

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2020**





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## **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 2020, 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 2020, 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 (“ISA”). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Emphasis of Matter*

We draw attention to the Note 11 to the consolidated financial statements which describes that the contract for construction of a beach resort of an associate of the Parent Company, Taameer Investment Company SAOC (“Taameer”), situated in Sultanate of Oman, executed between Ghantoot Transport & Gen. Cont. LLC (“the Contractor”) and Taameer, has been terminated. The termination occurred due to a dispute between Taameer and the Contractor relating to various matters including inordinate delay in the recommencement of work after a natural disaster at the project site in May 2018. Further, during 2019, Taameer encashed performance bonds amounting to OMR 6.55 million (equivalent to KD 5.2 million) given by the Contractor. In response, the Contractor has filed a legal suit against Taameer during 2019, on various grounds relating to the said termination of contract and has requested the court to appoint experts, as a preliminary measure, to file a claim against Taameer. Taameer has filed a counterclaim of OMR 25 million (equivalent to KD 19.7 million) against the Contractor for damages and breach of contract during February 2020. As at the date of authorisation of the consolidated financial statements, the trial proceedings are in progress at the High Court. The ultimate outcome of the matter cannot be determined presently, and as a result, no provision for any liability that may result has been recognised in the consolidated financial statements as at 31 December 2020. Our opinion is not modified in respect of this 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*

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.

#### *Valuation of unquoted equity securities*

The Group's investment securities amounted to KD 21,572,922 representing 28% of the Group's total assets as at 31 December 2020, including unquoted equity investments of KD 20,254,502 designated at fair value through other comprehensive income (FVOCI) and categorised within Level 3 of the fair value hierarchy as disclosed in Note 22 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, including the impact of the current pandemic of COVID-19 uncertainties on their valuations 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 involves use of 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 22 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 24,480,135 as at 31 December 2020, including listed associates with a carrying value of KD 8,879,239.

Investment in associates are accounted for under the equity method of accounting, 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 any such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

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 associates and the qualitative and quantitative factors used such as the associates' financial performance including dividends, and market, economic or legal environment in which the associates operates and the negative outlook due to the impact of the ongoing COVID-19 pandemic. 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 13% of the Group's total assets and are measured at fair value for an amount of KD 10,373,227 as at 31 December 2020.

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, which, although not directly observable, but are corroborated by observable market data, which have been impacted by the ongoing pandemic. The disclosures relating to the inputs are relevant, given the estimation uncertainty involved in these valuations. Given the size of investment properties and the complexity of valuation and the importance of disclosures relating to assumptions used in the valuation and the impact of the ongoing COVID-19 pandemic on the economy, we considered the valuation of investment properties as a key audit matter.

Our audit procedures included, among others, the following:

- ▶ We have considered the methodology and the appropriateness of the valuation models and inputs used to value the investment properties.
- ▶ We have tested the inputs and assumptions made by management of the Group and the appropriateness of the properties' related data supporting the external appraisers' valuations.
- ▶ We performed procedures for areas of risk and estimation. This included, where relevant, comparison of judgments made to current market practices and challenging the valuations on a sample basis, particularly in light of COVID-19.
- ▶ Further, we have considered the objectivity, independence and expertise of the external real estate appraisers.
- ▶ We also assessed the appropriateness of the disclosures relating to the investment properties of the Group in Note 12 and Note 22 to the consolidated financial statements highlighting the increased estimation and uncertainty as a result of COVID-19.

## **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*

The Group is involved in various litigations and court proceedings. At 31 December 2020, the Group held provisions of KD 19,449,233 (2019: KD 20,616,878) in respect of actual legal actions brought against the Parent Company and disclosures have been made in Note 24 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.

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 2020 Annual Report*

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 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 2020 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.

## **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*

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.

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.





## **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)*

- ▶ 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.
- ▶ 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.



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

**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 2020, that might have had a material effect on the business of the Parent Company or on its financial position.

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 2020 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

30 March 2021  
Kuwait

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	<i>Notes</i>	<b>2020</b> <i>KD</i>	<b>2019</b> <i>KD</i>
<b>CONTINUING OPERATIONS</b>			
<b>INCOME</b>			
Revenue from contracts with customers		<b>630,464</b>	709,382
Cost of sales		<b>(315,496)</b>	(365,406)
		<hr/>	<hr/>
<b>GROSS PROFIT</b>		<b>314,968</b>	343,976
Murabaha income		<b>64,681</b>	113,336
Gain on sale of financial assets at fair value through profit or loss		<b>134,515</b>	35,035
Net change in fair value of financial assets at fair value through profit or loss		<b>(40,102)</b>	1,507
Share of results of associates	11	<b>(577,631)</b>	(1,074,405)
Loss on sale of properties under development		-	(99,120)
Loss on deemed disposal in an associate	11	-	(1,651,980)
Loss on disposal of investment property	12	<b>(20,615)</b>	(65,922)
Loss on assets held for sale		-	(38,823)
Net change in fair value of investment properties	12	<b>(810,414)</b>	(815,070)
Dividend income	4	<b>754,467</b>	82,711
Rental income		<b>1,046,558</b>	966,450
Management fees		<b>284,459</b>	183,052
Net foreign exchange differences		<b>446</b>	(10,804)
Other income		<b>54,787</b>	1,799,226
		<hr/>	<hr/>
<b>TOTAL INCOME, NET</b>		<b>1,206,119</b>	(230,831)
<b>EXPENSES</b>			
Staff costs		<b>(1,232,809)</b>	(1,276,136)
Provision for legal claims	24	-	(22,250,529)
Impairment losses, expected credit losses and provisions	5	<b>(90,171)</b>	(22,792,714)
Depreciation of property, plant and equipment and right-of-use assets		<b>(259,304)</b>	(322,563)
Amortisation of intangible assets		<b>(59,771)</b>	(59,771)
Finance costs		<b>(257,863)</b>	(336,973)
Other expenses		<b>(474,085)</b>	(701,525)
		<hr/>	<hr/>
<b>TOTAL EXPENSES</b>		<b>(2,374,003)</b>	(47,740,211)
		<hr/>	<hr/>
<b>LOSS FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>(1,167,884)</b>	(47,971,042)
<b>DISCONTINUED OPERATIONS</b>			
Loss for the year from discontinued operations	8	-	(50,134)
		<hr/>	<hr/>
<b>LOSS FOR THE YEAR</b>		<b>(1,167,884)</b>	(48,021,176)
		<hr/>	<hr/>
<b>Attributable to:</b>			
Equity holders of the Parent Company		<b>(886,019)</b>	(47,606,354)
Non-controlling interests		<b>(281,865)</b>	(414,822)
		<hr/>	<hr/>
		<b>(1,167,884)</b>	(48,021,176)
		<hr/>	<hr/>
<b>BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b>	6	<b>(1.36) fils</b>	(73.30) fils
		<hr/>	<hr/>
<b>BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY FOR CONTINUING OPERATIONS</b>	6	<b>(1.36) fils</b>	(73.25) fils
		<hr/>	<hr/>

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 2020

	Note	2020 KD	2019 KD
<b>LOSS FOR THE YEAR</b>		<b>(1,167,884)</b>	(48,021,176)
<b>Other comprehensive income (loss)</b>			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Share of other comprehensive income (loss) of associates	11	<b>16,618</b>	(18,290)
Reclassification of share in foreign currency translation on deemed disposal in an associate	11	-	(420,566)
Net exchange differences on translation of foreign operations		<b>(8,044)</b>	20,493
<b>Net other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods</b>		<b>8,574</b>	(418,363)
<i>Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:</i>			
Net gain (loss) on equity instruments designated at fair value through other comprehensive income		<b>4,197,459</b>	(1,315,963)
Share of other comprehensive loss of associates	11	<b>(108,286)</b>	(212,941)
<b>Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods</b>		<b>4,089,173</b>	(1,528,904)
Other comprehensive income (loss) for the year		<b>4,097,747</b>	(1,947,267)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>2,929,863</b>	(49,968,443)
<b>Attributable to:</b>			
Equity holders of the Parent Company		<b>3,221,017</b>	(49,555,819)
Non-controlling interests		<b>(291,154)</b>	(412,624)
		<b>2,929,863</b>	(49,968,443)

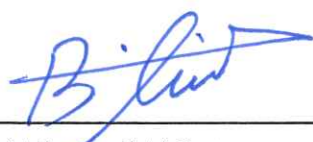
The attached notes 1 to 27 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 KD	2019 KD
<b>ASSETS</b>			
Cash and cash equivalents	7	11,580,471	4,037,816
Financial assets at fair value through profit or loss	9	664,670	108,372
Other assets	10	2,227,352	1,703,524
Inventories		181,921	166,916
Financial assets at fair value through other comprehensive income	9	20,908,252	28,193,221
Investment in associates	11	24,480,135	25,465,649
Properties under development		-	305,309
Investment properties	12	10,373,227	11,463,260
Property, plant and equipment		2,417,912	1,517,199
Goodwill and other intangible assets		787,709	847,480
		<u>73,621,649</u>	<u>73,808,746</u>
Assets held for sale	8	2,924,173	2,924,173
<b>TOTAL ASSETS</b>		<u><b>76,545,822</b></u>	<u><b>76,732,919</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Murabaha payables	13	2,939,923	5,938,543
Other liabilities	14	3,451,832	2,385,534
Provision for legal claims		19,449,233	20,616,878
End of service benefits		904,612	868,521
		<u>26,745,600</u>	<u>29,809,476</u>
Liabilities directly associated with the assets held for sale	8	1,061,210	1,061,210
<b>TOTAL LIABILITIES</b>		<u><b>27,806,810</b></u>	<u><b>30,870,686</b></u>
<b>EQUITY</b>			
Share capital	15	65,107,055	65,107,055
Share premium	15	-	18,250,362
Treasury shares	15	(108,816)	(108,816)
Statutory reserve	16	-	1,299,173
Share options reserve	16	-	3,016,890
Treasury shares reserve	15	1,118,684	1,118,684
Fair value reserve	16	(5,823,223)	(4,881,963)
Foreign currency translation reserve	16	1,013,869	1,001,455
Accumulated losses		(16,196,525)	(42,912,813)
<b>Equity attributable to equity holders of the Parent Company</b>		<u><b>45,111,044</b></u>	<u><b>41,890,027</b></u>
Non-controlling interests		3,627,968	3,972,206
<b>TOTAL EQUITY</b>		<u><b>48,739,012</b></u>	<u><b>45,862,233</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>76,545,822</b></u>	<u><b>76,732,919</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 2020

	<i>Attributable to equity holders of the Parent Company</i>											
	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>Share options reserve</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Foreign currency translation reserve</i>	<i>Accumulated losses</i>	<i>Sub-total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<b>As at 1 January 2020</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>
Loss for the year	-	-	-	-	-	-	-	-	(886,019)	(886,019)	(281,865)	(1,167,884)
Other comprehensive income (loss) for the year	-	-	-	-	-	-	4,094,622	12,414	-	4,107,036	(9,289)	4,097,747
Total comprehensive income (loss) for the year	-	-	-	-	-	-	4,094,622	12,414	(886,019)	3,221,017	(291,154)	2,929,863
Transfer of fair value reserve on derecognition of equity instruments designated at FVOCI	-	-	-	-	-	-	(5,035,882)	-	5,035,882	-	-	-
Partial extinguishment of accumulated losses (Note 27)	-	(18,250,362)	-	(1,299,173)	(3,016,890)	-	-	-	22,566,425	-	-	-
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(53,084)	(53,084)
<b>At 31 December 2020</b>	<b>65,107,055</b>	<b>-</b>	<b>(108,816)</b>	<b>-</b>	<b>-</b>	<b>1,118,684</b>	<b>(5,823,223)</b>	<b>1,013,869</b>	<b>(16,196,525)</b>	<b>45,111,044</b>	<b>3,627,968</b>	<b>48,739,012</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 2020

	<i>Attributable to equity holders of the Parent Company</i>											
	<i>Share capital KD</i>	<i>Share premium KD</i>	<i>Treasury shares KD</i>	<i>Statutory reserve KD</i>	<i>Share options reserve KD</i>	<i>Treasury shares reserve KD</i>	<i>Fair value reserve KD</i>	<i>Foreign currency translation reserve KD</i>	<i>Accumulated losses KD</i>	<i>Sub-total KD</i>	<i>Non-controlling interests KD</i>	<i>Total equity KD</i>
As at 1 January 2019	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	-	-	-	-	-	-	(1,529,387)	(420,078)	-	(1,949,465)	2,198	(1,947,267)
Total comprehensive loss for the year	-	-	-	-	-	-	(1,529,387)	(420,078)	(47,606,354)	(49,555,819)	(412,624)	(49,968,443)
Transfer of fair value reserve on derecognition of equity instruments designated at FVOCI	-	-	-	-	-	-	810,711	-	(810,711)	-	-	-
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(39,223)	(39,223)
At 31 December 2019	<u>65,107,055</u>	<u>18,250,362</u>	<u>(108,816)</u>	<u>1,299,173</u>	<u>3,016,890</u>	<u>1,118,684</u>	<u>(4,881,963)</u>	<u>1,001,455</u>	<u>(42,912,813)</u>	<u>41,890,027</u>	<u>3,972,206</u>	<u>45,862,233</u>

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 2020

	Notes	2020 KD	2019 KD
<b>OPERATING ACTIVITIES</b>			
Loss for the year from continuing operations		<b>(1,167,884)</b>	(47,971,042)
Loss for the year from discontinued operations		-	(50,134)
		<hr/>	<hr/>
<b>Loss for the year</b>		<b>(1,167,884)</b>	(48,021,176)
<i>Adjustments to reconcile loss to net cash flows:</i>			
Murabaha income		<b>(64,681)</b>	(113,336)
Gain on sale of financial assets at fair value through profit or loss		<b>(134,515)</b>	(35,035)
Net change in fair value of financial assets at fair value through profit or loss		<b>40,102</b>	(1,507)
Share of results of associates	11	<b>577,631</b>	1,074,405
Loss on sale of properties under development		-	99,120
Loss on deemed disposal in an associate		-	1,651,980
Loss on disposal of investment property		<b>20,615</b>	65,922
Loss on assets held for sale		-	38,823
Net change in fair value of investment properties	12	<b>810,414</b>	815,070
Dividend income	4	<b>(754,467)</b>	(82,711)
Net foreign exchange differences		<b>(446)</b>	10,804
Provision for legal claims		-	22,250,529
Impairment of associates		-	21,793,808
Impairment of goodwill		-	793,368
Impairment of property and equipment		-	185,249
Impairment of properties under development		-	1,501
Allowance for expected credit losses	10	<b>90,171</b>	18,788
Depreciation of property, plant and equipment and right-of-use assets		<b>295,408</b>	359,725
Amortization of intangible assets		<b>59,771</b>	59,771
Finance costs		<b>257,863</b>	336,973
Provision for employees' end of service benefits		<b>168,108</b>	87,713
		<hr/>	<hr/>
		<b>198,090</b>	1,389,784
<i>Changes in operating assets and liabilities:</i>			
Net movement in financial assets at fair value through profit or loss		<b>(161,931)</b>	59,540
Inventories		<b>(15,005)</b>	3,470
Other assets		<b>(649,414)</b>	(271,683)
Other liabilities		<b>160,710</b>	(638,947)
Provision for legal claims		<b>(1,167,645)</b>	(1,709,299)
		<hr/>	<hr/>
Cash used in operations		<b>(1,635,195)</b>	(1,167,135)
Murabaha income received		<b>57,444</b>	105,958
Finance costs paid		<b>(82,294)</b>	(360,511)
Taxes paid		-	(123,841)
Employees' end of service benefits paid		<b>(132,017)</b>	(52,921)
		<hr/>	<hr/>
<b>Net cash flows used in operating activities</b>		<b>(1,792,062)</b>	(1,598,450)
<b>INVESTING ACTIVITIES</b>			
Dividend income received		<b>754,467</b>	82,711
Purchase of financial assets at fair value through other comprehensive income		<b>(39,364)</b>	(6,534,363)
Proceeds from sale of financial assets at fair value through other comprehensive income		<b>11,570,244</b>	3,454,134
Additions to investment in associates	11	<b>(366,229)</b>	(487,899)
Dividends received from associates	11	<b>682,444</b>	682,444
Proceeds from sale of properties under development		-	507,875
Development expenditure on investment properties	12	-	(7,890)
Proceeds from sale of investment properties		<b>271,802</b>	228,472
Purchase of property and equipment		<b>(352,419)</b>	(9,803)
Cash and cash equivalents related to assets held for sale		-	(1,018,835)
		<hr/>	<hr/>
<b>Net cash flows from (used in) investing activities</b>		<b>12,520,945</b>	(3,103,154)

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 2020

	<i>Notes</i>	<b>2020</b> <i>KD</i>	<i>2019</i> <i>KD</i>
<b>FINANCING ACTIVITIES</b>			
Proceeds from murabaha payables	13	<b>264,615</b>	7,830,856
Repayment of murabaha payables	13	<b>(3,265,000)</b>	(4,853,397)
Dividends paid		<b>(1,359)</b>	(2,538)
Net movement in non-controlling interests		<b>(53,084)</b>	(39,223)
Payment of principal portion of lease liabilities		<b>(131,400)</b>	(175,200)
<b>Net cash flows (used in) from financing activities</b>		<b>(3,186,228)</b>	2,760,498
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents as at 1 January		<b>7,542,655</b>	(1,941,106)
		<b>4,037,816</b>	5,978,922
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>	<b>7</b>	<b>11,580,471</b>	4,037,816
<b>Non-cash items excluded from the consolidated statement of cash flows:</b>			
Transitional adjustment to lease liabilities on adoption of IFRS 16		-	268,915
Transitional adjustment to property, plant and equipment on adoption of IFRS 16		-	(268,915)
Additions to right-of-use assets and lease liabilities		<b>845,648</b>	-
Assets and liabilities of disposal group classified as held for sale	8	-	(844,128)

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

# 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 2020

### 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 2020 were authorised for issue in accordance with a resolution of the board of directors of the Parent Company on 30 March 2021. The shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting.

The Parent Company is a Kuwaiti public shareholding company incorporated and domiciled in Kuwait and whose shares are publicly traded on Boursa Kuwait. 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 Sharī‘a principles as approved by the Group’s Fatwa and Sharī‘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 Note 1.2 below. Information on other related party relationships of the Group is provided in Note 17.

# 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 2020

### 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
		2020	2019	
Al Marwa Holding Company K.S.C. (Closed) <sup>1</sup>	Kuwait	99.22%	99.22%	Holding company
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 Real estate investment
Shomoul Real Estate Company L.L.C.	KSA	50.00%	50.00%	Real estate trading
Yasmeen Al Kuwait Real Estate Company S.P.C. <sup>5</sup>	Kuwait	100%	100%	Real estate trading
Q80 International Valve Industries Company W.L.L. <sup>4</sup>	Kuwait	66.67%	66.67%	Manufacturing
Asian Petroleum Facilities Maintenance Company W.L.L. <sup>4</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% (2019: 65%).

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

<sup>4</sup> During the previous year ended 31 December 2019, 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. ("certain subsidiaries") to a third-party investor. Accordingly, these certain subsidiaries are presented as a disposal group held for sale. Refer to Note 8 for further details.

<sup>5</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.

#### (b) Associates

Details of the Group's associates are disclosed in Note 11.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require the expected credit losses ("ECL") on credit facilities to be measured at the higher of the amount computed under IFRS 9 *Financial Instruments* 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 of the Group 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 that have been measured at fair value less costs to sell.

## 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 20.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

#### 2.2.1 Summary of accounting policies for new transactions and events

##### *Government grants*

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

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

#### 2.2.2 New standards, interpretations and amendments adopted by the Group

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2020, 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.

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

The amendment to IFRS 3, *Business Combinations*, clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future years should the Group enter into any business combinations.

##### **Amendments to IFRS 7, IFRS 9 and IAS 39: *Profit Rate Benchmark Reform***

The amendments to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, provide a number of reliefs, which apply to all hedging relationships that are directly affected by profit rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any profit rate hedge relationships.

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

The amendments provide a new definition of material that states “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 clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

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

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

**2.2.2 New standards, interpretations and amendments adopted by the Group (continued)**

**Conceptual Framework for Financial Reporting issued on 29 March 2018**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the consolidated financial statements of the Group.

**Amendments to IFRS 16 Covid-19 Related Rent Concessions**

On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

**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 IAS 1: Classification of Liabilities as Current or Non-current**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1, *Presentation of financial statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

**Reference to the Conceptual Framework – Amendments to IFRS 3**

In May 2020, the IASB issued Amendments to IFRS 3, *Business Combinations - Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

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

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

**Reference to the Conceptual Framework – Amendments to IFRS 3 (continued)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The Group is currently assessing the impact the amendments will have on the consolidated financial statements.

**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16**

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group’s consolidated financial statements.

**Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37**

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Group.

**IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities**

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

**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.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.1 Basis of consolidation (continued)**

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.

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 other 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.

Any contingent consideration to be transferred by the acquirer is recognised 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 consolidated statement of 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 profit or loss.



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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.2 Business combinations and acquisition of non-controlling interests (continued)**

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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.

**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 considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. 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.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 Group 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 Group does not have any contracts for the sale of goods provide customers with a right of return or involve volume rebates.

(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.

*Rental income*

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms.

**2.4.5 Dividend income**

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

**2.4.6 Profit income and expense**

Profit income and expense are recognised in the profit or loss for all profit-bearing financial instruments using the effective profit method.

**2.4.7 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.

**2.4.8 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.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.8 Taxation (continued)**

*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.

**2.4.9 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 profit (SPPP)' on the principal amount outstanding. This assessment is referred to as the SPPP test and is performed at an instrument level. Financial assets with cash flows that are not SPPP are classified and measured at fair value through profit or loss, irrespective of the business model.

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 profit method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*i) Financial assets (continued)*

**Subsequent measurement (continued)**

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

For debt instruments at fair value through OCI, profit 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 profit or dividend income, are recognised in profit or loss.

**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.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*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, profit-bearing murabaha payables are subsequently measured at amortised cost using the effective profit rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective profit rate 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 effective profit rate. The effective profit rate 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.

**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.

**2.4.10 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.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.10 Impairment of financial assets (continued)**

*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 profit 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.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.11 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.

**2.4.12 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are 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, plant and equipment' up to the date of change in use.

**2.4.13 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 property, plant and equipment and borrowing costs if the recognition criteria are met. When significant parts of property, 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 property, 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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.14 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.

**2.4.15 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.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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.

**2.4.16 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.

**2.4.17 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.

**2.4.18 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.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.20 Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

***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.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (2.4.15) 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.

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 profit 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 profit 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) and lease of low-value assets. 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 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.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.21 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.

**2.4.22 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.

**2.4.23 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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.24 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.

**2.4.25 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.

Property, plant 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.

**2.4.26 Cash and cash equivalents**

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand, non-restricted cash at banks, cash held in investment portfolios and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts (if any) as they are considered an integral part of the Group's cash management.

**2.4.27 Cash dividend**

The Parent Company recognises a liability to pay a dividend when the distribution is no longer at the discretion of the Parent Company. As per the Companies Law, a distribution is authorised when it is approved by the shareholders at the AGM. A corresponding amount is recognised directly in equity.

**2.4.28 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.

### 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 profit on the principal amount outstanding.

##### *Consolidation of entities in which the Group holds less than a majority 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).

##### *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 consolidated 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 consolidated financial statements.

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

**3.1 Significant judgements (continued)**

***Legal proceedings (continued)***

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 previous 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. The management has 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.

***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 12.



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

**3.2 Estimates and assumptions (continued)**

***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.

***Impairment of non-financial assets other than goodwill***

The Group assesses impairment of non-financial assets other than goodwill at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

***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.

***Provision for impairment of inventories***

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

***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 (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

**4 DIVIDEND INCOME**

	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Financial assets at fair value through profit or loss	<b>9,256</b>	38,569
Financial assets at fair value through other comprehensive income	<b>745,211</b>	44,142
	<b>754,467</b>	82,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

**5 IMPAIRMENT LOSSES, EXPECTED CREDIT LOSSES AND PROVISIONS**

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
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	-	1,501
Allowance for expected credit losses of other receivables (Note 10)	<b>90,171</b>	18,788
	<b>90,171</b>	22,792,714

**\* Impairment of goodwill**

As at 31 December 2020, the Group has performed its impairment test on goodwill acquired through business combinations in prior years. The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the estimated impact of COVID-19 outbreak. The discount rate applied to cash flow projections is 9.9% (2019: 10.2%) and cash flows beyond the five-year period are extrapolated using a 2.5% growth rate (2019: 2.6%). Based on its assessment, the management has concluded that no impairment loss on goodwill is required to be recognised during the current year (2019: an impairment loss of KD 793,368 was recognised in respect of the Group's investment in its subsidiary (CGU), which is specialised in manufacturing and printing of computer forms and paper products).

**Key assumptions used in value in use calculations**

The calculation of value in use is most sensitive to the following assumptions:

- Discount rates;
- Projected growth rates used to extrapolate cash flows beyond the budget period and
- Local inflation rates.

▶ *Discount rates*

Discount rates reflect management's estimate of return on capital employed (ROCE) required. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the weighted average cost of capital (WACC).

▶ *Projected growth rates used to extrapolate cash flows beyond the budget period*

Assumptions are based on industry research by the management. Further, the management assesses how the CGUs relative position to its competitors might change over the forecast period.

▶ *Local inflation rates*

Estimates are obtained from published indices for the countries where the CGU operate, as well as data relating to specific commodities.

**6 EARNINGS PER SHARE (EPS)**

Basic EPS amounts are calculated by dividing the loss 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 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.

# 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 2020

### 6 EARNINGS PER SHARE (EPS) (continued)

	2020	2019
Loss for the year attributable to equity holders of the Parent Company:		
Continuing operations (KD)	<b>(886,019)</b>	(47,572,962)
Discontinued operations (KD)	-	(33,392)
	<u>                    </u>	<u>                    </u>
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (KD)</b>	<b>(886,019)</b>	(47,606,354)
	<u>                    </u>	<u>                    </u>
Weighted average number of shares outstanding (shares) *	<b>649,442,622</b>	649,442,622
	<u>                    </u>	<u>                    </u>
<b>Basic and diluted loss per share (fils)</b>	<b>(1.36)</b>	(73.30)
	<u>                    </u>	<u>                    </u>
From continuing operations attributable to the equity holders of the Parent Company (fils)	<b>(1.36)</b>	(73.25)
From discontinued operations (fils)	-	(0.05)
	<u>                    </u>	<u>                    </u>
<b>Total basic and diluted loss per share attributable to equity holders of the Parent Company (fils)</b>	<b>(1.36)</b>	(73.30)
	<u>                    </u>	<u>                    </u>

\* 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:

	2020	2019
	KD	KD
Cash on hand	<b>1,708</b>	3,206
Cash at bank	<b>2,035,410</b>	1,137,328
Murabaha deposits with original maturities of three months or less	<b>8,798,011</b>	2,009,498
Cash held in managed portfolios	<b>745,342</b>	887,784
	<u>                    </u>	<u>                    </u>
	<b>11,580,471</b>	4,037,816
	<u>                    </u>	<u>                    </u>

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 0.88% and 1.4% (2019: 2.55% and 2.80%) per annum.

Murabaha deposits with a carrying amount of KD 650,000 (2019: KD 650,000) have been pledged to fulfill collateral requirements of murabaha payables of the Group (Note 13).

In prior years, First Energy Resource Company K.S.C. (Closed) (Under Liquidation), a subsidiary of the Group, had announced the distribution of first liquidation cash payment amounting to KD 6,062,000 to its 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 2020, certain shareholders have not collected their share of the distribution. As a result, the cash and cash equivalents disclosed above and in the consolidated statement of cash flows includes certain cash at bank amounting to KD 217,683 (2019: KD 224,957) 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 2020

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

During the prior year ended 31 December 2019, the management publicly announced its intentions to exit its investments in Q80 International Valve Industries Company W.L.L. (“Q80 Valve”) and Asian Petroleum Facilities Maintenance Company W.L.L. (“Asian Petroleum”) (“subsidiaries”) through selling its equity interest in the subsidiaries to a third-party investor. As a result, the associated assets and liabilities of these subsidiaries were presented as held for sale in the consolidated statement of financial position of the Group. Due to the shutdown of government agencies posed by the COVID-19 outbreak, the legal proceedings to complete the sale are still outstanding as at 31 December 2020.

Subsequent to the reporting date, legal proceedings for transfer of one of these subsidiaries i.e. Q80 Valve was completed on 18 February 2021. However, legal proceedings in respect to Asian Petroleum are still outstanding as at the date of authorization of this consolidated financial statements.

The major classes of assets and liabilities of Q80 Valve and Asian Petroleum classified as held for sale as at 31 December 2019 are, as follows:

	<i>Q80 Valve</i> 2019 <i>KD</i>	<i>Asian Petroleum</i> 2019 <i>KD</i>	<i>Total</i> 2019 <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
	<u>2,572,998</u>	<u>351,175</u>	<u>2,924,173</u>
<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
	<u>1,060,035</u>	<u>1,175</u>	<u>1,061,210</u>
Liabilities directly associated with assets held for sale	1,060,035	1,175	1,061,210
Net assets directly associated with disposal group	<u>1,512,963</u>	<u>350,000</u>	<u>1,862,963</u>

The results of Q80 Valve and Asian Petroleum for the year ended 31 December 2019 are presented below:

	<i>2019</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
Cost of sales	(1,353,993)	-	(1,353,993)
Gross profit	249,528	-	249,528
Other income	11,809	-	11,809
Staff cost	(173,258)	-	(173,258)
Depreciation	(10,971)	(6,393)	(17,364)
Finance costs	(43,334)	-	(43,334)
Other expenses	(68,694)	(8,821)	(77,515)
Loss for the year from discontinued operations	<u>(34,920)</u>	<u>(15,214)</u>	<u>(50,134)</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 2020

### 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:

	2019 KD
Operating	500,213
Financing	50,743
	<u>550,956</u>

	2019
EARNINGS PER SHARE (EPS)	
Basic and diluted loss for the year from discontinued operations (fils)	(0.05)

### 9 INVESTMENT SECURITIES

	2020 KD	2019 KD
<i>Financial assets at FVTPL</i>		
Quoted equity securities	350,047	42,208
Unquoted investment fund	314,623	66,164
	<u>664,670</u>	<u>108,372</u>
<i>Financial assets at FVOCI</i>		
Quoted equity securities	653,750	684,779
Unquoted equity securities*	20,254,502	27,508,442
	<u>20,908,252</u>	<u>28,193,221</u>
<b>Investment securities at fair value</b>	<u><b>21,572,922</b></u>	<u><b>28,301,593</b></u>

\* On 9 July 2020, the Group disposed its entire equity interest in Boursa Kuwait, an equity security designated at FVOCI, for a total cash consideration of KD 11,570,244. The cumulative net change in the fair value of the security amounting to KD 5,035,882 has been recycled to accumulated losses during the year then ended.

The hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques are presented in Note 22.

### 10 OTHER ASSETS

	2020 KD	2019 KD
Accrued management fees	231,345	73,225
Prepayments	210,937	43,393
Other receivables, net *	1,785,070	1,586,906
	<u>2,227,352</u>	<u>1,703,524</u>

\* As at 31 December 2020, other receivables with an initial carrying value of KD 1,197,748 (2019: KD 1,107,577) were impaired and fully provided for. Other classes within accounts receivable do not contain impaired assets.

# 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 2020

### 10 OTHER ASSETS (continued)

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

	2020 KD	2019 KD
As at 1 January	1,107,577	1,088,789
Allowance recognised in profit or loss for the year	90,171	18,788
As at 31 December	<u>1,197,748</u>	<u>1,107,577</u>

### 11 INVESTMENT IN ASSOCIATES

Set out below are the associates of the Group as at 31 December:

Name of the company	County of incorporation	2020		2019		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%	3,175,102	14.66%	2,852,412	Oil field services
Arkan Al-Kuwait Real Estate Company K.S.C.P. ("Arkan") <sup>4</sup>	Kuwait	28.99%	5,704,137	28.99%	5,999,173	Real estate
First Education Company K.S.C. (Closed) ("FEDCO") <sup>*</sup>	Kuwait	22.19%	3,582,381	22.19%	3,662,373	Education
Taameer Investment Company S.A.O.C ("Taameer") <sup>2*</sup>	Oman	24.82%	6,116,918	24.82%	6,449,806	Investment and Real estate
Al Jazeera Al Oula Real Estate W.L.L. <sup>3*</sup>	KSA	20.90%	2,350,778	20.90%	3,003,110	Real estate
Al-Subeih Medical Company (Khalid Hamad Al-Subeih & Partners) W.L.L. <sup>*</sup>	Kuwait	25%	2,964,090	25%	2,909,796	Medical equipment and hospital management
Sons of Yousef Al-Subeih Real Estate Company (Khalid Hamad Al-Subeih & Partners) W.L.L. <sup>*</sup>	Kuwait	25%	586,729	25%	588,979	Real estate
			<u>24,480,135</u>		<u>25,465,649</u>	

\* 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 Boursa Kuwait) was KD 5,406,067 (2019: KD 2,852,412) and the carrying amount of the net assets of the entity exceeds its market capitalisation. Based on its assessment, the management has concluded that no impairment loss is required to be recognised during the current year (2019: an impairment loss of KD 9,642,918 was recognised in respect of the Group's investment in BDC).

# 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 2020

### 11 INVESTMENT IN ASSOCIATES (continued)

<sup>2</sup> During the previous year ended 31 December 2019, 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:

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

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. Based on its assessment, the management has concluded that no impairment loss is required to be recognised during the current year (2019: an impairment loss of KD 5,100,360 was recognised in respect of the Group's investment in Taameer).

#### *Legal claim contingency in respect of Taameer*

The contract for construction of a Beach Resort, through a subsidiary of the Associate, Dhofar Beach Resort LLC ("the Subsidiary of Taameer"), at the Governorate of Dhofar, Sultanate of Oman, executed between Ghantoot Transport & Gen. Cont. LLC ("the Contractor") and Taameer, has been terminated. The termination occurred due to a dispute between Taameer and the Contractor relating to various matters including inordinate delay in the recommencement of work after a natural disaster at the project site in May 2018. Further, during 2019, Taameer encashed performance bonds amounting to OMR 6.55 million (equivalent to KD 5.2 million) given by the Contractor. In response, the Contractor has filed a legal suit against Taameer during 2019, on various grounds relating to the said termination of contract and has requested the court to appoint experts, as a preliminary measure, to file a claim against Taameer. Taameer has filed a counterclaim of OMR 25 million (equivalent to KD 19.7 million) against the Contractor for damages and breach of contract during February 2020. The proceedings of the legal suit are currently ongoing, and decision is pending from the High Court.

Taameer has been advised by its legal counsel that it is only possible, but not probable, that the action against Taameer will succeed. Accordingly, Taameer has not recognised any provision for any liability that may arise in its consolidated financial statements for the year ended 31 December 2020.

<sup>3</sup> During the current year, the Parent Company made non-reciprocal capital contributions amounting to KD 366,229 (2019: 487,899). 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>4</sup> As at 31 December 2020, the fair value of the Group's investment in Arkan (based on quoted market price in Bursa Kuwait) was KD 5,846,280 (2019: KD 6,406,883) and the carrying amount of the net assets of the entity exceeds its market capitalisation. Based on its assessment, the management has concluded that no impairment loss is required to be recognised during the current year (2019: an impairment loss of KD 7,050,530 was recognised in respect of the Group's investment in Arkan).

# 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 2020

### 11 INVESTMENT IN ASSOCIATES (continued)

#### *Reconciliation to carrying amounts:*

	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
At 1 January	<b>25,465,649</b>	50,832,184
Additional capital contributions	<b>366,229</b>	487,899
Impairment of associates	-	(21,793,808)
Share of results	<b>(577,631)</b>	(1,074,405)
Reduction in carrying amount of an associate on deemed disposal	-	(2,072,546)
Dividends received from associates	<b>(682,444)</b>	(682,444)
Foreign exchange adjustments	<b>16,618</b>	(771)
Share of other comprehensive loss	<b>(108,286)</b>	(230,460)
At 31 December	<b>24,480,135</b>	25,465,649



# 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 2020

### 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.

	<i>Arkan KD</i>	<i>BDC KD</i>	<i>FEDCO KD</i>	<i>Taameer KD</i>	<i>Other KD</i>	<i>2020 KD</i>	<i>2019 KD</i>
Assets	81,714,896	218,586,542	18,094,302	87,709,235	37,902,232	444,007,207	408,436,974
Liabilities	(47,453,391)	(152,356,923)	(2,253,090)	(42,507,208)	(21,082,732)	(265,653,344)	(226,592,797)
Intangible assets identified on acquisition	-	21,214,797	-	-	-	21,214,797	21,244,936
<b>Equity</b>	<b>34,261,505</b>	<b>87,444,416</b>	<b>15,841,212</b>	<b>45,202,027</b>	<b>16,819,500</b>	<b>199,568,660</b>	<b>203,089,113</b>
<b>% equity interest</b>	<b>28.99%</b>	<b>14.66%</b>	<b>22.19%</b>	<b>24.82%</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Group's share in the equity</b>	<b>9,932,107</b>	<b>12,818,020</b>	<b>3,514,630</b>	<b>11,217,278</b>	<b>3,816,464</b>	<b>41,298,499</b>	<b>42,284,013</b>
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)	(21,793,808)
<b>Group's carrying amount of the investment</b>	<b>5,704,137</b>	<b>3,175,102</b>	<b>3,582,381</b>	<b>6,116,918</b>	<b>5,901,597</b>	<b>24,480,135</b>	<b>25,465,649</b>
Revenue	4,272,371	50,632,558	274,372	716,809	1,812,894	57,709,004	53,524,646
Profit (loss) for the year	1,022,779	2,201,163	50,525	(1,371,916)	(4,234,046)	(2,331,495)	(5,697,607)
Other comprehensive loss for the year	(31,376)	-	(411,009)	-	-	(442,385)	(492,385)
Total comprehensive income (loss) for the year	991,403	2,201,163	(360,484)	(1,371,916)	(4,234,046)	(2,773,880)	(6,189,992)
Dividends received from associates during the year	582,444	-	-	-	100,000	682,444	682,444
<b>Group's share of results for the year</b>	<b>296,504</b>	<b>322,690</b>	<b>11,211</b>	<b>(340,010)</b>	<b>(868,026)</b>	<b>(577,631)</b>	<b>(1,074,405)</b>
<b>Group's share of other comprehensive loss for the year</b>	<b>(9,096)</b>	<b>-</b>	<b>(91,203)</b>	<b>-</b>	<b>-</b>	<b>(100,299)</b>	<b>(651,797)</b>

# 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 2020

### 12 INVESTMENT PROPERTIES

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
As at 1 January	<b>11,463,260</b>	12,571,037
Capital expenditure	-	7,890
Disposals <sup>1</sup>	<b>(292,417)</b>	(294,394)
Valuation losses <sup>2</sup>	<b>(810,414)</b>	(815,070)
Exchange differences	<b>12,798</b>	(6,203)
	<hr/>	<hr/>
As at 31 December	<b>10,373,227</b>	11,463,260
	<hr/> <hr/>	<hr/> <hr/>

<sup>1</sup> During the current year, the Group has sold investment properties with an aggregate carrying value of KD 292,417 (2019: KD 294,394) for a total cash consideration of KD 271,802 (2019: KD 228,472) resulting in a loss on sale of amounting to KD 20,615 (2019: KD 65,922) recognised in the profit or loss for the year ended.

<sup>2</sup> The fair value of investment properties as at 31 December 2020 and 31 December 2019 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 has decreased by KD 810,414 compared to its carrying value as at 31 December 2020 (2019: KD 815,070).

Included within investment properties is a leasehold land granted by the government of Kuwait, carried at KD 3,093,600 (2019: KD 3,093,600). 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 2020, investment properties with a carrying value of KD 7,098,180 (2019: KD 7,881,665) are pledged as a security to fulfil collateral requirements of murabaha payables (Note 13).

The hierarchy for determining and disclosing the fair value of investment properties by valuation techniques and sensitivity analysis are presented in Note 22.2.

# 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 2020

### 13 MURABAHA PAYABLES

	<b>2020</b>	<b>2019</b>
	<b>KD</b>	<b>KD</b>
Gross amount	<b>4,089,343</b>	6,670,745
Less: deferred finance costs	<b>(1,149,420)</b>	(732,202)
	<b><u>2,939,923</u></b>	<u>5,938,543</u>

#### Changes in liabilities arising from financing activities

	<i>As at 1</i>	<i>Cash</i>	<i>Cash</i>	<i>Other</i>	<i>Foreign</i>	<i>As at 31</i>
	<i>January</i>	<i>inflows</i>	<i>outflows</i>	<i>movements *</i>	<i>exchange</i>	<i>December</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>movement</i>	<i>KD</i>
					<i>KD</i>	
<b>2020</b>	<b><u>5,938,543</u></b>	<b><u>264,615</u></b>	<b><u>(3,265,000)</u></b>	<b><u>-</u></b>	<b><u>1,765</u></b>	<b><u>2,939,923</u></b>
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>

\* Other movements of KD 859,453 in 2019 represent murabaha payable transferred to the net balance of the liabilities held for sale (Note 8).

As at 31 December 2020, murabaha payables amounting to KD 2,675,308 (2019: KD 2,673,543) carry a profit rate of 6.5% (2019: 6.5%) per annum. which are denominated in Omani Riyals (OMR).

Murabaha payables of KD 2,939,923 (2019: KD 5,938,543) are secured against the following:

- ▶ Murabaha deposits with a carrying value of KD 650,000 (2019: KD 650,000) (Note 7).
- ▶ Assets held for sale with a carrying value of KD 650,000 (2019: KD 650,000) (Note 8).
- ▶ Investment properties with a carrying value of KD 7,098,180 (2019: KD 7,881,665) (Note 12).
- ▶ Property, plant and equipment with a carrying amount of KD 1,579,133 (2019: KD Nil).

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 20.

### 14 OTHER LIABILITIES

	<b>2020</b>	<b>2019</b>
	<b>KD</b>	<b>KD</b>
Payable to the shareholders of a subsidiary under liquidation (Note 7)	<b>217,683</b>	224,957
Accrued expenses	<b>874,747</b>	410,719
Other payables *	<b>2,359,402</b>	1,749,858
	<b><u>3,451,832</u></b>	<u>2,385,534</u>

\* During the previous year ended 31 December 2019, 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. Accordingly, the Group settled the liability amounting to SAR 1,000,000 equivalent to KD 81,108.

# 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 2020

### 15 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>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</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

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 has been approved by the shareholders at the extraordinary general assembly meeting (“EGM”) held on 29 December 2020. Subsequent to reporting date, the capital reduction was authenticated in the commercial register on 09 February 2021 under registration number 71828.

Share premium represents the difference between the nominal value of the shares issued and the subscription or issue price. The reserve is not available for distribution except in cases stipulated by the Companies Law.

For details of movement in share premium during the year, refer to Note 27.

#### (b) Distributions proposed

The Parent Company’s Board of Directors in their meeting held on 30 March 2021 (2019: 22 April 2020), has neither proposed cash dividends nor bonus shares issue for the year ended 31 December 2020 (2019: Nil). This proposal is subject to approval by the shareholders at the AGM (2019: This proposal has been approved by the shareholders at the AGM held on 28 June 2020).

#### (c) Treasury shares

	<i>2020</i>	<i>2019</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>61,910</b>	57,258

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.

### 16 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.

For details of movement in the reserve during the year, refer to Note 27.

#### (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.

# 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 2020

### 16 RESERVES (continued)

#### (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

For details of movement in the reserve during the year, refer to Note 27.

### 17 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.

	2020		2019	
	<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
<b>Consolidated statement of financial position</b>				
Accrued management fees	<b>29,256</b>	<b>29,256</b>	29,256	29,256

#### 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:

	<i>Transaction values for the year ended 31 December</i>		<i>Balance outstanding as at 31 December</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Salaries and short-term benefits	<b>247,518</b>	183,747	<b>56,905</b>	8,000
End of service benefits	<b>105,161</b>	20,363	<b>166,255</b>	150,880
Board Committee attendees' benefits	<b>55,000</b>	-	<b>55,000</b>	-
	<b>407,679</b>	204,110	<b>278,160</b>	158,880

The Board of Directors of the Parent Company proposed a directors' remuneration of KD Nil for the year ended 31 December 2020 (2019: KD Nil approved at AGM held on 28 June 2020). 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 Nil (2019: KD 573,029) 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 2020

### 18 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 years ended 31 December 2020 and 2019, respectively:

	Real estate		Financial		Services		Others		Total	
	2020 KD	2019 KD	2020 KD	2019 KD	2020 KD	2019 KD	2020 KD	2019 KD	2020 KD	2019 KD
Year ended 31 December										
Income, net	<b>443,258</b>	(1,150,339)	<b>748,357</b>	147,701	<b>(236,309)</b>	(1,064,419)	<b>250,813</b>	1,836,226	<b>1,206,119</b>	(230,831)
Expenses	<b>(1,241,268)</b>	(13,586,178)	<b>(240,307)</b>	(326,578)	<b>(811,005)</b>	(11,841,776)	<b>(81,423)</b>	(22,035,813)	<b>(2,374,003)</b>	(47,790,345)
Results - (loss) profit for the year <sup>1</sup>	<b>(798,010)</b>	(14,736,517)	<b>508,050</b>	(178,877)	<b>(1,047,314)</b>	(12,906,195)	<b>169,390</b>	(20,199,587)	<b>(1,167,884)</b>	(48,021,176)

The table below presents assets and liabilities for the Group's operating segments as at 31 December 2020 and 2019, respectively:

	Real estate		Financial		Services		Others		Total	
	2020 KD	2019 KD	2020 KD	2019 KD	2020 KD	2019 KD	2020 KD	2019 KD	2020 KD	2019 KD
At 31 December										
Segment assets	<b>28,841,820</b>	29,066,686	<b>8,614,969</b>	11,514,542	<b>31,496,865</b>	32,059,241	<b>7,592,168</b>	4,092,450	<b>76,545,822</b>	76,732,919
Segment liabilities	<b>(4,733,814)</b>	(4,040,983)	<b>(13,275)</b>	(3,279,463)	<b>(2,279,838)</b>	(1,639,845)	<b>(20,779,883)</b>	(21,910,395)	<b>(27,806,810)</b>	(30,870,686)

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

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As at and for the year ended 31 December 2020

18 SEGMENT INFORMATION (continued)

Year ended 31 December	Real estate		Financial		Services		Others		Total	
	2020 KD	2019 KD	2020 KD	2019 KD	2020 KD	2019 KD	2020 KD	2019 KD	2020 KD	2019 KD
<b>Other disclosures:</b>										
Total non-current assets <sup>2</sup>	<b>28,060,577</b>	28,765,358	<b>3,242,599</b>	10,240,597	<b>27,272,107</b>	27,993,760	<b>706,577</b>	792,403	<b>59,281,860</b>	67,792,118
Additions to non-current assets <sup>3</sup>	<b>405,093</b>	498,847	-	6,534,363	<b>161,177</b>	4,195	<b>21,436</b>	2,550	<b>587,706</b>	7,039,955
Share of results from associates (Note 11)	<b>(45,756)</b>	346,187	-	-	<b>(531,875)</b>	(1,420,592)	-	-	<b>(577,631)</b>	(1,074,405)
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	-	(1,501)	-	-	-	-	-	-	-	(1,501)
Expected credit losses of other receivables (Note 10)	<b>(77,404)</b>	(15,811)	-	-	<b>(12,767)</b>	(2,977)	-	-	<b>(90,171)</b>	(18,788)

<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, plant 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, plant 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 2020

18 SEGMENT INFORMATION (continued)

Geographic information

	2020 KD	2019 KD
<b>Income, net</b>		
Kuwait	2,544,650	3,663,608
Kingdom of Saudi Arabia	(873,636)	(2,114,911)
Oman	(461,944)	(1,790,174)
Others	(2,951)	10,646
	<u>1,206,119</u>	<u>(230,831)</u>
<b>Results – loss for the year</b>		
Kuwait	596,458	(38,383,820)
Kingdom of Saudi Arabia	(988,326)	(2,491,882)
Oman	(773,065)	(7,156,120)
Others	(2,951)	10,646
	<u>(1,167,884)</u>	<u>(48,021,176)</u>
<b>Segment assets</b>		
Kuwait	41,352,046	39,611,332
Kingdom of Saudi Arabia	20,089,079	21,287,125
Oman	13,772,490	14,393,178
Others	1,332,207	1,441,284
	<u>76,545,822</u>	<u>76,732,919</u>
<b>Segment liabilities</b>		
Kuwait	(23,909,644)	(26,828,828)
Kingdom of Saudi Arabia	(779,211)	(1,055,025)
Oman	(3,117,955)	(2,986,833)
	<u>(27,806,810)</u>	<u>(30,870,686)</u>

19 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:



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As at and for the year ended 31 December 2020

**19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**  
(continued)

**19.1 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>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Cash and cash equivalents (excluding cash on hand)	<b>11,578,763</b>	4,034,610
Other assets (excluding prepayments)	<b>2,016,415</b>	1,660,131
	<b>13,595,178</b>	5,694,741

***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 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 assets***

Other assets 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.

**19.2 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 2020

**19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**  
(continued)

**19.2 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 profit 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>2020</b>					
<b>Liabilities</b>					
Murabaha payables	-	157,813	303,357	3,628,173	4,089,343
Other liabilities	766,701	370,467	498,704	1,815,960	3,451,832
	<u>766,701</u>	<u>528,280</u>	<u>802,061</u>	<u>5,444,133</u>	<u>7,541,175</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>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>

**19.3 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.

**19.3.1 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.

**19.3.2 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.

# 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 2020

### 19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 19.3 Market risk (continued)

##### 19.3.2 Foreign currency risk (continued)

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

	<i>2020</i>	<i>2019</i>
	<i>Equivalent in KD</i>	<i>Equivalent in KD</i>
Saudi Riyal (SAR)	<b>19,674,868</b>	19,979,243
Omani Riyal (OMR)	<b>3,556,748</b>	3,526,199
Others	<b>1,341,796</b>	1,448,901
	<b><u>24,573,412</u></b>	<u>24,954,343</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.

<i>Currency</i>	<i>2020</i>			<i>2019</i>		
	<i>Change in currency rate %</i>	<i>Effect on profit or loss KD</i>	<i>Effect on OCI KD</i>	<i>Change in currency rate %</i>	<i>Effect on profit or loss KD</i>	<i>Effect on OCI KD</i>
SAR	<b>±5</b>	<b>56,833</b>	<b>926,910</b>	±5	20,912	978,049
OMR	±5	27	177,810	±5	87	176,223
Others	±5	12,550	54,540	±5	12,640	59,805

##### 19.3.3 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) (Note 9). 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 20,254,502. Sensitivity analyses of these investments have been provided in Note 22.

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.

<i>Market indices</i>	<i>2020</i>			<i>2019</i>		
	<i>Change in equity price %</i>	<i>Effect on profit or loss KD</i>	<i>Effect on OCI KD</i>	<i>Change in equity price %</i>	<i>Effect on profit or loss KD</i>	<i>Effect on OCI KD</i>
Boursa Kuwait Saudi Stock Exchange	<b>±5</b>	-	<b>2,989</b>	±5	-	-
	<b>±5</b>	<b>16,754</b>	-	±5	2,110	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**  
(continued)

**19.4 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.

**20 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 3 months KD</i>	<i>Within one year 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>2020</b>						
<b>ASSETS</b>						
Cash and cash equivalents	11,580,471	-	-	11,580,471	-	11,580,471
Financial assets at FVPL	350,047	-	-	350,047	314,623	664,670
Other assets	332,902	411,367	222,201	966,470	1,260,882	2,227,352
Inventories	181,921	-	-	181,921	-	181,921
Financial assets at FVOCI	-	-	-	-	20,908,252	20,908,252
Investment in associates	-	-	-	-	24,480,135	24,480,135
Investment properties	-	-	-	-	10,373,227	10,373,227
Property and equipment	42,282	42,282	84,564	169,128	2,248,784	2,417,912
Goodwill and other intangible assets	14,943	14,943	29,886	59,772	727,937	787,709
Assets held for sale	2,924,173	-	-	2,924,173	-	2,924,173
<b>TOTAL ASSETS</b>	<b>15,426,739</b>	<b>468,592</b>	<b>336,651</b>	<b>16,231,982</b>	<b>60,313,840</b>	<b>76,545,822</b>
<b>LIABILITIES</b>						
Murabaha payables	-	17,940	123,151	141,091	2,798,832	2,939,923
Other liabilities	766,701	370,467	498,704	1,635,872	1,815,960	3,451,832
Provision for legal claims	-	1,140,696	-	1,140,696	18,308,537	19,449,233
End of service benefits	-	-	-	-	904,612	904,612
Liabilities directly associated with the assets held for sale	1,061,210	-	-	1,061,210	-	1,061,210
<b>TOTAL LIABILITIES</b>	<b>1,827,911</b>	<b>1,529,103</b>	<b>621,855</b>	<b>3,978,869</b>	<b>23,827,941</b>	<b>27,806,810</b>
<b>NET GAP</b>	<b>13,598,828</b>	<b>(1,060,511)</b>	<b>(285,204)</b>	<b>12,253,113</b>	<b>36,485,899</b>	<b>48,739,012</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

2019	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	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>

### 21 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 106,600,369 (2019: KD 107,290,831). The total income earned from fiduciary assets for the year ended 31 December 2020 amounted to KD 284,459 (2019: KD 183,052).

### 22 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.

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**22 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>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
<b>Financial instruments</b>		
Investment securities (at fair value)		
Quoted equity securities	<b>1,003,797</b>	726,987
Unquoted equity securities	<b>20,254,502</b>	27,508,442
Unquoted funds	<b>314,623</b>	66,164
	<b><u>21,572,922</u></b>	<u>28,301,593</u>
<b>Non-financial assets</b>		
Investment properties	<b><u>10,373,227</u></b>	<u>11,463,260</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

**22 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. The discounted multiple is applied to the corresponding capital measure of the investee company to measure the fair value. If management determines that market-based valuation technique is not reflective of fair value and the fair value of the investee lies within its assets, management alternatively uses the adjusted net assets value (“NAV”) approach. 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 reported 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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22 FAIR VALUE MEASUREMENT (continued)

22.1 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			Total KD
	Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 2) KD	Significant unobservable inputs (Level 3) KD	
<b>31 December 2020</b>				
<b>Financial assets at FVTPL:</b>				
Quoted equity securities	350,047	-	-	350,047
Unquoted funds	-	314,623	-	314,623
	<u>350,047</u>	<u>314,623</u>	<u>-</u>	<u>664,670</u>
<b>Financial assets at FVOCI:</b>				
Quoted equity securities	653,750	-	-	653,750
Unquoted equity securities	-	-	20,254,502	20,254,502
	<u>653,750</u>	<u>-</u>	<u>20,254,502</u>	<u>20,908,252</u>
<b>Investment securities (at fair value)</b>	<u>1,003,797</u>	<u>314,623</u>	<u>20,254,502</u>	<u>21,572,922</u>
<b>31 December 2019</b>				
<b>Financial assets at FVTPL:</b>				
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>
<b>Financial assets at FVOCI:</b>				
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>



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**22 FAIR VALUE MEASUREMENT (continued)**

**22.1 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>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
As at 1 January	<b>27,508,442</b>	25,598,499
Remeasurement recognised in OCI	<b>4,228,488</b>	(1,170,286)
Purchases / (sales), net	<b>(11,482,428)</b>	3,080,229
<b>As at 31 December</b>	<b><u>20,254,502</u></b>	<b><u>27,508,442</u></b>

**Description of significant unobservable inputs to valuation**

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December are as shown below:

	<i>Valuation techniques</i>	<i>Significant unobservable inputs</i>	<i>Range (weighted average)</i>	<i>Sensitivity of the input to fair value</i>
Unquoted equity securities	Market multiple approach	Sector PBV Multiple	0.42-1.31 (0.87)	10% increase (decrease) in the Sector PBV multiple would result in an increase (decrease) in fair value by KD 498,014
		DLOM *	20% - 40%	5% increase (decrease) in the DLOM would result in (decrease) increase in fair value by KD 351,129
	Adjusted NAV	DLOM *	0% - 50%	5% increase (decrease) in the DLOM would result in (decrease) increase in fair value by KD 661,596

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.

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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 22 FAIR VALUE MEASUREMENT (continued)

#### 22.2 Non-financial assets

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

	Fair value measurement using			
	<i>Total</i> <i>KD</i>	<i>Quoted prices</i> <i>in active</i> <i>markets</i> <i>(Level 1)</i> <i>KD</i>	<i>Significant</i> <i>observable</i> <i>inputs</i> <i>(Level 2)</i> <i>KD</i>	<i>Significant</i> <i>unobservable</i> <i>inputs</i> <i>(Level 3)</i> <i>KD</i>
<b>31 December 2020</b>				
Investment properties	<b>10,373,227</b>	-	-	<b>10,373,227</b>
<b>31 December 2019</b>				
Investment properties	11,463,260	-	-	11,463,260

There were no transfers between any levels of the fair value hierarchy during 2020 or 2019.

#### Reconciliation of Level 3 fair values

Reconciliation for recurring fair value measurement of investment properties categorised within Level 3 of the fair value hierarchy is disclosed in Note 12.

#### 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>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>		<i>2020</i>	<i>2019</i>
Income capitalisation approach	<b>10,191,780</b>	10,975,265	▶ Average rent	<b>KD 1.22 - 8.31</b>	KD 1 - KD 8.9
			▶ (per sqm)		
			▶ Yield rate	<b>10.01%-10.8%</b>	11.9% - 12.2%
Market comparison approach	<b>181,447</b>	487,995	▶ Price (per sqm)	<b>KD 81</b>	KD 84 - KD 87

#### 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>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Average rent	+/- 5%	<b>509,589</b>	548,763
Yield rate	+/- 50 bp	<b>461,253</b>	475,156
Price per sqm	+/- 5%	<b>9,072</b>	24,400

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**23 COMMITMENTS AND CONTINGENCIES**

- a) At 31 December 2020, the Group had provided bank guarantees amounting to KD Nil (2019: KD 249,770) for which the management anticipates that no material liabilities will arise.
- b) 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 previous year ended 31 December 2019, 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 ‘other expenses’ for the year then ended.

**24 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, and assigned the accounting expert his engagement who was supported by engineering expert for investigating the technical deviations of the entity. The Experts’ Department raised its final report on March 2019.

On the other side, on 19 September 2017, the Parent Company filed a lawsuit under No. 6595/201 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 lawsuit. On 27 December 2020, the Court of First Instance issued its ruling in the two cases as follows: (1) obliging the Authority to pay the Parent Company an amount of KD 57,817 representing the value of the last payment for the contract work conducted, (2) obliging the Authority to release and not to liquidate the guarantee relating to the advance payment and performance guarantee (3) obliging the Authority to pay the Parent Company an amount of KD 29,337 as a compensation for damages.

However, after taking appropriate legal advice, the Parent Company have decided to appeal against the decision. The Court of Appeal is expected to consider this matter on 27 April 2021.

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 provision for any liability that may arise has been made during the year.

- 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.

**24 LEGAL CLAIMS (continued)**

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 dismissing the case of the sellers on inadmissibility ground for the being previously adjudicated. However, the Sellers appealed the previous verdict before the Court of Appeal. On 4 July 2019, the Court of Appeal issued a ruling to refer the case to the Department of Expert at the Ministry of Justice. The hearing 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.

During the current year, some unfavourable appeal judgments were issued 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 1,425 thousand (2019: 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 19,449 thousand in the consolidated statement of financial position as at 31 December 2020 (2019: KD 20,617 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.

- d) During the year ended 31 December 2016, the sellers referred to in point (b) filed a lawsuit against the Parent Company and another Company calling for a joint compensation against the seizure of certain securities held under investment portfolio. Based on the Expert's report, the Court of First Instance ruled in favour of the sellers on 25 November 2020 and obliged the Parent Company and the other Company jointly to pay the sellers an amount of KD 2,087,500. However, after taking appropriate legal advice, the Parent Company has decided to appeal against the decision. The Court of Appeal is expected to consider this matter on 22 April 2021.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 24 LEGAL CASES (continued)

- e) During the year ended 31 December 2017, the aforementioned sellers filed another lawsuit against the Parent Company calling for a compensation against the seizure of certain securities held under investment portfolio. After deliberation by the Court and Department of Expert on the lawsuit, on 24 December 2019, the ruling of the court of first instance was issued dismissing the case of the sellers on inadmissibility ground for being previously adjudicated by virtue of final verdicts issued by the Court of Cassation. The sellers were not satisfied by the verdict and appealed for it. The Court of Appeal is expected to consider this matter on 08 April 2021.

### 25 CAPITAL MANAGEMENT

The Group's capital management objectives are:

- ▶ To ensure the Group's ability to continue as a going concern, and
- ▶ to provide an adequate return to shareholders by pricing products and services in a way that reflects the level of risk involved in providing those goods and services.

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the Parent Company. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Group's policy is to keep the gearing ratio within acceptable levels. The Group includes within net debt, Murabaha payables, other liabilities, less cash and short-term deposits, excluding discontinued operations.

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Murabaha payables (Note 13)	<b>2,939,923</b>	5,938,543
Other liabilities (Note 14)	<b>3,451,832</b>	2,385,534
Less: cash and short-term deposits (Note 7)	<b>(11,580,471)</b>	(4,037,816)
<b>Net debt (A)</b>	<b>(5,188,716)</b>	4,286,261
Equity attributable to equity holders of the Parent Company (B)	<b>45,111,044</b>	41,890,027
<b>Capital and net debt (C)</b>	<b>39,922,328</b>	46,176,288
<b>Gearing ratio (A/C)</b>	<b>-13%</b>	9%

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

## 26 IMPACT OF COVID-19 OUTBREAK

The Covid-19 outbreak was first reported near the end of 2019. At that time, a cluster of cases displaying the symptoms of a ‘pneumonia of unknown cause’ were identified in Wuhan, the capital of China’s Hubei province. On 31 December 2019, China alerted the World Health Organisation (WHO) of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a ‘Public Health Emergency of International Concern’. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the Covid-19 outbreak to be a pandemic.

The measures to slow the spread of Covid-19 have had a significant impact on the global economy. Governments worldwide imposed travel bans and strict quarantine measures. Businesses are dealing with lost revenue and disrupted supply chains. While the country has started to ease the lockdown, the relaxation has been gradual. The Covid-19 pandemic has also resulted in significant volatility in financial markets and as a result, the government has announced measures to provide financial assistance to the private sector.

Entities should consider whether to disclose the measures they have taken, in line with the recommendations of the WHO and national health authorities, to preserve the health of their employees and support the prevention of contagion in their administrative and operational areas, such as working from home, reduced work shifts in operational areas to minimise the number of workers commuting, rigorous cleaning of workplaces, distribution of personal protective equipment, testing of suspected cases and measuring body temperature.

As a result, the Group considered the impact of Covid-19 in preparing its consolidated financial statements. While the specific areas of judgement may not change, the impact of Covid-19 resulted in the application of further judgement within those areas.

Given the evolving nature of Covid-19 and the limited recent experience of the economic and financial impacts of such a pandemic, changes to estimates may need to be made in the measurement of the Group’s assets and liabilities may arise in the future.

### *Other assets*

The Group uses the simplified model in calculation of the ECL for other current assets that do not contain a significant financing component by establishing 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. However, the segmentation applied in previous periods may no longer be appropriate and may need to be revised to reflect the different ways in which the COVID-19 outbreak affects different types of customers (e.g. by extending payment terms for trade receivables or by following specific guidance issued by the government).

The Group will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

### *Impairment of non-financial assets*

As at the reporting date, the Group has considered the potential impact of the current economic volatility in the determination of the reported amounts of the Group’s non-financial assets and the unobservable inputs are developed using the best available information about the assumptions that market participants would make in pricing these assets at the reporting date. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

The Group acknowledges that certain geographies and sectors in which these assets are located are negatively impacted, and as the situation continues to unfold, the Group will continuously monitor the market outlook and use relevant assumptions in reflecting the values of these non-financial assets as and when they occur.

### *Fair value measurement of investment properties*

The market disruption caused by the COVID-19 pandemic resulted in a reduction in transactional evidence and market yields, and accordingly, there is an increased risk that the price realised in an actual transaction would differ from the value conclusion arrived by the valuers.

The highly uncertain economic outlook for the period may have a material adverse effect on the tenants’ operations, the viability of their business and their ability to meet their rental obligations. This uncertainty is factored into the valuation of investment property, specifically in estimating rent payments from existing tenants, the void periods, occupancy rates, expected market rental growth rates and the discount rate, all of which are significant inputs into the fair value determination. As a result of this increased uncertainty, the assumptions may be revised significantly in 2021.

**26 IMPACT OF COVID-19 OUTBREAK (continued)**

***Fair value measurement of investment securities***

The Group has considered potential impacts of the current market volatility in determination of the reported amounts of the Group's unquoted financial assets, and this represents management's best assessment based on observable available information as at the reporting date. Given the impact of COVID 19, the Group is closely monitoring whether the fair values of its investment securities represent the price that would be achieved for transactions between market participants in the current scenario.

***Government assistance***

In an attempt to mitigate the impact of the Covid-19 pandemic, the Government of Kuwait has introduced measures to aid private entities in response to the pandemic. These measures include government assistance made towards national workforce in the private sector for a period of up to six months effective from April 2020.

During the current year, the Group received an aggregate amount of KD 48,990 from the Public Authority for Manpower. The financial support is accounted for in accordance with IAS 20 'Accounting for Government Grants and Disclosures of Government Assistance' and recognised in profit or loss in 'other income' on a systematic basis over the periods in which the Group recognises expenses for the related staff costs. There is no outstanding balance of deferred income or receivable related to this grant as at 31 December 2020.

***Going concern assessment***

There is still significant uncertainty over how the outbreak will impact the Group's business in future periods and its operations. Management has therefore modelled a number of different scenarios considering a period of 12 months from the date of authorisation of these consolidated financial statements in the light of current economic conditions and all available information about future risks and uncertainties. The assumptions modelled are based on the estimated potential impact of COVID-19 restrictions and regulations, along with management's proposed responses over the course of the year. The impact of COVID-19 may continue to evolve, but based on the Group's liquidity position and financial resources as at the date of authorisation of these consolidated financial statements, the projections show that the Group has ample resources to continue in operational existence and its going concern position remains largely unaffected and unchanged from 31 December 2019. As a result, these consolidated financial statements have been prepared on a going concern basis.

**27 BOARD OF DIRECTORS' RECOMMENDATIONS, GENERAL ASSEMBLY RESOLUTIONS AND REDUCTION IN SHARE CAPITAL**

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 was approved by the shareholders at the annual general assembly meeting (AGM) held on 28 June 2020 and extraordinary general assembly meeting (EGM) held on 29 December 2020.

The Board of Directors of the Parent Company in their meeting held on 3 June 2020 proposed to extinguish accumulated losses of KD 42,912,813 as at 31 December 2019 in the following manner:

1. Partial extinguishment of accumulated losses through utilising share options reserve of KD 3,016,890 which was subsequently approved by the shareholders of the Parent Company at the AGM held on 28 June 2020.
2. Partial extinguishment of accumulated losses through utilising:
  - Share premium of KD 18,250,360.
  - Statutory reserve of KD 1,299,173.
3. Capital reduction from KD 65,107,055 to KD 44,597,874 as follows:
  - Partial capital reduction of KD 20,346,388 through extinguishing part of the accumulated losses.
  - Cancellation of treasury shares amounting to KD 162,793.

The above proposal was approved by the shareholders at the EGM held on 29 December 2020 subject to obtaining the necessary regulatory approvals. Subsequent to the reporting date, the capital reduction from KD 65,107,055 to KD 44,597,874 was authenticated in the commercial register on 09 February 2021 under registration number 71828.

Further, the Board of Directors of the Parent Company in their meeting held on 6 August 2020 proposed an additional capital reduction of KD 4,400,000 by way of cash distribution to the shareholders. This proposal is subject to regulatory approvals and the approval of shareholders at the EGM. On 15 November 2020, the application for the additional capital reduction was cancelled by CMA because the requirements were not fulfilled.