



**Commercial Real Estate Company K.P.S.C.  
and its subsidiaries  
State of Kuwait**

**Consolidated Financial Statements and Independent Auditors' Report  
For the year ended 31 December 2020**



**Commercial Real Estate Company K.P.S.C.**  
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## **Independent Auditor's Report to the Shareholders of Commercial Real Estate Company K.P.S.C.**

State of Kuwait

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

#### **Opinion**

We have audited the consolidated financial statements of Commercial Real Estate Company K.P.S.C (the "Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for Opinion**

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

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The following are the key audit matters identified and how we addressed them in our audit.

##### *Valuation of Investment Properties*

The Group's investment properties portfolio is carried at KD 377,533,432 in the consolidated statement of financial position and the net fair value loss recorded in the consolidated statement of profit or loss is KD 637,567.

The determination of the fair value of these investment properties is based on internal and external valuations using discounted cash flows over the Group's estimated holding period, income capitalization method and the sales comparable approach for the respective asset. The Group's discounted future cash flows analysis and the assessment of expected remaining holding period and income projections on the existing operating assets requires management to make significant estimates and assumptions related to future occupancy levels, growth rates, rental rates and discount rates. Consequently, the valuation of investment properties is a key audit matter due to the significant judgments applied and estimates made. In addition, the existence of significant estimation uncertainty warrants specific audit focus in this area as any bias or error in determining the fair value could lead to a material misstatement in the consolidated financial statements.

In the event that the fair value of a real estate asset is higher or lower than its carrying amount, the Group will recognize a fair value adjustment in its consolidated statement of profit or loss.

## **Independent Auditor's Report to the Shareholders of Commercial Real Estate Company K.P.S.C. (continued)**

State of Kuwait

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

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

##### *Valuation of Investment Properties (continued)*

Our audit procedures included the following:

- We evaluated the design and implementation of relevant controls related to the valuation of investment properties.
- We assessed the valuer's competence and capabilities and read their terms of engagement with the Group to determine that the scope of their work was sufficient for audit purposes.
- We agreed the total valuation in the valuer's report to the amount reported in the consolidated statement of financial position.
- We tested the data inputs underpinning the investment property valuation for a sample of properties, including lease income, by agreeing them to supporting documentation to assess the reliability, completeness and accuracy of the underlying data.
- We also compared a sample of the valuations to our independently formed market expectations and challenged any differences.
- Where we identified estimates that were outside acceptable parameters, we discussed these with the valuers and management to understand the rationale behind the estimates made.
- We reperformed the arithmetical accuracy of the determination of recoverable amounts.
- We assessed the disclosures made in the consolidated financial statements against the requirements of IFRSs.

#### **Other Information**

Management is responsible for the other information. The other information comprises all information included in the annual report other than the consolidated financial statements and our auditor's report thereon. The annual report for the year 2020 is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of 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 related 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.



## **Independent Auditor's Report to the Shareholders of Commercial Real Estate Company K.P.S.C. (continued)**

State of Kuwait

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 and 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 statement. 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 period 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 Commercial Real Estate Company K.P.S.C. (continued)**

State of Kuwait

### **Report on the Audit of the Consolidated Financial Statements (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 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016 and its Executive Regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2020 that might have had a material effect on the business of the Group or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations, as amended, during the year ended 31 December 2020, that might have had a material effect on the business of the Group or on its consolidated financial position.



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**Talal Yousef Al-Muzaini**

License No. 209A

Deloitte & Touche - Al Wazzan & Co.

Kuwait, 16 March 2021

Consolidated Statement of Financial Position as at 31 December 2020

(All amounts are in Kuwaiti Dinar)

	Notes	2020	2019
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	23,051,858	24,208,755
Investment property	6	377,533,432	377,023,226
Investments in associates	7	44,180,790	47,039,108
Investments at FVOCI	8	36,977,195	38,678,198
		<u>481,743,275</u>	<u>486,949,287</u>
<b>Current assets</b>			
Land and properties held for trading	9	13,544,514	13,685,607
Investments at fair value through profit or loss	10	20,469,828	22,906,744
Receivables and other debit balances	11	16,247,336	11,287,721
Cash and cash equivalents	12	4,673,975	4,024,768
		<u>54,935,653</u>	<u>51,904,840</u>
<b>Total assets</b>		<u>536,678,928</u>	<u>538,854,127</u>
<b>Equity and liabilities</b>			
<b>Equity attributable to the shareholders of the Parent Company</b>			
Share capital	13	184,069,975	178,708,714
Share premium		1,308,384	1,308,384
Treasury shares	14	(7,953,856)	(3,196,562)
Statutory reserve	15	38,548,936	38,443,068
Voluntary reserve	16	28,633,060	28,580,127
Other reserve	17	5,352,836	5,200,726
Retained earnings		32,780,423	45,449,385
<b>Total equity attributable to shareholders of the Parent Company</b>		<u>282,739,758</u>	<u>294,493,842</u>
Non-controlling interests		23,437,954	22,714,131
<b>Total equity</b>		<u>306,177,712</u>	<u>317,207,973</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employees' end of service indemnity		1,009,453	953,146
Lease liabilities		2,543,501	2,542,755
Financing from third party	18	192,896,791	188,646,441
		<u>196,449,745</u>	<u>192,142,342</u>
<b>Current liabilities</b>			
Payables and other credit balances	19	15,373,452	15,910,199
Financing from third party	18	18,678,019	13,593,613
		<u>34,051,471</u>	<u>29,503,812</u>
<b>Total liabilities</b>		<u>230,501,216</u>	<u>221,646,154</u>
<b>Total equity and liabilities</b>		<u>536,678,928</u>	<u>538,854,127</u>

The accompanying notes form an integral part of this condensed consolidated financial statements.



**Abdul Fatah M.R. Marafie**  
Chairman



**Adwan M. Al-Adwani**  
Vice Chairman

**Consolidated Statement of Income for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar)

	Notes	2020	2019
<b>Income</b>			
Rental income of investment properties and hotel's revenue	20	20,515,077	30,224,982
Operating expenses	20	(7,150,094)	(9,988,778)
Gain on sale of land and properties held for trading	22	43,373	48,470
Net income from operating activities		13,408,356	20,284,674
Change in fair value for investment properties		(637,567)	1,863,235
Reversal/ (impairment) of land and real estate held for trading		326	(11,627)
Share in associates' results		(1,021,476)	2,604,094
Gain from investments	21	159,770	4,440,167
Other income		210,258	56,377
<b>Total income</b>		<b>12,119,667</b>	<b>29,236,920</b>
<b>Expenses and other charges</b>			
Staff costs		(1,702,599)	(2,484,723)
Expenses and other charges		(897,941)	(975,967)
Finance costs		(6,427,783)	(8,472,221)
Provisions and impairment	23	(799,763)	(93,933)
Finance claims		-	(531,991)
<b>Total expenses</b>		<b>(9,828,086)</b>	<b>(12,558,835)</b>
<b>Net profit before deductions</b>		<b>2,291,581</b>	<b>16,678,085</b>
Kuwait Foundation for the Advancement of Sciences (KFAS)		-	(94,316)
National Labor Support Tax (NLST)		(53,301)	(274,951)
Zakat Expense		-	(61,110)
<b>Net profit for the year</b>		<b>2,238,280</b>	<b>16,247,708</b>
<b>Distributed as follows:</b>			
Shareholders of the Parent Company		1,005,374	14,583,884
Non-controlling interests		1,232,906	1,663,824
		<b>2,238,280</b>	<b>16,247,708</b>
<b>Earnings per share for Parent Company's shareholders (fils)</b>	24	<b>0.56</b>	<b>8.06</b>

The accompanying notes form an integral part of this condensed consolidated financial statements.

**Consolidated Statement of Comprehensive Income for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar)

	<b>2020</b>	<b>2019</b>
<b>Net profit for the year</b>	<b>2,238,280</b>	<b>16,247,708</b>
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified subsequently to statement of income:</i>		
Change in fair value reserve of FVOCI investment	(364,156)	(514,633)
<i>Items that may be reclassified subsequently to statement of income:</i>		
Group's share in associates' reserves	694,940	66,885
Foreign currency translation differences	41,597	61,564
	<u>736,537</u>	<u>128,449</u>
<b>Total other comprehensive income / (losses)</b>	<b>372,381</b>	<b>(386,184)</b>
<b>Total comprehensive income for the year</b>	<b>2,610,661</b>	<b>15,861,524</b>
<b>Distributed as follows:</b>		
Shareholders of the Parent Company	1,366,483	14,187,149
Non-controlling interests	1,244,178	1,674,375
	<u>2,610,661</u>	<u>15,861,524</u>

The accompanying notes form an integral part of this condensed consolidated financial statements.

**Consolidated Statement of Changes in Equity for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar)

	Equity Attributable to Shareholders of the Parent Company							Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (Note 17)	Retained earnings		
<b>Balance as at 1 January 2019</b>	178,708,714	1,308,384	(3,599,426)	36,941,642	27,829,414	5,374,271	46,917,225	22,064,705	315,544,929
Impact of prior years adjustment of associate	-	-	-	-	-	-	206,754	-	206,754
Impact of initial application of IFRS 16 - associate	-	-	-	-	-	-	(21,689)	(6,270)	(27,959)
Impact of initial application of IFRS 16	-	-	-	-	-	-	(2,308,709)	(510,230)	(2,818,939)
<b>Balance as at 1 January 2019 (restated)</b>	178,708,714	1,308,384	(3,599,426)	36,941,642	27,829,414	5,374,271	44,793,581	21,548,205	312,904,785
Net profit for the year	-	-	-	-	-	-	14,583,884	1,663,824	16,247,708
Total other comprehensive losses for the year	-	-	-	-	-	(396,735)	-	10,551	(386,184)
Sale of investment at FVOCI- associate	-	-	-	-	-	-	90,878	-	90,878
Sale of investment at FVOCI	-	-	-	-	-	(59,286)	155,170	11,905	107,789
Cash dividend	-	-	-	-	-	-	(8,699,846)	-	(8,699,846)
Dividend in kind from treasury shares	-	-	2,939,667	-	-	282,476	(3,222,143)	-	-
Cash dividend of subsidiary	-	-	(2,536,803)	-	-	-	-	(520,354)	(520,354)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
Transferred to reserve	-	-	-	1,501,426	750,713	-	(2,252,139)	-	(2,536,803)
<b>Balance as at 31 December 2019</b>	178,708,714	1,308,384	(3,196,562)	38,443,068	28,580,127	5,200,726	45,449,385	22,714,131	317,207,973
<b>Balance as at 1 January 2020</b>	178,708,714	1,308,384	(3,196,562)	38,443,068	28,580,127	5,200,726	45,449,385	22,714,131	317,207,973
Net profit for the year	-	-	-	-	-	-	1,005,374	1,232,906	2,238,280
Total other comprehensive profit for the year	-	-	-	-	-	361,109	-	11,272	372,381
Sale of investment at FVOCI- associate	-	-	-	-	-	-	86,812	-	86,812
Sale of investment at FVOCI	-	-	-	-	-	(208,999)	467,708	-	258,709
Cash dividend (Note 26)	-	-	-	-	-	-	(8,708,794)	-	(8,708,794)
Cash dividend of subsidiary	-	-	(4,757,294)	-	-	-	-	(520,355)	(520,355)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
Transferred to reserve	-	-	-	105,868	52,933	-	(158,801)	-	(4,757,294)
Bonus shares (Note 13 & 26)	5,361,261	-	-	-	-	-	(5,361,261)	-	-
<b>Balance as at 31 December 2020</b>	184,069,975	1,308,384	(7,953,856)	38,548,936	28,633,060	5,352,836	32,780,324	23,437,954	306,177,712

The accompanying notes form an integral part of this condensed consolidated financial statements.

**Consolidated Statement of Cash Flows for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar)

	Notes	2020	2019
<b>Operating activities</b>			
Net profit for the year		2,238,280	16,247,708
<i>Adjustments for:</i>			
Change in fair value of investment properties		637,567	(1,863,235)
(Reverse)/ Impairment of lands and properties held for trading		(326)	11,627
Gain from sale of land and properties held for trading		(43,373)	(48,470)
Share in associates' results		1,021,476	(2,604,094)
Net gain on investments	21	(159,770)	(4,440,167)
Depreciation of property, plant and equipment	5	1,764,601	1,875,401
Finance cost		6,427,783	8,472,221
Provision and impairment		799,763	93,933
Employees' end of service indemnity provided during the year		229,852	217,834
<i>Operating cash flow before changes in the working capital</i>		<u>12,915,853</u>	<u>17,962,758</u>
Payment for purchase of investment property		(1,147,773)	(3,758,963)
Purchase of land and real estate held for sale		(393,827)	(1,899,380)
Proceeds from sale of land and real estate held for trading		578,619	254,839
Receivables		(4,450,309)	(1,056,109)
Payables		(52,078)	121,295
Employees' end of service indemnity – paid during the year		(173,545)	(214,590)
Net cash generated from operating activities		<u>7,276,940</u>	<u>11,409,850</u>
<b>Investing activities:</b>			
Payment for purchase of property, plant and equipment	5	(607,704)	(1,027,436)
Payment to acquire shares in associates		(137,530)	(126,689)
Dividends received from associates		1,422,121	1,809,141
Payment to acquire investment at FVOCI		(4,013,404)	(4,913,420)
Proceeds on sale of investment at FVOCI		5,608,960	1,143,883
Proceeds on sale of investments at fair value through profit or loss		753,678	11,666
Payment to acquire investments at fair value through profit or loss		(161,897)	(603,679)
Cash dividend received		2,071,436	2,863,117
Deposits with financial institutions		200,000	(200,000)
Net cash generated from / (used in) investing activities		<u>5,135,660</u>	<u>(1,043,417)</u>
<b>Financing activities:</b>			
Proceeds from financing from third party		62,670,550	46,533,190
Repayment of financing from third party		(53,335,794)	(32,931,194)
Payment for buy-back of treasury shares		(4,757,294)	(2,536,803)
Cash dividend paid		(8,494,390)	(10,331,514)
Finance cost paid		(7,126,110)	(8,377,373)
Cash dividends to non-controlling interests at a subsidiary		(520,355)	(520,354)
Net cash used in from financing activities		<u>(11,563,393)</u>	<u>(8,164,048)</u>
<b>Net change in cash and cash equivalents</b>		<u>849,207</u>	<u>2,202,385</u>
<b>Cash and cash equivalents at beginning of the year</b>		<u>3,824,768</u>	<u>1,622,383</u>
<b>Cash and cash equivalents at end of the year</b>	12	<u>4,673,975</u>	<u>3,824,768</u>

The accompanying notes form an integral part of this condensed consolidated financial statements.

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

**1. Incorporation and activities**

The Commercial Real Estate Company (K.P.S.C) (“the Parent Company”) was incorporated as a Kuwaiti Shareholding Closed Company under Articles of Association No. 104/ M/ Vol.1 on 4 February 1968 under Commercial register No. 11329 and re-enrolled on 21 December 1981 under No. 239 in accordance with provision of the Commercial Companies Law. The main objectives of the Company are performing various real estate, agricultural, industrial and commercial activities, carrying out contracting and building constructions including sale, purchase, lease of real estate properties and investing surplus cash in equity markets through investment portfolios managed by specialized companies and financial institutions. The Company may also participate in any suitable investments in entities that engage in similar business activities or that may help the Company achieve its objectives inside Kuwait and abroad. The Company may purchase such entities and affiliate them as stated in Company’s Articles of Association, article No. 5 and Memorandum of Association, article No. 4. The Company’s management shall carry out all its objectives for which it has been established in accordance with the Noble Islamic Sharia principles.

The head office of the Parent Company is located at Jaber Al-Mubarak Street, Commercial Real Estate Company’s Building, Sharq, P.O. Box. 4119 Safat, 13042 Kuwait.

The Parent Company has been registered in the Borsa Kuwait on 21 December 2004.

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries set out in note (25), (“together referred to as the Group”).

The consolidated financial statements were authorized for issue by the Board of Directors on 16 March 2021.

**2. Basis of preparation and significant accounting policies**

**2.1 Basis of preparation**

These consolidated financial statements have been prepared under the historical cost basis of measurement except for certain investment properties and financial instruments classified as investment securities at fair value through profit and loss (“Investments at FVTPL”) and investment securities at fair value through other comprehensive income (“Investments at FVOCI”), which are measured at fair value.

These consolidated financial statements are presented in Kuwaiti Dinars (“KD”), which is also the Group’s functional and presentation currency.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect amounts reported in these consolidated financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas where estimates and assumptions are significant to the consolidated financial statements, or areas involving a higher degree of judgment, are disclosed in Note 4.

The impact of COVID-19 is disclosed in Note 31.

**Going concern**

The Board of Directors have, at the time of approving these consolidated financial statements, a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

**2.2 Application of new and revised International Financial Reporting Standards (IFRS)**

**2.2.1 Changes in accounting policies and disclosures**

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019 except for changes in significant accounting policies, critical judgements and estimates and financial risk management that have been disclosed in the accompanying consolidated financial statements. Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group.

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

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Group.

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

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

**Interest Rate Benchmark Reform "phase one" amendments to IFRS 9 and IFRS 7**

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.

The application of phase one of Interest Rate Benchmark Reform amendments for the first time in the current year has no impact to the Group.

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

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c) There is no substantive change to other terms and conditions of the lease.

This amendment is not applicable for the lessor, The Covid-19-Related Rent Concessions (Amendment to IFRS 16) has no material impact on the Group.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

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

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

### 2.2.2 New and revised IFRS Standards in issue but not yet effective

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

IFRS 17 <i>Insurance Contracts</i>	The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023.
IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.
Amendments to IFRS 3 <i>Reference to the Conceptual Framework</i>	The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated <i>Conceptual Framework</i> ) at the same or earlier.
Amendments to IAS 16 <i>Property, Plant and Equipment—Proceeds before Intended Use</i>	The amendments are effective for annual periods beginning on or after 1 January 2022, with early application Permitted
Amendments to IAS 37 <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.
Annual Improvements to IFRS Standards 2018-2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i> The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.
Interest Rate Benchmark Reform “phase two” amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16	The amendments enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offer rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements. The amendments affect many entities and in particular those with financial assets, financial liabilities or lease liabilities that are subject to interest rate benchmark reform and those that apply the hedge accounting requirements in IFRS 9 or IAS 39 to hedging relationships that are affected by the reform. - The amendments apply to all entities and are not optional. - The amendments are effective for annual periods beginning on or after 1 January 2021 with early application permitted.

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

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**2.3 Significant accounting policies**

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

**2.3.1 Basis of consolidation**

**Subsidiaries**

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company (a) has power over the investee (b) is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affects its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three components of controls listed above.

Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company losses control over the subsidiary. Specifically, income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated statement of income or other comprehensive income from the date in which the Parent Company gains control until the date when Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 in line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between:

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, or the cost on initial recognition of an investment in an associate or a joint venture.

Where applicable, adjustments are made to bring the accounting policies of the subsidiary in line with those of the Group. The difference in reporting date of the subsidiary and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

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### Business combinations

Acquisitions of business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except deferred tax assets or liabilities, liabilities or equity instruments related to share based payment arrangements and assets that are classified as held for sale in which cases they are accounted for in accordance with the related IFRS.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of profit or loss. Amounts arising from interests that have previously been recognised in the consolidated statement of other comprehensive income are reclassified to consolidated statement of income where such treatment would be appropriate if that interest were fully disposed off.

### Goodwill

Goodwill, arising on an acquisition of a subsidiary, is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount "higher of value in use and fair value less costs of disposal" of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Investment in associates

An associate is an entity over 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 results of business, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except for any investment classified as investment held for sale, as it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and any other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate, (including any long-term interests represent a part of the Group's net investment in an associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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Upon acquisition of an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate, recognised at the date of acquisition, is recognised as goodwill. Goodwill is included within the carrying amount of the investment in an associate. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in the consolidated statement of income .

Requirements of IFRS 9 are applied to determine whether it is necessary to recognize the impairment losses of the associates. The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with the requirements of IAS No. (36) "Impairment of Assets."

Where applicable, adjustments are made to bring the accounting policies of the associate in line with those of the Group. The difference in reporting date of the associate and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associates are recognised in Group financial statement only to the extent of interests in the associate, that are not related to the Group.

### 2.3.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any subsequent accumulated impairment losses. Cost includes the purchase price and any directly associated costs of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. In situations, where it is clearly demonstrated that the expenditure has resulted in an increase in the future economic benefit expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, these expenditures are capitalised

Property, plant and equipment depreciation is calculated using the straight line method on the basis of estimated useful lives except for land which is carried at cost less impairment losses. Property, plant and equipment amount is written down to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

The residual value, useful life and depreciation method are reviewed at the end of each reporting period. Change in estimations are accounted for as of the beginning of the financial year in which the change arises. Gains or losses on disposals of property, plant, and equipment are determined by the difference between the sales proceeds and the net carrying amount of the asset and is recognized in the consolidated income statement.

### 2.3.3 Investment properties

Investment properties are properties held to earn rentals and/or capital appreciation (including properties under construction for such purposes). Investment properties are measured initially at cost, including transaction costs

Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in consolidated statement of income in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefit is expected from the disposal. Any gain or loss arising on disposal of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income for the period in which they arise.

#### Investment properties fair value measurement

The fair value of the Group's investment properties are estimated based on valuations carried out by independent valuers not related to the Group. The independent valuers are licensed from the relevant regulatory bodies and have appropriate qualifications and experience in valuation of properties at the relevant locations .

The fair value of investment properties was determined using the net income capitalisation rate method, using market rental income of all units of the properties and is classified as Level 3 (note 6).

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

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### 2.3.4 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal or value in use. Impairment losses are recognised in the consolidated statement of income for the year in which they arise. When an impairment is reversed, the impairment is recognised to the extent of the net carrying amount had no impairment been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

### 2.3.5 Financial instruments

#### Classification and measurement of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

#### Business model assessment

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

- The stated policies and objectives for the financial assets and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

#### Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through profit or loss (FVTPL)
- Financial assets carried at fair value through other comprehensive income (FVOCI)

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### Financial assets carried at Amortised cost

A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income. Cash and cash equivalents and receivables are classified at amortized cost.

### Financial asset carried at fair value through profit or loss

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise are required to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the Consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the statement of profit or loss and other comprehensive income when the right to the payment has been established.

### Financial assets carried at fair value through other comprehensive income

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to Consolidated statement of income. Dividends are recognised in consolidated statement of income when the right to payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings in the statement of changes in equity.

### Reclassification of financial assets

The Group only reclassifies its financial assets subsequent to their initial recognition upon change in business model.

### Impairment of financial assets

The Group recognizes expected credit losses (ECL) on financial assets that are measured at amortized cost in accordance with IFRS 9.

Group recognizes ECL for bank balances using low credit risk approach and other receivables using the general approach and uses the simplified approach for trade receivables as required by IFRS 9.

#### Low credit risk assessment

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

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### Significant increase in credit risk assessment

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- 1) the financial instrument has a low risk of default;
- 2) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- 3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

### General approach

Under general approach, assets migrate through the three stages based on the change in credit quality since initial recognition. The Group incorporates forward-looking information based on expected changes in macro-economic factors in assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Financial assets with significant increase in credit risk since initial recognition, but not credit impaired, are transitioned to stage 2 from stage 1 and ECL is recognized based on the probability of default (PD) of the counter party occurring over the life of the asset. All other financial assets are considered to be in stage 1 unless it is credit impaired and an ECL is recognized based on the PD of the customer within next 12 months. Financial assets are assessed as credit impaired when there is objective evidence of impairment.

ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

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### Simplified approach

The Group applies simplified approach to measuring credit losses, which uses a lifetime expected loss allowance for all trade receivables.

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar credit risk characteristics. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

### Event of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

### **Recognition and de-recognition**

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is de-recognised when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership of the financial asset, or when it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset and when it no longer retains control over the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

### **Fair values**

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, i.e. an exit price. The fair value measurement assumes 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 to 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.

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

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All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized 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 financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes .

For assets and liabilities that are recognised in the financial statements 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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The fair value of financial instruments other than short term financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

### Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost.

### 2.3.6 Land and Properties held for trading

Land and real estate held for trading are stated at cost when acquired. Cost is determined on an individual basis for such land or real estate, where the cost represents the fair value of the consideration given, plus ownership transfer fee and brokerage expenses. Land and real estate held for trading are classified under current assets and are valued at the lower of cost or net realisable value on an individual basis. Net realisable value is determined on the basis of estimated sale value, less the estimated expenses necessary to complete the sale. Gains or losses from the sale of land and property held for trading are reported in the consolidated statement of income by the difference between sale value and its book value.

### 2.3.7 Employees' end of service indemnity

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at termination of employment. Regarding the Components in other countries; the indemnity is calculated based on law applicable in these countries. Such payment is made on a lump sum basis at the end of an employee service. Defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of employees on the consolidated financial statement's date. The management expects that this method would result in a reliable approximation of the present value of the Group's liability.

### 2.3.8 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the consideration expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(All amounts are in Kuwaiti Dinar unless otherwise stated)

### 2.3.9 Equity, reserves and dividend payments

Issued ordinary shares are recorded within equity. Direct costs relating to issuing of shares are reduced from the amounts received for issuing these shares within equity under share premium. Share capital represent the nominal value of the shares issued.

Dividends are recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the shareholders.

### 2.3.10 Treasury shares

Treasury shares represent the Parent Company's own shares that have been issued, subsequently purchased by the Group and not yet reissued or cancelled. Treasury shares are accounted for using the cost method. Under the cost method, the total cost of the shares acquired is reported as a contra account within equity when the treasury shares are disposed; gains are credited to a separate un-distributable account in equity "gain on sale of treasury shares". Any realised losses are charged to the same account in the limit of its credit balance. Any additional losses are charged to retained earnings, then to reserves and premium. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and the gain on sale of treasury shares.

### 2.3.11 Foreign currencies

#### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kuwaiti Dinars' (KD).

#### Transactions and balances

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end are recorded in the Consolidated statement of income except for:-

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction

#### Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that consolidated financial statements.
- Income and expenses for each income statement are translated at average exchange rates.
- All resulting exchange differences are recognized as a separate component of equity.

### 2.3.12 Revenue recognition

Revenue from contract with customers is recognized when the Group satisfies the performance obligation by transferring the promised goods or service to the customer. A product or service is deemed to have been transferred when the customer has control over that item or service at a point in time or over time.

Revenue is measured at the amount of the consideration to which the Company is expected to be entitled in exchange for the transfer of the promised goods or services to the customer.

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

Rental income

Rental income is recognized in accordance with the accounting policy 2.3.14 "Leasing".

Sale of lands and real estate held for trading

Gains and losses resulted from the sale of lands and real estate held for trading are recognized in consolidated statement of income at a point in time when the customer has control over the goods or assets.

Gain/loss on de-recognition of financial assets

Gain/Loss on de-recognition of financial assets is recognized in accordance with the accounting policy 2.3.5. "Derecognition of financial assets".

Services income

The Group earns revenue from other services. Revenue from services is recognised as the Group satisfies the performance obligation by transferring the promised services to the customer.

Dividend income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Interest income

Interest income is recognised using the effective interest method by reference to the principal outstanding and the interest rate applicable.

Revenue from hotel operations

The Group generates hospitality income from its owned hotels. These include revenues from room occupancies, food and beverages sales and other services. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from its hospitality operations:

*a. Identifying performance obligations in a bundled contract*

The Group provides certain hospitality services to its customers as part of a single arrangement and these arrangements may include various performance obligations that represents performing a contractually agreed-upon task(s) for a customer. The Group determined that each of these performance obligations are capable of being distinct as these services are separately identifiable from other obligations in the contract and the customer can benefit from each service on its own. Furthermore, the Group also determined that the promises of such services are distinct within the context of each contract, the transaction price is determined separately based on each obligation and these services are not highly interdependent or highly interrelated. The transaction prices is allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, the Group estimates separate transaction price for each performance obligation based on expected cost-plus margin.

*b. Determine transaction price*

The transaction price is the amount of consideration that is enforceable and to which the Group expects to be entitled in exchange for services promised to the customer. The Group determines the transaction price by considering the terms of the contract and business practices that are customary.

*c. Determining the timing of satisfaction of services*

The Group concluded that revenue from room occupancy is recognized at point over time in the accounting period when the services are rendered, revenue from food and beverages sales to its customers is recognised at point in time when the obligations are performed and other hotel revenue is recognized when such services are rendered.

*d. Principal versus agent considerations*

During the performance of hospitality services to its customer, the Group involves certain third parties in providing certain services. The Group has concluded that it is a principal in such arrangements as the Group retains the right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf and the Group is primarily held responsible for fulfilling each obligation to the customer.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(All amounts are in Kuwaiti Dinar unless otherwise stated)

### 2.3.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### 2.3.14 Leasing

#### Where the Group is the lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate consideration under the contract to each component.

#### The Group as a lessee

The Group assesses whether contract is or contains a lease, at inception of the Contract. The Group recognizes a right of use asset and a corresponding lease liability on the date on which the lessor makes the asset available for use by the Group (the commencement date).

On that date, the Group measures the right of use at cost, which comprises of:

- the amount of the initial measurement of the lease liability.
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- an estimate of costs to be incurred to restoring the underlying asset to the condition required by the terms and conditions of the lease as a consequence of having used the underlying asset during a particular period; this is recognised as part of the cost of the right of use asset when the Group incurs the obligation for those costs, which may be at the commencement date or as a consequence of having used the asset during a particular period.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. On that date, the lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Payments associated with leases of short term leases and low-value assets are recognized on a straight-line basis as an expense in statement of income.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(All amounts are in Kuwaiti Dinar unless otherwise stated)

### *Subsequent Measurement*

According to usage nature of the leased asset, the Company classifies the asset within a group of related assets. If the asset meets the definition of real estate investment "IAS 40", the Group measures the asset based on the accounting policy adopted in measuring real estate investments owned by the Group (Note 2.3.3). However, if the asset meets the definition of property, plant and equipment, the Group measures the asset as per the accounting policy adopted in measuring the property, plant and equipment (Note 2.3.2.).

After the commencement date, the Group measures lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payment made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to statement income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The constant periodic rate of interest is the discount rate used at the initial measurement of lease liability.

For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

### *Sale and leaseback*

The Group enters into sale and leaseback transactions whereby it sells certain assets to a third-party and immediately leases them back. Where sale proceeds received are judged to reflect the fair value, any gain or loss arising on disposal is recognised in the statement of income, to the extent that it relates to the rights that have been transferred. Gains and losses that relate to the rights that have been retained are included in the carrying amount of the right of use asset recognised at commencement of the lease. Where sale proceeds received are not at the fair value, any below market terms are recognised as a prepayment of lease payments, and above market terms are recognised as additional financing provided by the lessor.

## **2.3.15 Taxation**

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

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

### **National Labor Support Tax (NLST)**

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Group for the year. As per Law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

### **Zakat**

The Group calculates zakat in accordance with the Ministry of Finance resolution No. 46 of 2006. They are recognized as expense in the relevant period on accrual basis.

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

**2.3.16 Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as a decrease from the related expenses on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual installments.

**3. Financial risk management**

**3.1 Financial risks**

The Group's activities expose it to a variety of financial risks, which are market risks (which include foreign currency risks and risks of fair value resulting from interest rates, and risks of fluctuations in cash flows resulting from changes in interest rates, and market prices risks) in addition to credit risk and liquidity risks.

The Group's Risk Management focuses on the unpredictable issues in the financial markets in order to reduce the potential negative impact on the financial performance of the Group to the minimum. The Group currently does not use hedging instruments to manage its exposure to these risks. Group does not have any interest bearing assets or liabilities carried at fair value and therefore are not exposed to fair value risk.

**A) Market risk**

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages this risk by diversifying its investments.

*Foreign currency risk*

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

The Group is exposed to this risk as a result of holding financial assets and liabilities in foreign currencies, primarily in US Dollar, Sterling Pound and Bahraini Dinar. The Group's management constantly monitors the change in exchange rates of foreign currencies that might negatively affect the Group's results.

The following is the net positions of foreign currencies denominated in KD as at the consolidated financial statements date:

	2020	2019
US Dollar	28,493,342	30,503,485
Sterling Pound	12,498,546	12,396,052
Bahraini Dinar	37,507,248	37,868,995
Other	20,310,304	20,929,363

The following is the effect of change of foreign exchange rates by 5% against Kuwaiti Dinar, with all other variables are held constant on the Group's equity/consolidated statement of income:

	2020		2019	
	Equity	Statement of income	Equity	Statement of income
US Dollar	841,370	583,297	705,486	819,688
Sterling Pound	494,514	130,413	490,745	129,058
Bahrain Dinar	6,853	1,868,510	8,325	1,885,125
Other	419,256	596,259	642,778	403,690

*Profit rate risks*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Group is not exposed to interest rate risk as the Group works under Noble Principles of Islamic Sharia and the profit rates are fixed during the contractual maturity period.

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

*Fair value risks*

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. Financial instruments, which potentially subject the market risk, consist of investment at fair value through statement of income and investments at FVOCI. The Group manages this risk by diversifying its investments on the basis of the pre-determined asset allocations across various categories, continuous appraisal of market conditions and trends and management estimate of long and short term changes in fair value. The Group maintains its quoted investments with specialized investment companies. Monthly reports on investments performance are sent to the Group management for follow up and decisions making.

The Group is exposed to equity price risks arising from equity investments

Equity investments in unlisted entities (Note 8) are held for strategic rather than trading purposes. The Group does not actively trade these investments.

*Equity price sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 5% higher/lower:

- Net profit for the year ended 31 December 2020 would increase/decrease by KD 1,023,491 (increase/decrease by KD 1,145,337) as a result of the changes in fair value of the investments through profit and loss; and
- Other comprehensive income would increase/decrease by KD 1,848,859 (increase/decrease by KD 1,933,910) as a result of the changes in fair value of the investments through other comprehensive income.

The methods and assumptions used in preparing the sensitivity analysis above have not changed significantly from the prior year.

**B) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist of bank balances, trade receivables, due from related parties, refundable deposits & other debit balance . The Group manages this risk by placing money with high credit rating financial institutions.

The Group always measures the loss allowance for impairment for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group considers an event of default has occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, in full (without taking into account any collateral held by the Group). Irrespective of this criteria, the Group considers that a default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The following table contains an analysis of the maximum credit risk exposure of financial instruments:

	<b>2020</b>	<b>2019</b>
Bank balances	4,668,848	4,018,583
Trade receivables & due from related parties	8,006,945	7,530,308
Refundable deposits	344,246	332,756
Other debit balance	185,579	178,361
	<u>13,205,618</u>	<u>12,060,008</u>

All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

The ECL charge on due from related parties, refundable deposits and other receivables as on 1 January 2020 and for the year ended 31 December 2020 are not material.

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(All amounts are in Kuwaiti Dinar unless otherwise stated)

The following table details the risk profile of trade receivables based on the Group's provision matrix.

**31 December 2020**

	0-90 days	91-180 days	181-365 days	> 365 days	Total
Gross carrying amount	1,703,147	369,647	861,058	4,881,112	7,814,964
Lifetime ECL	193,291	104,357	141,326	4,742,251	5,181,225

**01 January 2020**

	0-90 days	91-180 days	181-365 days	> 365 days	Total
Gross carrying amount	1,197,366	784,003	1,085,342	4,290,954	7,357,665
Lifetime ECL	55,946	48,260	82,411	4,290,953	4,477,570

**C) Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet its commitments. The Group manages liquidity risk by maintaining adequate cash and bank balances and borrowing facilities and by continuously monitoring forecast and actual cash flows.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, and long-term liquidity management requirements. The Group manages liquidity risk through maintaining adequate assets, which are easily convertible into cash and also by securing banking facilities in addition to ongoing monitoring of the expected and actual cash flows and maturity profile of financial assets and liabilities.

The table below analyses the non-derivative financial liabilities based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2020				Total
	Within 3 months	From 3 months to one year	1-5 years	More than 5 years	
Borrowings	4,846,393	19,594,970	184,671,295	23,793,524	232,906,182
Accounts payable	1,173,128	8,825,994	-	-	9,999,122
	2019				Total
	Within 3 months	From 3 months to one year	1-5 years	More than 5 years	
Borrowings	3,382,125	26,818,010	184,564,539	17,430,626	232,195,300
Accounts payable	1,758,169	9,112,399	-	-	10,870,568

**3.2 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, enabling it to provide returns for shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's capital structure consists of finance obtained from third party less cash and cash equivalents in addition to equity.

Under the laws of Kuwait, the Parent Company also appropriates 10% of its net profit to a statutory reserve till it exceeds 50% of the share capital, with restrictions on distribution.

The Group manages the capital risk by continuously monitoring the gearing ratio.

The gearing ratio at year end was as follows:

	2020	2019
Financing from third party	211,574,810	202,240,054
Less: cash and cash equivalents	(4,673,975)	(4,024,768)
Net debt	206,900,835	198,215,286
Total equity	306,177,712	317,207,973
Gearing ratio (%)	67.58	62.49

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**  
(All amounts are in Kuwaiti Dinar unless otherwise stated)

**3.3 Fair value estimation**

The fair values of financial assets and liabilities are estimated as follows:

- Level 1 Quoted prices in active markets for quoted financial instruments.
- 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

**Fair value of financial assets and liabilities of the Group measured at fair value on a recurring basis:**

Financial assets	Fair value as at		Fair value level	Valuation methods and key inputs	Significant unobservable inputs	Relation of unobservable inputs to fair value
	2020	2019				
<b>Investments at fair value through other comprehensive income</b>						
Quoted shares	220,631	94,215	1	Last bid price	N/A	N/A
Private equity	36,330,386	38,158,088	3	Income approach/ market multiple model	Cash flow, discount rate, growth rate	Higher estimated cash flows and lower discount rates, results in higher fair value
Investment funds	426,178	425,895	3	Income approach/ market multiple model	Cash flow, discount rate, growth rate	Higher estimated cash flows and lower discount rates, results in higher fair value
<b>Investments at fair value through profit or loss:</b>						
Quoted shares	732,838	577,723	1	Last bid price	N/A	N/A
Private equity	19,736,990	22,329,021	3	Income approach/ market multiple model	Cash flow, discount rate, growth rate	Higher estimated cash flows and lower discount rates, results in higher fair value

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar unless otherwise stated)

**Fair value of financial assets and liabilities of the Group not measured at fair value on a recurring basis:**

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>				
- Due from related parties	191,981	191,981	172,643	172,643
- Receivables	6,684,081	6,684,081	5,221,356	5,221,356
- Cash and cash equivalents	4,673,975	4,673,975	4,024,768	4,024,768
	<u>11,550,037</u>	<u>11,550,037</u>	<u>9,418,767</u>	<u>9,418,767</u>
<b>Financial liabilities:</b>				
- Financing from third party	211,574,810	209,236,033	202,240,054	199,868,089
- Payables	15,373,452	15,373,452	15,910,199	15,910,199
	<u>226,948,262</u>	<u>224,609,485</u>	<u>218,150,253</u>	<u>215,778,288</u>

The fair values of the financial assets and financial liabilities included in the level 3 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. There are no transfers between fair value levels during the year.

**4. Significant accounting judgements, estimates and assumptions**

In the application of the Group's accounting policies, the Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Critical Judgements:**

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 the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. 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 (e.g., a change in business strategy).

Discounting of lease payments

The lease payments are discounted using the Company's incremental borrowing rate ("IBR"). At initial adoption of IFRS 16 "Leases", the Management has applied judgments and estimates to determine the incremental borrowing rate.

Lease modification - Group as lessor

The Group, as lessor, has deemed that changes in lease contract payments resulting from clauses stipulated under the original contract, applicable law, or applicable regulations are part of the original terms and conditions of the lease agreement, even if the effect of those terms (arising from COVID-19) which not previously contemplated. In this case, there is no amendment to the lease contracts with respect to the purposes of IFRS 16.

Classification of investments

On acquisition of an investment, management uses judgment in assessing the business model within which the assets are managed and also assessing whether the contractual cashflows of the financial asset are related to the solely payment of principal and interest, the Group decides whether it should be classified as "FVTPL" or "FVTOCI".

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(All amounts are in Kuwaiti Dinar unless otherwise stated)

### Classification of real estate investments

Management decides on acquisition of real estate whether it should be classified as held for trading or investment property.

The Group classifies property as held for trading if this is acquired principally for sale in the ordinary course of the business.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation.

### Evidence of impairment of investments

The Group estimates impairment for all investments carried at amortized cost or fair value through consolidated statement of income except for equity instruments. Impairment is considered appropriate when there is objective evidence on the deterioration of the financial position for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Note 23 sets out the impact of that on the consolidated financial statements.

### Practicing significant influence

The Group's investments in Afkar Holding Company have been classified as associates although the Group only owns 19.35% of their shares. The Group has significant influence over the entity through its representation in their Board of Directors' by two members out of seven.

### Contingent liabilities

Contingent liabilities arise as a result of a past events confirmed only by the occurrence or non-occurrence of one or more of uncertain future events not fully within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment (Note 29).

### **Sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Fair value measurements and valuation techniques

Certain assets and liabilities of the Group are measured at fair value for the purposes of preparing the financial statements. The Group's management determines the appropriate techniques and inputs required for measuring the fair value. In determining the fair value of assets and liabilities, management uses observable market data as appropriate. In case no observable market data is available the Group uses an external valuer qualified to do the valuation.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The valuations of private equity investments, contingent consideration in business combinations and nonderivative financial assets held for trading are particularly sensitive to changes in one or more unobservable inputs which are considered reasonably possible within the next financial year. Further information on the carrying amounts of these assets and the sensitivity of those amounts to changes in unobservable inputs are provided in (note 3.3).

Information regarding the required valuation techniques and inputs used to determine the fair value of financial assets and liabilities is disclosed in note (3.3 & 6).

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar unless otherwise stated)

**Impairment of tangible and intangible assets "other than Land and properties held for trading"**

The Group reviews value in use or the fair value assessment of tangible and intangible assets "other than Land and properties held for trading" on a continuous basis to determine whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

**Land and properties held for trading**

The Group reviews the net realizable value of Land and properties held for trading at each reporting date. Management assesses, whether there is any indication that Land and properties held for trading may be impaired. The determination of net realizable value requires considerable judgment and involves evaluating factors including, independent external expert and market conditions which represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Calculation of loss allowance**

The Group estimates expected credit loss for all monetary assets carried at amortized cost. The determination of expected credit loss involves significant use of external and internal data and assumptions. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. Refer note 2.3.5 impairment of financial assets for more information.

**5. Property, plant and equipment**

	Land & buildings	Furniture & fittings	Furniture & utensils	Office equipment, tools & vehicle	Total
<b>Cost</b>					
Balance at 1 January 2019	26,392,043	11,170,323	3,643,767	1,753,788	42,959,921
Additions	1,108	896,276	37,331	268,203	1,202,918
Balance at 31 December 2019	26,393,151	12,066,599	3,681,098	2,021,991	44,162,839
Additions	-	266,786	-	340,918	607,704
Balance at 31 December 2020	26,393,151	12,333,385	3,681,098	2,362,909	44,770,543
<b>Accumulated depreciation</b>					
Balance at 1 January 2019	4,582,128	8,804,870	3,594,904	1,096,781	18,078,683
Depreciation for the year	569,080	1,099,883	12,800	193,638	1,875,401
Balance at 31 December 2019	5,151,208	9,904,753	3,607,704	1,290,419	19,954,084
Depreciation for the year	569,532	936,227	19,050	239,792	1,764,601
Balance at 31 December 2020	5,720,740	10,840,980	3,626,754	1,530,211	21,718,685
<b>Net carrying value</b>					
As at 31 December 2020	20,672,411	1,492,405	54,344	832,698	23,051,858
As at 31 December 2019	21,241,943	2,161,846	73,394	731,572	24,208,755
Useful lives (years)	40	5-10	5	3-6	

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar unless otherwise stated)

**6. Investment properties**

These represent commercial, residential properties and land most of which are located in the State of Kuwait. The movement in investment properties during the year was as follows:

	2020	2019
Balance at 1 January	377,023,226	370,400,645
Additions during the year	1,147,773	3,758,963
Transferred from Land and properties held for trading	-	1,175,865
Transferred to property, plant and equipment	-	(175,482)
Change in fair value	(637,567)	1,863,235
Balance at 31 December	377,533,432	377,023,226

The fair value of the Group's investment properties as at 31 December 2020 are estimated based on valuations carried out by independent valuers not related to the Group. The independent valuers are licensed from the relevant regulatory bodies and have appropriate qualifications and experience in valuation of properties at the relevant locations.

The fair value of investment properties was determined using the net income capitalisation rate method, using market rental income of all units of the properties and is classified as Level 3. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. The valuation model used involves significant unobservable inputs including the average capitalisation rate. Average capitalisation rate used in valuation takes into account the capitalisation of rental income, nature of the property and prevailing market conditions is 7.5% (7.5% - 31 December 2019).

An increase in the capitalisation rate used would result in a decrease in the fair value, and vice versa.

In estimating the fair value of the investment properties, their current use was assumed to be highest and best use of these properties.

Investment properties include properties of KD 260,153,560 as at 31 December 2020 (KD 271,853,260 - 31 December 2019) pledged to local financial institutions as collateral for finance obtained by the Group (Note 18).

Investments properties include the fair value of right of use Boulevard project which will expire in year 2036. The balance of lease liabilities is as follows:

	2020	2019
<b><u>Lease liabilities (non-current)</u></b>		
Amounts due after 12 months	2,543,501	2,542,755
<b><u>Lease liabilities (current)</u></b>		
Amounts due within 12 months	96,637	188,797
	2,640,138	2,731,552

**7. Investments in associates**

**7.1 Financial information**

Name of associates	Country of incorporation	Principal activity	Ownership %		2020	2019
			2020	2019		
Hajar Tower Real Estate Co.	Kuwait	Real Estate	27.42	27.42	5,821,289	8,974,061
Kuwait Resorts Co.	Kuwait	Services	36.85	36.02	10,554,088	9,742,202
Bayan Real Estate Co.	Saudi Arabia	Real Estate	22.71	22.71	4,612,739	4,664,495
Afkar Holding Co.	Kuwait	Holding	19.35	19.35	2,908,709	2,829,925
Kuwait Commercial Markets Complex Co.	Kuwait	Real Estate	23.13	23.13	3,159,075	2,773,715
Gulf Opportunities Co.	Kuwait	Real Estate	43.00	43.00	750,318	701,042
Al Jahra Tourism Co.	Kuwait	Tourism	44.87	44.87	10,000,946	10,849,429
Vacation Club Venture	Emirates	Real Estate	30.00	30.00	4,252,196	4,246,773
Waves Budaiya Development Co.	Bahrain	Real Estate	36.00	36.00	1,198,138	1,552,567
Other					923,292	704,899
					44,180,790	47,039,108

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

All investments above are accounted for using equity method in these consolidated financial statements.

Kuwait Resorts Company is quoted in an active market and its fair value as at 31 December 2020 is KD 4,655,353 (KD 4,024,399 - 31 December 2019).

The summarised financial information below is extracted from the associates latest available financial statements prepared in accordance with International Financial Reporting Standards:

**Kuwait Resorts Company**

	<b>2020</b>	<b>2019</b>
Current assets	22,456,993	20,129,755
Non-current assets	11,905,083	13,087,070
Current liabilities	4,235,759	4,825,663
Non-current liabilities	946,314	879,089

	<b>2020</b>	<b>2019</b>
Revenue	4,217,037	7,252,622
profit for the year	851,319	1,220,733
Total other comprehensive income	444,630	776,520

**Hajar Tower Real Estate Company**

	<b>2020</b>	<b>2019</b>
Current assets	18,600,571	24,921,522
Non-current assets	32,245,717	33,576,957
Current liabilities	16,587,869	12,779,526
Non-current liabilities	12,767,835	12,732,046

	<b>2020</b>	<b>2019</b>
Revenue	2,225,003	17,260,041
(loss)/ Profit for the year	(6,472,293)	3,795,016
Dividends received from associate during the year	1,375,600	1,375,600

**Al Jahra Tourism Company**

	<b>2020</b>	<b>2019</b>
Current assets	4,343,406	6,954,705
Non-current assets	20,534,745	19,709,348
Current liabilities	1,123,789	1,002,445
Non-current liabilities	1,463,891	1,483,340

	<b>2020</b>	<b>2019</b>
Revenue	4,043,960	6,748,013
Profit for the year	1,399,562	3,206,577
Dividends received from associate during the year	1,422,121	1,659,141

***Aggregate information of associates that are not individually material***

	<b>2020</b>	<b>2019</b>
The Group's share in loss	(58,752)	(218,331)
The Group's share of other comprehensive income for the year	162,157	51,761
The Group's share of total comprehensive income/(loss) for the year	103,405	(166,570)
Aggregate carrying amount of the Group's interest in these associates	17,804,467	17,473,416

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

**8. Investment at FVOCI**

	<b>2020</b>	<b>2019</b>
Investment in quoted shares	220,631	94,215
Investment in private equities managed by others	36,330,386	38,158,088
Investment funds	426,178	425,895
	<u>36,977,195</u>	<u>38,678,198</u>

The fair values of investments, other than quoted shares, were determined by reference to the investment's managers reports as set out in note 3.3.

**9. Land and properties held for trading**

	<b>2020</b>	<b>2019</b>
Balance as at 1 January	13,685,607	13,180,088
Additions	393,827	1,899,380
Transfer to Investment properties	-	(1,175,865)
Sales during the year	(535,246)	(206,369)
(Impairment)/ reversal of impairment	326	(11,627)
Balance as at 31 December	<u>13,544,514</u>	<u>13,685,607</u>

The net reliable values were determined based on the market comparable approach for the areas in which the properties are located, taking into account the properties nature, location and stage of development.

**10. Investments at fair value through profit or loss**

This represent investment in private equities managed by others. The fair values of such investment were estimated based on the investment's managers reports as set out in note 3.3.

**11. Receivables and other debit balances**

	<b>2020</b>	<b>2019</b>
Trade receivables	7,814,964	7,357,665
Due from related parties (Note 27)	191,981	172,643
Provision for expected credit losses	(5,181,225)	(4,477,570)
	<u>2,825,720</u>	<u>3,052,738</u>
Advance payments for acquisition of investments	3,725,338	83,149
Advance payment for purchase of land	4,962,370	4,873,614
Advances to contractors and suppliers	490,603	754,488
Prepaid expenses	192,963	182,471
Refundable deposits	344,246	332,756
Other debit balances	3,706,096	2,008,505
	<u>16,247,336</u>	<u>11,287,721</u>

Aging of past due but not collected trade and other receivables as at 31 December 2020 is as follows:

	<b>2020</b>	<b>2019</b>
0-90 days	774,647	903,330
91-180 days	369,647	326,195
181-365 days	837,090	671,827
Above 365 days	4,838,510	4,252,184
	<u>6,819,894</u>	<u>6,153,536</u>
Provisions of expected credit losses	(5,181,225)	(4,477,570)

Movement of provision for expected credit losses for the year:

	<b>2020</b>	<b>2019</b>
Balance as at 1 January	4,477,570	4,632,085
Provided during the year	889,115	293,751
Reversal of provision for Expected credit losses	(89,352)	(225,365)
Write off	(96,108)	(222,901)
Balance as at 31 December	<u>5,181,225</u>	<u>4,477,570</u>

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

**12. Cash and cash equivalents**

	2020	2019
Cash in hand	5,127	6,185
Cash at banks and financial institutions	2,668,848	3,268,583
Deposits with financial institution	2,000,000	750,000
	<u>4,673,975</u>	<u>4,024,768</u>
Less: deposits with financial institution more than 3 months	-	(200,000)
Cash and cash equivalent for cash flow	<u>4,673,975</u>	<u>3,824,768</u>

The profit rate for the deposit is 1.2% (2019: 2.9%)

**13. Share capital**

The authorized, issued and paid up capital of the Parent Company amounted to KD 184,069,975 comprises of 1,840,699,751 shares with a nominal value of 100 fils each, fully paid up in cash as of 31 December 2020 (KD 178,708,714 distributed over 1,787,087,137 shares as of 31 December 2019).

During 2020, the paid up capital of the Parent Company had increased by distribution of bonus share of 3% from the paid up share capital (3 shares per 100 shares) for the year ended 31 December 2019. The effect of capital increase by bonus share was amended in the commercial register on 14 July 2020 (note 26).

**14. Treasury shares**

	2020	2019
Number of shares	82,427,994	35,125,820
Proportion to issued shares (%)	4.48%	1.96
Market value	9,396,791	3,319,390
Cost	7,953,856	3,196,562

The Parent Company is required to retain reserves and retained earnings equivalent to cost of treasury shares during this period they are held by the Parent Company, pursuant to the relevant instructions of the regulatory authorities.

Treasury shares of 15,333,943 shares are held by a subsidiary as of 31 December 2020 (14,887,324 shares - 31 December 2019).

**15. Statutory reserve**

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of net profit for the year, before contribution to Kuwait Foundation for Advancement of Sciences, National Labour Support Tax, directors' remuneration, and Zakat is transferred to the statutory reserve. The Parent Company may resolve to discontinue such transfers when this reserve equals 50% of the paid up share capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

**16. Voluntary reserve**

In accordance with the Companies Law and the Parent Company's Articles of Association, a percentage of the net profit for the year, as proposed by the board and agreed by shareholders during the annual general assembly, before contribution to Kuwait Foundation for Advancement of Sciences, National Labour Support Tax, directors' remuneration and Zakat is transferred to the voluntary reserve. Such transfers can be discontinued by a resolution adopted by the general assembly as recommended by the Board of Directors. The Parent Company's Board of Directors has proposed to transfer 5% of the net profit for the year to the voluntary reserve.

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(All amounts are in Kuwaiti Dinar unless otherwise stated)

17. Other reserves

	Change in fair value reserve	Group's share in associates' reserves	Property, plant and equipment revaluation surplus	Translation of foreign currencies	Treasury shares reserve	Total
Balance as at 1 January 2019	(673,151)	235,522	5,547,886	264,014	-	5,374,271
Total comprehensive (losses)/ income	(524,895)	66,596	-	61,564	-	(396,735)
Sale of investment at FVOCI	(59,286)	-	-	-	-	(59,286)
Dividend in kind from treasury shares	-	-	-	-	282,476	282,476
Balance as at 31 December 2019	(1,257,332)	302,118	5,547,886	325,578	282,476	5,200,726
Balance as at 1 January 2020	(1,257,332)	302,118	5,547,886	325,578	282,476	5,200,726
Total comprehensive (losses)/ income	(371,337)	690,849	-	41,597	-	361,109
Sale of investment at FVOCI	(208,999)	-	-	-	-	(208,999)
Balance as at 31 December 2020	(1,837,668)	992,967	5,547,886	367,175	282,476	5,352,836

18. Financing from third parties

Financing from third parties represent murabaha and tawaruq contracts from banking institutions inside and outside of Kuwait.

Financing from third parties are analysed as follows:

	2020	2019
Current portion	18,678,019	13,593,613
Non-current portion	192,896,791	188,646,441
	211,574,810	202,240,054

Average cost of financing from third parties is 3.04% as at 31 December 2020 (4.19% - 31 December 2019).

The maturity analysis is set out in note (3.1).

The Group obtained finance against pledge of 245,697,583 shares as of 31 December 2020 (245,697,583 shares - 31 December 2019) of Al Salmia Group (subsidiary) in addition to the following assets:

	2020	2019
Property, plant and equipment	21,471,165	22,879,762
Investment properties (Note 6)	260,153,560	271,853,260

19. Payables and other credit balances

	2020	2019
Trade payables	878,692	1,839,956
Due to related party (Note 27)	26,393	32,167
Retentions	1,050,096	1,056,868
Accrued expenses	2,638,184	3,132,105
Rent received in advance	620,918	575,262
Deposits from others	3,566,431	3,761,211
Kuwait Foundation for the Advancement of Science (KFAS)	94,316	94,316
National Labor Support Tax	53,301	274,951
Zakat	-	61,110
Dividends payable to shareholders	475,221	260,817
Other payables *	5,969,900	4,821,436
	15,373,452	15,910,199

\* Other credit balances include lease liabilities of KD 96,637 due within 12 months (2019: KD 188,797).

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar unless otherwise stated)

**20. Net income from operating activities**

	<b>2020</b>	<b>2019</b>
<b><u>Operating Revenues</u></b>		
Real estate rental income	19,150,740	25,248,463
Hotel and hospitality revenues	1,364,337	4,976,519
	<u>20,515,077</u>	<u>30,224,982</u>
<b><u>Operating expenses</u></b>		
Property expenses	(4,202,842)	(4,705,819)
Hotel and hospitality expenses	(2,947,252)	(5,282,959)
	<u>(7,150,094)</u>	<u>(9,988,778)</u>
	<u>13,364,983</u>	<u>20,236,204</u>

- Hotel expenses include an amount of KD 1,523,003 that represents the current year depreciation of the hotel building and related equipments (KD 1,730,808 - 31 December 2019).
- Operating leases, in which the Group is the lessor, relate to investment property owned by the Group with lease terms of between one to five years, with the option of renewal for similar periods. All operating lease contracts contain contractual terms relating to the revision of the lease value to reflect the market value in case the tenant uses the option of renewal. The lessee does not have an option to purchase the property at the expiry of the lease period.

**21. Gain from investments**

	<b>2020</b>	<b>2019</b>
<b>Investment at FVOCI</b>		
Cash dividends	1,854,741	2,546,719
<b>Investments at fair value through profit or loss</b>		
(Loss)/gain from change in fair value	(1,928,645)	1,454,909
Cash dividends	233,313	426,873
Gain from sale	361	11,666
	<u>(1,694,971)</u>	<u>1,893,448</u>
	<u>159,770</u>	<u>4,440,167</u>

**22. Gain on sale of land and properties held for trading**

	<b>2020</b>	<b>2019</b>
Sale of land and properties held for trading	578,619	254,839
Cost to sell land and properties held for trading	(535,246)	(206,369)
	<u>43,373</u>	<u>48,470</u>

**23. Provision and impairment**

	<b>2020</b>	<b>2019</b>
Impairment related to investment in associates	-	(25,547)
Net movement in provision for credit losses	(799,763)	(68,386)
	<u>(799,763)</u>	<u>(93,933)</u>

**24. Earnings per share attributable to the Parent Company's shareholders**

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares). Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) plus the weighted average number of ordinary shares to be issued upon conversion of all dilutive potential ordinary shares into ordinary shares. The Parent Company had no diluted shares as at 31 December 2020/2019.

	<b>2020</b>	<b>2019</b>
Net profit for the year attributable to the shareholders of the Parent Company	1,005,374	14,583,884
Weighted average number of outstanding shares (share)	<u>1,787,382,128</u>	<u>1,808,438,515</u>
Basic earnings per share (fils)	<u>0.56</u>	<u>8.06</u>

Earnings per share for the current year and comparative year has been amended taking into consideration the effect of bonus share distributed in the current year (note 26).

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

**25. Investments in subsidiaries**

The consolidated financial statements include the financial statements of the Parent Company and its affiliated entities as follows:

Company name	Activity	Country of incorporation	Shareholding percent (%)	
			2020	2019
Al Mutajara Real Estate Company K.S.C.C.	Real Estate	State of Kuwait	77.57	77.57
Commeriale Real Estate Development Co.	Real Estate	Kingdom of Bahrain	100	100
Commeriale Real Estate Development Co.	Real Estate	Morocco	100	100
Al-Salmiya Group for Project Development Company	Real Estate	State of Kuwait	81.90	81.90

Summary of the financial statements of the Group's subsidiaries where there is material NCI is as follows:

**Salmiya Group for Project Development Company**

	2020	2019
Current assets	3,157,174	1,441,584
Non-current assets	70,325,000	69,860,000
Current liabilities	2,318,360	1,247,445
Non-current liabilities	14,185,456	16,080,538
Equity attributable to shareholders of the Parent Company	46,664,587	44,203,715
Non-controlling interests	10,313,771	9,769,886
	<b>2020</b>	<b>2019</b>
Revenue	4,689,812	5,110,070
Expenses	(1,685,057)	(2,360,147)
Profit for the year	3,004,755	2,749,923
Profit for the year attributable to shareholders of the Parent Company	2,460,870	2,251,998
Profit for the year attributable to non-controlling interests	543,885	497,925
Total comprehensive income attributable to shareholders of the Parent Company	2,460,870	2,251,998
Total comprehensive profit attributable to non-controlling interests	543,885	497,925
Total comprehensive income for the year	3,004,755	2,749,923
	<b>2020</b>	<b>2019</b>
Net cash flow generated from operating activities	2,855,532	3,772,828
Net cash flow generated from/ (used in) investing activities	189,343	(326,156)
Net cash flow used in financing activities	(1,172,244)	(2,874,795)
Net change in cash and cash equivalents of the subsidiary	1,872,631	571,877

**Al Mutajara Real Estate Company**

	2020	2019
Current assets	13,106,271	9,720,419
Non-current assets	71,693,159	66,085,882
Current liabilities	1,498,071	1,941,228
Non-current liability	22,738,881	15,108,600
Equity attributable to shareholders of the Parent Company	47,438,295	45,812,228
Non-controlling interests	13,124,183	12,944,245

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar unless otherwise stated)

	<b>2020</b>	<b>2019</b>
Revenue	4,522,370	6,172,778
Expenses	(658,531)	(862,690)
Profit for the year	3,863,839	5,310,088
Profit for the year attributable to shareholders of the Parent Company	3,174,818	4,144,189
Profit for the year attributable to non-controlling interests	689,021	1,165,899
Total comprehensive income attributable to shareholders of the Parent Company	3,213,805	5,357,134
Total comprehensive income attributable to non-controlling interests	700,293	1,176,450
Total comprehensive income for the year	3,914,098	4,180,684
Dividends paid to non-controlling interests	520,355	520,354
Net cash flow (used in)/ generated from operating activities	(1,883,721)	1,421,143
Net cash flow (used in)/ generated from investing activities	(2,389,805)	2,554,170
Net cash flow generated from/ (used in) financing activities	4,100,631	(3,526,209)
Net change in cash and cash equivalents of the subsidiary	(172,895)	449,104

**26. Dividends**

On 3 May 2020, the ordinary Assembly General Meeting was held and approved the distribution of cash dividends to the shareholders recorded as of the due date at 5% after deduction of treasury shares, and distribution of bonus share equivalent to 3% from the paid-up share capital (3 shares per every 100 shares) for the year ended 31 December 2019 (2019: cash dividends of 5 fils per every share in addition to distribution from treasury shares as bonus share equivalent to 2% from the paid-up share capital as of 31 December 2018).

For 2020, the Parent Company's Board of Directors proposed cash dividends of 3% and bonus shares (treasury shares) of 2% for the year ended 31 December 2020. This proposal is subject to the shareholders' approval at the Annual General Assembly Meeting and the regulatory authorities.

**27. Related parties transactions**

Related parties comprise of the Group's shareholders who are members in the board of directors, key management personnel, associates and the companies, in which the Company has representatives in their board. Significant related party transactions and resulting balances were as follows:

	<b>2020</b>	<b>2019</b>
<b>Transactions</b>		
Key management remuneration	711,094	1,024,600
Purchase of lands and real estate held for trading	-	484,797
Operating income	19,915	19,352
Operating expenses and other charges	392,431	343,286
Purchase of property, plant and equipment	130,979	234,270
<b>Balances</b>		
Receivables and other debit balances (Note 11)	191,981	172,643
Advance payment to contractors and suppliers	-	154,535
Payables and other credit balances (Note 19)	26,393	32,167
Key management remuneration	621,630	593,720

Balances due from/to related parties are interest-free and payable on demand. All related party transactions are subject to approval of the shareholders' General Assembly.

**28. Capital commitments**

	<b>2020</b>	<b>2019</b>
Uncalled capital – investments	271,445	442,675
Contracts for projects under development	2,200,339	3,165,307
	2,471,784	3,607,982

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

(All amounts are in Kuwaiti Dinar unless otherwise stated)

**29. Contingent liabilities**

	2020	2019
Letter of guarantee	3,459,988	3,459,088

**30. Segment information**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, products and services, class of customers where appropriate are aggregated and reported as reportable segments. The Group is organized into three major business segments; real estate, hotel and investment. These segments results are reported to senior executive management. Further, the Group's operating results, assets and liabilities are reported according to geographical areas, in which it operates. Revenue, profits, assets and liabilities are measured according to the same accounting bases adopted in preparation of the consolidated financial statements.

Business segment analysis in line with internal reports submitted to the management is as follows:

	2020			
	Real estate sector	Hotel	Investment sector	Total
Revenue	19,092,118	1,364,337	(861,706)	19,594,749
Direct cost	(6,362,636)	(2,947,252)	(211,845)	(9,521,733)
Gross profit	12,729,482	(1,582,915)	(1,073,551)	10,073,016
Unallocated costs				(7,834,736)
Net profit				2,238,280

	2019			
	Real estate sector	Hotel	Investment sector	Total
Revenue	27,354,910	4,976,519	7,044,261	39,375,690
Direct cost	(6,035,957)	(5,282,959)	(814,516)	(12,133,432)
Gross profit	21,318,953	(306,440)	6,229,745	27,242,258
Unallocated costs				(10,994,550)
Net profit				16,247,708

**Geographic distribution**

	2020			
	State of Kuwait	Gulf Countries	Other	Total
Total income	13,067,211	(2,639,214)	1,691,670	12,119,667
Total expenses	(8,833,351)	(1,048,036)	-	(9,881,387)
Net profit/(loss)	4,233,860	(3,687,250)	1,691,670	2,238,280

	2019			
	State of Kuwait	Gulf Countries	Other	Total
Total income	23,060,925	3,413,601	2,762,394	29,236,920
Total expenses	(10,775,410)	(2,213,802)	-	(12,989,212)
Net profit	12,285,515	1,199,799	2,762,394	16,247,708

**Geographic distribution of assets and liabilities**

	Assets		Liabilities	
	2020	2019	2020	2019
State of Kuwait	430,800,344	432,220,436	225,613,475	191,231,618
Gulf countries	56,876,300	60,004,459	4,887,741	30,414,536
Other	49,002,284	46,629,232	-	-
	536,678,928	538,854,127	230,501,216	221,646,154

## Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(All amounts are in Kuwaiti Dinar unless otherwise stated)

### 31. Impact of COVID-19

The World Health Organization declared on March 11, 2020 the Novel Coronavirus (Covid-19) as a global pandemic. This event has caused widespread disruptions to business, with a consequential negative impact on economic activity. The Group operates in economies that are relatively dependent on the crude oil prices. At the reporting date, oil prices have witnessed unprecedented volatility and decline. The Group is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the potential business disruption, due to COVID-19 outbreak, on its operations and financial performance.

The Group has performed an assessment of COVID-19 implications on the financial results of the Group and incorporated the outcome in these consolidated financial statements and explained the changes in light of the available guidance of IFRS related to critical judgments and estimates for the year ended 31 December 2020.

#### Valuation estimates and judgements

The Group has considered potential impacts of the current market volatility in determination of the reported amounts of the Group's unquoted financial assets, and this represents management's best assessment based on observable available information as at the reporting date. Given the impact of COVID-19, the Group is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario. Further information on the Group's policy in relation to fair value measurements is disclosed in Note 2.3.2.

#### Impairment of non-financial assets

The Group has considered any impairment indicators arising and any significant uncertainties around its non-financial assets not measured in fair value and concluded there is no material impact due to COVID-19.

#### Calculation of loss allowance

The Group reassessed the inputs and assumptions used for the determination of expected credit loss as at 31 December 2020. The Group has updated the forward-looking information based on the best estimates and judgement of the Group's assessment of the current economic climate of the respective market in which it operates its impact on clients by various segments, the resultant significant increase in the credit risk and re-estimated the expected credit losses as of 31 December 2020. Management concluded that, the reported amounts represent best management's assessment based on the available observable information and there is no material impact due to COVID-19.

#### Investment properties

The Group considered the best available information about past events, current conditions and forecasts of economic conditions in determination of the reported amounts of the Group's Investment properties in these consolidated financial statements. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations. Based on the external third party expert, the Group's management believes that recorded amounts represent the best estimate in light of the available information.

#### Lease modification

The Group, as a lessor, has assessed that the changes in lease payments that result from clauses in the original contract or in applicable law or regulation are part of the original terms and conditions of the lease, even if the effect of those clauses was not previously contemplated. In such a case there is no lease modification for the purposes of IFRS 16. The impact of changes in lease payment resulted in decrease of revenue by approximately KD 6.6 million.

#### Government grants

The Government of Kuwait has provided financial support to business owners in response to the pandemic. During the year, the Group has received government grant KD 26,958 related to Kuwaiti beneficiaries registered under Article No. 3 of the Kuwaiti Labor Law. The government grant is part of the assistance made towards the national workforce in the private sector for a period of up to six months effective from April 2020. The financial support has been accounted for in accordance with IAS 20 'Accounting for government grants and disclosure of government assistance' and recognized in the consolidated statement of profit or loss as decrease from staff cost on a systematic basis over the periods in which the Group has recognized the related staff costs.

**Notes to the Consolidated Financial Statements for the year ended 31 December 2020**

*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

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**Modification of financial liabilities**

The Group has delayed repayments of principal due for Financing from a third party for a period six months starting from 1 June 2020 amounted to KD 2.596 M, and reschedule for year 2025 for an amount KD 1,484 M (Note 18). The installment deferrals are considered short-term liquidity support to address any cash-flow issues as announced by the Central Bank of Kuwait.

**Going concern:**

The Group has performed an assessment of whether it is a going concern in the light of current economic conditions and all available information about future risks and uncertainties. The projections have been prepared to cover the Group's future performance, capital, and liquidity. The impact of COVID-19 may continue to evolve, but at the present time, the projections show that Group has ample resources to continue in operational existence and its going concern position remains largely unaffected and unchanged. As a result, these consolidated financial statements have been appropriately prepared on a going concern basis.