

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2022





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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 2022, 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 2022, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which states that, during the year, the Group incurred a loss of KD 22,342,662 and as at 31 December 2022, the Group has accumulated losses of KD 18,303,143, as of that date, the Group’s current liabilities exceeded its current assets by KD 28,069,675 (2021: KD 4,962,202). This is primarily due to total outstanding legal claims of KD 50,546,100, of which the Group is unable to settle certain legally enforceable litigation claims amounting to KD 32,444,180 resulted in blocking of certain assets amounting to KD 8,259,305, these events and conditions, along with other matters as set forth in Notes 18 indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. 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)

Emphasis of Matter

- a) We draw attention to the Note 18 to the consolidated financial statements, which describes the material uncertainty related to the final outcome of ongoing litigation claims. As stated in Note therein, the Parent Company is the defendant in legal proceedings brought by several parties. The legal actions commenced by the parties against the Parent Company are in various phases of litigation. The Group has recorded a total provision of KD 50,546,100 on the consolidated statement of financial position as 31 December 2022 against the litigation claims, reflecting management's best estimate of the most likely outcome of these litigation claims as at the authorisation date of this consolidated financial statements.

- b) We draw attention to the Note 6 to the consolidated financial statements which describes that the contract for construction of a Beach Resort between a subsidiary of an Associate, Taameer Investment Company SAOC ("Taameer") of the Parent Company, 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 Tameer 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. The Contractor has filed a legal suit against Taameer 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 claim of OMR 25 million (equivalent to KD 19.7 million) against the Contractor for damages and breach of contract on 10 February 2020. The proceedings of the legal suite are currently on hold and the parties are currently involved in arbitration.

Further, during the year 2019, Taameer has encashed performance bonds amounting to OMR 6.55 million (equivalent to KD 5.2 million) given by the Contractor. The encashment of the bonds is the subject matter of the legal suit with the Contractor, which is also currently in progress.

The ultimate outcome of the above matters 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 2022.

Our opinion is not modified in respect of this matters.

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 Financial assets at fair value through other comprehensive income amounted to KD 36,864,745 representing 44% of the Group's total assets as at 31 December 2022, including unquoted equity investments of KD 26,882,704 designated at fair value through other comprehensive income (FVOCI) and categorised within Level 3 of the fair value hierarchy as disclosed in Note 16 to the consolidated financial statements.

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

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

Our audit procedures included, among others, the following:

- ▶ For valuations, which 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 16 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 19,905,063 as at 31 December 2022, including listed associates with a carrying value of KD 6,051,060.

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 and economic or legal environment in which the associates operates. Whenever there is such indication, we challenged the significant assumptions and valuation methods used by the management in assessing impairment and the reasonableness and appropriateness of those assumptions and methods in the circumstances.
- ▶ We have tested source data used in these valuations, to the extent possible, with the relevant supporting documents, independent sources and externally available market data to evaluate the data's relevance, completeness and accuracy.
- ▶ We evaluated the adequacy of the Group's disclosures in Note 6 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 11,146,911 as at 31 December 2022.

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, 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.
- ▶ 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 7 and Note 16 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)

Other information included in the Group's 2022 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 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 2022 Annual Report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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:

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)

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

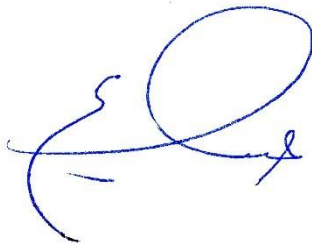
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or 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 2022, 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 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2022 that might have had a material effect on the business of the Parent Company or on its financial position except for the Company's violation of the provisions of Article (3-1) of Module seventeen (Capital Adequacy Regulations for Licensed Persons) of the Executive Bylaws of Law No. (7) of 2010 and their amendments thereto. The Company, as a Licensed Person did not maintain their actual Eligible Regulatory Capital in excess of their Risk Based Capital Requirement.



ABDULKARIM AL SAMDAN
LICENCE NO. 208
EY
AL AIBAN, AL OSAIMI & PARTNERS

30 March 2023
Kuwait

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	<i>Notes</i>	2022 KD	2021 KD
INCOME			
Revenue from contracts with customers		825,573	666,746
Cost of sales		(434,820)	(329,389)
GROSS PROFIT		390,753	337,357
Murabaha income		86,050	92,305
Gain on sale of financial assets at fair value through profit or loss		129,434	77,100
Net change in fair value of financial assets at fair value through profit or loss		2,318	32,556
Share of results of associates	6	749,444	(441,802)
Effect of reclassification of an investment in associate to financial assets at fair value through other comprehensive income	6	1,404,075	-
Loss on disposal of an investment property	7	-	(19,575)
Dividend income		57,911	63,426
Rental income		1,142,904	1,023,636
Management fees		224,738	230,311
Net foreign exchange differences		18,313	(4,143)
Other income		64,776	196,900
TOTAL INCOME		4,270,716	1,588,071
EXPENSES			
Staff costs		(1,306,265)	(1,353,932)
Provision for legal claims	18	(24,134,730)	-
Depreciation of property, plant and equipment and right-of-use assets		(196,893)	(229,859)
Amortisation of intangible assets		(59,771)	(59,771)
Finance costs		(187,771)	(190,975)
Other expenses		(727,948)	(726,485)
TOTAL EXPENSES		(26,613,378)	(2,561,022)
LOSS FOR THE YEAR		(22,342,662)	(972,951)
Attributable to:			
Equity holders of the Parent Company		(22,521,270)	(1,142,611)
Non-controlling interests		178,608	169,660
		(22,342,662)	(972,951)
BASIC LOSS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY			
	4	(50.50) fils	(2.56) fils

The attached notes 1 to 19 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 2022

	<i>Note</i>	2022 KD	2021 KD
LOSS FOR THE YEAR		(22,342,662)	(972,951)
Other comprehensive (loss) income			
<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	6	194,310	(59,012)
Net exchange differences on translation of foreign operations		50,906	(2,390)
Net other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods		245,216	(61,402)
<i>Other comprehensive (loss) income that will not be reclassified to profit or loss in subsequent periods:</i>			
Net (loss) gain on equity instruments designated at fair value through other comprehensive income		(981,788)	4,075,750
Share of other comprehensive (loss) gain of associates	6	(160,484)	276,813
Net other comprehensive (loss) income that will not be reclassified to profit or loss in subsequent periods		(1,142,272)	4,352,563
Other comprehensive (loss) income for the year		(897,056)	4,291,161
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		(23,239,718)	3,318,210
Attributable to:			
Equity holders of the Parent Company		(23,447,198)	3,153,385
Non-controlling interests		207,480	164,825
		(23,239,718)	3,318,210

The attached notes 1 to 19 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 2022

	Notes	2022 KD	2021 KD
ASSETS			
Cash and cash equivalents	5	7,945,491	10,480,550
Financial assets at fair value through profit or loss	18	175,086	346,401
Other assets		4,112,328	1,052,107
Inventories		270,134	204,392
Financial assets at fair value through other comprehensive income	18	36,864,745	25,642,281
Investment in associates	6	19,905,063	23,163,402
Investment properties	7	11,146,911	11,057,963
Property, plant and equipment		2,491,569	2,636,011
Goodwill and other intangible assets		668,167	727,938
TOTAL ASSETS		83,579,494	75,311,045
LIABILITIES AND EQUITY			
LIABILITIES			
Murabaha payables	8	2,659,638	2,886,758
Other liabilities		1,874,491	2,761,988
Provision for legal claims	18	50,546,100	17,777,249
End of service benefits		988,284	972,548
TOTAL LIABILITIES		56,068,513	24,398,543
EQUITY			
Share capital	9	44,597,874	44,597,874
Fair value reserve	10	(2,656,870)	(1,687,864)
Foreign currency translation reserve	10	1,179,370	953,598
(Accumulated losses) retained earnings		(18,303,143)	4,400,821
Equity attributable to equity holders of the Parent Company		24,817,231	48,264,429
Non-controlling interests		2,693,750	2,648,073
TOTAL EQUITY		27,510,981	50,912,502
TOTAL LIABILITIES AND EQUITY		83,579,494	75,311,045

Bader Mohammed Al-Qattan
Chairman

Mohammed G. Al-Tayyar
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	<i>Attributable to equity holders of the Parent Company</i>					<i>(Accumulated losses) retained earnings</i> KD	<i>Sub-total</i> KD	<i>Non-controlling interests</i> KD	<i>Total equity</i> KD
	<i>Share capital</i> KD	<i>Treasury shares</i> KD	<i>Treasury shares reserve</i> KD	<i>Fair value reserve</i> KD	<i>Foreign currency translation reserve</i> KD				
As at 1 January 2022	44,597,874	-	-	(1,687,864)	953,598	4,400,821	48,264,429	2,648,073	50,912,502
Loss for the year	-	-	-	-	-	(22,521,270)	(22,521,270)	178,608	(22,342,662)
Other comprehensive (loss) income for the year	-	-	-	(1,151,700)	225,772	-	(925,928)	28,872	(897,056)
Total comprehensive (loss) income for the year	-	-	-	(1,151,700)	225,772	(22,521,270)	(23,447,198)	207,480	(23,239,718)
Transfer of fair value reserve on derecognition of equity instruments designated at FVOCI	-	-	-	182,694	-	(182,694)	-	-	-
Net movement in non-controlling interests	-	-	-	-	-	-	-	(161,803)	(161,803)
At 31 December 2022	44,597,874	-	-	(2,656,870)	1,179,370	(18,303,143)	24,817,231	2,693,750	27,510,981
As at 1 January 2021	65,107,055	(108,816)	1,118,684	(5,823,223)	1,013,869	(16,196,525)	45,111,044	3,627,968	48,739,012
Loss for the year	-	-	-	-	-	(1,142,611)	(1,142,611)	169,660	(972,951)
Other comprehensive income (loss) for the year	-	-	-	4,356,267	(60,271)	-	4,295,996	(4,835)	4,291,161
Total comprehensive income (loss) for the year	-	-	-	4,356,267	(60,271)	(1,142,611)	3,153,385	164,825	3,318,210
Transfer of fair value reserve on derecognition of equity instruments designated at FVOCI	-	-	-	(220,908)	-	220,908	-	-	-
Partial extinguishment of accumulated losses (Note 9)	(20,509,181)	108,816	53,977	-	-	20,346,388	-	-	-
Transfer to retained earnings	-	-	(1,172,661)	-	-	1,172,661	-	-	-
Net movement in non-controlling interests	-	-	-	-	-	-	-	(1,144,720)	(1,144,720)
At 31 December 2021	44,597,874	-	-	(1,687,864)	953,598	4,400,821	48,264,429	2,648,073	50,912,502

The attached notes 1 to 19 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 2022

	Notes	2022 KD	2021 KD
OPERATING ACTIVITIES			
Loss for the year		(22,342,662)	(972,951)
<i>Adjustments to reconcile loss for the year to net cash flows:</i>			
Murabaha income		(86,050)	(92,305)
Gain on sale of financial assets at fair value through profit or loss		(129,434)	(77,100)
Net change in fair value of financial assets at fair value through profit or loss		(2,318)	(32,556)
Dividend income		(57,911)	(63,426)
Effect of reclassification of an investment in associate to financial assets at fair value through other comprehensive income	6	(1,404,075)	-
Share of results of associates	6	(749,444)	441,802
Loss on disposal of an investment property		-	19,575
Depreciation of property, plant and equipment and right-of-use assets		254,960	267,143
Amortization of intangible assets		59,771	59,771
Finance costs		187,771	190,975
Provision for legal claims		24,134,730	-
Provision for employees' end of service benefits		79,750	146,110
Net foreign exchange differences		(18,313)	4,143
		<u>(73,225)</u>	<u>(108,819)</u>
<i>Changes in operating assets and liabilities:</i>			
Net movement in financial assets at fair value through profit or loss		132,250	425,344
Other assets		(976,341)	190,122
Inventories		(65,742)	(22,471)
Other liabilities		(134,136)	(57,126)
		<u>(1,044,009)</u>	<u>(112,151)</u>
Cash used in operations		(1,117,194)	427,050
Murabaha income received		81,303	98,668
Finance costs paid		(211,383)	(306,388)
Provision for legal claims paid		(1,222,302)	(575,997)
Employees' end of service benefits paid		(64,014)	(78,168)
Net cash flows used in operating activities		<u>(2,533,590)</u>	<u>(434,835)</u>
INVESTING ACTIVITIES			
Dividend income received		4,954	63,426
Purchase of financial assets at fair value through other comprehensive income		-	(555,505)
Proceeds from sale of financial assets at fair value through other comprehensive income		-	30,436
Dividends received from associates	6	536,833	593,532
Proceeds from capital redemption from investment in an associate	6	-	499,200
Additions on an investment property	7	-	(883,740)
Proceeds from sale of an investment property		-	161,873
Purchase of property and equipment		(110,418)	(485,242)
Cash and cash equivalents related to assets held for sale		-	1,308,370
Net cash flows from investing activities		<u>431,369</u>	<u>732,350</u>
FINANCING ACTIVITIES			
Proceeds from murabaha payables	8	76,735	46,416
Repayment of murabaha payables	8	(336,212)	(92,964)
Payment of principal portion of lease liabilities		(184,488)	(204,549)
Dividends paid		(244)	(1,619)
Net movement in non-controlling interests		11,371	(1,144,720)
Net cash flows used in financing activities		<u>(432,838)</u>	<u>(1,397,436)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(2,535,059)</u>	<u>(1,099,921)</u>
Cash and cash equivalents as at 1 January		10,480,550	11,580,471
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	5	<u>7,945,491</u>	<u>10,480,550</u>
Non-cash items excluded from the consolidated statement of cash flows:			
Financial assets at fair value through profit or loss distributed to non-controlling interest		173,174	-
Financial assets at fair value through other comprehensive income		(7,296,642)	(133,211)
Other assets		(2,008,479)	1,229,198
Other liabilities		(551,302)	1,229,198
Provision for legal claims		9,856,423	(1,095,987)
Reclassification of an investment in associate to financial assets at FVOCI	6	3,504,776	-

The attached notes 1 to 19 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 2022

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 2022 were authorised for issue in accordance with a resolution of the board of directors of the Parent Company on 30 March 2023. The shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting.

The consolidated financial statements of the Group for the year ended 31 December 2021 were approved in the Annual General Assembly meeting (AGM) of the shareholders held on 9 May 2022.

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 subject to the supervision of Capital Markets Authority (“CMA”).

The registered office of the Parent Company is located at Al Hamra Tower, 68th 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:

- ▶ Invest in real estate, industrial, financial, services and other economic sectors through shareholding in incorporating specialized companies or acquisition of stocks and shares of such companies for the account of the Company.
- ▶ Carry out real estate investment deals with the objective of developing real estates, and constructing residential and commercial units and complexes for sale or rent.
- ▶ 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, buildings, and equipment.
- ▶ Conduct all transactions related to the trading in financial securities for the account of the Company.
- ▶ Investment portfolio manager.
- ▶ Investment advisor.
- ▶ Collective investment scheme manager.
- ▶ Subscription agent.
- ▶ Fund Custodian
- ▶ Investment Controller
- ▶ Carry out brokerage activities in the international trading transactions.

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 11.

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 2022

1.2 GROUP INFORMATION

(a) Subsidiaries

The consolidated financial statements of the Group include:

<i>Name of the entity</i>	<i>Country of incorporation</i>	<i>% equity interest</i>		<i>Principal activities</i>
		<i>2022</i>	<i>2021</i>	
Al Marwa Holding Company K.S.C. (Closed) ¹	Kuwait	99.22%	99.22%	Holding company
Masadar Energy Company for General Trading W.L.L. ¹	Kuwait	98.00%	98.00%	General trading
Deema Real Estate Investment Company L.L.C.	KSA	100%	100%	Real estate investment
Yasmeeen Al Kuwait Real Estate Company S.P.C.	Kuwait	100%	100%	Real estate trading
Gulf Business Forms Company W.L.L.	Kuwait	100%	100%	Manufacturing
First Logistic Services L.L.C. ²	Oman	53.87%	53.87%	Logistics services
First Energy Resource Company K.S.C. (Closed) - Under Liquidation ("FERCO") ³	Kuwait	33.21%	33.21%	Energy sector
Shomoul Real Estate Company L.L.C.	KSA	50.00%	50.00%	Real estate investment

¹ 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.

² The Group's effective equity interest is 65% (2021: 65%).

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

(b) Associates

Details of the Group's associates are disclosed in Note 6.

2 FUNDAMENTAL ACCOUNTING CONCEPT

During the year, the Group incurred a loss of KD 22,342,662 and as at 31 December 2022, the Group has accumulated losses of 18,303,143, as of that date, the Group's current liabilities exceeded its current assets by KD 28,069,675 (2021: KD 4,962,202). This is primarily due to total outstanding legal claims of KD 50,546,100, of which the Group is unable to settle certain legally enforceable litigation claims amounting to KD 32,444,180 resulted in blocking of certain assets amounting to KD 8,259,305 (Note 18).

Management seeks to obtain the best possible information to assess these risks and implement appropriate measures to respond. The Group has taken and will take a number of measures to monitor and prevent the effects of the legal cases outcome. This measure includes but not limited to the following:

2 FUNDAMENTAL ACCOUNTING CONCEPT (continued)

- ▶ The management is taking all the legal actions in various courts to reach the best outcome in favor of the Group.
- ▶ The management appealed various verdicts issued by the Court of Appeal to the Court of Cassation to hold any execution actions against the Group.
- ▶ The management is currently negotiating with various legal debtors to reach out of court agreements through reduced settlements or in-kind settlements of the claims.
- ▶ The Board of Directors of the parent company, decided to submit its recommendation to the Extraordinary General Assembly of the Parent Company to apply for preventive protection by taking the appropriate decision either to apply for preventive settlement or restructure of the Parent Company in accordance with Article No. 255 of Law No. 71/2020.
- ▶ On 20 March 2023, the board of directors of the Parent Company called for Extraordinary General Assembly on 10 April 2023 to approve the submission of the for preventive settlement or restructure of the Parent Company in accordance with Article No. 255 of Law No. 71/2020 to the court.
- ▶ Management has prepared a detailed cashflow analysis for preventive settlement to assess the liquidity position of the Group and identify liquidity gaps under various scenarios. The management does not expect provision of legal claims to be settled in full within 12 months of the balance sheet date, and therefore it has concluded that the Group would be able to meet all its obligations due for the next 12 months.
- ▶ The management has made significant judgements to forecast the cash flows over next twelve months from the date the consolidated financial statements are authorized for issue depends on the Group's ability to implement the mitigating factors within the Group's control.
- ▶ The management has made significant judgements to forecast the ultimate outcome of the ongoing litigation (Refer to Note 18 for further details).
- ▶ The management do not expect to have any executional action from any legal parties related to blocked assets (Note 18).
- ▶ The Group maintains sufficient cash to meet liquidity need in the event of any unforeseen interruption in cash flow.

Management acknowledges that uncertainty remains over the Group's ability to meet its legal claims as they fall due. However, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and the legal claims under execution will be met from renegotiation of the amounts and time of payment with creditors, in-kind settlements or from sale of certain assets at their market values.

Notwithstanding with the above facts, the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to settle its legal claims debt. If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group's ability to realize its assets and discharge its liabilities in the normal course of business at the amounts stated in the consolidated financial statements, but the Group is confident of the successful outcome of the negotiations.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts and classification of liabilities that may be necessary if the Group is unable to continue as a going concern.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for Financial assets at fair value through profit or loss and, financial assets at fair value through other comprehensive income and investment properties that have been measured at fair value.

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 14.

3.2 BASIS OF CONSOLIDATION

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

Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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.

3.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). 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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (continued)

The Group applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period.

These amendments had no impact on the consolidated financial statements as the Group had not identified any contracts as being onerous as the unavoidable costs under the contracts, which were the costs of fulfilling them, comprised only incremental costs directly related to the contracts.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* 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 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the period.

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

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of 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.

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the consolidated financial statements of the Group as it is not a first-time adopter.

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

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. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new and amended standards and interpretations are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements. None of these are expected to have a significant impact on the Group's consolidated financial statements.

3.5 SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Management fees

Management fees earned for the provision of services over a period of time are accrued over that period. These fees include commission and asset management fees.

Murabaha income

Murabaha income is recognised as accrues using the effective profit method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income

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

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

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

Taxation on foreign subsidiaries

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

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 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.

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 related to Impairment of non-financial assets.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

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.

ii) 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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

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

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

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

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.

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) Financial liabilities

Initial recognition and measurement

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

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

iii) Offsetting of financial instruments

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

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.

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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

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.

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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

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

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

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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

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.

3.6 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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Significant judgements (continued)

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.

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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

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 7.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

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 LOSS PER SHARE (EPS)

Basic loss per share 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 loss per share 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.

	<i>2022</i>	<i>2021</i>
Loss for the year attributable to equity holders of the Parent Company (KD)	(22,521,270)	(1,142,611)
Weighted average number of shares outstanding (shares) *	445,978,742	445,978,742
Basic and diluted loss per share (fils)	(50.50)	(2.56)

* 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.

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 2022

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following at 31 December:

	2022	2021
	KD	KD
Cash on hand	3,818	2,503
Cash at bank	1,721,324	2,250,936
Murabaha deposits with original maturities of three months or less	4,981,213	6,779,474
Cash held in managed portfolios	1,239,136	1,447,637
	7,945,491	10,480,550

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 3% and 4.125% (2021: 0.75% and 1.6%) per annum.

In 2016, First Energy Resource Company K.S.C. (Closed), a local subsidiary under liquidation (the “subsidiary”), had announced the distribution of first liquidation cash payment amounting to KD 6,062,000 to the shareholders. As a result of the liquidation, the Parent Company received KD 2,013,311. Distribution to non-controlling interests amounted to KD 4,048,689.

On 25 April 2021, the subsidiary has announced the distribution of second liquidation cash payment amounting to KD 1,407,250 to the shareholders. As a result of the liquidation, the Parent Company received KD 467,376. Distribution to non-controlling interests amounted to KD 939,874.

As at 31 December 2022, some of the shareholders did not collect their share of the distribution; accordingly, certain bank balances amounting to KD 361,532 (31 December 2021: KD 438,204) have been restricted for the purpose of distribution to the shareholders of the subsidiary.

6 INVESTMENT IN ASSOCIATES

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

Name of the company	County of incorporation	2022		2021		Principal activities
		Equity interest %	Carrying amount KD	Equity interest %	Carrying amount KD	
Arkan Al-Kuwait Real Estate Company K.S.C.P. (“Arkan”) ¹	Kuwait	28.99%	6,051,060	28.99%	5,924,117	Real estate
Burgan Company for Well Drilling K.S.C.P. (“BDC”) ²	Kuwait	-	-	14.66%	3,397,018	Oil field services
Taameer Investment Company S.A.O.C (“Taameer”) ³ *	Oman	24.82%	4,659,252	24.82%	4,723,495	Investment and Real estate
First Education Company K.S.C. (Closed) (“FEDCO”) ⁴ *	Kuwait	22.19%	3,227,004	22.19%	3,242,733	Education
Al-Subeih Medical Company (Khalid Hamad Al-Subeih & Partners) W.L.L.* (“AMC”)	Kuwait	25%	3,357,563	25%	3,200,641	Medical equipment and hospital management
Al Jazeera Al Oula Real Estate W.L.L.*	KSA	20.90%	2,048,633	20.90%	2,100,691	Real estate
Sons of Yousef Al-Subeih Real Estate Company (Khalid Hamad Al-Subeih & Partners) W.L.L.*	Kuwait	25%	561,551	25%	574,707	Real estate
			19,905,063		23,163,402	

* Private entities - no quoted price available.

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 2022

6 INVESTMENT IN ASSOCIATES (continued)

- ¹ As at 31 December 2022, the fair value of the Group's investment in Arkan (based on quoted market price in Boursa Kuwait) was KD 8,372,631 (2021: KD 9,027,880). Based on its assessment, the management has concluded that no impairment loss is required to be recognized during the current.
- ² 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.

On 22 June 2022, the Group's representatives on the investee's board of directors resigned as a result the Group lost its significant influence over the investee accordingly reclassified the investment to financial assets at FVOCI. On the date of reclassification, the Group recognised an income of KD 1,404,075 represents the difference between the carrying value amounting to KD 3,504,776 and the fair value amounting to KD 4,908,851.

³ *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 Tameer 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. The Contractor has filed a legal suit against Taameer 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 claim of OMR 25 million (equivalent to KD 19.7 million) against the Contractor for damages and breach of contract on 10 February 2020. The proceedings of the legal suite are currently on hold and the parties are currently involved in arbitration.

Further, during the year 2019, Taameer has encashed performance bonds amounting to OMR 6.55 million (equivalent to KD 5.2 million) given by the Contractor. The encashment of the bonds is the subject matter of the legal suit with the Contractor, which is also currently in progress.

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 2022.

- ⁴ On 1 April 2021, the extra ordinary general assembly meeting (EGM) of First Education Company K.S.C. (Closed) approved a capital reduction by KD 2.25 Million (from KD 15 Million to 12.750 Million). The distribution on account of the capital reduction was in form of cash transferred to the shareholders on 1 June 2021.

Reconciliation to carrying amounts:

	2022 <i>KD</i>	2021 <i>KD</i>
At 1 January	23,163,402	24,480,135
Capital redemption	-	(499,200)
Transfer to financial assets FVOCI	(3,504,776)	-
Share of results	749,444	(441,802)
Dividends received from associates	(536,833)	(593,532)
Foreign exchange adjustments	194,310	(59,012)
Share of other comprehensive income	(160,484)	276,813
At 31 December	<u>19,905,063</u>	<u>23,163,402</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 2022

6 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>Taameer KD</i>	<i>FEDCO KD</i>	<i>AMC KD</i>	<i>Other KD</i>	<i>2022 KD</i>	<i>2021 KD</i>
Assets	149,609,602	87,706,277	16,451,498	12,867,984	36,565,574	303,200,935	455,882,358
Liabilities	(114,151,513)	(48,376,942)	(2,212,150)	(8,069,255)	(24,523,099)	(197,332,959)	(282,716,284)
Intangible assets identified on acquisition	-	-	-	-	-	-	21,214,797
Total Equity	35,458,089	39,329,335	14,239,348	4,798,729	12,042,475	105,867,976	194,380,871
% equity interest	28.99%	24.82%	22.19%	25%			
Group's share in the equity	10,279,030	9,759,612	3,159,253	1,272,430	2,610,184	27,080,509	39,981,766
Goodwill	2,822,560	-	67,751	2,085,133	-	4,975,444	4,975,444
Impairment (including impairment allocated to goodwill)	(7,050,530)	(5,100,360)	-	-	-	(12,150,890)	(21,793,808)
Group's carrying amount of the investment	6,051,060	4,659,252	3,227,004	3,357,563	2,610,184	19,905,063	23,163,402
Revenue	7,756,753	542,841	400,549	4,240,207	4,861,757	17,802,107	64,182,801
Profit (loss) for the year	2,216,998	(756,629)	85,239	1,027,686	(414,390)	2,158,904	(1,409,341)
Other comprehensive income (loss) for the year	(272,273)	-	(367,516)	-	-	(639,789)	1,062,551
Total comprehensive income (loss) for the year	1,944,725	(756,629)	(282,277)	1,027,686	(414,390)	1,519,115	(346,790)
Dividends received from associates during the year	(436,833)	-	-	(100,000)	-	(536,833)	(593,532)
Capital redemption during the year	-	-	-	-	-	-	(499,200)
Group's share of results for the year	642,708	(187,795)	18,915	256,922	18,695	749,444	(441,802)
Group's share of other comprehensive loss for the year	(78,932)	-	(81,552)	-	-	(160,484)	276,813

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

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As at and for the year ended 31 December 2022

7 INVESTMENT PROPERTIES

	2022	2021
	KD	KD
As at 1 January	11,057,963	10,373,227
Addition	-	883,740
Disposals ¹	-	(181,448)
Valuation losses ²	-	-
Exchange differences	88,948	(17,556)
As at 31 December	11,146,911	11,057,963

¹ During the year ended 31 December 2021, the Group has sold investment properties with an aggregate carrying value KD 181,448 for a total cash consideration of KD 161,873 resulting in a loss on sale of amounting to KD 19,575 recognised in the consolidated statement of profit or loss for the year then ended.

² The fair value of investment properties as at 31 December 2022 and 31 December 2021 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 by using the income capitalisation method approach. 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. Based on the valuations, the fair value of investment properties has not changed compared to its carrying value as at 31 December 2022 and 2021.

A Building amounting to KD 3,977,340 (2021: KD 3,977,340) included within investment properties is on leasehold land granted by the government of Kuwait. 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 2022, investment properties with a carrying value of KD 7,169,571 (2021: KD 7,080,624) are pledged as a security to fulfil collateral requirements of murabaha payables (Note 8).

The hierarchy for determining and disclosing the fair value of investment properties by valuation techniques and sensitivity analysis are presented in Note 16.2.

8 MURABAHA PAYABLES

	2022	2021
	KD	KD
Gross amount	3,284,911	3,755,852
Less: deferred finance costs	(625,273)	(869,094)
	2,659,638	2,886,758

Changes in liabilities arising from financing activities

	<i>As at 1 January KD</i>	<i>Cash inflows KD</i>	<i>Cash outflows KD</i>	<i>Foreign exchange movement KD</i>	<i>As at 31 December KD</i>
2022	2,886,758	76,735	(336,212)	32,357	2,659,638
2021	2,939,923	46,416	(92,964)	(6,617)	2,886,758

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

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As at and for the year ended 31 December 2022

8 MURABAHA PAYABLES (continued)

As at 31 December 2022, murabaha payables amounting to KD 2,271,872 (2021: KD 2,575,727) denominated in Omani Riyals (OMR), carry a profit rate of 6.5% (2021: 6.5%) per annum and secured against an investment property with a carrying value of KD 7,169,571 (2021: KD 7,080,624) (Note 7).

As at 31 December 2022, murabaha payables amounting to KD 387,766 (2021: KD 311,031) denominated in KD, carry a profit rate of 3.5% (2021: 3.5%) per annum and secured against property, plant and equipment with a carrying amount of KD 781,209 (2021: KD 690,521).

Banking covenants vary according to each loan agreement, the Group is in compliance with all its banking covenants as at the reporting date. 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 14.

9 SHARE CAPITAL, DIVIDENDS AND TREASURY SHARES

(a) Share capital

	<i>Number of shares</i>		<i>Authorised, issued and fully paid</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
			<i>KD</i>	<i>KD</i>
Shares of 100 fils each (paid in cash)	445,978,742	445,978,742	44,597,874	44,597,874

The Board of Directors of the Parent Company in their meeting held on 03 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 18,250,362.
 - 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.

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

(b) Distributions proposed

The Board of Directors of the Parent Company’s has neither proposed cash dividends nor bonus shares issue for the year ended 31 December 2022. This proposal is subject to the approval of the shareholders at the AGM.

The Board of Directors of the Parent Company’s has neither proposed cash dividends nor bonus shares issue for the year ended 31 December 2021. This proposal has been approved by the shareholders at the AGM held on 9 May 2022.

(c) Treasury shares

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.

During the year ended 31 December 2021, the Parent Company cancelled its entire treasury shares amounting to KD 162,793. The remaining credit balance in the Treasury shares reserve amounting to KD 1,172,706 was transferred to the retained earnings as per CMA guidelines.

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10 RESERVES

(a) Statutory reserve

In accordance with the Companies' Law, and the Parent Company's Articles of Association, a minimum of 10% of the profit for the year before KFAS, NLST, Zakat and Directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's Board of Directors. The AGM of the shareholders of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. No transfer has been made to statutory reserve, due to losses incurred during the year.

(b) Fair value reserve

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

(c) Foreign currency translation reserve

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

11 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.

	2022	2021
	<i>KD</i>	<i>KD</i>
Consolidated statement of profit or loss		
Management fees	1,921	1,487
Consolidated statement of financial position		
Accrued management fees	337	30,743

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>	
	2022	2021	2022	2021
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Salaries and short-term benefits	147,468	243,946	5,500	23,650
End of service benefits	27,472	43,242	187,478	201,195
Board Committee attendees' benefits	-	63,000	-	63,000
	<u>174,940</u>	<u>350,188</u>	<u>192,978</u>	<u>287,845</u>

Other transactions

The Group also manages investment portfolios on behalf of related parties amounting to KD 10,279 (2021: KD 26,518) 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

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12 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 which are real estate, financial, services and 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 2022 and 2021, respectively:

	Real estate		Financial		Services		Others		Total	
	2022 KD	2021 KD	2022 KD	2021 KD	2022 KD	2021 KD	2022 KD	2021 KD	2022 KD	2021 KD
Year ended 31 December										
Income, net	1,797,421	470,456	263,146	369,888	2,155,972	699,429	54,177	48,298	4,270,716	1,588,071
Expenses	(1,085,254)	(1,146,513)	(187,407)	(281,998)	(948,982)	(907,624)	(24,391,735)	(224,887)	(26,613,378)	(2,561,022)
Results for the year	<u>712,167</u>	<u>(676,057)</u>	<u>75,739</u>	<u>87,890</u>	<u>1,206,990</u>	<u>(208,195)</u>	<u>(24,337,558)</u>	<u>(176,589)</u>	<u>(22,342,662)</u>	<u>(972,951)</u>

The table below presents assets and liabilities for the Group's operating segments along with other disclosures as at and for the year ended 31 December 2022 and 2021, respectively:

	Real estate		Financial		Services		Others		Total	
	2022 KD	2021 KD	2022 KD	2021 KD	2022 KD	2021 KD	2022 KD	2021 KD	2022 KD	2021 KD
At 31 December										
Segment assets	25,164,946	25,605,901	10,437,901	6,584,569	41,250,227	32,055,201	6,726,420	11,065,374	83,579,494	75,311,045
Segment liabilities	(3,225,172)	(4,263,017)	(12,173)	(12,463)	(1,001,586)	(1,001,833)	(51,829,582)	(19,121,230)	(56,068,513)	(24,398,543)
Other disclosures:										
Total non-current assets*	24,699,807	25,047,632	5,998,694	6,480,871	39,692,882	30,697,521	685,073	1,001,571	71,076,456	63,227,595
Additions to non-current assets	-	883,740	5,956	1,339	104,462	2,834,161	-	-	110,418	3,719,240
Share of results from associates (Note 6)	454,913	(778,247)	-	-	294,531	336,445	-	-	749,444	(441,802)

*Non-current assets for this purpose consist of goodwill and other intangible assets, property, plant and equipment, investment properties, investment in associates and financial assets at FVOCI.

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12 SEGMENT INFORMATION (continued)

Geographic information

	2022 KD	2021 KD
Income, net		
Kuwait	3,709,032	2,186,408
Kingdom of Saudi Arabia	30,158	56,821
Oman	531,526	(653,975)
Others	-	(1,183)
	<u>4,270,716</u>	<u>1,588,071</u>
Results for the year		
Kuwait	1,653,255	(5,554)
Kingdom of Saudi Arabia	(24,114,716)	30,521
Oman	118,799	(996,735)
Others	-	(1,183)
	<u>(22,342,662)</u>	<u>(972,951)</u>
Segment assets		
Kuwait	40,892,884	40,240,798
Kingdom of Saudi Arabia	29,644,751	22,288,231
Oman	12,007,212	11,943,748
Others	1,034,647	838,268
	<u>83,579,494</u>	<u>75,311,045</u>
Segment liabilities		
Kuwait	(20,531,157)	(20,828,340)
Kingdom of Saudi Arabia	(32,951,311)	(750,137)
Oman	(2,586,045)	(2,820,066)
	<u>(56,068,513)</u>	<u>(24,398,543)</u>

13 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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13 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

13.1 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>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Cash and cash equivalents (excluding cash on hand)	7,941,673	10,478,047
Other assets (excluding prepayments)	4,065,598	1,012,284
	<u>12,007,271</u>	<u>11,490,331</u>

Cash and cash equivalents (excluding cash on hand)

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

Impairment on cash and cash equivalents 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.

13.2 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.

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:

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As at and for the year ended 31 December 2022

13 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

13.2 Liquidity risk (continued)

	<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>
2022					
Murabaha payables	134,281	174,166	307,956	2,668,508	3,284,911
Other liabilities	169,320	246,546	432,988	1,025,637	1,874,491
	303,601	420,712	740,944	3,694,145	5,159,402
2021					
Murabaha payables	133,099	133,012	319,663	3,170,078	3,755,852
Other liabilities	351,235	395,005	467,237	1,548,511	2,761,988
	484,334	528,017	786,900	4,718,589	6,517,840

13.3 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.

13.3.1 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.

13.3.2 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.

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

	<i>2022 Equivalent in KD</i>	<i>2021 Equivalent in KD</i>
Saudi Riyal (SAR)	29,454,111	22,134,659
Omani Riyal (OMR)	2,251,592	2,057,692
Others	981,727	845,127
	32,687,430	25,037,478

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.

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13 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

13.3 Market risk (continued)

13.3.2 Foreign currency risk (continued)

Currency	2022			2021		
	Change in currency rate %	Effect on profit or loss KD	Effect on OCI KD	Change in currency rate %	Effect on profit or loss KD	Effect on OCI KD
SAR	±5	99,564	1,373,141	±5	101,546	1,005,188
OMR	±5	3	112,577	±5	736	102,149
Others	±5	12,141	36,945	±5	12,332	29,925

13.3.3 Equity price risk

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

At the reporting date, the exposure to non-listed equity investments at fair value was KD 27,007,849. Sensitivity analyses of these investments have been provided in Note 16.

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

Market indices	2022			2021		
	Change in equity price %	Effect on profit or loss KD	Effect on OCI KD	Change in equity price %	Effect on profit or loss KD	Effect on OCI KD
Boursa Kuwait	±5	-	665,347	±5	-	705,318

13.4 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.

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14 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	<i>Within one year</i>					
	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Sub- Total KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
2022						
ASSETS						
Cash and cash equivalents	7,945,491	-	-	7,945,491	-	7,945,491
Financial assets at FVPL	-	-	-	-	175,086	175,086
Other assets	190,567	749,505	287,538	1,227,610	2,884,718	4,112,328
Inventories	135,067	135,067	-	270,134	-	270,134
Financial assets at FVOCI	-	-	-	-	36,864,745	36,864,745
Investment in associates	-	-	-	-	19,905,063	19,905,063
Investment properties	-	-	-	-	11,146,911	11,146,911
Property and equipment	62,162	62,162	133,351	257,675	2,233,894	2,491,569
Goodwill and other intangible assets	14,943	14,943	29,886	59,772	608,395	668,167
TOTAL ASSETS	8,348,230	961,677	450,775	9,760,682	73,818,812	83,579,494
LIABILITIES						
Murabaha payables	97,869	126,348	234,183	458,400	2,201,238	2,659,638
Other liabilities	169,320	246,546	432,988	848,854	1,025,637	1,874,491
Provision for legal claims	32,769,698	750,013	3,003,392	36,523,103	14,022,997	50,546,100
End of service benefits	-	-	-	-	988,284	988,284
TOTAL LIABILITIES	33,036,887	1,122,907	3,670,563	37,830,357	18,238,156	56,068,513
NET GAP	(24,688,657)	(161,230)	(3,219,788)	(28,069,675)	55,580,656	27,510,981
2021						
ASSETS						
Cash and cash equivalents	10,480,550	-	-	10,480,550	-	10,480,550
Financial assets at FVPL	2,361	-	-	2,361	344,040	346,401
Other assets	288,252	455,674	279,832	1,023,758	28,349	1,052,107
Inventories	204,392	-	-	204,392	-	204,392
Financial assets at FVOCI	-	-	-	-	25,642,281	25,642,281
Investment in associates	-	-	-	-	23,163,402	23,163,402
Investment properties	-	-	-	-	11,057,963	11,057,963
Property and equipment	60,118	63,526	125,844	249,488	2,386,523	2,636,011
Goodwill and other intangible assets	14,943	14,943	29,886	59,772	668,166	727,938
TOTAL ASSETS	11,050,616	534,143	435,562	12,020,321	63,290,724	75,311,045
LIABILITIES						
Murabaha payables	59,424	85,065	230,524	375,013	2,511,745	2,886,758
Other liabilities	342,533	386,303	484,640	1,213,476	1,548,512	2,761,988
Provision for legal claims	1,875,567	8,659,700	4,858,767	15,394,034	2,383,215	17,777,249
End of service benefits	-	-	-	-	972,548	972,548
TOTAL LIABILITIES	2,277,524	9,131,068	5,573,931	16,982,523	7,416,020	24,398,543
NET GAP	8,773,092	(8,596,925)	(5,138,369)	(4,962,202)	55,874,704	50,912,502

15 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 86,666,880 (2021: KD 89,370,527). The total income earned from managing the fiduciary assets for the year ended 31 December 2022 amounted to KD 224,738 (2021: KD 230,311).

16 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.

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.

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16 FAIR VALUE MEASUREMENT (continued)

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:

	2022 KD	2021 KD
Financial instruments		
Financial assets at fair value through profit or loss	175,086	346,401
Financial assets at fair value through other comprehensive income	36,864,745	25,642,281
Non-financial assets		
Investment properties	11,146,911	11,057,963

Valuation methods and assumptions

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

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.

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.

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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16 FAIR VALUE MEASUREMENT (continued)

16.1 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	
2022				
Financial assets at FVTPL:				
Unquoted funds	-	175,086	-	175,086
Financial assets at FVOCI:				
Quoted equity securities	9,982,041	-	-	9,982,041
Unquoted equity securities	-	-	26,882,704	26,882,704
	9,982,041	-	26,882,704	36,864,745
2021				
Financial assets at FVTPL:				
Unquoted funds	-	346,401	-	346,401
Financial assets at FVOCI:				
Quoted equity securities	6,371,714	-	-	6,371,714
Unquoted equity securities	-	-	19,270,567	19,270,567
	6,371,714	-	19,270,567	25,642,281

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:

	2022 KD	2021 KD
As at 1 January	19,270,567	20,254,502
Remeasurement recognised in OCI	315,495	486,848
Purchases / (sales), net	7,296,642	658,281
Transfer from level 3 to level 1	-	(2,129,064)
As at 31 December	26,882,704	19,270,567

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16 FAIR VALUE MEASUREMENT (continued)

16.1 Financial instruments (continued)

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	0.34-1.05 (0.86)	10% increase (decrease) in the Sector PBV multiple would result in an increase (decrease) in fair value by KD 965,284
		DLOM *	20% - 40%	5% increase (decrease) in the DLOM would result in (decrease) increase in fair value by KD 168,177
	Adjusted NAV	DLOM *	5% - 80%	5% increase (decrease) in the DLOM would result in (decrease) increase in fair value by KD 1,175,958

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.

16.2 Non-financial assets

The Group's investment properties are measured using significant unobservable inputs (level 3) as at 31 December 2022 and 31 December 2021.

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 7.

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>2022</i>	<i>2021</i>		<i>2022</i>	<i>2021</i>
	<i>KD</i>	<i>KD</i>			
Income capitalisation approach	11,146,911	11,057,963	▶ Average rent	KD 1.20 – 7.50	KD 1.18 - 7.53
			▶ (per sqm)		
			▶ Yield rate	10.14%-10.33%	10.14%-10.33%

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16 FAIR VALUE MEASUREMENT (continued)

16.2 Non-financial assets (continued)

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>2022 KD</i>	<i>2021 KD</i>
Average rent	+/- 5%	557,346	553,776
Yield rate	+/- 50 bp	519,592	515,412

17 COMMITMENTS AND CONTINGENCIES

The Group has provided a guarantee to an unrelated third party amounting to SAR 55 million (equivalent to KD 4.49 million) (2021: SAR 105 million (equivalent to KD 8.42 million)) for the performance in a contract in the Kingdom of Saudi Arabia. No material liability is expected to arise.

18 LEGAL CLAIMS

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

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

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

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

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.

On 14 November 2022, the Court have ruled against the Parent Company to pay the seller the remaining consideration amounting to KD 13,814,991 plus an interest of 7% starting from 30 January 2013. The Parent Company appealed on the ruling to the Court of Cassation, due to the contradiction of the ruling with previous rulings and other legal matters, the Court of Cassation did not decide on the three appeals filed by the Parent Company.

As at 31 December 2022, the recognised provision in the consolidated statement of financial position amounting to KD 23,413,950.

18 LEGAL CLAIMS (continued)

- b) During the year ended 31 December 2016, the sellers referred to in point (a) 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.

On 5 December 2022, the Court have ruled against the Parent Company and another Company to pay the compensation amounting to KD 2,087,500 plus an interest of 7% starting from 5 December 2022. The Parent Company filed three appeals on the basis of several errors in the appeal verdict and other legal reasons, these appeals were not yet decided.

As at 31 December 2022, the recognised provision in the consolidated statement of financial position amounting to KD 1,075,531.

Subsequent to the reporting date, the amount of the compensation and interest paid to the aforementioned sellers.

- c) 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.

On 14 November 2022, the Court have ruled against the Parent Company to pay the compensation amounting to KD 6,101,424 plus an interest of 7% starting from 26 November 2017. The Parent Company filed three appeals, as well as petition for reconsideration of the ruling on the basis of several errors in the appeal verdict and other legal reasons, these appeals were not yet decided.

As at 31 December 2022, the recognised provision in the consolidated statement of financial position amounting to KD 8,280,217.

- d) 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 certain requests to suspend the appeal verdicts was denied, and accordingly the verdicts issued in favour of some clients became enforceable. As a result, the Parent Company executed the underlying judgements and settled an amount of KD 1,888,355 (2021: KD 971,242) (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 to 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.

Recently, the Court of Cassation have accepted three appeals, and ruled that the Capital Markets Court did not have jurisdiction to hear those disputes filed by the clients and transferred those cases to the commercial court.

As at 31 December 2022, the recognised provision in the consolidated statement of financial position amounting to KD 17,776,402 (2021: KD 17,777,249).

The recognised provision of KD 50,546,100 in the consolidated statement of financial position as at 31 December 2022 (2021: KD 17,777,249) 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.

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18 LEGAL CLAIMS (continued)

Based on the verdicts issued against the Parent Company in points a and c in favour of aforementioned sellers and point d in favour of several portfolio clients. The total unsettled verdicts which became legally enforceable as at the date of issuance these financial statements amounting to KD 32,444,180. The Parent Company did not settle the underlying judgements due to the size of the claims, appeals on the ruling to the Court of Cassation, contradiction of the ruling with previous rulings, several errors in the appeal verdicts in the application and interpretation of the law and flawed reasoning and other legal reasons.

The aforementioned sellers and several portfolio clients were able to block certain assets through the Execution Department of the Ministry of Justice. As at the date of issuance of the carrying value of the blocked assets recorded in the consolidated financial statements are as follow:

	<i>2022</i> <i>KD</i>
Bank balances	2,488
Other assets	57,922
Financial assets at fair value through other comprehensive income	5,868,151
Investment in subsidiaries*	2,330,744
As at 31 December	8,259,305

*Investment in subsidiaries represent the Parent Company's ownership in Al Marwa Holding Company K.S.C. (Closed) and First Energy Resource Company K.S.C. (Closed). The carrying value of those subsidiaries represents the net value between the total assets amounting to KD 21,849,286 and total liabilities amounting to KD 19,518,542 included as part of the consolidated financial position after eliminating intercompany liabilities of KD 18,141,131.

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19 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>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Murabaha payables (Note 8)	2,659,638	2,886,758
Other liabilities	1,874,491	2,761,988
Provision for legal claims	50,546,100	17,777,249
Less: cash and short-term deposits (Note 5)	(7,945,491)	(10,480,550)
Net debt (A)	47,134,738	12,945,445
Equity attributable to equity holders of the Parent Company (B)	24,817,231	48,264,429
Capital and net debt (C)	71,951,969	61,209,874
Gearing ratio (A/C)	66%	21%

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 2022 and 2021.

The Parent Company's regulatory capital and capital adequacy ratios for the year ended 31 December 2022 and 31 December 2021 are calculated in accordance with provisions of Module seventeen (Capital Adequacy Regulations for Licensed Persons) of the Executive Bylaws of Law No. (7) of 2010 and their amendments thereto.

	<i>31 December</i> <i>2022</i>	<i>31 December</i> <i>2021</i>
Available (eligible) regulatory capital (KD)	19,009,790	44,430,772
Required regulatory capital (KD)	25,258,770	22,417,103
Capital adequacy ratio (%)	75%	198%

As at 31 December 2022, the Parent Company as a Licensed Person did not maintain its minimum Eligible Regulatory Capital in excess of its risk-based capital and therefore violated the provisions of the requirement set forth in Article (3-1) of Module seventeen (Capital Adequacy Regulations for Licensed Persons) of the Executive Bylaws of Law No. (7) of 2010 and their amendments thereto.

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