**METAL AND RECYCLING COMPANY K.S.C. (PUBLIC)**
**AND ITS SUBSIDIARIES**
**STATE OF KUWAIT**
**CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2020**
**WITH**
**INDEPENDENT AUDITORS' REPORT**

METAL AND RECYCLING COMPANY K.S.C. (PUBLIC)
AND ITS SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH
INDEPENDENT AUDITORS' REPORT

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RSM Albazie & Co.

Arraya Tower 2, Floors 41 & 42
Abdulaziz Hamad Alsaqar St., Sharq
P.O. Box 2115, Safat 13022, State of Kuwait

T +965 22961000
F +965 22412761

www.rsm.global/kuwait

## INDEPENDENT AUDITORS' REPORT

To the Shareholders
Metal and Recycling Company - K.S.C. (Public) and its subsidiaries
State of Kuwait

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

#### Qualified Opinion

We have audited the consolidated financial statements of Metal and Recycling Company - K.S.C. (Public) (the "Parent Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

#### Basis for Qualified Opinion

As explained in note 37 to the consolidated financial statements, the investment of the group in the associate ("REDCO") is carried at KD 5,465,720 on the consolidated statement of financial position as at 31 December 2020. Included in REDCO, an investment property located in Amghara Area and has the Parent Company operations in it and carried at KD 3,426,400, this investment property was evicted by the Ministry of Commerce and Industry. The company did not provide for any impairment loss for the carrying value, which is not in line with the requirements of International Financial Reporting Standards "IFRS".

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, 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 qualified opinion.

#### Key Audit Matter

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. We identified the following key audit matter:

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**Valuation of Investment Property**

The valuation of the investment property is important to our audit as it represents a significant judgment area and an important part of the total assets of the Group. The valuation of the investment property is highly dependent on estimates. We therefore identified the valuation of investment property as a significant risk. The Group policy is that property valuations are performed by licensed valuers at least once a year. These valuations are amongst others based on assumptions, such as estimated rental revenues, discount rates, occupancy rates, market knowledge, developers risk and historical transactions. In estimating the fair value of investment properties, valuers had used the valuation techniques i.e. discounted as per note 11 the technique for valuation is capitalization of income cash flow method and sales comparison, and had considered the nature and usage of the investment properties. We reviewed the valuation reports from the licensed valuers.

We further focused on the adequacy of the disclosures on the valuation of investment properties. Disclosures of this item are included in Note 11 to the consolidated financial statements.

**Other Information**

Our opinion on the consolidated financial statements does not cover the other information attached to it, and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

**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.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

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**Report on Other Legal and Regulatory Requirements**

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, except for the possible effects of the matter described in the Basis for Qualified Opinion section above, 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 year ended December 31, 2020, that might have had a material effect on the business or financial position of the Parent Company, except for the ownership of a subsidiary of the Group for investment properties and rental income on them, which is in contravention of the purposes of the subsidiary provided for in its Memorandum of Incorporation.

Furthermore, we have not become aware of any material violations of the provisions of Law 7 of 2010, as amended, relating to the Capital Markets Authority and its related regulations during the year ended December 31, 2C20 that might have had a material effect on the Group's financial position or results of its operations.

State of Kuwait
March 25, 2021

Nayef M. Al Bazie
License No. 91-A
RSM Albazie & Co.

**METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS OF DECEMBER 31, 2020**
(All amounts are in Kuwaiti Dinars)

| ASSETS | Notes | 2020 | 2019 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | 3 | **3,487,748** | 3,278,803 |
| Time deposits | 4 | **1,047,054** | 1,017,988 |
| Murabaha investments | 5 | **29,715** | 29,715 |
| Accounts receivable and other debit balances | 6 | **4,977,590** | 4,319,765 |
| Due from related parties | 7 | **48,600** | - |
| Inventories | 8 | **741,350** | 1,520,230 |
| **Total current assets** | | **10,332,057** | 10,166,501 |
| **Non-current assets:** | | | |
| Financial assets at fair value through profit and loss | 9 | **34,972** | 164,986 |
| Investment in an associate | 10 | **5,465,720** | 5,456,750 |
| Investment properties | 11 | **2,342,000** | 2,390,000 |
| Property, plant and equipment | 12 | **1,634,795** | 1,938,197 |
| Right for use of assets | 13 | **2,371,124** | 511,511 |
| Goodwill | | **406,889** | 406,889 |
| **Total non-current assets** | | **12,255,500** | 10,868,333 |
| **Total assets** | | **22,587,557** | 21,034,834 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities:** | | | |
| Due to banks | | **-** | 518,287 |
| Finance lease payables | 14 | **970,000** | 1,195,000 |
| Term loans - Current portion | 15 | **1,158,000** | 750,000 |
| Lease liabilities - Current portion | 16 | **672,133** | 259,186 |
| Accounts payable and other credit balances | 17 | **4,727,030** | 3,633,380 |
| Due to a related party | 7 | **847,688** | 747,610 |
| **Total current liabilities** | | **8,374,851** | 7,103,463 |
| **Non-current liabilities:** | | | |
| Term loans – Non-current portion | 15 | **636,846** | - |
| Lease liabilities – Non-current portion | 16 | **1,878,844** | 251,802 |
| Provision for end of service indemnity | 18 | **1,021,963** | 928,282 |
| **Total non - current liabilities** | | **3,537,653** | 1,180,084 |
| **Total liabilities** | | **11,912,504** | 8,283,547 |
| **Equity:** | | | |
| Share capital | 19 | **10,000,000** | 10,000,000 |
| Statutory reserve | 20 | **1,520,581** | 1,520,581 |
| Treasury shares | 22 | **(1,056,623)** | (1,056,623) |
| Effect of changes in subsidiary's equity | | **402,450** | 402,450 |
| Foreign currency translation reserve | | **-** | - |
| Accumulated losses | | **(2,567,797)** | (79,783) |
| **Equity attributable to Parent Company's shareholders** | | **8,298,611** | 10,786,625 |
| Non-controlling interests | | **2,376,442** | 1,964,662 |
| **Total equity** | | **10,675,053** | 12,751,287 |
| **Total liabilities and equity** | | **22,587,557** | 21,034,834 |

The accompanying notes (1) to (37) form an integral part of the consolidated financial statements.

Mosaed Ibrahim Al-Holi
Chairman

Tarek Ibrahim Mohamed Al-Mousa
Vice Chairman and C.E.O

**METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED DECEMBER 31, 2020**
(All amounts are in Kuwaiti Dinars)

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Revenues:** | | | |
| Net sales | | **7,077,549** | 8,775,161 |
| Service revenue | 23 | **11,118,515** | 11,632,886 |
| | | **18,196,064** | 20,408,047 |
| **Costs:** | | | |
| Cost of sales | | **(5,065,115)** | (7,191,903) |
| Service cost | 23 | **(8,072,636)** | (9,197,750) |
| | | **(13,137,751)** | (16,389,653) |
| **Gross profit** | | **5,058,313** | 4,018,394 |
| **Expenses and charges:** | | | |
| Staff cost | | **(1,715,040)** | (1,579,998) |
| General and administrative expenses | 24 | **(2,681,316)** | (2,942,759) |
| Selling and marketing expenses | | **(509,008)** | (366,742) |
| Depreciation | 12 | **(174,679)** | (193,487) |
| Allowance for expected credit losses | 6 – b | **(119,737)** | (198,302) |
| Allowance for expected credit losses of due from related party | 7 | **-** | (453,100) |
| Provision for inventory | 8 – a | **-** | (300,000) |
| Inventory write-off | 8 | **(350,120)** | - |
| Amortization of right of use of assets | 13 | **(271,632)** | (45,435) |
| Finance cost of leased assets | 16 | **(105,489)** | (4,531) |
| Total expenses and charges | | **(5,927,021)** | (6,084,354) |
| **Loss from operations** | | **(868,708)** | (2,065,960) |
| Share of results from an associate | 10 | **8,970** | (1,170) |
| Property, plant and equipment write-off | 12 | **(1,138,681)** | - |
| Loss from liquidation of a subsidiary | 25 | **-** | (47,228) |
| Loss from sale of financial assets at fair value through profit or loss | 9 | **-** | (2,054) |
| Change in fair value and financial assets at fair value through profit or loss | 9 | **(130,014)** | (1,200) |
| Changes in fair value of investment properties | 11 | **(48,000)** | 4,000 |
| Interest income | | **27,810** | 36,703 |
| Finance charges | | **(216,441)** | (246,340) |
| Foreign exchange loss | | **(16,901)** | (7,244) |
| Other income | 26 | **305,731** | 578,036 |
| **Loss for the year** | | **(2,076,234)** | (1,752,457) |
| Other comprehensive income | | **-** | - |
| **Total comprehensive loss for the year** | | **(2,076,234)** | (1,752,457) |
| Attributable to: | | | |
| Shareholders of the Parent Company | | **(2,488,014)** | (2,123,530) |
| Non-controlling interests | | **411,780** | 371,073 |
| | | **(2,076,234)** | (1,752,457) |
| | | **(Fils)** | (Fils) |
| **Loss per share attributable to shareholders of the Parent Company** | 27 | **(27.61)** | (23.57) |

The accompanying notes (1) to (37) form an integral part of the consolidated financial statements.

**METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2020**
(All amounts are in Kuwaiti Dinars)

| | Equity attributable to Parent Company's shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Statutory reserve | Treasury shares | Effect of change in subsidiary's equity | Foreign currency translation reserve | Retained earnings (Accumulated losses) | Subtotal | Non-controlling interests | Total equity |
| Balance as of December 31, 2018 | 10,000,000 | 1,520,581 | (1,056,623) | 402,450 | 11,958 | 2,043,747 | 12,922,113 | 1,593,589 | 14,515,702 |
| Total comprehensive (loss) income for the year | - | - | - | - | - | (2,123,530) | (2,123,530) | 371,073 | (1,752,457) |
| Effect of Subsidiary disposal (Note 25) | - | - | - | - | (11,958) | - | (11,958) | - | (11,958) |
| **Balance as of December 31, 2019** | 10,000,000 | 1,520,581 | (1,056,623) | 402,450 | - | (79,783) | 10,786,625 | 1,964,662 | 12,751,287 |
| Total comprehensive (loss) income for the year | - | - | - | - | - | (2,488,014) | (2,488,014) | 411,780 | (2,076,234) |
| **Balance as of December 31, 2020** | **10,000,000** | **1,520,581** | **(1,056,623)** | **402,450** | **-** | **(2,567,797)** | **8,298,611** | **2,376,442** | **10,675,053** |

The accompanying notes (1) to (37) form an integral part of the consolidated financial statements.

**METAL AND RECYCLING COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2020**
(All amounts are in Kuwaiti Dinars)

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Loss for the year | | **(2,076,234)** | (1,752,457) |
| Adjustments for: | | | |
| Depreciation | 12 | **593,805** | 554,569 |
| Allowance for expected credit losses | 6 - B | **119,737** | 198,302 |
| Provision for inventory | 8 - A | **-** | 300,000 |
| Inventory write-off | 8 | **350,120** | - |
| Allowance for expected credit losses of due from related party | 7 | **-** | 453,100 |
| Gain on sale of property, plant and equipment | | **(400)** | (26,479) |
| Property, plant and equipment write-off | 12 | **1,138,681** | - |
| Gain from disposal of lease contracts | 26 | **(3,963)** | - |
| Share of results from an associate | 10 | **(8,970)** | 1,170 |
| Loss from liquidate of a subsidiary | 25 | **-** | 47,228 |
| Amortization of right of use of assets | 13 | **485,379** | 226,184 |
| Loss from sale of financial assets at fair value through profit or loss | 9 | **-** | 2,054 |
| Change in fair value and financial assets at fair value through profit or loss | 9 | **130,014** | 1,200 |
| Changes in fair value of investment properties | 11 | **48,000** | (4,000) |
| Interest income | | **(27,810)** | (36,703) |
| Finance charges | | **216,441** | 246,340 |
| Finance cost of leased assets | 16 | **122,389** | 28,173 |
| Provision end of service indemnity no longer required | 18 | **-** | (38,711) |
| Provision for end of service indemnity | 18 | **244,149** | 241,521 |
| | | **1,331,338** | 441,491 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable and other debit balances | | **(643,921)** | (1,367,396) |
| Contract assets | | **-** | 838,842 |
| Due from related parties | | **(48,600)** | - |
| Inventories | | **428,760** | 1,789,752 |
| Due to a related party | | **100,078** | 49,167 |
| Accounts payable and other credit balances | | **1,093,650** | (151,327) |
| Cash flows generated from operations | | **2,161,227** | 1,600,529 |
| Payment for end of service indemnity | 18 | **(150,468)** | (35,972) |
| Net cash flows generated from operating activities | | **2,010,759** | 1,564,557 |
| **Cash flows from investing activities:** | | | |
| Movement in term deposits | | **(29,066)** | 349,595 |
| Proceeds from Murabaha investments | | **-** | 10,000 |
| Purchase of property, plant and equipment | 12 | **(1,429,084)** | (797,350) |
| Proceeds from sale of property, plant and equipment | | **400** | 39,062 |
| Proceeds from sale of financial assets at fair value through profit or loss | 9 | **-** | 15,255 |
| Interest income received | | **27,810** | 36,703 |
| Net cash flows used in investing activities | | **(1,429,940)** | (346,735) |
| **Cash flows from financing activities:** | | | |
| Movement of due to banks | | **(518,287)** | 223,952 |
| Net movement in finance lease contracts | | **(225,000)** | (535,000) |
| Proceeds from term loans | | **1,044,846** | 200,000 |
| Lease obligation contract | 16 | **(423,429)** | (242,880) |
| Finance charges paid | | **(216,441)** | (246,340) |
| Net cash flows used in financing activities | | **(238,233)** | (600,268) |
| Net increase in cash and cash equivalents | | **342,586** | 617,554 |
| Effect of liquidation of a subsidiary | 25 | **-** | (623) |
| Cash and cash equivalents at beginning of the year | | **2,538,373** | 1,921,442 |
| Cash and cash equivalents at end of the year | 3 | **2,880,959** | 2,538,373 |

The accompanying notes (1) to (37) form an integral part of the consolidated financial statements.

1. Incorporation and activities

Metal and Recycling K.S.C. (Public) (the "Parent Company") is a Kuwaiti shareholding company (Public) registered in the State of Kuwait, and was incorporated based on Memorandum of Incorporation Ref. No. 113 / Volume 17 dated June 10, 1987 and its subsequent amendments, the latest of which was notarized in the commercial registration under Ref. No. 12320 dated on October 9, 2017.

The main activities of the Parent Company are as follows:

- Purchase and sale of used and scrap machinery and vehicles and their spare parts and all kinds of metals and their derivatives as well as representing specialized companies in such activities.
- Purchase and sale of the scrap of houses, industrial and commercial projects, including household tools, machinery, metal construction and other local scrap.
- Shredding, classifying; storing and selling waste and scrap inside and outside State of Kuwait.
- Importing machinery and materials necessary for recycling, shredding and storing scrap.
- Carrying out all trade, export and production relating to the company's objectives inside and outside State of Kuwait.
- Establishing complementary industries to the trade and production of scrap.
- Management and development of areas of sale, purchase, production, and manufacture scrap and used materials and ancillary industries inside and outside State of Kuwait.
- Carrying out all demolishing and removal works for construction and representing companies in such field.
- Utilization of the company's surplus funds by investing in portfolios managed by specialized companies.
- Holding and managing auctions related to the objectives of the company locally and internationally and representing companies in such field.
- Developing, preparing, establishing, managing and operating industrial and professional areas.
- Incorporation and partial ownership of industrial companies and industrial management companies inside and outside State of Kuwait.
- Collection, transportation and utilization of trash waste, garbage and wreckage inside and outside State of Kuwait.
- Undertaking all kind of cleaning contracts and commitment for all agencies inside and outside State of Kuwait.
- Undertaking all kinds of services aiming at cleaning, developing and protecting the environment against pollution inside and outside State of Kuwait.
- Establishing, managing or maintaining all drainage and dumping centers and trading in the resulting materials inside and outside State of Kuwait.
- Establishing industries for recycling environmental waste, garbage and wreckage inside and outside Kuwait (with approval of the Public Authority for Industry).

The address of the Parent Company's registered office is P.O. Box 4520, Safat 13045, State of Kuwait.

The Parent company is currently discussing with the General Authority for Industry about the current location and the alternative locations available for its operations. The outcome of these discussions and their impact on the consolidated financial statements cannot be determined at this time.

The Parent company is 66.48% owned by Agility Public Warehousing Company - KSC (Public) listed on the Kuwait Stock Exchange (the ultimate Parent company).

The consolidated financial statements were authorized for issue by the Parent Company's Board of Directors on March 25, 2021 and are subject to the approval of the Shareholders' Annual General Assembly, which has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

a) Basis of preparation

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Parent Company and are prepared under the historical cost basis, except for the following items that are stated at their fair value.

- Land and buildings
- Financial assets at fair value through profit or loss
- Investment properties

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(y). The key sources of estimation uncertainty are consistent with the annual audited consolidated financial statements of the Group for the year ended December 31, 2019, except for the impact of the COVID-19 outbreak on the Group which is detailed in Note (36).

**Adoption of new and revised Standards**

**New and amended IFRS Standards that are effective for the current year**

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of January 1, 2020:

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

The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:

- clarify that to be considered a business, an acquired 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 outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

These amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

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

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

**The 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.

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

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

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

**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:

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

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued on 29 March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

**Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use**
In May 2020, the IASB issued amendments to IAS 16 - Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies. The amendments are not expected to have a material impact on the Group.

**Annual Improvements to IFRS Standards 2018-2020 cycle**
The following is the summary of the amendments from the 2018-2020 annual improvements cycle:

**IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter**
The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

**IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities**
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

**Amendments to IAS 1 – Classification of Liabilities as Current or Non-current**
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

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

b) Basis of consolidation:

The basis of consolidated financial statements incorporate the financial statements of the Parent company and the following subsidiaries (together the "Group"):

| | Country of incorporation | Principal activities | Percentage of holding % 2020 | 2019 |
|---|---|---|---|---|
| Al Maaden Al Wataniya General Trading & Contracting Company – O.P.C. (b/1) | State of Kuwait | General trading and contracting | **100** | 99 |
| Al Maaden Al Omomiyah General Trading & Contracting Company – O.P.C. (b/2) | State of Kuwait | General trading and contracting | **100** | 99 |
| Metal Holding Company – K.S.C. (Closed) and its subsidiaries (b/2) | State of Kuwait | General trading and contracting | **99** | 99 |
| - United Engineering Company W.L.L. | State of Kuwait | General trading and contracting | **70** | 70 |
| - United Kawoosh for general trading and contracting Company | State of Kuwait | General trading and contracting | **99** | 99 |
| Silver Ocean Company – Ali Hussain and Partners – W.L.L. and its subsidiary | State of Kuwait | Cleaning roads, buildings and cities clean contractors | **60** | 60 |

(b/1) The parent company changed the legal entity of the Al Maaden Al Wataniya General Trading & Contracting Company from a limited liability company to a one-person company, as per the commercial registration number (69170) was registered in accordance with a note issued by the induvial Companies Department on February 5, 2020 based on the decision of the Extraordinary General Assembly held on May 14, 2019.

(b/2) The parent company changed the legal entity of the Al Maaden Al Omomiyah General Trading & Contracting Company from a limited liability company to a one-person company, as per the commercial registration number (69164) was registered in accordance with a note issued by the induvial Companies Department on February 5, 2020 based on the decision of the Extraordinary General Assembly held on May 14, 2019.

(b/3) The parent company changed the legal entity of the Metal Holding Company from a Kuwaiti shareholding company to a one-person company, and the commercial registration has not made yet.

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company

- has power over the investee.
- is exposed, or has rights to variable returns from its involvement with the investee.
- has the ability to use its power to affect its returns.

The Parent Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Parent Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;
- rights arising from other contractual arrangements;
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Consolidated statement of profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Parent Company. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings as appropriate.

c) Current vs non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current / non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

The Group classifies all other assets are as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

d) Financial instruments

The Group classifies its financial instruments as "financial assets' and 'financial liabilities. Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and cash equivalents, term / time deposits, Murabaha investments, receivables, financial assets at fair value through profit or loss, due to banks, finance lease payable, lease liabilities, term loans and other payables.

- **Financial assets:**

I. Classification 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 groups of financial assets to achieve its business objectives and in order to generate contractual cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios.

Initial recognition

Purchases and sales of those financial assets are recognized on settlement date – the date on which an asset is delivered to or by the Group. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at FVPL.

Derecognition

A financial asset (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the financial asset have expired; or the Group has transferred its rights to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset. Where the Group has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

Measurement categories of financial assets
The IAS 39 measurement categories of financial assets, available for sale (AFS), loans and receivables) have been replaced by:
- Debt instruments at amortized cost
- Financial assets at FVPL

Debt instruments at amortized cost
A financial asset is measured at amortized cost if it meets both of the following conditions:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt instruments measured at amortized cost are subsequently measured at amortized cost using the effective yield method adjusted for impairment losses if any. Gain and losses are recognized in consolidated statement of profit or loss when the asset is derecognized, modified or impaired.

Cash and cash equivalents, time deposits, trade receivables, and other assets are classified as debt instruments at amortized cost.

1) Cash and cash equivalents:
Cash and cash equivalents includes cash in hand and at banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2) Time deposits
Time deposits are placed with banks and have a contractual maturity of more than three months.

3) Trade receivable:
Receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business and is recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

4) Murabaha investment
Murabaha investment represents the amounts due to receive for financed assets for others on deferred basis as per Murabaha investment agreements. Murabaha balances are reported with full debit balances after deducting finance income amounts pertaining to future periods. Those finance income balances are amortized on a time apportionment basis using effective interest method.

**Financial assets at FVPL**
Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see above) are measured at FVPL. Specifically:

- Investments in equity instruments are classified as at FVPL, unless the Group designates an equity investment as at FVTOCI on initial recognition (see above).

- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see above) are classified as at FVPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Changes in fair value, gain on disposal, interest income and dividends are recorded in consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

II. Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For Contract assets and Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Accordingly, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the customers and the economic environment. Exposures were segmented based on common credit characteristics such as credit risk grade, geographic region and industry, delinquency status and age of relationship, where applicable.

For debt instruments classified at FVOCI, related party balances and inter-company loans, the Group has applied a forward looking approach wherein recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, the Group applies a three stage assessment to measuring ECL as follows:

- Stage 1 - financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk and

- Stage 2 (not credit impaired) - financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low

- Stage 3' (credit impaired) - financial assets that have objective evidence of impairment at the reporting date and assessed as credit impaired when one or more events have a detrimental impact on the estimated future cash flows have occurred.

In assessing whether the credit quality on a financial instrument has deteriorated 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 organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

'12-month expected credit losses' are recognized for Stage 1 while 'lifetime expected credit losses' are recognized for Stage 2 and 3. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. ECLs for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and charged to consolidated statement of profit or loss. For debt instruments at FVOCI, the loss allowance is charged to consolidated statement of profit or loss and is recognized in OCI.

- **Financial liabilities**

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. All financial liabilities are subsequently measured at FVPL or at amortized cost using effective interest rate method.

1) Accounts payable:

Accounts payable include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non - current liabilities.

2) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

3) Offsetting of financial assets and liabilities

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

e) Inventories

Inventories are valued at the lower of cost or net realizable value after providing allowances for any obsolete or slow-moving items. Costs comprise direct materials, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis.

Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Write-down is made for obsolete and slow-moving items based on their expected future use and net realizable value.

f) Investment properties

Investment properties comprise completed property, property under construction or re-development held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost including purchase price and transactions costs. Subsequent to the initial recognition, investment properties are stated at their fair value at the end of the reporting period. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated statement of profit or loss for the period in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses arising on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

In case of changing the property from the owner use to investment property, the Group treated the property in the same accounting policy used for property, plant and equipment till the date of changing the use.

g) Investment in associates

Associates are those entities in which the Group has significant influence which is the power to participate in the financial and operating policy decisions of the associate. Under the equity method, investment in associates are carried in the consolidated statement of financial position at cost as adjusted for changes in the Group's share of the net assets of the associate from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted as per IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The Group recognizes in its consolidated statement of profit or loss for its share of results of operations of the associate and in its other comprehensive income for its share of changes in other comprehensive income of associate.

Losses of an associate in excess of the Group interest in that associate (which includes any long-term interests that, in substance, form part of the Group net investment in the associate) are not recognized except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group interest in the associate.

Any excess of the cost of acquisition over the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. If the cost of acquisition is lower than the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized immediately in the consolidated statement of profit or loss.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives and in order to generate contractual cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios.

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

h) Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest, and any previously held interest, over the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Where there is an excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, the Group is required to reassess the identification and measurement of the net identifiable assets and measurement of the cost of the acquisition and recognize immediately in the consolidated statement of profit or loss any excess remaining after that re-measurement.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

i) Property, plant and equipment

The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in consolidated statement of profit or loss for the period. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Depreciation is computed on a straight-line basis over the estimated useful lives of other property, plant and equipment as follows:

| | Years |
|---|---|
| Buildings | 10 - 20 |
| Leasehold improvements | 10 |
| Machinery and equipment | 5 - 10 |
| Motor vehicles | 3 - 5 |
| Office furniture and equipment | 3 - 5 |

Capital work in progress is stated at cost. Following completion, it will be transferred to relevant category under property, plant and equipment.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

j) Impairment of non – financial assets

At the end of each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

k) End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts and the applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of financial period and approximates the present value of the final obligation.

l) Dividend distribution to shareholders

The Group recognizes a liability to make cash and non-cash distributions to shareholders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders of the Parent company at the Annual General Meeting. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of profit or loss.

Distributions for the year that are approved after the reporting date are disclosed as an event after the date of consolidated statement of financial position.

m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

n) Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves, and then share premium.

Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of share premium, reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Where any Group's company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Parent Company's shareholders.

o) Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The Group applies a five step model are as follows to account for revenue arsing from contracts:

- Step 1: Identify the contract with the customer – A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Step 2: Identify the performance obligations in the contract – A performance obligation is a promise in a contract with the customer to transfer goods or services to the customer.
- Step 3: Determine the transaction price – The transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring promised good or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4: Allocate the transaction price to the performance obligations in the contracts – For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group exercises judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group recognizes revenue either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. The Group transfers control of a good or service over time (rather than at a point in time) when any of the following criteria are met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
- The Group's performance creates or enhances an asset (e.g., work in process) that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Control is transferred at a point in time if none of the criteria for a good or service to be transferred over time are met. The Group considers the following factors in determining whether control of an asset has been transferred:
- The Group has a present right to payment for the asset.
- The customer has legal title to the asset.
- The Group has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

The Group recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the consolidated statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognizes either a contract asset or a receivable in its consolidated statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Incremental costs of obtaining a contract with a customer are capitalized when incurred as the Group expects to recover these costs and such costs would not have incurred if the contract has not been obtained. Sales commission incurred by the Group is expensed as the amortization period of such costs is less than a year.

Revenue for the Group arises from the following activities:

Sale of goods
Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when or as the Group transfers control of the goods to the customer. For standalone sales, that are neither customized by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods.

Rendering of services
Revenue is recognized when the service is rendered.

Construction contracts
Revenue from construction contracts is recognized over time on a cost-to-cost method (input method), i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Profit is only recognized when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments are included in the determination of contract profit when approved by contract owners. Anticipated losses on contracts are recognized in full as soon as they become apparent.

Interest income and expense
Interest income and expense are recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized either as cash is collected or on a cost–recovery basis as conditions warrant.

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

Rent
Rental income is recognized, when earned, on a time apportionment basis.

Gain on sale of financial assets
Gain on sale of financial assets is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

Murabaha income
Murabaha income is accounted based on weighted time apportionment.

Other income
Other income is recognized on accrual basis.

On applying the requirements of IFRS 15, the Group has determined that no significant impact arises on its consolidated financial statements.

p) Provisions
A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each financial year and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

**Contingent liabilities recognised in a business combination**
Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37 and the amount recognized initially less cumulative amount of income recognized in accordance with the principles of IFRS 15.

**Warranty**
Provisions for expected cost of warranty obligations are recognized at the date of sale of the relevant products and services, at the management's best estimate of the expenditure required to settle the Group's obligation.

**Onerous contracts**
An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract.

q) 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are expensed in the consolidated statement of profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

r) Leases

**Group as a lessor**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (if any). All other leases are classified as finance leases. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Finance lease

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's / Company's net investment outstanding in respect of the leases.

(ii) Operating lease

Rental income from operating leases is recognized 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 recognized on a straight-line basis over the lease term.

(iii) Right of use assets

The Group recognizes right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

(iv) Lease liabilities

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

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

(v) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below KD 1,500). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

s) Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) is calculated at 1% of the profit attributable to shareholders of the Parent Company before contribution to KFAS, National Labor Support Tax, Zakat, and Board of Directors' remuneration, and after deducting the Group's share of income from shareholding subsidiaries and associates, transfer to statutory reserve, and any accumulated losses. No KFAS has been provided for the year. No KFAS has been provided for the year ended December 31, 2020 since there was no eligible profit on which KFAS could be calculated.

t) National Labor Support Tax (NLST)
National Labor Support Tax (NLST) is calculated at 2.5% or the profit attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences, NLST, Zakat, and Board of Directors' remuneration, and after deducting the Parent Company's share of profit from associates & un-consolidated subsidiaries listed in Kuwait Stock Exchange, its share of NLST paid by subsidiaries listed in Kuwait Stock Exchange, and cash dividends received from companies listed in Kuwait Stock Exchange in accordance with law No. 19 for year 2000 and Ministerial resolution No. 24 for year 2006 and their executive regulations. No NLST has been provided for the year ended December 31, 2020 since there was no eligible profit on which NLST could be calculated.

u) Zakat
Zakat is calculated at 1% of the profit attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, Zakat, and Board of Directors' remuneration, and after deducting the Group's share of profit from Kuwaiti shareholding associates & un-consolidated subsidiaries, its share of Zakat paid by Kuwaiti shareholding subsidiaries and cash dividends received from Kuwaiti shareholding companies in accordance with law No. 46 for year 2006 and Ministerial resolution No. 58 for year 2007 and their executive regulations. No KFAS has been provided for since there was no eligible profit on which KFAS could be calculated for the year ended December 31, 2020.

v) Foreign currencies
Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the end of reporting period are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated statement of profit or loss for the period. Translation differences on non-monetary items such as equity instruments which are classified as financial assets at fair value through consolidated statement of profit or loss are reported as part of the fair value gain or loss.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the end of reporting period. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in other comprehensive income. Such translation differences are recognized in consolidated statement of profit or loss in the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

w) Contingencies
Contingent liabilities are not recognized in the consolidated financial statements unless it is probable as a result of past events that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Else, they are disclosed unless the possibility of an outflow of resources embodying economic losses is remote.

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits as a result of past events is probable.

x) Segment reporting
A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

y) Critical accounting estimates and judgments
The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

**a) Judgments**
In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue Recognition
Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IFRS 15 and revenue accounting policy explained in Note (2-o) are met requires significant judgment.

(ii) Allowance for expected credit losses and inventory
The determination of the recoverability of the amount due from customers and the marketability of the inventory and the factors determining the impairment of the receivable and inventory involve significant judgment.

(iii) Classification of financial assets
On acquisition of a financial asset, the Group decides whether it should be classified as "at fair value through profit or loss", "at fair value through other comprehensive income" or "at amortized cost". IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets of the instrument's contractual cash flow characteristics. The Group follows the guidance of IFRS 9 on classifying its financial assets and is explained in Note (2-c).

(iv) Material non-controlling interests
The Group's management considers any non-controlling interests which accounts for 5% or more of the related subsidiary's equity as material.

(v) Leases
Critical judgements required in the application of IFRS 16 include, among others, the following:

- Identifying whether a contract (or part of a contract) includes a lease;
- Determining whether it is reasonably certain that an extension or termination option will be exercised;
- Classification of lease agreements (when the entity is a lessor);
- Determination of whether variable payments are in-substance fixed;

- Establishing whether there are multiple leases in an arrangement,.
- Determining the stand-alone selling prices of lease and non-lease components.

**b) Estimates and assumptions**

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

(i) Fair value of unquoted financial assets

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

(ii) Useful lives of depreciable assets

The Group reviews its estimate of useful lives of depreciable assets at each reporting date based on the expected utility of assets. Uncertainties in these estimates mainly relate to obsolescence and changes in operations.

(iii) Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset or the cash-generating unit to which the goodwill is allocated. Estimating a value in use requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present-value of the cash-flows.

(iv) Allowance for expected credit losses and inventory

The extent of Allowance for expected credit losses and inventories involves estimation process. Allowance for expected credit losses is based on a forward looking ECL approach as explained in Note (2-d). Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventories are subject to management approval.

(v) Valuation of investment properties

The Group carries its investment properties at fair value, with change in fair values being recognised in the consolidated statement of profit or loss. Two main methods were used to determine the fair value of the investment properties:

(a) Income approach, where the property's value is estimated based on the its income produced, and is computed by dividing the property's net operating income by the expected rate of return on the property in the market, known as 'Capitalization Rate'.

(b) Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

(vi) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

(vii) Leases

Key sources of estimation uncertainty in the application of IFRS 16 include, among others, the following:

- Estimation of the lease term;
- Determination of the appropriate rate to discount the lease payments;
- Assessment of whether a right-of-use asset is impaired.

## 3. Cash and cash equivalents

| | 2020 | 2019 |
|---|---|---|
| Cash on hand and at banks | **3,487,748** | 3,153,037 |
| Short term bank deposits | **-** | 125,766 |
| | **3,487,748** | 3,278,803 |
| Less: cash restricted against letters of guarantee | **(606,789)** | (740,430) |
| | **2,880,959** | 2,538,373 |

The effective interest and return rate on short term bank deposits ranges from Nil (2019: from 2.5% to 2.75% per annum) and these deposits have an average maturity of Nil (2019 - 30 days).

As of December 31, 2020, cash restricted by banks amounting to KD 606,789 (2019: KD 740,430) held against certain letters of guarantee in favor of the Group (Note 29).

## 4. Time Deposits

The effective interest and return rate on time deposits ranges from 1.25% to 1.375% per annum (2019: from 2.875% to 3.125% per annum) and these deposits have an average maturity of 185 days (2019: 185 days).

Time deposits amounting to KD 889,275 (2019: KD 1,017,988) are pledged against certain letters of guarantee issued in favor of the Group (Note 29).

## 5. Murabaha Investments

The actual rate of return on Murabaha investments is 2% per annum (2019: 2% per annum) and it is maturing within 365 days (2019: 365 days).

Murabaha amounting to KD 29,715 (2019: KD 29,715) are pledged against certain letters of guarantee issued in favor of the Group (Note 29).

6. Accounts receivable and other debit balances

| | 2019 | 2019 |
|---|---|---|
| Trade receivables (a) | 11,202,305 | 10,666,922 |
| Advances to suppliers | 928,062 | 992,020 |
| Refundable deposits | 264,702 | 154,905 |
| Retentions | 1,000,381 | 751,210 |
| Others | 802,006 | 621,424 |
| Allowance for expected credit losses (b and c) | (9,312,819) | (9,193,082) |
| | 4,884,637 | 3,993,399 |
| Staff receivables | 23,354 | 50,316 |
| Prepaid expenses | 69,599 | 226,050 |
| Paid to acquire new subsidiary | - | 50,000 |
| | 4,977,590 | 4,319,765 |

a) Trade receivables:

Trade receivables are non-interest bearing and are generally due within 90 days. The aging analysis of these trade receivables is as follows:

| | Less than 90 days | 91 – 180 days | 181 – 365 days | More than 365 days | Total |
|---|---|---|---|---|---|
| 2020 | 3,036,191 | 105,183 | 222,431 | 7,838,500 | 11,202,305 |
| 2019 | 2,751,390 | 73,367 | 123,402 | 7,718,763 | 10,666,922 |

As of December 31, 2019, trade receivables amounting to KD 327,614 (2019: KD 196,769) were past due but not impaired. These relate to a number of independent customers in addition to governmental entities for whom there is no recent history of default and the collection is in process. Subsequent to the date of the consolidated financial statements date, the Group collected KD 1,380,269 (2019: KD 1,839,194) from the outstanding trade receivable balances.

b) Allowance for expected credit losses:

The movement in the Allowance for expected credit losses was as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at the beginning of the year | 9,193,082 | 9,277,579 |
| Charge for the year | 119,737 | 198,302 |
| Effect of Subsidiary disposal | - | (282,799) |
| Balance at the end of the year | 9,312,819 | 9,193,082 |

c) Allowance for expected credit losses relates to the following items:

| | 2020 | 2019 |
|---|---|---|
| Trade receivables (a) | 7,838,500 | 7,718,763 |
| Advances to suppliers | 853,191 | 853,191 |
| Refundable deposits | 10,222 | 10,222 |
| Retentions | 149,919 | 149,919 |
| Others | 460,987 | 460,987 |
| | 9,312,819 | 9,193,082 |

7. Related party disclosures

The Group has entered into various transactions with related parties, i.e. Major shareholders, Board of Directors, key management personnel, associate and entities under common control and other related parties in the normal course of its business. Prices and terms of payment are approved by Group's management. Significant related party transactions and balances are as follows:

Balances included in the consolidated statement of financial position

| | Major shareholder | Associate | Common control | 2020 | 2019 |
|---|---|---|---|---|---|
| Net due from related party | - | 600 | 48,000 | 48,600 | - |
| Due to a related party | 847,688 | - | - | 847,688 | 747,610 |
| Accrued expenses | 180,000 | - | - | 180,000 | 180,000 |

Amounts due from / to related parties do not carry interest and there is no specific due date.

Transactions included in the consolidated statement of profit or loss

| | Major shareholder | 2020 | 2019 |
|---|---|---|---|
| Loss from liquidation of a subsidiary (Note 25) | - | - | (47,228) |
| Allowance for expected credit losses of due from related party | - | - | (453,100) |
| General and administrative expenses | (123,107) | (123,107) | (176,689) |

| **Compensation to key management personnel:** | 2020 | 2019 |
|---|---|---|
| Short term benefits | 245,648 | 282,749 |
| Terminal benefits | 10,680 | 12,305 |
| | 256,328 | 295,054 |

8. Inventories

| | 2020 | 2019 |
|---|---|---|
| Spare parts and scrap materials – raw materials | 394,632 | 792,288 |
| Scrap material – manufactured | 1,281,532 | 1,248,821 |
| Goods in stores | 218,948 | 348,189 |
| Transfers | - | 1,361 |
| | 1,895,112 | 2,390,659 |
| Less: Provision for damaged and slow moving inventory (a) | (803,642) | (803,642) |
| Less: Inventory write-off (Note 37) | (350,120) | - |
| Less: Effect of Subsidiary disposal (Note 25) | - | (66,787) |
| | 741,350 | 1,520,230 |

a) Provision for damaged and slow moving inventories

The movement of the provision for damaged and slow moving inventories is as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at the beginning of the year | 803,642 | 503,642 |
| Provision for inventory no longer required | - | 300,000 |
| Balance at the end of the year | 803,642 | 803,642 |

9. Financial assets at fair value through profit and loss

| | 2020 | 2019 |
|---|---|---|
| **Unquoted:** | | |
| Equity securities | **34,972** | 164,986 |
| Total | **34,972** | 164,986 |

The movement on this item is as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at the beginning of the year | **164,986** | 183,495 |
| Redeem | **-** | (15,255) |
| Disposals | **-** | (2,054) |
| Change in fair value during the year | **(130,014)** | (1,200) |
| Balance at the end of the year | **34,972** | 164,986 |

Details of fair value measurements of financial assets at fair value through profit and loss is disclosed in Note 33

10. Investment in an associate

This represents an investment of 40% in Real Estate Development Company – W.L.L., which is engaged in the management and development of different kinds of properties, the main project that the company specialized in is the project of managing properties which are located in Amghara and Mina Abdullah utilized by the Parent Company under contract with the Public Authority for Industry.

| | | | Percentage of ownership % | | | |
|---|---|---|---|---|---|---|
| Name of the associate | Country of Incorporation | Principal activities | **2019** | 2018 | **2020** | 2019 |
| Real Estate Development Co. W.L.L. | State of Kuwait | General Trading and Contracting | **40%** | 40% | **5,465,720** | 5,456,750 |

The movement during the year is as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at the beginning of the year | **5,456,750** | 5,457,920 |
| Group's share of results from an associate | **8,970** | (1,170) |
| Balance at the end of the year | **5,465,720** | 5,456,750 |

The associate does not have any contingent liabilities or capital commitments as at 31 December 2020 (2019: Nil).

The Group's share of the results of investment in associate has been calculated based on the audited financial statements as of December 31, 2020.

The summarized financial statements for the associate are as follows:

Summarized statement of financial position:

| | 2020 | 2019 |
|---|---|---|
| Assets: | | |
| Current assets | 1,559 | 1,859 |
| Non-current assets | 18,601,055 | 18,574,455 |
| Total assets | 18,602,614 | 18,576,314 |
| Liabilities: | | |
| Current liabilities | 22,050 | 19,650 |
| Non-current liabilities | 4,916,262 | 4,914,790 |
| Total liabilities | 4,938,312 | 4,934,440 |
| Net Assets | 13,664,302 | 13,641,874 |
| Group's ownership percentage in Real Estate Development Co. W.L.L. | 40% | 40% |
| Group's share in associate's net assets | 5,465,720 | 5,456,750 |

Summarized statement of profit or loss and other comprehensive income

| | 2020 | 2019 |
|---|---|---|
| Other income (expenses) | 22,425 | (2,925) |
| Net income (loss) | 22,425 | (2,925) |
| Other comprehensive income | - | - |
| Total other comprehensive income (loss) | 22,425 | (2,925) |
| Group's share of results from an associate | 8,970 | (1,170) |

11. Investment properties

| | 2020 | 2019 |
|---|---|---|
| Balance at the beginning of the year | 2,390,000 | 2,386,000 |
| Changes in fair value | (48,000) | 4,000 |
| Balance at the end of the year | 2,342,000 | 2,390,000 |

The fair value of investment properties is based on valuations performed by accredited independent valuation experts using recognized valuation techniques and principles.

In estimating the fair value of investment properties, the Company had used the valuation techniques listed in the following schedule, and had considered the nature and usage of the investment properties:

| | 2020 | | |
|---|---|---|---|
| **Class of investment property** | **Valuation technique** | **Levels of fair value hierarchy** | **Fair value** |
| **Residential buildings** | **Income capitalization** | **Level 3** | **2,342,000** |

| | 2019 | | |
|---|---|---|---|
| Class of investment property | Valuation technique | Levels of fair value hierarchy | Fair value |
| Residential buildings | Comparative market prices | Level 2 | 949,000 |
| Residential buildings | Income capitalization | Level 3 | 1,441,000 |
| | | | 2,390,000 |

As at December 31, 2020, investment property with a fair value of KD 926,000 (2019: KD 949,000) was transferred from Level 2 to Level 3 of fair value hierarchy as a result of change in methods of valuation by the valuation expert from comparative market prices to income approach.

Management of the Group has complied with the Executive Regulations of Capital Markets Authority with respect to guidelines for valuation of investment properties. The investment properties are pledged in favor of a local bank against financial lease contracts (Note 14).

12. Property, plant and equipment

| | Buildings | Project under Progress | Leasehold improvements | Machinery and equipment | Motor vehicles | Office furniture and equipment | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| As at January 1, 2020 | 1,167,302 | 249,386 | 1,796,283 | 5,034,193 | 1,583,377 | 170,442 | 10,000,983 |
| Additions | 1,040 | 791,544 | 300,000 | 107,808 | 226,971 | 1,720 | 1,429,084 |
| Disposals | - | - | - | - | (2,700) | - | (2,700) |
| Property, plant and equipment write-off (Note 37) | (1,068,347) | - | (2,096,283) | (4,476,194) | - | (123,731) | (7,764,555) |
| **As at December 31, 2020** | **99,995** | **1,040,930** | - | **665,807** | **1,807,648** | **48,432** | **3,662,812** |
| **Accumulated depreciation and amortization:** | | | | | | | |
| As at January 1, 2020 | 881,585 | - | 1,774,915 | 4,196,517 | 1,039,662 | 170,107 | 8,062,786 |
| Charge for the year | 35,525 | - | 19,240 | 236,081 | 302,619 | 340 | 593,805 |
| Related to disposals | - | - | - | - | (2,700) | - | (2,700) |
| Property, plant and equipment write-off (Note 37) | (828,475) | | (1,794,155) | (3,879,701) | - | (123,543) | (6,625,874) |
| **As at December 31, 2020** | **88,635** | - | - | **552,897** | **1,339,581** | **46,904** | **2,028,017** |
| **Net book value:** | | | | | | | |
| **As at December 31, 2020** | **11,360** | **1,040,930** | - | **112,910** | **468,067** | **1,528** | **1,634,795** |
| As at December 31, 2019 | 285,717 | 249,386 | 21,368 | 837,676 | 543,715 | 335 | 1,938,197 |

As of December 31, 2020, the Group has evaluated the Group's buildings based on valuations performed by accredited independent valuation experts using recognized valuation techniques and principles.

One of the group's buildings is built on land leased from the Public Authority for Industry, which ends on July 1, 2023. The management expects that the lease contract will be renewed automatically, as for the profile in this type of lease.

Depreciation charge for the year is allocated as follows.

| | 2020 | 2019 |
|---|---|---|
| Cost of sales | **419,126** | 361,082 |
| Consolidated statement of profit or loss and other comprehensive income | **174,679** | 193,487 |
| | **593,805** | 554,569 |

13. Right of use of assets

The Company leases several assets including buildings and land. The average lease term is 5 years. The movement of right to use assets are as follows:

| | Buildings | Land | Total |
|---|---|---|---|
| Balance at initial recognition on January 1, 2020 | 404,316 | 107,195 | 511,511 |
| Additions during the year | 136,348 | 2,318,622 | 2,454,970 |
| Disposals during the year | (109,978) | - | (109,978) |
| Amortization charge for the year | (216,698) | (268,681) | (485,379) |
| Net carrying amount as at December 31, 2020 | **213,988** | **2,157,136** | **2,371,124** |

During the year ended December 31, 2020, the group's management excluded right-of-use assets and lease contract liabilities in the amount of KD 109,979 and KD 113,941, respectively, as a result of canceling some lease contracts. The disposal resulted in a profit of KD 3,962, which was included in the other income in the statement of profit or loss and other comprehensive income in accordance with the IFRS (16).

At December 31, 2020, the company has expenses related to short term lease of KD 62,422 (2019: KD 58,665) included in the statement of profit and loss.

The Parent company is currently discussing with the General Authority for Industry about the current location and the alternative locations available for its operations the alternative site has not been included in the right-to-use assets, as the contract is still in the process of being signed.

Amortization charge for the year is allocated as follows.

| | 2020 | 2019 |
|---|---|---|
| Cost of sales | **213,747** | 180,749 |
| Consolidated statement of profit or loss and other comprehensive income | **271,632** | 45,435 |
| | **485,379** | 226,184 |

14. Finance lease payables

| | 2020 | 2019 |
|---|---|---|
| Total finance lease installments | **977,545** | 1,212,334 |
| Less: Unamortized future finance charges | **(7,545)** | (17,334) |
| | **970,000** | 1,195,000 |

The Group has entered into leasing financing agreements with a local bank to finance the purchase and acquisition of investment properties (note 11), against rental payments, a payment of KD 570,000 due on February 14, 2021, and a final payment of KD 400,000 due on February 20, 2021, with a promise to purchase When all contractual payments are made. The investment properties are registered in the bank's name as security for contractual rental payments.

The finance lease installments was granted to the Group by a local bank against pledged of investment properties (Note 11). The effective rate of return was 4.5% in December 31, 2020 (2019: from 6.18% to 6.25% per annum).

15. Term loans

Term loans represent loans granted by local banks carrying an interest rate ranging from 2.25% to 2.5% per annum (2019: from 2.25% to 2.5%per annum) over the Central Bank of Kuwait discount rate and repayable on January 26, 2021 , April 30, 2021 and July 1, 2023.

The term loans are classified as follows:

| | 2020 | 2019 |
|---|---|---|
| Current portion | 1,158,000 | 750,000 |
| Non-current portion | 636,846 | - |
| | 1,794,846 | 750,000 |

Term loans are secured by the following in favor of the lending banks:
- Promissory notes with a book value of KD 750,000.

16. Lease liabilities

The movement for lease contract liabilities is as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at the beginning of the year | 510,988 | - |
| Impact of the application of IFRS 16 on January 1, 2019 | - | 661,469 |
| Additions | 2,454,970 | 64,226 |
| Financing costs (a) | 122,389 | 28,173 |
| Payments | (423,429) | (242,880) |
| Disposals | (113,941) | - |
| Balance at the end of the year | 2,550,977 | 510,988 |

The lease liabilities are classified as follows:

| | 2020 | 2019 |
|---|---|---|
| Current portion | 672,133 | 259,186 |
| Non-current portion | 1,878,844 | 251,802 |
| | 2,550,977 | 510,988 |

a) Financing costs charge for the year is allocated as follows.

| | 2020 | 2019 |
|---|---|---|
| Cost of sales | 16,900 | 23,642 |
| Consolidated statement of profit or loss and other comprehensive income | 105,489 | 4,531 |
| | 122,389 | 28,173 |

17. Accounts payable and other credit balances

| | 2020 | 2019 |
|---|---|---|
| Trade payables | 680,895 | 752,846 |
| Accrued expenses (a) (Note 7) | 3,017,745 | 1,811,442 |
| Staff payables | 22,562 | 10,360 |
| Accrued staff leave | 635,949 | 409,158 |
| Advance payments from customers | 369,881 | 649,574 |
| | 4,727,032 | 3,633,380 |

a) The accrued expenses include an amount of KD 2,200,581 (2019: KD 1,264,143) relating to the lease obligation for the company from April 1, 2018 , for right of utilization contracts that were not renewed (Note 30).

18. Provision for end of service indemnity

| | 2020 | 2019 |
|---|---|---|
| Balance at the beginning of the year | 928,282 | 761,444 |
| Charge during the year | 244,149 | 241,521 |
| Provision no longer required (Note 26) | - | (38,711) |
| Paid during the year | (150,468) | (35,972) |
| Balance at the end of the year | 1,021,963 | 928,282 |

19. Share capital
Authorized, issued and paid up capital consists of 100,000,000 (2019: 100,000,000) shares of 100 fils each and all shares are in cash.

20. Statutory reserve
As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST) and Zakat is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except for cases stipulated by law and the Parent Company's Articles of Association. Since there is a net loss for the year as of the end of the, there was no transfer to statutory reserve during the year.

21. Voluntary reserve
As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST) and Zakat is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. The shareholders' General Assembly meeting held on May 1, 2001 approved to discontinue the annual transfer to the voluntary reserve.

22. Treasury shares

| | 2020 | 2019 |
|---|---|---|
| Number of shares | 9,899,225 | 9,899,225 |
| Percentage to paid up shares | 9.89% | 9.89% |
| Market value (KD) | 544,457 | 494,961 |
| Cost (KD) | 1,056,623 | 1,056,623 |

Based on Capital Markets Authority resolution dated December 30, 2013, the Parent Company's management has allotted an amount equal to treasury shares balance from the reserves as of December 31, 2020. Such amount will not be available for distribution during treasury shares holding period by the Group.

23. Service revenue and cost

Service revenue and cost include installation and maintenance of "Heating, Ventilating, and Air Conditioning" (HVAC) systems, cleaning works and rent.

24. General and administrative expenses

| | 2020 | 2019 |
|---|---|---|
| Maintenance expenses | **235,605** | 323,675 |
| Rent expense | **1,371,284** | 1,405,893 |
| Professional fees | **496,628** | 344,349 |
| Governmental fees | **65,244** | 142,292 |
| Water and electricity expenses | **50,540** | 50,017 |
| Subscriptions | **16,162** | 43,183 |
| Hospitality | **14,690** | 15,408 |
| Cleaning expenses | **185,503** | 199,383 |
| Travel expenses | **287** | 31,151 |
| Security expenses | **1,320** | 28,792 |
| Others | **244,053** | 358,616 |
| | **2,681,316** | 2,942,759 |

25. Liquidation of a subsidiary

During the year ended December 31, 2019, the Group liquidated the following ownership interest in its subsidiary:

**Loss from liquidation:**

| | October 10, 2019 (Date of liquidation) |
|---|---|
| Cash | 623 |
| Non-Cash | 46,605 |
| Total loss generated | **47,228** |

**Analysis of assets and liabilities of the liquidated subsidiary:**

| | October 10, 2019 (Date of liquidation) |
|---|---|
| Cash and cash equivalents | 623 |
| Inventories (Note 8) | 66,787 |
| Total assets | **67,410** |
| | |
| Accounts payable and other credit balances | (8,224) |
| Total liabilities | (8,224) |
| **Net assets** | **59,186** |

**Loss from liquidation of a subsidiary:**

| | October 10, 2019 (Date of liquidation) |
|---|---|
| Reversal of foreign currency translation reserve | 11,958 |
| Less: Net assets liquidated | (59,186) |
| Loss resulted from liquidation of a subsidiary | (47,228) |

26. Other income

| | 2020 | 2019 |
|---|---|---|
| Insurance claims | - | 162,993 |
| Provision end of service indemnity no longer required (Note 18) | - | 38,711 |
| Provision for leave no longer required | - | 18,358 |
| Rent income | 176,805 | 196,860 |
| Profit from sale of property, plant and equipment | 400 | 26,479 |
| Gain from disposal of lease obligation (Note 13) | 3,963 | - |
| Others | 124,563 | 134,635 |
| | 305,729 | 578,036 |

27. Basic loss per share attributable to shareholders of the Parent Company

There are no potential dilutive ordinary shares. The information necessary to calculate basic loss per share based on the weighted average number of shares outstanding during the year as follows:

| | 2020 | 2019 |
|---|---|---|
| Loss for the year attributable to shareholders of the Parent Company | (2,488,014) | (2,123,530) |
| | **Shares** | Shares |
| Number of outstanding shares: | | |
| Number of issued and fully paid shares | 100,000,000 | 100,000,000 |
| Less: Weighted average number of treasury shares | (9,899,225) | (9,899,225) |
| Weighted average number of outstanding shares | 90,107,775 | 90,107,775 |
| | **Fils** | Fils |
| loss per share attributable to shareholders of the Parent Company | (27.61) | (23.57) |

28. Proposed dividends and General Assembly

The Board of Directors meeting held on March 25, 2021 recommended not to distribute cash dividends for the year ended December 31, 2020. This recommendation is subject to the approval of the Ordinary Shareholders' Annual General Assembly of the Parent Company.

The Shareholders' Annual Ordinary General Assembly held on June 25, 2020 approved the consolidated financial statements for the year ended December 31, 2019. There are no profit distributions or bonus shares or board of directors' remuneration for the year ended December 31, 2019.

29. Contingent liabilities

As of December 31, the Group is contingently liabilities in respect of the following:

| | 2020 | 2019 |
|---|---|---|
| Letters of guarantee | **9,622,196** | 8,943,596 |
| Letters of credit | **21,541** | - |
| | **9,643,737** | 8,943,596 |

Certain letters of guarantee amounting to KD 1,525,779 (2019: KD 1,788,133) are secured by cash and cash equivalent (Note 3), time deposits (Note 4),and murabaha investments (Note 5).

30. Right of utilization

The Parent Company's operations are constructed on land leased by an associate, for which the right of utilization, contract was renewed on June 19, 2013 with the Public Authority for Industry for 5 years ended on May 13, 2018.

During year 2018, the company completed the procedures for receiving additional land area in Mina Abdullah area and Al Naim area as a replacement to this land.

31. Legal claims

There are certain lawsuits raised by / against the Group, the results of which cannot be assessed till being finally cleared by the court. In the opinion of the Group's external Legal counsels, there will be no material adverse impact on the Group consolidated financial statements, and hence, no provisions were recorded in the Group's records as of the reporting date.

32. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalents, time deposits, Murabaha investments, receivables, financial assets at FVPL, due to banks, term loans, financing lease contracts and payables and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

**a) Interest rate risk:**

Financial instruments are subject to the risk of changes in value due to changes in the level of interest profit for its financial assets liabilities carrying floating interest rates. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature are indicated in the respective notes.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit through the impact on floating rate borrowings:

| | 2020 | | |
|---|---|---|---|
| | Increase / (decrease) in interest / profit rate | Balances as of December 31 | Effect on consolidated statement of profit or loss |
| **Term deposits** | ± 0.5% | 1,047,054 | ± 5,235 |
| **Murabaha investments** | ± 0.5% | 29,715 | ± 149 |
| **Finance lease payables** | ± 0.5% | (970,000) | ± 4,850 |
| **Term loans** | ± 0.5% | (1,794,846) | ± 8,974 |
| **Lease liabilities** | ± 0.5% | (2,550,977) | ± 12,755 |

| | 2019 | | |
|---|---|---|---|
| | Increase / (decrease) in interest / profit rate | Balances as of December 31 | Effect on consolidated statement of profit or loss |
| Short term bank deposits | ± 0.5% | 125,766 | ± 629 |
| Term deposits | ± 0.5% | 1,017,988 | ± 5,090 |
| Murabaha investments | ± 0.5% | 29,715 | ± 149 |
| Due to banks | ± 0.5% | (518,287) | ± 2,591 |
| Finance lease payables | ± 0.5% | (1,195,000) | ± 5,975 |
| Term loans | ± 0.5% | (750,000) | ± 3,750 |
| Lease liabilities | ± 0.5% | (510,988) | ± 2,555 |

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 principally of cash at banks, time deposits, Murabaha investments and receivables and due from related parties. The Group's cash at banks are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash at banks, time deposits, Murabaha investments and receivables.

c) **Foreign currency risk:**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar. The Group is not currently exposed significantly to such risk.

d) **Liquidity risk:**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable along with planning and managing the Group's forecasted cash flows by maintaining adequate cash reserves, maintaining valid and available credit lines with banks and matching the maturity profiles of financial assets and liabilities.

**Maturity Table for financial liabilities**

| | 2020 | | | |
|---|---|---|---|---|
| | **1-3 months** | **3-12 months** | **More than year** | **Total** |
| Finance lease payables | - | **970,000** | - | **970,000** |
| Term loans | - | **1,158,000** | **636,846** | **1,794,846** |
| Lease liabilities | - | **672,133** | **1,878,844** | **2,550,977** |
| Accounts payable and other credit balances | **677,441** | **4,049,589** | - | **4,727,030** |
| Due to related parties | **847,688** | - | - | **847,688** |
| Total | **1,525,129** | **6,849,722** | **2,515,690** | **10,890,541** |

| | 2019 | | | |
|---|---|---|---|---|
| | 1-3 months | 3-12 months | More than year | Total |
| Due to banks | 518,287 | - | - | 518,287 |
| Finance lease payables | - | 1,195,000 | - | 1,195,000 |
| Term loans | - | 750,000 | - | 750,000 |
| Lease liabilities | - | 259,186 | 251,802 | 510,988 |
| Accounts payable and other credit balances | 1,083,223 | 2,550,157 | - | 3,633,380 |
| Due to related parties | 747,610 | - | - | 747,610 |
| Total | 2,349,120 | 4,754,343 | 251,802 | 7,355,265 |

e) **Equity price risk:**

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. To manage such risks, the Group diversifies its investments in different sectors within its investment portfolio and are continuously monitored. As per the management, the cost approximates the fair value of the financial assets at fair value through profit and loss.

33. Fair value measurement

The Group measures financial assets such as financial assets available for sale financial assets and non–financial assets such as investment properties at fair value at each reporting date

- 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

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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

| | **2020** | | |
|---|---|---|---|
| | **Level 2** | **Level 3** | **Total** |
| Financial assets at fair value through profit and loss | **34,972** | - | **34,972** |
| Investment properties | - | **2,342,000** | **2,342,000** |
| Total | **34,972** | **2,342,000** | **2,376,972** |

| | 2019 | | |
|---|---|---|---|
| | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit and loss | 164,986 | - | 164,986 |
| Investment properties | 949,000 | 1,441,000 | 2,390,000 |
| Total | 1,113,986 | 1,441,000 | 2,554,986 |

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

The fair value of unquoted instruments, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The basis of the valuation of investment properties is fair value. The investment properties are revalued annually based on independent accredited valuer having experience in the location and category of investment property being valued. Valuations are based on current prices in an active market for similar properties of the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investment.

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

| | **Investment properties** |
|---|---|
| **Consolidated** | |
| Balance at 31 December 2018 | 1,441,000 |
| Balance at 31 December 2019 | 1,441,000 |
| Transfers from level 2 to level 3 | 949,000 |
| Gains / losses recognised in profit or loss | (25,000) |
| **Balance at 31 December 2020** | **2,342,000** |

| **Description** | **Unobservable inputs** | **Range (weighted average)** | **Sensitivity** |
|---|---|---|---|
| Investment properties | Rental yield rate and the net annual operating income of the properties | 8% | ± 0.75% change in the rental yield rate would increase the fair value by KD 242,276 or decrease the fair value by KD 200,743 |

34. Segment information

The Group is organized into functional divisions to manage its various lines of business. The Group operates mainly in the State of Kuwait. For the purposes of segment reporting, the Group's management has grouped its products and services into the following operating segments:

A. Metal shredding and used spare parts department

This represents importing machines and material necessary for shredding, sorting, cutting, and shearing of metals, selling waste scrap inside and outside State of Kuwait, cutting and shearing of metals, recycling of waste, plastic, rubbles, environmental waste, and trading in the recycled materials.

B. Services Department- HVAC

This represent maintenance of tools and technical supplies, electric generators, cleaning services, metal pipes, constructions ceiling maintenance, bridges erection, cleaning and sanitary contracts, selling and buying cleaning powders, extinguishing tool works, fire alarm machines and air conditions contracts and maintenance.

C. Services Department – Cleaning

It includes cleaning roads and buildings, cities cleaning contracts, and security services.

D. Others
This item includes all types of investments, goodwill, and other activities.

Financial details of the above operating segments are as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Segment assets** | **Segment liabilities** | Segment assets | Segment liabilities |
| Waste Management & Recycling | **6,781,533** | **8,705,222** | 5,526,717 | 4,684,545 |
| Services Department- HVAC | **8,896,702** | **2,922,487** | 8,517,614 | 3,346,137 |
| Services Department – Cleaning | **1,043,707** | **252,925** | 980,629 | 229,439 |
| Others | **5,865,615** | **31,870** | 6,009,874 | 23,426 |
| | **22,587,557** | **11,912,504** | 21,034,834 | 8,283,547 |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Segment revenue** | **Segment results** | Segment revenue | Segment results |
| Waste Department - Metal Shredding | **5,280,717** | **551,803** | 5,641,112 | 69,273 |
| Waste Department - Plastic Recycling | **1,796,832** | **(2,299)** | 3,110,123 | (12,861) |
| Waste Department - Medical Waste | **304,829** | **(237,642)** | 179,613 | (1,587) |
| Services Department- HVAC (Heating ventilation and Air conditioning) | **8,122,485** | **1,175,651** | 8,503,353 | 1,100,997 |
| Services Department – Cleaning | **2,016,621** | **147,712** | 2,510,654 | 101,936 |
| Others | **674,580** | **(3,711,459)** | 463,192 | (3,010,215) |
| | **18,196,064** | **(2,076,234)** | 20,408,047 | (1,752,457) |

35. Subsequent events
The COVID-19 pandemic has developed rapidly in 2020. The resulting impact of the virus on the operations and measures taken by various governments to contain the virus have negatively affected the group's results for the year ended December 31, 2020.

The currently known impacts of COVID-19 on the group are:

- A decline in revenues during year 2020 compared year 2019 of 11%.
- The group calculated provisions of receivables and inventories in an amount of KD 119,737 and KD 54,458 respectively in year 2020.
- Due to government measures taken a closure of the group's production facilities and sales locations in Amgahra, Shuwaikh, Hawally and Naaem for at least three months.
- The Group's incurred unrealized losses from the financial assets at fair value through profit or loss estimated around an amount of KD 130,014.
- The delay in implementing government procedures, affected the operational process of the group in terms of issuing licenses and export orders for the group's operational processes.
- A significant delay in the implementation of projects such as Medical waste incineration project in KABD 1 area.

Also, the Steps taken by the group to contain negative economic effects resulting from the COVID-19 pandemic outbreak as per the following:

- The group restructured operation cost.
- The board of directors currently are not planning for any dividends for the year ended as of December 31,2020.

- The Group obtained approval for additional facilities of KD 10 million from one of our main Shareholders as convertible loan.
- To avoid Risk that the counterparty will not meet its obligations under a financial instrument or customer contracts considering current pandemic and lockdown situation, the group have started obtaining security documents in the form of letter of guarantee from customer to cover the credit risk.
- Management work continuously to reviewing the key contractual terms with customers and suppliers to avoid the deficit in liquidity of the Group.

Based on the above described situation till the date of preparing the interim condensed consolidated financial statements, and as represent in the interim condensed consolidated statement of financial statements the current liabilities didn't exceed the current assets, Although it is still not certain that these efforts will be successful. However, the management of parent company has determined that the actions that it has taken are sufficient to mitigate the uncertainty and has therefore prepared the interim condensed consolidated financial statements on a going concern basis.

36. Capital Risk Management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

For the purpose of capital risk management, the total capital resources consist of the following components:

| | 2020 | 2019 |
|---|---|---|
| Due to banks | - | 518,287 |
| Finance lease payables | 970,000 | 1,195,000 |
| Term loans | 1,794,846 | 750,000 |
| Lease liabilities | 2,550,977 | 510,988 |
| Total borrowings | 5,315,823 | 2,974,275 |
| Less: cash and cash equivalents | (3,487,748) | (3,278,803) |
| Less: Time deposits | (1,047,054) | (1,017,988) |
| Net debt | 781,021 | (1,322,516) |
| Total equity | 10,675,053 | 12,751,287 |
| Total capital resources | 11,456,074 | 11,428,771 |
| Gearing Ratio | 6.82% | - |

37. Events after the date of the consolidated financial statements

Subsequent to the date of the consolidated financial statements, the Real Estate Development and Development Company - LLC. ("REDCO") include in its financial statements is an investment property within the group's investment in the associate company located in the Amghara area on which the factories, buildings and operations of the parent company are based, and it was recorded at a value of KD 3,426,400 as investment, where the buildings attached to the factory were demolished and the administrative building of the parent company was demolished in the old site. In South Amghara by the municipality in implementation of the recommendation issued by the Minister of Trade and Industry dated January 25, 2021 to remove and evacuate the parent company from its location in South Amghara (note 30).

The management of the parent company considers that the action taken by the Minister of Commerce and Industry is not a decision because it lacks the legal elements of the administrative decision and is contrary to the industry law, and to face this abuse and violation of the provisions of the law, the parent company resorted to the judiciary to defend its rights and the rights of its shareholders, so it filed lawsuits regarding this matter. The right to claim compensation for all damages resulting from the implementation of the aforementioned decision, and the parent company is currently assessing the size of the losses to resort to the judiciary to claim the related compensation, which will include the following items:

- The value of the assets bought and established by the parent company to carry out its activity in the current location, which it lost as a result of the demolition of the buildings attached to the factory and the demolition of the administrative building of the parent company by the municipality, calculated on the basis of the replacement value.
- The costs that the company will incur to establish and establish the activity requirements at the alternate site, which will include the cost of developing the infrastructure at the new site, the construction cost (including design and supervision costs), the cost of purchasing new equipment, and other works.
- Loss of revenues as a result of the expected increase in the costs of raw materials due to the change in the geographical location due to the additional costs of obtaining raw materials and the distribution of the manufactured products and the decrease in the quantity of production.
- The opportunity cost of losing sources of raw materials (who may contract with competitors during the period in which the parent company will not be able to fulfill its procurement obligations).
- Loss of revenues during the suspension period until the completion of the establishment, establishment and operation of the activity on the alternative site.
- Opportunity cost of losing customers and markets and additional marketing costs incurred in establishing a client base in a new location.
- Finance expenses and costs to be incurred by the parent company.
- Rental allowance from Mina Abdullah, Contract No. 85 for the period from June 1, 2013 to August 6, 2019.
- Any other related costs.

As a result of the aforementioned, the group has written off the value of property, plant and equipment as on December 31, 2020 as a result of the demolition of the buildings attached to the factory and the demolition of the administrative building of the parent company in the old site in South Amghara by the municipality, whose historical cost as on December 31, 2020 amounted to KD 7,764,555 Which led to the recognition of a decrease in the net book value, as of December 31, 2020, amounting to KD 1,138,681, as well as a decrease in the value of inventory by an amount of KD 350,120 as a preliminary estimate until the final value is reached.

The Group has not established an impairment loss allowance for the carrying value of the investment property, due to the uncertainty associated with estimating the value of compensation to be received and estimating the fair value of the alternative right of use.

On August 25, 2019, the Group's management signed minutes of receipt of alternative land borders in Mina Abdullah and Al-Naim area, and contracts are being signed with the government agencies concerned with this matter. Until all procedures are completed, it is not possible to estimate the fair value of the alternative right of use.