u>	<u>(668,475)</u>
<b>Gross profit</b>		<u>343,976</u>	<u>206,581</u>
Murabaha income		113,336	73,177
Gain on sale of financial assets at fair value through profit or loss		35,035	94,693
Net change in fair value of financial assets at fair value through profit or loss		1,507	(11,082)
Share of results of associates	11	(1,074,405)	581,540
Loss on sale of properties under development	12	(99,120)	(47,187)
Gain on disposal of investment in associates	11	-	157,143
Loss on deemed disposal in an associate	11	(1,651,980)	-
Loss on disposal of investment property	13	(65,922)	-
Loss on assets held for sale		(38,823)	-
Net change in fair value of investment properties	13	(815,070)	289,408
Dividend income	4	82,711	331,731
Rental income		966,450	937,510
Management fees		183,052	270,863
Net foreign exchange differences		(10,804)	13,609
Reversal of excess tax provision	15	-	523,996
Other income		1,799,226	42,978
<b>TOTAL INCOME , NET</b>		<u>(230,831)</u>	<u>3,464,960</u>
<b>EXPENSES</b>			
Staff costs		(1,276,136)	(1,713,942)
Provision for legal claims	25	(22,250,529)	(110,863)
Net impairment losses, expected credit losses and provisions	5	(22,792,714)	(153,819)
Depreciation of property, plant and equipment and right-of-use assets		(322,563)	(138,739)
Amortisation of intangible assets		(59,771)	(59,771)
Finance costs		(336,973)	(187,340)
Other expenses and provisions		(701,525)	(849,680)
<b>TOTAL EXPENSES</b>		<u>(47,740,211)</u>	<u>(3,214,154)</u>
<b>(LOSS) PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<u>(47,971,042)</u>	<u>250,806</u>
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	8	(50,134)	(194,796)
<b>(LOSS) PROFIT FOR THE YEAR</b>		<u>(48,021,176)</u>	<u>56,010</u>
<b>Attributable to:</b>			
Equity holders of the Parent Company		(47,606,354)	239,499
Non-controlling interests		(414,822)	(183,489)
		<u>(48,021,176)</u>	<u>56,010</u>
<b>BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b>	6	<u>(73.30) fils</u>	<u>0.37 fils</u>
<b>BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY FOR CONTINUING OPERATIONS</b>	6	<u>(73.25) fils</u>	<u>0.57 fils</u>

\* Certain amounts shown here do not correspond to the 2018 consolidated financial statements and reflect adjustments made, refer to Note 8.

The attached notes 1 to 27 form part of these consolidated financial statements.

First Investment Company K.S.C.P. and its Subsidiaries  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2019

	Note	2019 KD	2018 KD
<b>(LOSS) PROFIT FOR THE YEAR</b>		<b>(48,021,176)</b>	<b>56,010</b>
<b>Other comprehensive loss</b>			
<i>Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:</i>			
Net loss on equity instruments designated at fair value through other comprehensive income		(1,315,963)	(5,728,814)
Share of other comprehensive (loss) income of associates	11	(212,941)	9,866
<b>Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods</b>		<b>(1,528,904)</b>	<b>(5,718,948)</b>
<i>Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods:</i>			
Share of other comprehensive (loss) income of associates accounted for using the equity method	11	(18,290)	59,210
Reclassification of share in foreign currency translation on deemed disposal in an associate	11	(420,566)	-
Net exchange differences transferred to profit or loss upon liquidation of a foreign associate	11	-	(136,980)
Net exchange differences on translation of foreign operations		20,493	21,395
<b>Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods</b>		<b>(418,363)</b>	<b>(56,375)</b>
Other comprehensive loss for the year		(1,947,267)	(5,775,323)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(49,968,443)</b>	<b>(5,719,313)</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company		(49,555,819)	(5,468,945)
Non-controlling interests		(412,624)	(250,368)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(49,968,443)</b>	<b>(5,719,313)</b>

The attached notes 1 to 27 form part of these consolidated financial statements.


First Investment Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 KD	2018 KD
<b>ASSETS</b>			
Cash and cash equivalents	7	4,037,816	5,978,922
Financial assets at fair value through profit or loss	9	108,372	130,504
Other assets	10	1,703,524	1,967,874
Inventories		166,916	765,221
Financial assets at fair value through other comprehensive income	9	28,193,221	26,428,957
Investment in associates	11	25,465,649	50,832,184
Properties under development	12	305,309	913,422
Investment properties	13	11,463,260	12,571,037
Property, plant and equipment		1,517,199	2,622,318
Goodwill and other intangible assets		847,480	1,700,619
		<u>73,808,746</u>	<u>103,911,058</u>
Assets held for sale	8	2,924,173	-
<b>TOTAL ASSETS</b>		<u><b>76,732,919</b></u>	<u><b>103,911,058</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Murabaha payables	14	5,938,543	3,823,027
Other liabilities	15	2,385,534	3,254,889
Provision for legal claims		20,616,878	75,648
End of service benefits		868,521	887,595
		<u>29,809,476</u>	<u>8,041,159</u>
Liabilities directly associated with the assets held for sale	8	1,061,210	-
<b>TOTAL LIABILITIES</b>		<u><b>30,870,686</b></u>	<u><b>8,041,159</b></u>
<b>EQUITY</b>			
Share capital	16	65,107,055	65,107,055
Share premium	16	18,250,362	18,250,362
Treasury shares	16	(108,816)	(108,816)
Statutory reserve	17	1,299,173	1,299,173
Share options reserve	17	3,016,890	3,016,890
Treasury shares reserve	16	1,118,684	1,118,684
Fair value reserve	17	(4,881,963)	(4,163,287)
Foreign currency translation reserve	17	1,001,455	1,421,533
(Accumulated losses) / Retained earnings		(42,912,813)	5,504,252
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		<u><b>41,890,027</b></u>	<u><b>91,445,846</b></u>
Non-controlling interests		3,972,206	4,424,053
<b>TOTAL EQUITY</b>		<u><b>45,862,233</b></u>	<u><b>95,869,899</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>76,732,919</b></u>	<u><b>103,911,058</b></u>

  
Bader Mohammed Al-Qattan  
Chairman

  
Eisa A. S. Alweggian  
Chief Executive Officer

The attached notes 1 to 27 form part of these consolidated financial statements.

**First Investment Company K.S.C.P. and its Subsidiaries**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2019

*Attributable to equity holders of the Parent Company*

	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Share options reserve KD	Treasury shares reserve KD	Fair value reserve KD	Foreign currency translation reserve KD	Accumulated losses KD	Sub-total KD	Non-controlling interests KD	Total equity KD
<b>As at 1 January 2019</b>	65,107,055	18,250,362	(108,816)	1,299,173	3,016,890	1,118,684	(4,163,287)	1,421,533	5,504,252	91,445,846	4,424,053	95,869,899
Loss for the year	-	-	-	-	-	-	-	-	(47,606,354)	(47,606,354)	(414,822)	(48,021,176)
Other comprehensive (loss) income for the year	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive loss for the year</b>	-	-	-	-	-	-	(1,529,387)	(420,078)	-	(1,949,465)	2,198	(1,947,267)
Transfer of fair value reserve of equity instruments designated at FVOCI	-	-	-	-	-	-	(1,529,387)	(420,078)	(47,606,354)	(49,555,819)	(412,624)	(49,968,443)
Net movement in non-controlling interests	-	-	-	-	-	-	810,711	-	(810,711)	-	-	-
<b>At 31 December 2019</b>	<b>65,107,055</b>	<b>18,250,362</b>	<b>(108,816)</b>	<b>1,299,173</b>	<b>3,016,890</b>	<b>1,118,684</b>	<b>(4,881,963)</b>	<b>1,001,455</b>	<b>(42,912,813)</b>	<b>41,890,027</b>	<b>3,972,206</b>	<b>45,862,233</b>

The attached notes 1 to 27 form part of these consolidated financial statements.

# First Investment Company K.S.C.P. and its Subsidiaries

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2019

### Attributable to equity holders of the Parent Company

	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Share options reserve KD	Treasury shares reserve KD	Fair value reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2018 as previously reported	65,107,055	18,250,362	(108,816)	1,275,223	3,016,890	1,118,684	1,510,289	1,471,906	5,705,139	97,346,732	4,661,423	102,008,155
Impact of adopting IFRS 9	-	-	-	-	-	-	(15,505)	-	(416,436)	(431,941)	-	(431,941)
Restated opening balance under IFRS 9	65,107,055	18,250,362	(108,816)	1,275,223	3,016,890	1,118,684	1,494,784	1,471,906	5,288,703	96,914,791	4,661,423	101,576,214
Profit (loss) for the year	-	-	-	-	-	-	-	-	239,499	239,499	(183,489)	56,010
Other comprehensive loss for the year	-	-	-	-	-	-	(5,658,071)	(50,373)	-	(5,708,444)	(66,879)	(5,775,323)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(5,658,071)	(50,373)	239,499	(5,468,945)	(250,368)	(5,719,313)
Transfer to statutory reserve	-	-	-	23,950	-	-	-	-	(23,950)	-	-	-
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2018	65,107,055	18,250,362	(108,816)	1,299,173	3,016,890	1,118,684	(4,163,287)	1,421,533	5,504,252	91,445,846	4,424,053	95,869,899

The attached notes 1 to 27 form part of these consolidated financial statements.

# First Investment Company K.S.C.P. and its Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 KD	2018 KD
<b>OPERATING ACTIVITIES</b>			
(Loss) profit for the year from continuing operations		(47,971,042)	250,806
Loss for the year from discontinued operations		(50,134)	(194,796)
<b>(Loss) profit for the year</b>		<b>(48,021,176)</b>	<b>56,010</b>
<i>Adjustments for:</i>			
Murabaha income		(113,336)	(73,177)
Gain on sale of financial assets at fair value through profit or loss		(35,035)	(94,693)
Net change in fair value of financial assets at fair value through profit or loss		(1,507)	11,082
Share of results of associates	11	1,074,405	(581,540)
Loss on assets held for sale		38,823	-
Loss on deemed disposal in an associate		1,651,980	-
Impairment of associates		21,793,808	-
Gain on sale of investment in an associate		-	(157,143)
Loss on sale of properties under development	12	99,120	47,187
Impairment of properties under development	12	1,501	66,194
Loss on disposal of investment property		65,922	-
Valuation losses (gains) on investment properties	13	815,070	(289,408)
Dividend income	4	(82,711)	(331,731)
Net foreign exchange differences		10,804	(13,609)
Impairment of property and equipment		185,249	-
Impairment of goodwill		793,368	-
Depreciation of property, plant and equipment and right-of-use assets		359,725	258,904
Amortisation of intangible assets		59,771	59,771
Finance costs		336,973	230,687
Allowance for expected credit losses	10	18,788	87,625
Provision for employees' end of service benefits		87,713	185,314
Movements in provision for legal claims		22,250,529	110,863
Reversal of zakat provision		-	(523,996)
		<b>1,389,784</b>	<b>(951,660)</b>
<i>Changes in operating assets and liabilities:</i>			
Net movement in financial assets at fair value through profit or loss		59,540	893,504
Inventories		3,470	191,817
Other assets		(271,683)	(724,977)
Other liabilities		(638,947)	(1,131,552)
Provision for legal claims		(1,709,299)	(35,215)
Cash used in operations		(1,167,135)	(1,758,083)
Murabaha income received		105,958	71,954
Finance costs paid		(360,511)	(232,120)
Taxes paid		(123,841)	-
Employees' end of service benefits paid		(52,921)	(126,771)
<b>Net cash flows used in operating activities</b>		<b>(1,598,450)</b>	<b>(2,045,020)</b>
<b>INVESTING ACTIVITIES</b>			
Dividend income received		82,711	331,731
Purchase of financial assets at fair value through other comprehensive income		(6,534,363)	(102,869)
Proceeds from sale of financial assets at fair value through other comprehensive income		3,454,134	482,150
Additions to investment in associates	11	(487,899)	(2,016,094)
Proceeds from disposal of investment in associates	11	-	91,481
Dividends received from associates	11	682,444	898,845
Proceeds from sale of properties under development		507,875	1,527,101
Development expenditure on investment properties	13	(7,890)	(1,044,706)
Proceeds from sale of investment properties		228,472	-
Purchase of property and equipment		(9,803)	(150,519)
Cash and cash equivalents related to assets held for sale		(1,018,835)	-
<b>Net cash flows (used in) from investing activities</b>		<b>(3,103,154)</b>	<b>17,120</b>

The attached notes 1 to 27 form part of these consolidated financial statements.

First Investment Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2019

	Notes	2019 KD	2018 KD
<b>FINANCING ACTIVITIES</b>			
Proceeds from murabaha payables	14	7,830,856	1,101,602
Repayment of murabaha payables	14	(4,853,397)	(318,560)
Dividends paid		(2,538)	(4,320)
Net movement in non-controlling interests		(39,223)	12,998
Payment of principal portion of lease liabilities		(175,200)	-
<b>Net cash flows from financing activities</b>		<b>2,760,498</b>	<b>791,720</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents as at 1 January		5,978,922	7,215,102
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>	7	<b>4,037,816</b>	<b>5,978,922</b>
<b>Non-cash items excluded from the statement of cash flows:</b>			
Transitional adjustment to lease liabilities on adoption of IFRS 16		268,915	-
Transitional adjustment to property and equipment on adoption of IFRS 16		(268,915)	-
Assets and liabilities of disposal group classified as held for sale	8	(844,128)	-
Transitional adjustment to retained earnings on adoption of IFRS 9		-	(416,436)
Transitional adjustment to other assets on adoption of IFRS 9		-	185,294
Transitional adjustment to investment in associates on adoption of IFRS 9		-	246,647
Transitional adjustment to fair value reserve on adoption of IFRS 9		-	(15,505)

The attached notes 1 to 27 form part of these consolidated financial statements.



## 1.1 CORPORATE INFORMATION

The consolidated financial statements of First Investment Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the board of directors of the Parent Company on 22 April 2020. The shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting.

The Board of Directors of the Parent Company in their meeting held on 22 April 2020 proposed to extinguish accumulated losses as at 31 December 2019 through utilising share premium, statutory reserve, share options reserve and a partial reduction in share capital. This proposal is subject to the approval of the shareholders at the annual general assembly meeting (AGM) and extraordinary general assembly meeting (EGM).

The Parent Company is a Kuwaiti shareholding company incorporated and domiciled in Kuwait and whose shares are publicly traded on the Kuwait Stock Exchange ("KSE"). The Parent Company is regulated by the Central Bank of Kuwait (CBK) as an investment and finance company and is subject to the supervision of Capital Markets Authority ("CMA").

The registered office of the Parent Company is located at Al Hamra Tower, 68<sup>th</sup> floor, Al Shahada Street, Sharq Area, Kuwait City, Kuwait.

The Parent Company is principally engaged in the provision of investment and financial services in accordance with Islamic Shari'a principles as approved by the Group's Fatwa and Shari'a Supervisory Board.

The Parent Company's principal objectives comprise the following:

- ▶ Conduct all financial brokerage activities and other related activities.
- ▶ Invest in real estate, industrial, agricultural, and other economic sectors through shareholding in incorporating specialised companies or acquisition of shares of such companies.
- ▶ Carry out securities trading transactions including buying and selling stocks and bonds of governmental and non-governmental agencies and companies.
- ▶ Carry out real estate investment deals with the objective of developing residential lands and constructing residential and commercial units for sale or rent.
- ▶ Assume the role of a Fund Trustee and Third Party Portfolio Manager as well as the related borrowing and lending transactions.
- ▶ Carry out finance and brokerage activities in the international trading transactions.
- ▶ Produce researches, studies, and other technical services related to investment operations and third party fund employment, provided that the required conditions should be met by those exercising such activities.
- ▶ Establish and manage mutual funds in pursuance with Law and subject to approval of the competent authorities.
- ▶ Assume the role of lead manager for bonds issued by companies and agencies.
- ▶ Carry out brokerage business in the investment of financial instruments and securities.
- ▶ Finance the buying and selling of residential plots for housing purposes, and to finance the construction of residential buildings on such plots.
- ▶ Finance purchase and sale of durable and consumable goods.
- ▶ Invest fund for its own interest and for the interest of the third parties in all types of investments by means of leasing, and to do the necessary acquisition and leasing of movable assets.
- ▶ Purchase lands and real estates for the purpose of selling the same in their original condition or after the division thereof, leasing the same unoccupied or uninhabited, or after the construction of new facilities, building, and equipment.

Information on the Group's structure is provided in below. Information on other related party relationships of the Group is provided in Note 18.

# First Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

### 1.2 GROUP INFORMATION

#### (a) Subsidiaries

The consolidated financial statements of the Group include:

Name of the entity	Country of incorporation	% equity interest		Principal activities
		2019	2018	
Al Marwa Holding Company K.S.C. (Closed) <sup>1</sup>	Kuwait	99.22%	99.22%	Holding company
FIC Projects Development Company <sup>4</sup>	Cayman Islands	-	100%	Real estate investment
Deema Real Estate Investment Company L.L.C.	KSA	100%	100%	Real estate investment
First Energy Resource Company K.S.C. (Closed) - Under Liquidation ("FERCO") <sup>3</sup>	Kuwait	33.21%	33.21%	Energy sector
Masadar Energy Company for General Trading W.L.L. <sup>1</sup>	Kuwait	98.00%	98.00%	General trading
Shomoul Real Estate Company L.L.C.	KSA	50.00%	50.00%	Real estate investment
Yasmeen Al Kuwait Real Estate Company S.P.C. <sup>6</sup>	Kuwait	100%	97.00%	Real estate trading
Q80 International Valve Industries Company W.L.L. <sup>5</sup>	Kuwait	66.67%	66.67%	Manufacturing
Asian Petroleum Facilities Maintenance Company W.L.L. <sup>5</sup>	Kuwait	66.67%	66.67%	Energy sector
First Logistic Services L.L.C. <sup>2</sup>	Oman	53.87%	53.87%	Logistics services
Gulf Business Forms Company W.L.L.	Kuwait	100%	100%	Manufacturing

<sup>1</sup> The Parent Company effectively owns 100% equity interest in the above entities. Accordingly, the consolidated financial statements have been prepared on this basis. The ownership of the remaining equity interest in these subsidiaries is registered in the name of related parties as nominees. However, the Parent Company is the beneficial owner for 100% equity interest.

<sup>2</sup> The Group's effective equity interest is 65% (2018: 65%).

<sup>3</sup> The Group consolidates this entity based on de facto control. Refer to Note 3 for more details.

<sup>4</sup> As at 31 December the subsidiary has been fully dissolved and is no longer part of the Group.

<sup>5</sup> During the year, the management announced its intentions to exit its investment in Q80 International Valve Industries Company W.L.L. and Asian Petroleum Facilities Maintenance Company W.L.L. ("subsidiaries") to a third-party investor. Accordingly, these subsidiaries are presented as a disposal group held for sale. Refer to Note 8 for further details.

<sup>6</sup> The Company is a single person Company incorporated in Kuwait. The Company was originally a limited liability Company incorporated in Kuwait in 1999. The change of the Company's legal form from Limited Liability Company to a Single Person Company was approved by the owner on 03 June 2019.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations issued by the Central Bank of Kuwait ("CBK") for financial services institutions in the State of Kuwait. These regulations require the expected credit loss ("ECL") on credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") (collectively referred to as IFRS, as adopted for use by the State of Kuwait).

The consolidated financial statements have been prepared on a historical cost basis, except for investment securities and investment properties that have been measured at fair value and assets held for sale – measured at fair value less costs to sell.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)****2.1 BASIS OF PREPARATION (continued)**

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is also the functional currency of the Parent Company.

The Group presents its consolidated statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 21.

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES****New and amended standards and interpretations**

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

**IFRS 16: Leases ("IFRS 16")**

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as at 1 January 2019 is, as follows:

	<i>KD</i>
<b>ASSETS</b>	
Property, plant and equipment	268,915
	<hr/>
<b>LIABILITIES</b>	
Other liabilities	268,915
	<hr/>

**a) Nature of the effect of adoption of IFRS 16**

The Group has lease contracts for items of properties. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

**Leases previously classified as finance leases**

As at 1 January 2019, the Group did not have any lease classified as finance lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)****2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)****New and amended standards and interpretations (continued)****IFRS 16: Leases ("IFRS 16") (continued)****a) Nature of the effect of adoption of IFRS 16 (continued)***Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

**b) Amounts recognised in the consolidated statement of financial position and profit or loss**

Based on the above, as at 1 January 2019:

- Right-of-use assets of KD 268,915 were recognised and presented under 'property, plant and equipment' in the consolidated statement of financial position.
- Additional lease liabilities of KD 268,915 were recognised and presented under 'other liabilities' in the consolidated statement of financial position.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	<i>Right-of-use assets KD</i>	<i>Lease liabilities KD</i>
<b>At 1 January 2019</b>	<b>268,915</b>	<b>268,915</b>
Additions during the year	-	-
Depreciation expense	<b>(169,841)</b>	-
Finance costs	-	<b>7,641</b>
Payments	-	<b>(175,200)</b>
<b>At 31 December 2019</b>	<b>99,074</b>	<b>101,356</b>

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<i>KD</i>
Operating lease commitments as at 31 December 2018	240,588
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
<b>Discounted operating lease commitments at 1 January 2019</b>	<b>232,103</b>
Lease payments relating to periods not included in operating lease commitments as at 31 December 2018	<b>36,812</b>
<b>Lease liabilities as at 1 January 2019</b>	<b>268,915</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**New and amended standards and interpretations (continued)**

**IFRS 16: Leases ("IFRS 16") (continued)**

**b) Amounts recognised in the consolidated statement of financial position and profit or loss (continued)**

The Group has discounted its future lease obligations using its incremental borrowing rate which is determined at 4.75% at the reporting date.

**c) Summary of new accounting policies**

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group 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 Group 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 re-measurement 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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

*Lease liabilities*

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of property 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 of low value (i.e., below € 5,000 (KD 1,500)). 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.

*Significant judgement in determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

**Amendments to IFRS 3: Definition of a Business**

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

**Amendments to IAS 1 and IAS 8: Definition of Material**

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

**2.4 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

**2.4.1 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement(s) with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.1 Basis of consolidation (continued)**

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

**2.4.2 Business combinations and acquisition of non-controlling interests**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the profit or loss.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.3 Investment in associates**

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of results of an associate is shown on the face of the profit or loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group and in case of different reporting date of associates, which are not more than three months, from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

**2.4.4 Revenue recognition**

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 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 equipment.

In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer, if any.

**(i) Variable consideration**

If the consideration in a contract includes a variable amount, the Group 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 does not have any contracts for the sale of goods provide customers with a right of return or involve volume rebates.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.4 Revenue recognition (continued)**

**(ii) Significant financing component**

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good to the customer and when the customer pays for that good will be one year or less. The Group do not receives any long term advances from customer.

**2.4.5 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of finance costs and other related costs that an entity incurs in connection with the borrowing of funds.

**2.4.6 Taxation**

*Kuwait Foundation for the Advancement of Sciences (KFAS)*

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

*National Labour Support Tax (NLST)*

The Parent Company calculates NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year after deducting Board of Directors' remuneration for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year.

*Zakat*

Zakat is calculated at 1% of the profit for the year in accordance with the requirements of the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

*Taxation on foreign subsidiaries*

Taxation on foreign subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the country where the subsidiaries operate.

**2.4.7 Financial instruments - initial recognition and subsequent measurement**

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 initial measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.7 Financial instruments – initial recognition and subsequent measurement (continued)**

*i) Financial assets (continued)*

**Initial recognition and initial measurement (continued)**

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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 Group commits to purchase or sell the asset.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- ▶ Financial assets at amortised cost (debt instruments)
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- ▶ Financial assets at fair value through profit or loss

*a) Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

*b) Financial assets at fair value through OCI (debt instruments)*

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

*c) Financial assets designated at fair value through OCI (equity instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably certain equity investments under this category.

*d) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the profit or loss.

This category includes certain equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.7 Financial instruments – initial recognition and subsequent measurement (continued)**

*i) Financial assets (continued)*

**Derecognition**

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

- The rights to receive cash flows from the asset have expired; or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group 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 Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group 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 Group 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 Group could be required to repay.

*ii) Financial liabilities*

**Initial recognition and measurement**

The Group's financial liabilities include Murabaha payables and other liabilities.

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

**Subsequent measurement**

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (including murabaha payables)

The Group has not designated any financial liability as at fair value through profit or loss and financial liabilities at amortised cost is more relevant to the Group.

**Financial liabilities at amortised cost**

*Murabaha payables*

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

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

*Other liabilities*

Other liabilities are recognised for amounts to be paid in the future for services received, whether billed by the supplier or not.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.7 Financial instruments – initial recognition and subsequent measurement (continued)**

**ii) Financial liabilities (continued)**

**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 derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

**iii) Offsetting of financial instruments**

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated 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.

**2.4.8 Impairment of financial assets**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss as follows:

- ▶ Trade and other receivables, including contract assets
- ▶ Financial assets measured at amortised cost (credit facilities)

Equity investments are not subject to ECLs. Further, the Group has no debt investments measured at FVOCI.

**i. Impairment of financial assets other than credit facilities**

The Group 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 Group 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).

For trade and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

**ii. Impairment of credit facilities**

Credit facilities granted by the Group consist of loans and advances. Impairment on credit facilities shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4.8 Impairment of financial assets (continued)***ii. Impairment of credit facilities***Provisions for credit losses in accordance with the CBK instructions**

The Group is required to calculate provisions for credit losses on credit facilities in accordance with the CBK instructions with respect to credit facilities and the calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when the interest or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and past due and impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions:

Category	Criteria	Specific provision
Watch list	Irregular for a period up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

Minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

**2.4.9 Inventories**

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis.
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**2.4.10 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying appropriate valuation models.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment properties only when there is a change in use. For a transfer from investment properties to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.11 Property, plant and equipment**

Capital work in progress is stated at cost, net of accumulated impairment losses, if any. Land has an unlimited useful life and therefore is not depreciated. Other items of property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which ranges between 3 to 25 years.

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 profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Depreciation of these assets commences when the assets are ready for their intended use

**2.4.12 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.13 Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGUs fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are 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. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the assets' or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at the reporting date at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

**2.4.14 Segment information**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs cost. The operating segments used by the management of the Group to allocate resources and assess performance are consistent with the internal report provided to the chief operating decision maker. Operating segment exhibiting similar economic characteristic, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

**2.4.15 Employees' end of service benefits**

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

In addition, with respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. These contributions are expensed when due.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.16 Treasury shares**

The Group's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares and the voting rights related to these shares are discarded. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**2.4.17 Share based payment transactions**

The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP). The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the market value of the Parent Company's shares at each reporting date and the date of final settlement to the exercise price with any change in intrinsic value recognised in the profit or loss.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees exercise their rights. The cumulative expense recognised for equity-settled transactions at each reporting date until the exercise date, reflects the extent to which the exercise period has expired and the number of awards that, in the opinion of the Board of Directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

**2.4.18 Leases**

***Policy applicable from 1 January 2019***

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

***Group as a lessee***

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

***i) Right-of-use assets***

The Group 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 presented under 'property, plant and equipment' in the consolidated statement of financial position and 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 Group 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, as follows:

- |             |         |
|-------------|---------|
| • Buildings | 5 years |
|-------------|---------|

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (2.4.13) 'Impairment of non-financial assets'.

***ii) Lease liabilities***

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.



**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.18 Leases (continued)**

***Policy applicable from 1 January 2019 (continued)***

*ii) Lease liabilities (continued)*

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 Group 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 Group's lease liabilities are included in 'other liabilities' in the consolidated statement of financial position.

*iii) Short-term leases and leases of low-value assets*

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

*Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

***Policy applicable before 1 January 2019***

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset (or those assets) is not explicitly specified in an arrangement.

*Group as a lessee*

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the profit or loss on a straight-line basis over the lease term.

*Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.19 Foreign currencies**

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

*Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into Kuwaiti Dinar at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

**2.4.20 Fiduciary assets**

The Group provides asset management and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated financial statements, as they are not assets of the Group.

**2.4.21 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**2.4.22 Contingencies**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.23 Non-current assets held for sale and discontinued operations**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Furniture and equipment are not depreciated once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- ▶ Represents a separate major line of business or geographical area of operations;
- ▶ Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- ▶ Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the profit or loss.

**2.4.24 Events after the reporting period**

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Group will assess if the information affects the amounts that it recognises in the Group's consolidated financial statements. The Group will adjust the amounts recognised in its consolidated financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its consolidated financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**3.1 Significant judgements**

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

***Classification of real estate properties***

Determining the classification of a property depends on particular circumstances and management's intentions. Property that is held for resale in the ordinary course of business or that in the process of development for such sale is classified as inventory. Property held to earn rental income or for capital appreciation, or both is classified as investment property. Property held for use in the production or supply of goods and services or for administrative purposes is classified as property, plant and equipment.

***Classification of financial assets***

The Group 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.

***Consolidation of entities in which the Group holds less than 50% of voting right (de facto control)***

The Group considers that it controls FERCO even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of FERCO with a 33.21% equity interest. The remaining 67% of the equity shares in FERCO are widely held by many other shareholders and there is no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group. Further, the Group has a majority representation on the entity's liquidation committee and the Group's approval is required for all major operational decisions.

***Equity accounting of investment in associate in which the Group holds less than 20% of voting rights***

Burgan Company for Well Drilling K.S.C.P. ("BDC") is an associate of the Group as described in Note 11 even though the Group only owns 14.66% interest in the associate. Significant influence arises by virtue of the Group's contractual right to appoint two out of the six members of the board of directors of the associate.

***Determining the lease term of contracts with renewal and termination options – Group as lessee***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**3.1 Significant judgements (continued)**

***Legal proceedings***

In accordance with IFRSs, the Group recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements.

Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements, could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation has been brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

***Assets held for sale***

During the current year, the management announced its intentions to exit its investment in Q80 International Valve Industries Company W.L.L. and Asian Petroleum Facilities Maintenance Company W.L.L. ("subsidiaries") and sell its equity interest in the subsidiaries to a third-party investor. Accordingly, the subsidiaries are classified as a disposal group held for sale. At 31 December 2019, the management considered these entities to meet the criteria to be classified as held for sale for the following reasons:

- ▶ The subsidiaries are available for immediate sale and can be sold to third-party investor in its current condition
- ▶ The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- ▶ Potential investor has been identified at the reporting date and discussions are at an advance stage
- ▶ The Board of Directors approved the plan to sell.

For more details, refer to Note 8.

**3.2 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 described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

***Impairment of associates***

Investment in associates are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associates less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the associate in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

***Impairment of financial assets at amortised cost***

The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****3.2 Estimates and assumptions (continued)***Business combinations*

Management uses valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. In particular, the fair value of contingent consideration is dependent on the outcome of many variables including the acquirees' future profitability.

*Valuation of investment properties*

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*. Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in Note 13.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the CGU to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

*Fair value measurement*

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

*Useful lives of property, plant and equipment and intangible assets*

The Group's management determines the estimated useful lives of its property, plant and equipment and intangible assets for calculating depreciation and amortization respectively. 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 and amortization charge would be adjusted where the management believes the useful lives differ from previous estimates.

*Impairment of property, plant and equipment and intangible assets*

The carrying amounts of the Group's property, plant and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

*Leases - Estimating the incremental borrowing rate*

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

**4 DIVIDEND INCOME**

	2019 KD	2018 KD
Financial assets at fair value through profit or loss	38,569	27,449
Financial assets at fair value through other comprehensive income	44,142	304,282
	<u>82,711</u>	<u>331,731</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

## 5 NET IMPAIRMENT LOSSES, EXPECTED CREDIT LOSSES AND PROVISIONS

	2019 KD	2018 KD
Impairment of associates (Note 11)	21,793,808	-
Impairment of goodwill *	793,368	-
Impairment of property, plant and equipment	185,249	-
Impairment of properties under development (Note 12)	1,501	66,194
Allowance for expected credit losses of other receivables (Note 10)	18,788	87,625
	<u>22,792,714</u>	<u>153,819</u>

- \* Impairment of goodwill relates to Group investment in its subsidiary specialised in manufacturing and printing of computer forms and paper products. The recoverable amount of KD 2,629,900 as at 31 December 2019, has been determined based on a value in use calculation using cash flow projections approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 10.2% (2018: 13.9%) and cash flows beyond the five-year period are extrapolated using a 2.6% growth rate (2018: 3%), which does not exceed the long-term average growth rate of the State of Kuwait.

As a result of the analysis, management has recognised an impairment charge of KD 793,368 (2018: Nil) in the current year.

*Sensitivity to changes in assumptions*

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the intangible asset to exceed its recoverable amount. These are summarised below:

- A rise in the pre-tax discount rate to 11.2% (i.e. +1%) would result in a further impairment of KD 366,000.
- A reduction in the long-term growth rate to 2.1% (i.e. -0.5%) would result in a further impairment of KD 155,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**6 EARNINGS PER SHARE (EPS)**

Basic EPS amounts are calculated by dividing the (loss) profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the (loss) profit attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	2019	2018
(Loss) profit attributable to equity holders of the Parent Company:		
Continuing operations	(47,572,962)	369,243
Discontinued operations	(33,392)	(129,744)
<b>(LOSS) PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (KD)</b>	<b>(47,606,354)</b>	<b>239,499</b>
Weighted average number of shares outstanding (shares) *	649,442,622	649,442,622
<b>BASIC AND DILUTED (LOSS) EARNINGS PER SHARE (FILS)</b>	<b>(73.30)</b>	<b>0.37</b>
From continuing operations attributable to the equity holders of the Parent Company (fils)	(73.25)	0.57
From discontinued operations (fils)	(0.05)	(0.20)
<b>TOTAL BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (FILS)</b>	<b>(73.30)</b>	<b>0.37</b>

\* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements.

**7 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the following at 31 December:

	2019 KD	2018 KD
Cash on hand	3,206	11,714
Cash at bank	1,137,328	2,175,261
Murabaha deposits with original maturities of three months or less	2,009,498	2,991,651
Cash held in managed portfolios	887,784	800,296
<b>Cash and cash equivalents</b>	<b>4,037,816</b>	<b>5,978,922</b>

Murabaha deposits with a carrying amount of KD 650,000 (2018: KD 1,300,000) have been pledged to fulfill collateral requirements of murabaha payables of the Group (Note 14).

Murabaha deposits represent murabaha contracts with local Islamic banks with an original maturity of three months or less. The effective profit rates on these murabaha placements range between 2.55% and 2.80% (2018: 2.30% and 2.75%) per annum.

In prior years, First Energy Resource Company K.S.C.C. (Under Liquidation), a subsidiary of the Group, has announced the distribution of first liquidation cash payment amounting to KD 6,062,000 to the shareholders. As a result of liquidation, the Parent Company received KD 2,013,311. Distributions payable to non-controlling interests amounted to KD 4,048,689. As at 31 December 2019, certain shareholders have not collected their share of the distribution. Accordingly, the cash and cash equivalents disclosed above and in the consolidated statement of cash flows includes certain bank balances with an amount KD 224,957 (2018: KD 312,255) which have been restricted for the purpose of distribution to these shareholders and are therefore not available for general use by the Group.



First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**8 ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE**

On 25 November 2019, the Group publicly announced the decision to sell Q80 International Valve Industries Company W.L.L. ("Q80 Valve") and Asian Petroleum Facilities Maintenance Company W.L.L. ("Asian Petroleum"), certain subsidiaries of the Group, to a third-party investor. The sale of subsidiaries is expected to be completed within a year from the reporting date. At 31 December 2019, the underlying subsidiaries were classified as a disposal group held for sale and as discontinued operations.

The major classes of assets and liabilities of Q80 Valve and Asian Petroleum classified as held for sale as at 31 December are, as follows:

	<i>Q80 Valve</i> <i>2019</i> <i>KD</i>	<i>Asian Petroleum</i> <i>2019</i> <i>KD</i>	<i>Total</i> <i>2019</i> <i>KD</i>
<b>ASSETS</b>			
Property, plant and equipment	492,246	346,617	838,863
Inventories	594,835	-	594,835
Accounts receivable and other assets	467,300	4,340	471,640
Short-term deposits	650,000	-	650,000
Cash and bank balances	368,617	218	368,835
Assets held for sale	<b>2,572,998</b>	<b>351,175</b>	<b>2,924,173</b>
<b>LIABILITIES</b>			
Employees' end of service benefits	53,866	-	53,866
Murabaha payables	859,453	-	859,453
Accounts payable and accruals	146,716	1,175	147,891
Liabilities directly associated with assets held for sale	<b>1,060,035</b>	<b>1,175</b>	<b>1,061,210</b>
<b>Net assets directly associated with disposal group</b>	<b>1,512,963</b>	<b>350,000</b>	<b>1,862,963</b>

The results of Q80 Valve and Asian Petroleum for the year are presented below:

	<i>2019</i>			<i>2018</i>		
	<i>Q80 Valve</i> <i>KD</i>	<i>Asian Petroleum</i> <i>KD</i>	<i>Total</i> <i>KD</i>	<i>Q80 Valve</i> <i>KD</i>	<i>Asian Petroleum</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Revenue from contracts with customers	1,603,521	-	1,603,521	1,232,484	-	1,232,484
Cost of sales	(1,353,993)	-	(1,353,993)	(1,131,963)	-	(1,131,963)
<b>Gross profit</b>	<b>249,528</b>	<b>-</b>	<b>249,528</b>	<b>100,521</b>	<b>-</b>	<b>100,521</b>
Other income	11,809	-	11,809	360	-	360
Staff cost	(173,258)	-	(173,258)	(166,565)	-	(166,565)
Depreciation	(10,971)	(6,393)	(17,364)	(10,487)	(12,396)	(22,883)
Finance costs	(43,334)	-	(43,334)	(43,347)	-	(43,347)
Other expenses and provision	(68,694)	(8,821)	(77,515)	(55,557)	(7,325)	(62,882)
<b>Loss for the year from discontinued operations</b>	<b>(34,920)</b>	<b>(15,214)</b>	<b>(50,134)</b>	<b>(175,075)</b>	<b>(19,721)</b>	<b>(194,796)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**8 ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE**  
(continued)

The net cash flows incurred by Q80 Valve and Asian Petroleum are, as follows:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Operating	500,213	(232,813)
Investing	-	(24,179)
Financing	50,743	231,600
	<u>550,956</u>	<u>(25,392)</u>
<b>EARNINGS PER SHARE (EPS)</b>	<i>2019</i>	<i>2018</i>
Basic and diluted loss for the year from discontinued operations (fils)	(0.05)	(0.20)

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

9 INVESTMENT SECURITIES

	2019 KD	2018 KD
<i>Financial assets at FVTPL</i>		
Quoted equity securities	42,208	65,139
Unquoted investment fund*	66,164	65,365
	<u>108,372</u>	<u>130,504</u>
<i>Financial assets at FVOCI</i>		
Quoted equity securities	684,779	830,458
Unquoted equity securities**	27,508,442	25,598,499
	<u>28,193,221</u>	<u>26,428,957</u>
<b>Investment securities at fair value</b>	<u><b>28,301,593</b></u>	<u><b>26,559,461</b></u>

\* This balance represents an open-ended unlisted investment fund currently under liquidation by the Parent Company. Management assessed that the reported net asset value ("NAV") of the underlying fund is a reasonable approximation of its fair value.

\*\* On 17 February 2019, the Parent Company through a consortium comprised of local investment companies and an international operator won the bid to acquire 44% equity stake in Boursa Kuwait Securities Company KSC ("Boursa Kuwait") of which the Parent Company's share is 14.4%.

The hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques are presented in Note 23.

10 OTHER ASSETS

	2019 KD	2018 KD
Accrued management fees	73,225	169,177
Prepayments	43,393	85,272
Other receivables*	1,586,906	1,713,425
	<u>1,703,524</u>	<u>1,967,874</u>

\* As at 31 December 2019, other receivables with an initial carrying value of KD 1,107,577 (2018: KD 1,088,789) were impaired and fully provided for. Other classes within accounts receivable do not contain impaired assets.

Set out below is the movement in the allowance for expected credit losses of other receivables:

	2019 KD	2018 KD
As at 1 January	1,088,789	1,088,789
Allowance recognised in profit or loss for the year	18,788	87,625
Write-off	-	(87,625)
As at 31 December	<u>1,107,577</u>	<u>1,088,789</u>

# First Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

### 11 INVESTMENT IN ASSOCIATES

Name of the company	County of incorporation	2019		2018		Principal activities
		Equity interest %	Carrying amount KD	Equity interest %	Carrying amount KD	
Burgan Company for Well Drilling K.S.C.P. ("BDC") <sup>1</sup>	Kuwait	14.66%	2,852,412	14.66%	12,450,793	Oil field services
Arkan Al-Kuwait Real Estate Company K.S.C.P. ("Arkan") <sup>5</sup>	Kuwait	28.99%	5,999,173	28.99%	12,994,150	Real estate
First Education Company K.S.C. (Closed) ("FEDCO")*	Kuwait	22.19%	3,662,373	22.19%	3,631,654	Education
Taameer Investment Company O.L.L.C. ("Taameer") <sup>3*</sup>	Oman	24.82%	6,449,806	37.40%	13,954,180	Investment and Real estate
Al Jazeera Al Oula Real Estate W.L.L. <sup>4*</sup>	KSA	20.90%	3,003,110	20.90%	4,418,992	Real estate
Al-Subeih Medical Company (Khalid Hamad Al-Subeih & Partners) W.L.L. <sup>2*</sup>	Kuwait	25%	2,909,796	25%	2,792,580	Medical equipment and hospital management
Sons of Yousef Al-Subeih Real Estate Company (Khalid Hamad Al-Subeih & Partners) W.L.L. <sup>2*</sup>	Kuwait	25%	588,979	25%	589,835	Real estate
			<b>25,465,649</b>		<b>50,832,184</b>	

\* Private entities - no quoted price available.

<sup>1</sup> The Group exercises significant influence over BDC through its representation on the board of directors of the investee. The Group has considered that significant influence can be achieved through voting rights which gives it the practical ability to influence the relevant activities over the investee company, despite the fact of owning an equity interest of less than 20% shareholding. Further, the fair value of the Group's investment in BDC (based on quoted market price in Bursa Kuwait) was KD 2,852,412 and the carrying amount of the net assets of the entity exceeds its market capitalisation. Notwithstanding the above, the management determined based on the current market conditions, significant financial difficulty and near-term prospects of the associate that the investment is partially impaired. Accordingly, the Group recorded an impairment loss of KD 9,642,918 for the year ended 31 December 2019.

<sup>2</sup> During the year ended 31 December 2017, the Parent Company entered into a purchase agreement (the "Agreement") to acquire 25% equity stake in Al-Subeih Medical Company (Khaled Hamad Al-Subeih & Partners) W.L.L. and Sons of Yousef Al-Subeih Real Estate Company W.L.L. (together referred to as the "Target Business") for a total cash consideration of KD 3,250,000. Under the Agreement, the seller provided an undertaking to establish a holding company under which the net assets of the Target Business will be transferred to, and for which the shares will be allocated between the contractual parties proportionately. As at 31 December 2017, an amount of KD 1,625,000 was paid, representing 50% of the total purchase consideration committed by the Group. During the previous year, the remaining balance of KD 1,625,000 was fully settled. Further, as part of the Agreement, the Parent Company was required to pay a contingent consideration based on performance of the Target Business over an agreed period. The management of the Parent Company has performed an assessment to estimate such contingent payment and determined that no such payment would be required.

During the previous year, the Group finalized the Purchase Price Allocation ("PPA") exercise of the Target Business and determined that the fair value of assets and liabilities acquired do not materially differ from their provisionally determined fair values as at the acquisition date. However, management has identified an intangible asset amounting to KD 38,750 and the remaining identified as a goodwill.

<sup>3</sup> During the previous year, the Parent Company made capital contributions amounting to KD 1,471,683. The amounts received by the associates was from all shareholders pro-rated to their equity interest in the associates and there is no requirement to repay the amount under any circumstances and any repayment is entirely at the discretion of the associates. As a result, these amounts are treated as equity in the books of the associate and a contribution to investment in an associate in the Parent Company's books.

# First Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

### 11 INVESTMENT IN ASSOCIATES (continued)

During the current year, the associate Taameer had a rights issue that the Group did not fully participate in. As a result, the Group's equity interest was diluted to 24.82%. The Group recognised a loss on the deemed disposal, taking into account the entire carrying amount of the associate as follows:

	KD	KD
Carrying amount of the investment before the deemed disposal		13,972,702
Cost of deemed disposal	(4,705,886)	
Share of contribution	2,633,340	
Reduction in carrying amount of an associate on deemed disposal	(2,072,546)	(2,072,546)
Reclassification of share in foreign currency translation	420,566	
Loss on deemed disposal	(1,651,980)	
Carrying amount of the investment after the deemed disposal		11,900,156

Further, the management considered the performance outlook and business operations of the CGU to assess whether an indication of impairment exists at the reporting date. As a result, the Group tested its investment in Taameer for impairment and recognised an impairment loss of KD 5,100,360 for the year ended 31 December 2019.

<sup>4</sup> During the current year, the Parent Company made non-reciprocal capital contributions amounting to KD 487,899 (2018: 544,411). The amounts received by the associates was from all shareholders pro-rated to their equity interest in the associates and there is no requirement to repay the amount under any circumstances and any repayment is entirely at the discretion of the associates. As a result, these amounts are treated as equity in the books of the associate and a contribution to investment in an associate in the Parent Company's books.

<sup>5</sup> As at 31 December 2019, the fair value of the Group's investment in Arkan (based on quoted market price in Boursa Kuwait) was KD 6,406,883 and the carrying amount of the net assets of the entity exceeds its market capitalisation. Notwithstanding the above, the management determined based on the estimated cash flows from the investment (i.e. future dividends and estimated cash flows from disposal of the shares) that the investment is partially impaired. Accordingly, the Group recorded an impairment loss of KD 7,050,530 for the year ended 31 December 2019.

#### Reconciliation to carrying amounts:

	2019 KD	2018 KD
At 1 January	50,832,184	49,382,284
IFRS 9 transition adjustments	-	(246,647)
Additional capital contributions	487,899	2,016,094
Disposals <sup>1</sup>	-	(71,318)
Impairment of associates	(21,793,808)	-
Share of results	(1,074,405)	581,540
Reduction in carrying amount of an associate on deemed disposal	(2,072,546)	-
Dividends received from associates	(682,444)	(898,845)
Foreign exchange adjustments	(771)	80,053
Share of other comprehensive loss	(230,460)	(10,977)
At 31 December	25,465,649	50,832,184

<sup>1</sup> During the year ended 31 December 2018, the Parent Company has received the final liquidation proceeds amounting to KD 91,481 in relation to Sahab Al-Khalij Real Estate Company B.S.C.C ("associate"). As a result the Group recognised a gain of KD 157,143 on derecognition of the associate (calculated as the difference between the net liquidation proceeds and the carrying amount of the associate, at which the accumulative exchange differences of KD 136,980 are reclassified to profit or loss).

First Investment Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

11 INVESTMENT IN ASSOCIATES (continued)

The reporting dates of certain associates are not more than three months from that of the Group and there were no significant events or transactions between the reporting dates of associates and 31 December. The following table illustrates the summarised financial information of the associates.

	Arkan KD	BDC KD	FEDCO KD	Taameer KD	Other KD	2019 KD	2018 KD
Assets							
Liabilities	66,021,151	200,478,011	18,406,225	88,752,218	34,779,369	408,436,974	391,179,056
Intangible assets identified on acquisition	(30,647,916)	(136,449,555)	(2,204,529)	(42,208,994)	(15,081,803)	(226,592,797)	(213,032,887)
	-	21,214,797	-	-	30,139	21,244,936	21,296,603
Equity	35,373,235	85,243,253	16,201,696	46,543,224	19,727,705	203,089,113	199,442,772
% equity interest	28.99%	14.66%	22.19%	24.82%	-	-	-
Group's share in the equity	10,227,143	12,495,330	3,594,622	11,550,166	4,416,752	42,284,013	45,856,740
Goodwill	2,822,560	-	67,751	-	2,085,133	4,975,444	4,975,444
Impairment (including impairment allocated to goodwill)	(7,050,530)	(9,642,918)	-	(5,100,360)	-	(21,793,808)	-
Group's carrying amount of the investment	5,999,173	2,852,412	3,662,373	6,449,806	6,501,885	25,465,649	50,832,184
Revenue	4,671,025	42,960,679	979,150	1,169,614	3,744,178	53,524,646	62,855,610
Profit (loss) for the year	2,318,119	1,002,117	513,443	(1,347,312)	(8,183,974)	(5,697,607)	4,553,550
Other comprehensive loss for the year	(117,375)	-	(375,010)	-	-	(492,385)	(215,758)
Total comprehensive (loss) income for the year	2,200,744	1,002,117	138,433	(1,347,312)	(8,183,974)	(5,189,992)	4,337,792
Dividends received from associates during the year	582,444	-	-	-	100,000	682,444	898,845
Group's share of results for the year	672,023	146,911	113,918	(334,349)	(1,672,908)	(1,074,405)	581,540
Group's share of other comprehensive (loss) income for the year	(34,026)	(102,374)	(83,214)	(427,054)	(5,129)	(651,797)	69,076

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**12 PROPERTIES UNDER DEVELOPMENT**

These represent properties under construction located in Saudi Arabia and carried at cost because their fair value cannot be reliably measured. Management, however, assess these properties for impairment on an annual basis.

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
As at 1 January	<b>913,422</b>	2,548,969
Disposals*	<b>(606,995)</b>	(1,574,288)
Exchange differences	<b>383</b>	4,935
Impairment losses	<b>(1,501)</b>	(66,194)
As at 31 December	<b>305,309</b>	913,422

\* During the current year, the Group disposed certain properties under development with a carrying value of KD 606,995 (2018: KD 1,574,288) resulting in a loss on disposal of KD 99,120 (2018: KD 47,187) recognised in the consolidated statement profit or loss for the year then ended.

**13 INVESTMENT PROPERTIES**

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
As at 1 January	<b>12,571,037</b>	11,198,150
Capital expenditure	<b>7,890</b>	1,044,706
Disposals <sup>1</sup>	<b>(294,394)</b>	-
Valuation (losses) gains <sup>2</sup>	<b>(815,070)</b>	289,408
Exchange differences	<b>(6,203)</b>	38,773
As at 31 December	<b>11,463,260</b>	12,571,037

<sup>1</sup> During the current year, the Group has sold investment properties with an aggregate carrying value of KD 294,394 (2018: KD Nil) for a total cash consideration of KD 228,472 (2018: KD Nil) resulting in a loss on sale of amounting to KD 65,922 (2018: KD Nil) recognised in the profit or loss for the year then ended.

<sup>2</sup> The fair value of investment properties as at 31 December 2019 and 31 December 2018 has been arrived at on the basis of a valuation carried out on the respective dates by independent registered valuers not related to the Group, who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). Based on these valuations, the fair value of investment properties have decreased by KD 815,070 compared to its carrying values as at 31 December 2019 (2018: increase of KD 289,408).

Included within investment properties is a leasehold land granted by the government of Kuwait, carried at KD 3,093,600 (2018: KD 3,426,935). Notwithstanding the contractual term of the lease, management believes, based on market experience, that on expiry of the lease period, the Group will be able to renew the lease for a similar period, without a premium and at nominal rates of ground rent.

As at 31 December 2019, investment properties with a carrying value of KD 7,881,665 (2018: KD 8,282,574) are pledged as a security to fulfil collateral requirements of murabaha payables (Note 14).

The hierarchy for determining and disclosing the fair value of investment properties by valuation techniques, reconciliation of level 3 fair values and sensitivity analysis are presented in Note 23.

# First Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

### 14 MURABAHA PAYABLES

	2019 KD	2018 KD
Gross amount	6,670,745	5,169,579
Less: deferred finance costs	(732,202)	(1,346,552)
	<u>5,938,543</u>	<u>3,823,027</u>

#### Changes in liabilities arising from financing activities

	As at 1 January KD	Cash inflows KD	Cash outflows KD	Other movements * KD	Foreign exchange movement KD	As at 31 December KD
2019	<u>3,823,027</u>	<u>7,830,856</u>	<u>(4,853,397)</u>	<u>(859,453)</u>	<u>(2,490)</u>	<u>5,938,543</u>
2018	<u>3,027,472</u>	<u>1,101,602</u>	<u>(318,560)</u>	<u>-</u>	<u>12,513</u>	<u>3,823,027</u>

\* Other movements of KD 859,453 represents murabaha payable transferred to the net balance of the liabilities held for sale (Note 8).

During the year, the Parent Company obtained revolving murabaha facilities from a local financial institution amounting to KD 6,530,000 to acquire a stake in Boursa Kuwait (Note 9) out of which KD 3,265,000 was repaid. The effective profit rate on these facilities is 4.00% per annum.

As at 31 December 2019, murabaha payables amounting to KD 2,673,543 (2018: KD 3,014,317) carry a profit rate of 6.5% (2018: 6.5%) per annum. which are denominated in Omani Riyals (OMR).

Murabaha payables of KD 5,938,543 (2018: KD 3,823,027) are secured against the following:

- ▶ Murabaha deposits with a carrying value of KD 650,000 (2018: KD 1,300,000) (Note 7).
- ▶ Assets held for sale with a carrying value of KD 650,000 (2018: KD Nil) (Note 8).
- ▶ Investment properties with a carrying value of KD 7,881,665 (2018: KD 8,282,574) (Note 13).

Banking covenants vary according to each loan agreement, but typically require that the loan-to-value ratio does not exceed 50%. A future breach of covenant may require the Group to repay the loan on demand.

During the year, the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

Maturity analysis is disclosed in Note 21.

### 15 OTHER LIABILITIES

	2019 KD	2018 KD
Payable to the shareholders of a subsidiary under liquidation (Note 7)	224,957	312,255
Accrued expenses	410,719	369,870
Other payables *	1,749,858	2,572,764
	<u>2,385,534</u>	<u>3,254,889</u>

\* During the year, one of the Group's subsidiaries in the Kingdom of Saudi Arabia ("KSA") received the final zakat tax assessment from the General Authority of Zakat and Tax ("GAZT") in KSA with respect to a tax appeal filed by the subsidiary for the fiscal periods from 2008 to 2014 (2018: 2008 to 2014). Accordingly, the Group settled the liability amounting to SAR 1,000,000 equivalent to KD 81,108.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**16 SHARE CAPITAL, SHARE PREMIUM, DIVIDENDS AND TREASURY SHARES****(a) Share capital and share premium**

	<i>Number of shares</i>		<i>Authorised, issued and fully paid</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
			<i>KD</i>	<i>KD</i>
Shares of 100 fils each (paid in cash)	<b>651,070,551</b>	651,070,551	<b>65,107,055</b>	65,107,055

Share premium is not available for distribution.

**(b) Distributions proposed**

The Parent Company's Board of Directors in their meeting held on 22 April 2020 (2018: 27 March 2019), has neither proposed cash dividends nor bonus shares issue for the year ended 31 December 2019 (2018: Nil). This proposal is subject to approval by the shareholders at the AGM (2018: This proposal has been approved by the shareholders at the AGM held on 12 May 2019).

**(c) Treasury shares**

	<i>2019</i>	<i>2018</i>
Number of treasury shares	<b>1,627,929</b>	1,627,929
Treasury shares as a percentage of share capital	<b>0.25%</b>	0.25%
Cost of treasury shares (KD)	<b>108,816</b>	108,816
Market value of treasury shares (KD)	<b>57,258</b>	62,187

Gains and losses arising from the sale of treasury shares are recognised in a separate reserve within equity "treasury shares reserve". This reserve shall be deemed un-distributable during the period of holding treasury shares.

Reserves equivalent to the cost of the treasury shares held are not available for distribution during the holding period of such shares as per CMA guidelines.

**17 RESERVES****(a) Statutory reserve**

In accordance with the Companies' Law, and the Parent Company's Articles of Association, a minimum of 10% of the profit for the year before KFAS, NLST, Zakat and Directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's Board of Directors. The AGM of the shareholders of the Parent Company may resolve to discontinue such transfer 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 has been made to statutory reserve, due to losses incurred during the year.

**(b) Fair value reserve**

Changes in the fair value and exchange differences arising on translation of investments that are classified as financial assets at fair value through other comprehensive income (e.g. equities), are recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts are not reclassified to the profit or loss when the associated assets are sold or impaired.

**(c) Foreign currency translation reserve**

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the profit or loss when the net investment is disposed of.

**(d) Share option reserve**

The share option reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested

# First Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

### 18 RELATED PARTY DISCLOSURES

Related parties represent associated companies, managed funds, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management and are subject to the approval of the shareholders at the annual general assembly meeting.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	2019		2018	
	<i>Managed fund</i>	<i>Total</i>	<i>Managed fund</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<b>Consolidated statement of profit or loss</b>				
Management fees	6,210	6,210	5,050	5,050
<b>Consolidated statement of financial position</b>				
Accrued management fees	29,256	29,256	23,045	23,045

#### Key management personnel compensation

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 Group.

The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:

	Transaction values for the year ended 31 December		Balance outstanding as at 31 December	
	2019	2018	2019	2018
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Salaries and short-term benefits	183,747	95,960	8,000	-
End of service benefits	20,363	17,168	150,880	63,126
Other benefits	-	24,000	-	24,000
	<b>204,110</b>	<b>137,128</b>	<b>158,880</b>	<b>87,126</b>

The Board of Directors of the Parent Company proposed a directors' remuneration of KD Nil for the year ended 31 December 2019 (2018: KD Nil approved at AGM held on 12 May 2019). This proposal is subject to the approval of the shareholders at the annual general assembly meeting of the Parent Company.

#### Other transactions

The Group also manages investment portfolios on behalf of related parties amounting to KD 573,029 (2018: KD 561,875) which are not reflected in the Group's consolidated statement of financial position.

# First Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

### 19 SEGMENT INFORMATION

Management monitors the operating results of its geographical segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on return on investments. For management purposes, the Group is organised into four major business segments:

- Real estate
- Financial
- Services
- Others

The Group does not have any inter-segment transactions.

The table below presents income, expense and results for the Group's operating segments for the year ended 31 December 2019 and 2018, respectively:

Year ended 31 December	Real estate		Financial		Services		Others		Total
	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD	
Income, net	(3,048,991)	2,170,385	147,701	213,007	834,233	994,172	1,836,226	87,396	3,464,960
Expenses	(13,586,178)	(1,776,673)	(326,578)	(131,808)	(11,841,776)	(1,262,820)	(22,035,813)	(237,649)	(3,408,950)
Results - (loss) profit for the year <sup>1</sup>	(16,635,169)	393,712	(178,877)	81,199	(11,007,543)	(268,648)	(20,199,587)	(150,253)	56,010

The table below presents assets and liabilities for the Group's operating segments as at 31 December 2019 and 2018, respectively:

At 31 December	Real estate		Financial		Services		Others		Total
	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD	
Segment assets	32,069,796	50,754,393	11,514,542	3,702,955	29,056,131	43,822,029	4,092,450	5,631,681	103,911,058
Segment liabilities	(4,040,983)	(5,109,284)	(3,279,463)	(10,223)	(1,639,845)	(1,629,897)	(21,910,395)	(1,291,755)	(30,870,686)
									(8,041,159)

# First Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

### 19 SEGMENT INFORMATION (continued)

Year ended 31 December	Real estate		Financial		Services		Others		Total	
	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD
<b>Other disclosures:</b>										
Total non-current assets <sup>2</sup>	31,768,468	50,271,989	10,240,597	3,492,677	24,990,650	40,294,112	792,403	1,009,759	67,792,118	95,068,537
Additions to non-current assets <sup>3</sup>	498,847	3,087,901	6,534,363	102,869	4,195	110,933	2,550	12,485	7,039,955	3,314,188
Share of results from associates (Note 11)	(1,551,609)	6,632	-	-	477,204	574,908	-	-	(1,074,405)	581,540
Impairment of associates (Note 11)	(12,150,890)	-	-	-	(9,642,918)	-	-	-	(21,793,808)	-
Impairment of goodwill	-	-	-	-	-	-	(793,368)	-	(793,368)	-
Impairment of property, plant and equipment	(185,249)	-	-	-	-	-	-	-	(185,249)	-
Impairment of properties under development (Note 12)	(1,501)	(66,194)	-	-	-	-	-	-	(1,501)	(66,194)
Expected credit losses of other receivables (Note 10)	(15,811)	(87,625)	-	-	(2,977)	-	-	-	(18,788)	(87,625)

<sup>1</sup> Loss from discontinued operations is grouped under services segment.

<sup>2</sup> Non-current assets for this purpose consist of goodwill and other intangible assets, property and equipment, investment properties, properties under development, investment in associates and financial assets at FVOCI

<sup>3</sup> Additions to non-current assets consists of additions of goodwill and other intangible assets, property and equipment, investment properties, properties under development, investment in associates and financial assets at FVOCI

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

## 19 SEGMENT INFORMATION (continued)

## Geographic information

	2019 KD	2018 KD
<b>Income, net</b>		
Kuwait	3,663,608	2,599,064
Kingdom of Saudi Arabia	(2,114,911)	552,264
Oman	(1,790,174)	99,476
Others	10,646	214,156
	<u>(230,831)</u>	<u>3,464,960</u>
<b>Results – (loss) profit for the year</b>		
Kuwait	(38,383,820)	196,365
Kingdom of Saudi Arabia	(2,491,882)	(82,143)
Oman	(7,156,120)	(272,368)
Others	10,646	214,156
	<u>(48,021,176)</u>	<u>56,010</u>
<b>Segment assets</b>		
Kuwait	39,611,332	51,737,740
Kingdom of Saudi Arabia	21,287,125	28,183,762
Oman	14,393,178	22,313,423
Others	1,441,284	1,676,133
	<u>76,732,919</u>	<u>103,911,058</u>
<b>Segment liabilities</b>		
Kuwait	(26,828,828)	(2,940,664)
Kingdom of Saudi Arabia	(1,055,025)	(1,601,506)
Oman	(2,986,833)	(3,498,989)
	<u>(30,870,686)</u>	<u>(8,041,159)</u>

## 20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group's principal financial liabilities comprise non-derivative financial instruments such as murabaha payables and other liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets comprise financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, other assets and cash and cash equivalents, which derive directly from its operations.

The Group is exposed to credit risk, liquidity risk and market risk (including foreign currency risk, profit rate risk and equity price risk). It is also subject to operational risks. The Group's senior management oversees the management of these risks. The Board of Directors are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. The Board of Directors review and agree policies for managing each of these risks, which are summarised below:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**  
(continued)**20.1 Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily other receivables) and from its financing activities, including deposits with banks and financial institutions.

The Group has policies and procedures in place to limit the amount of credit exposure to any counterparty and establishing a maximum payment period for individual and corporate customers respectively. 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. The Group's bank balances are held with financial institutions with appropriate credit ratings.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets presented in the consolidated statement of financial position.

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Cash and cash equivalents (excluding cash on hand)	4,034,610	5,967,208
Other assets (excluding prepayments)	1,660,131	1,882,602
	<u>5,694,741</u>	<u>7,849,810</u>

***Cash and cash equivalents (excluding cash on hand)***

Credit risk from balances with banks and financial institutions is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies. Further, the principal amounts of deposits in local banks (including saving accounts and current accounts) are guaranteed by the Central Bank of Kuwait in accordance with Law No. 30 of 2008 Concerning Guarantee of Deposits at Local Banks in the State of Kuwait which came into effect on 3 November 2008.

Impairment on cash and cash equivalents and term deposits has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and CBK guarantee of deposits placed with local banks.

***Other receivables***

Other receivables comprise of management fee receivable and other investment related receivables. Outstanding receivables are regularly monitored by management for any specific indicator for counterparty's potential failure to make payments for impairment analysis. As at the reporting date, the majority of the Group's counterparty exposure has a low risk of default and does not include any significant past-due amounts. Accordingly, management identified impairment loss to be immaterial.

**20.2 Liquidity risk**

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is managed by the treasury department of the Parent Company. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**  
(continued)**20.2 Liquidity risk (continued)**

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December was as follows:

	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>2019</b>					
<b>Liabilities</b>					
Murabaha payables	3,426,930	141,389	280,937	2,821,489	6,670,745
Other liabilities	302,886	619,007	609,218	854,423	2,385,534
	<u>3,729,816</u>	<u>760,396</u>	<u>890,155</u>	<u>3,675,912</u>	<u>9,056,279</u>
	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>2018</b>					
<b>Liabilities</b>					
Murabaha payables	236,344	622,460	489,757	3,821,018	5,169,579
Other liabilities	449,553	596,865	1,021,724	1,186,747	3,254,889
	<u>685,897</u>	<u>1,219,325</u>	<u>1,511,481</u>	<u>5,007,765</u>	<u>8,424,468</u>

**20.3 Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: profit rate risk, foreign currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include murabaha payables, deposits, and equity investments

**20.3.1 Profit rate risk**

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to significant profit rate risk since its borrowings are from Islamic financial institutions at fixed profit rates.

**20.3.2 Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency risk is managed by the investment department of the Parent Company on the basis of limits determined by the Board of Directors and a continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****20.3 Market risk (continued)****20.3.2 Foreign currency risk (continued)**

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2019 Equivalent in KD	2018 Equivalent in KD
Saudi Riyal (SAR)	19,979,243	25,066,740
Omani Riyal (OMR)	3,526,199	10,559,819
Others	1,448,901	2,405,268
	<u>24,954,343</u>	<u>38,031,827</u>

The following table demonstrates the sensitivity of the Group's profit (due to changes in the fair value of financial assets and liabilities) and other comprehensive income to a 5% possible change in the exchange rates, with all other variables held constant.

Currency	2019			2018		
	Change in currency rate %	Effect on profit or loss KD	Effect on OCI KD	Change in currency rate %	Effect on profit or loss KD	Effect on OCI KD
SAR	±5	20,912	978,049	±5	4,195	1,249,141
OMR	±5	87	176,223	±5	1,419	526,572
Others	±5	12,640	59,805	±5	52,395	67,869

**20.3.3 Equity price risk**

The Group's exposure to equity securities price risk arises from investments held by the Group and classified as at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL). The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Senior Management reviews and approves all major equity investment decisions. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

At the reporting date, the exposure to non-listed equity investments at fair value was KD 27,508,442. Sensitivity analysis of these investments have been provided in Note 23.

The table below summarises the impact of increases/decreases of the respective price indices in the relevant market on the Group's equity and profit for the period. The analysis is based on the assumption that the equity indexes had increased or decreased by 5% respectively, with all other variables held constant, and that all the Group's equity instruments moved in line with the indexes.

Market indices	2019			2018		
	Change in equity price %	Effect on profit or loss KD	Effect on OCI KD	Change in equity price %	Effect on profit or loss KD	Effect on OCI KD
Boursa Kuwait	±5	-	-	±5	-	549
Saudi Stock Exchange	±5	2,110	-	±5	3,127	-



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****20.4 Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit and practical application of technology.

The recent and rapid development of the coronavirus outbreak across the world have required entities to limit or suspend business operations, implement travel restrictions and quarantine measures that have significantly disrupted (or are expected to disrupt) its activities. In an attempt to manage such events, the Group implements its contingency plans which include preventive safety measures, compliance with legal and regulatory guidelines and instructions, and maximise the use of technology and resources management to meet the day-to-day operational requirements that are required for continuity of the business.

**21 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities have been classified to mature and/or be repaid within twelve months, regardless of the contractual maturities.

		<i>Within one year</i>				
	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Sub- Total KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>2019</b>						
<b>ASSETS</b>						
Cash and cash equivalents	4,037,816	-	-	4,037,816	-	4,037,816
Financial assets at FVPL	42,210	-	66,162	108,372	-	108,372
Other assets	348,989	213,164	66,380	628,533	1,074,991	1,703,524
Inventories	166,916	-	-	166,916	-	166,916
Financial assets at FVOCI	-	-	-	-	28,193,221	28,193,221
Investment in associates	-	-	-	-	25,465,649	25,465,649
Properties under development	-	-	-	-	305,309	305,309
Investment properties	-	-	-	-	11,463,260	11,463,260
Property and equipment	42,460	42,460	14,154	99,074	1,418,125	1,517,199
Goodwill and other intangible assets	14,943	14,943	29,886	59,772	787,708	847,480
Assets held for sale	-	-	2,924,173	2,924,173	-	2,924,173
<b>TOTAL ASSETS</b>	<b>4,653,334</b>	<b>270,567</b>	<b>3,100,755</b>	<b>8,024,656</b>	<b>68,708,263</b>	<b>76,732,919</b>
<b>LIABILITIES</b>						
Murabaha payables	3,364,658	99,658	199,868	3,664,184	2,274,359	5,938,543
Other liabilities	302,886	619,007	609,218	1,531,111	854,423	2,385,534
Provision for legal claims	-	-	1,100,000	1,100,000	19,516,878	20,616,878
End of service benefits	-	-	-	-	868,521	868,521
Liabilities directly associated with the assets held for sale	-	-	1,061,210	1,061,210	-	1,061,210
<b>TOTAL LIABILITIES</b>	<b>3,667,544</b>	<b>718,665</b>	<b>2,970,296</b>	<b>7,356,505</b>	<b>23,514,181</b>	<b>30,870,686</b>
<b>NET GAP</b>	<b>985,790</b>	<b>(448,098)</b>	<b>130,459</b>	<b>668,151</b>	<b>45,194,082</b>	<b>45,862,233</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**21 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

2018	Within one year			Sub- Total KD	Over 1 year KD	Total KD
	Within 3 months KD	3 to 6 months KD	6 to 12 months KD			
<b>ASSETS</b>						
Cash and cash equivalents	5,978,922	-	-	5,978,922	-	5,978,922
Financial assets at FVPL	65,139	-	65,365	130,504	-	130,504
Other assets	667,773	441,752	839,318	1,948,843	19,031	1,967,874
Inventories	255,073	255,073	255,075	765,221	-	765,221
Financial assets at FVOCI	-	-	-	-	26,428,957	26,428,957
Investment in associates	-	-	-	-	50,832,184	50,832,184
Properties under development	-	-	-	-	913,422	913,422
Investment properties	-	-	-	-	12,571,037	12,571,037
Property and equipment	-	-	-	-	2,622,318	2,622,318
Goodwill and other intangible assets	-	-	-	-	1,700,619	1,700,619
<b>TOTAL ASSETS</b>	<b>6,966,907</b>	<b>696,825</b>	<b>1,159,758</b>	<b>8,823,490</b>	<b>95,087,568</b>	<b>103,911,058</b>
<b>LIABILITIES</b>						
Murabaha payables	144,348	572,730	388,897	1,105,975	2,717,052	3,823,027
Other liabilities	449,553	596,865	1,021,724	2,068,142	1,186,747	3,254,889
Provision for legal claims	-	-	-	-	75,648	75,648
End of service benefits	-	-	-	-	887,595	887,595
<b>TOTAL LIABILITIES</b>	<b>593,901</b>	<b>1,169,595</b>	<b>1,410,621</b>	<b>3,174,117</b>	<b>4,867,042</b>	<b>8,041,159</b>
<b>NET GAP</b>	<b>6,373,006</b>	<b>(472,770)</b>	<b>(250,863)</b>	<b>5,649,373</b>	<b>90,220,526</b>	<b>95,869,899</b>

**22 FIDUCIARY ASSETS**

Fiduciary assets comprise of portfolios managed by the Parent Company on behalf of clients. The portfolios have no recourse to the general assets of the Group. The Group makes investment decisions in line with the respective agreements. As at the reporting date, total fiduciary assets managed by the Group amounted to KD 107,290,831 (2018: KD 105,129,865). The total income earned from fiduciary assets for the year ended 31 December 2019 amounted to KD 183,052 (2018: KD 270,863).

**23 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**23 FAIR VALUE MEASUREMENT (continued)**

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's senior management determines the policies and procedures for recurring fair value measurement, such as investment properties and unquoted equity investments.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted equity investments. Involvement of external valuers is decided upon annually by the senior management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The senior management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

The Group measures financial instruments such as investment in equity securities and managed funds, and non-financial assets such as investment properties, at fair value at each reporting date. Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value, including the valuation methods, significant estimates and assumptions are disclosed below.

Set out below that are a summary of financial instruments and non-financial assets measured at fair value on a recurring basis, other than those with carrying amounts that are reasonable approximations of fair values:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
<b>Financial instruments</b>		
Investment securities (at fair value)		
Quoted equity securities	726,987	895,597
Unquoted equity securities	27,508,442	25,598,499
Unquoted funds	66,164	65,365
	<u>28,301,593</u>	<u>26,559,461</u>
<b>Non-financial assets</b>		
Investment properties	<u>11,463,260</u>	<u>12,571,037</u>

Management assessed that the fair value of the following financial assets and liabilities approximate their carrying amounts:

- Cash and cash equivalents
- Other assets
- Murabaha payables
- Other liabilities

**23 FAIR VALUE MEASUREMENT (continued)**

**Valuation methods and assumptions**

The following methods and assumptions were used to estimate the fair values:

*Listed investment in equity securities*

Fair values of publicly traded equity securities are based on quoted market prices in an active market for identical assets without any adjustments. The Group classifies the fair value of these investments as Level 1 of the hierarchy.

*Unlisted equity investments*

The Group invests in private equity companies that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Group uses a market-based valuation technique for these positions. The Group determines comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate trading multiple for each comparable company identified. The multiple is calculated by dividing the market value of the comparable company by its book value. The market value of a company is its share price multiplied by the number of outstanding shares. The book value is the net assets of a company. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. If management determines that market-based valuation technique deems unreflective and a significant underlying value of the investee is within its assets, management alternatively uses adjusted net assets value ("NAV"). The discounted multiple is applied to the corresponding capital measure of the investee company to measure the fair value. The Group classifies the fair value of these investments as Level 3.

*Unlisted funds*

The Group invests in managed funds, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods. The management considers the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investing, to ensure they are reasonable and appropriate. Therefore, the NAV of these investee funds may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the investee fund and fund manager. In measuring fair value, consideration is also paid to any transactions in the shares of the investee fund. Depending on the nature and level of adjustments needed to the NAV and the level of trading in the investee fund, the Group classifies these funds as either Level 2 or Level 3.

*Investment properties*

The fair value of investment properties was assessed by accredited independent real estate experts with recognised and relevant professional qualification and with recent experience in the location and category of the investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 'Fair Value Measurement' and fair value is determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). The fair value of investment property is included within Level 3.

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## 23 FAIR VALUE MEASUREMENT (continued)

## 23.1 Financial instruments

## Fair value hierarchy

The following tables provide the fair value measurement hierarchy of the Group's financial instruments measured at fair value:

		Fair value measurement using		
		Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 2) KD	Significant unobservable inputs (Level 3) KD
				Total KD
<b>31 December 2019</b>				
<i>Financial assets at fair value through profit or loss:</i>				
- Quoted equity securities	42,208	-	-	42,208
- Unquoted funds	-	66,164	-	66,164
	<u>42,208</u>	<u>66,164</u>	<u>-</u>	<u>108,372</u>
<i>Financial assets at fair value through other comprehensive income:</i>				
- Quoted equity securities	684,779	-	-	684,779
- Unquoted equity securities	-	-	27,508,442	27,508,442
	<u>684,779</u>	<u>-</u>	<u>27,508,442</u>	<u>28,193,221</u>
<b>Investment securities (at fair value)</b>	<u>726,987</u>	<u>66,164</u>	<u>27,508,442</u>	<u>28,301,593</u>
		Fair value measurement using		
		Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 2) KD	Significant unobservable inputs (Level 3) KD
				Total KD
<b>31 December 2018</b>				
<i>Financial assets at fair value through profit or loss:</i>				
- Quoted equity securities	65,139	-	-	65,139
- Unquoted funds	-	65,365	-	65,365
	<u>65,139</u>	<u>65,365</u>	<u>-</u>	<u>130,504</u>
<i>Financial assets at fair value through other comprehensive income:</i>				
- Quoted equity securities	830,458	-	-	830,458
- Unquoted equity securities	-	-	25,598,499	25,598,499
	<u>830,458</u>	<u>-</u>	<u>25,598,499</u>	<u>26,428,957</u>
<b>Investment securities (at fair value)</b>	<u>895,597</u>	<u>65,365</u>	<u>25,598,499</u>	<u>26,559,461</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

## 23 FAIR VALUE MEASUREMENT (continued)

## 23.1 Financial instruments (continued)

## Reconciliation of Level 3 fair values

The following table shows a reconciliation of all movements in the fair value of items categorised within Level 3 between the beginning and the end of the reporting period:

	<i>Financial assets at FVOCI KD</i>	<i>Financial assets at FVTPL KD</i>	<i>Total KD</i>
<b>2019</b>			
As at 1 January 2019	25,598,499	-	25,598,499
Remeasurement recognised in OCI	(1,170,286)	-	(1,170,286)
Purchases / (sales), net	3,080,229	-	3,080,229
<b>As at 31 December 2019</b>	<b>27,508,442</b>	<b>-</b>	<b>27,508,442</b>
<b>2018</b>			
As at 1 January 2018	29,166,788	242,702	29,409,490
IFRS 9 transition adjustment	15,505	(242,702)	(227,197)
Remeasurement recognised in OCI	(5,569,805)	-	(5,569,805)
Purchases / (sales), net	1,986,011	-	1,986,011
<b>As at 31 December 2018</b>	<b>25,598,499</b>	<b>-</b>	<b>25,598,499</b>

## Description of significant unobservable inputs to valuation

	<i>Valuation techniques</i>	<i>Significant unobservable inputs</i>	<i>Range</i>	<i>Sensitivity of the input to fair value</i>
Unquoted equity securities	Market approach	DLOM *	20%	Increase (decrease) in the discount would decrease (increase) the fair value.
	Adjusted NAV	DLOM *	0% - 50%	

Discount for lack of marketability (DLOM) represents the amounts that the Group has determined that market participants would take into account when pricing the investments. A 5% increase in the discount would decrease the fair value by KD 1,375,422 (2018: KD 1,285,310).

The management has used the following methods and assumptions to estimate the fair values of financial assets:

- ▶ Quoted equity securities have been fair valued based on their latest price quotations on the respective stock exchange at the reporting date.
- ▶ Fair values of unquoted equity securities are derived through a market approach which utilizes price multiples of comparable quoted companies and adjusted NAV. A lack of marketability discount is applied on the fair values derived through this approach.
- ▶ Fair values of unquoted funds are measured based on their latest net asset values provided by the respective fund manager.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 23 FAIR VALUE MEASUREMENT (continued)

## 23.2 Non-financial assets

The following tables provide the fair value measurement hierarchy of the Group's non-financial assets:

	<i>Total KD</i>	<i>Fair value measurement using</i>		
		<i>Quoted prices in active markets (Level 1) KD</i>	<i>Significant observable inputs (Level 2) KD</i>	<i>Significant unobservable inputs (Level 3) KD</i>
<b>31 December 2019</b>				
Investment properties	11,463,260	-	-	11,463,260
<b>31 December 2018</b>				
Investment properties	12,571,037	-	-	12,571,037

There were no transfers between any levels of the fair value hierarchy during 2019 or 2018.

**Reconciliation of Level 3 fair values**

Reconciliation for recurring fair value measurement of investment properties including gains and losses are categorised within Level 3 of the fair value hierarchy.

**Description of valuation techniques and significant unobservable inputs:**

The Group carries its investment properties at fair value, with changes in fair value being recognised in the profit or loss. The Group engaged an independent valuation specialist to assess fair value as at the reporting date for investment properties. The key assumptions used to determine the fair value of the investment properties and sensitivity analysis are further discussed below.

<i>Valuation technique</i>	<i>Fair value</i>		<i>Significant unobservable inputs</i>	<i>Range</i>	
	<i>2019 KD</i>	<i>2018 KD</i>		<i>2019</i>	<i>2018</i>
Income capitalization approach	10,975,265	11,709,509	▪ Average rent (per sqm)	KD 1 - KD 8.9	KD 1 - KD 8.7
			▪ Yield rate	11.9% - 12.2%	10.7% - 11.8%
Market comparison approach	487,995	861,528	▪ Price (per sqm)	KD 84 - KD 87	KD 66 - KD 94

**Sensitivity analysis**

Significant increase (decrease) in average rent per sqm, yield rate and price per sqm in isolation would result in a significantly higher (lower) fair value of the properties.

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment properties.

	<i>Changes in valuation assumptions</i>	<i>Impact on profit for the year</i>	
		<i>2019 KD</i>	<i>2018 KD</i>
Average rent	+/- 5%	548,763	585,475
Yield rate	+/- 50 bp	475,156	533,673
Price per sqm	+/- 5%	24,400	43,076

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**24 COMMITMENTS AND CONTINGENCIES**

- a) At 31 December 2019, the Group had provided bank guarantees amounting to KD 249,770 (2018: KD 623,838) for which the management anticipates that no material liabilities will arise.
- b) During the prior year ended 31 December 2018, one of the subsidiaries of the Group received a notification from the General Authority of Zakat and Tax ("GAZT") in KSA to settle a tax obligation for the fiscal period from 2008 to 2014 amounting to SAR 7,997,618 (equivalent to KD 647,711) out of which the Parent Company's share amounted to SAR 7,741,199 (equivalent to KD 626,944). The management of the subsidiary believes that the zakat dues notified by GAZT do not reflect the correct application of tax laws in KSA and accordingly, has appointed a tax consultant in KSA to review the tax claim and file an appeal with GAZT. The initial appeal was filed by the tax consultant on 24 January 2019. On 27 March 2019, GAZT issued a revised assessment accepting part of the appeal filed by the tax consultant decreasing the total tax liability by SAR 3.1 million (equivalent to KD 251,828). However, the tax consultant does not agree with GAZT's revised assessment and decided to appeal against the revised assessment.

During the year ended 31 December 2019, the subsidiary received the final zakat tax assessment from GAZT in KSA with respect to a tax appeal filed by the subsidiary for the fiscal periods from 2008 to 2014. Accordingly, the Group settled the liability amounting to SAR 1,000,000 equivalent to KD 81,108.

- c) On 13 November 2018, the Court of Cassation rejected an appeal request which was filed by Kuwait Awqaf Public Foundation ("Awqaf") against a verdict that was issued by the Court of Appeal in favour of the Parent Company. Accordingly, the verdict issued by the Court of Appeal became final and non-appealable which obliges Awqaf to compensate the Parent Company for approximately an amount of KD 1,761,322. During the current year, the Parent Company collected the compensation. Accordingly, the Group recognised an income of KD 1,786,905 within 'other income' in the profit or loss for the year ended 31 December 2019, and incurred legal expenses amounting to KD 89,395 recorded within 'general and administrative expenses' for the year then ended.

**25 LEGAL CLAIMS**

- a) During the year ended 31 December 2006, the Parent Company has signed a contract with the Public Authority for Housing Welfare ("the Authority") to provide consultancy services for the construction of Al Khiran project for a period of two years. Accordingly, the Parent Company has provided bank guarantees for an amount of KD 596,868. Both parties have mutually agreed to end the contract during the year ended 31 December 2013.

During the year ended 31 December 2015, the Parent Company has filed a legal case under No. 3884/2015 claiming a compensation against the services rendered to the Authority. On 13 March 2016, the case has been transferred to the Administrative Circuit of the court under No. 1508/2016.

In 2016, the Authority liquidated part of the bank guarantee amounting to KD 347,098. As a result of this event, the Parent Company has made a provision of KD 347,098 included in the profit or loss during the year then ended.

On 8 January 2017, the Administrative Circuit at the court issued a ruling to transfer the case to the Department of Expert at the Ministry of Justice to verify the elements of the claim and issue an expert report. The session has been postponed awaiting experts' report.

On 19 September 2017, the Parent Company filed a lawsuit under No. 6595/2017 Administrative/3 to suspend the liquidation of the bank guarantees. The case was then referred to the Administrative Circuit at the court. The court issued a ruling to combine both of the cases to have a single hearing, hence the case has been postponed to the session scheduled on 26 April 2020.

The Group has been advised by its legal counsel that it is very unlikely that the final outcome of the case will have a significant effect on the Group's consolidated financial statements. Accordingly, no additional provisions for the liability has been made during the year.



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**25 LEGAL CASES (continued)**

- b) During the years ended 31 December 2006 and 31 December 2007, the Parent Company has entered into agreements to purchase 14,500,000 shares of Al Muttahed for Investment and Real Estate Development Company S.S.C.C (the investee company) from existing shareholders (the sellers). During that period, the purchase consideration for 10,500,000 shares, was paid by the Parent Company in full.

During the year ended 31 December 2007, the Parent Company noted that the sellers have not fulfilled their commitment of transferring certain assets to the investee company as part of their share of increase in the capital of the investee company. Accordingly, the Parent Company withheld the payment for the remaining consideration related to 4,000,000 shares and filed a lawsuit against the sellers claiming for a temporary compensation. On the other hand, the sellers filed a counterclaim against the Parent Company demanding payment for the remaining consideration. However, the counterclaim was rejected by the Court of First Instance, Court of Appeal and the Court of Cassation on 11 April 2016.

Despite the decision from the Court of Cassation, the sellers filed another lawsuit against the Parent Company demanding the payment of KD 13,814,991 related to the remaining purchase consideration.

On 17 January 2017, the Court of First Instance has ruled in favour of the Parent Company rejecting the claim filed by the sellers based on the earlier verdict that was adjudicated by the Court of Cassation on 11 April 2016. The sellers further appealed against the ruling of the Court of First Instance and a verdict was issued on 21 September 2017, accepting the appeal and cancelling the earlier verdict issued by the Court of First Instance and referring the case to the Money Markets Circle.

On 9 January 2018, a verdict was issued rejecting the claim filed by the sellers based on earlier verdicts. However, the Sellers appealed the verdict before the Court of Appeal. On 4 July 2019, the Court of Appeal issued a ruling to transfer the case to the Department of Expert at the Ministry of Justice. The session has been postponed awaiting experts' report.

Based on the advice from the Group's legal counsel, the amount claimed by the sellers is unrealistic and has no merit. In addition, the sellers are not entitled to any compensation due to the judicial ruling of the previous legal case that was adjudicated by the Court of Cassation. Accordingly, no provision for any liability has been made in the consolidated financial statements.

- c) The Parent Company is the defendant in legal proceedings brought by several portfolio clients ("clients") in respect of certain investment transactions executed in a fiduciary capacity by the Parent Company in prior years. The legal actions commenced by the clients against the Parent Company are in various phases of litigation and no court rulings have been issued by the Court of Cassation as of date.

During the current year, unfavourable appeal judgments were handed down against the Parent Company in respect of legal claims filed by certain clients. Further, the Parent Company's request to suspend the appeal verdicts was denied, and accordingly the verdicts issued in favour of some clients became legally enforceable. As a result, the Parent Company executed the underlying judgements and settled an amount of KD 2,656 thousand (including the legal interests due) at the Sentences Execution Department of the Ministry of Justice as of date. However, the Parent Company filed an appeal before the Court of Cassation on the basis of several errors in the appeal verdicts in the application and interpretation of the law and flawed reasoning and other legal reasons.

The recognised provision of KD 20,617 thousand in the consolidated statement of financial position as at 31 December 2019 (2018: KD 76 thousand) reflects the management's best estimate of the most likely outcome of the Group's liability as of that date in respect of the legal claims for which first instance and appeal verdicts have been issued, and the outcome of these claims is not expected to exceed the amount provided for. Notwithstanding the facts therein, the underlying verdicts are not final and are still subject to review by the Court of Cassation despite some verdicts being executed and therefore an estimate of the financial effect of such events cannot be made at the end of the reporting period with a reasonable degree of certainty.

## **26 CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, less cash and cash equivalents for the purpose of the Group's capital management. Capital includes issued share capital, share premium and all other equity reserves attributable to the equity holders of the Parent Company.

## **27 SUBSEQUENT EVENTS**

Subsequent to the reporting date, the coronavirus (COVID-19) outbreak has resulted in significant drop in demand for goods and services and supply chain disruptions. There is also high volatility in the financial markets worldwide. The existing and anticipated effects of the outbreak of COVID-19 on the global economy and financial markets is expected to continue to evolve. The scale and duration of these developments remain uncertain at this stage but could negatively impact the Group's financial performance, cash flows and financial position. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these consolidated financial statements