

Kuwait Foundry Company K.S.C.P.

FINANCIAL STATEMENTS

31 DECEMBER 2020





Ernst & Young
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INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF KUWAIT FOUNDRY COMPANY – K.S.C.P.

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Kuwait Foundry Company K.S.C.P. (the “Company”), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FOUNDRY COMPANY K.S.C.P. (continued)

Report on the Audit of Financial Statements (continued)

Key Audit Matters (continued)

Valuation of unquoted investments

The Company's investment securities amounted to KD 10,835,996 representing 74% of the Company's total assets as at 31 December 2020, comprising of unquoted equity investments designated at fair value through other comprehensive income (FVOCI) and categorised within Level 3 of the fair value hierarchy as disclosed in Note 24 to the financial statements.

The valuation of the Company's unquoted investments involves the use of assumptions and estimates. The key inputs used in the valuation model requires a considerable degree of judgment by management in establishing fair value and include identifying comparable public companies (peers) and determining appropriate valuation techniques.

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

Our audit procedures included, among others, the following:

- ▶ For valuations, which used significant both observable and unobservable inputs, we have tested the source data used in the valuations, to the extent possible, to independent sources and externally available market data to evaluate the data's relevance, completeness and accuracy.
- ▶ We have evaluated the appropriateness of the model used to what we considered to be available alternative valuation methods. We also evaluated the reasonableness of the significant judgment and assumptions applied to the valuation models, including appropriateness of the comparable listed companies' selection, the pricing multiples and discounts for lack of marketability.
- ▶ We assessed the adequacy and the appropriateness of the Company's disclosures concerning the Company's exposure to financial instrument valuation risk, fair value measurement of investment securities and the sensitivity to changes in unobservable inputs in Note 24 to the financial statements.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FOUNDRY COMPANY K.S.C.P. (continued)

Report on the Audit of Financial Statements (continued)

Other Information included in the Company's 2020 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Company's 2020 Annual Report, other than the financial statements and our auditor's report thereon. We obtained the report of the Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FOUNDRY COMPANY – K.S.C.P. (continued)

Report on the Audit of Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- ▶ Identify and assess the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FOUNDRY COMPANY – K.S.C.P. (continued)

Report on the Audit of Financial Statements (continued)

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

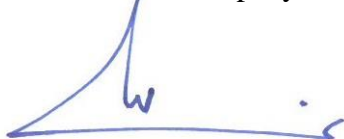
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Company's Memorandum of Incorporation and Articles of Association, that an inventory count was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2020, that might have had a material effect on the business of the Company or on its financial position.

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




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

2 February 2021
Kuwait

Kuwait Foundry Company K.S.C.P.
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	<i>Notes</i>	2020 KD	2019 KD
ASSETS			
Non-current assets			
Property, plant and equipment	4	309,409	321,020
Investment in an associate	5	-	1,358,508
Financial assets at FVOCI	6	10,835,996	15,294,219
		11,145,405	16,973,747
Current assets			
Inventories	8	2,358,436	2,377,089
Trade and other receivables	9	96,423	233,510
Loans and advances	7	-	299,952
Financial assets at FVPL	10	-	1,176,528
Cash and cash equivalents	11	1,113,658	2,299,991
		3,568,517	6,387,070
TOTAL ASSETS		14,713,922	23,360,817
EQUITY AND LIABILITIES			
Equity			
Share capital	12	7,232,559	7,232,559
Share premium	13	8,026,028	8,026,028
Statutory reserve	14	3,616,280	3,616,280
Voluntary reserve	14	76,190	76,190
Fair value reserve		(4,981,779)	(576,058)
Foreign currency translation reserve		(1,418,868)	(1,512,066)
Retained earnings		1,059,998	4,743,612
		13,610,408	21,606,545
Liabilities			
Non-current liabilities			
Employees' end of service benefits		228,622	279,220
Current liabilities			
Trade and other payables	15	874,892	1,475,052
Total liabilities		1,103,514	1,754,272
TOTAL EQUITY AND LIABILITIES		14,713,922	23,360,817



Ahmad Jassem Al Gumar
Chairman



Al Muthana Mohammed Al Maktoum
Chief Executive Officer

The attached notes 1 to 29 form part of these financial statements.

Kuwait Foundry Company K.S.C.P.

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>KD</i>	<i>2019</i> <i>KD</i>
Revenue from contracts with customers		1,208,836	1,906,063
Cost of sales		(721,968)	(1,189,268)
GROSS PROFIT		486,868	716,795
Other income		19,396	105,295
Interest income		4,904	210,382
Selling and marketing expenses	16	(25,867)	(45,855)
General and administrative expenses	17	(206,391)	(403,410)
Allowance for expected credit losses on financial assets at amortised cost		-	(52,343)
OPERATING PROFIT		278,910	530,864
Share of results of an associate	5	-	(288,678)
Impairment loss on investment in an associate	5	(2,064,208)	-
Net investment income	18	1,112,020	961,794
(LOSS) PROFIT BEFORE TAX		(673,278)	1,203,980
Contribution to Kuwait Foundation for the advancement of Sciences ("KFAS")		-	(12,040)
National Labour Support Tax (NLST)		-	(201,871)
Zakat		-	(65,157)
Directors remuneration		-	(30,000)
(LOSS) PROFIT FOR THE YEAR		(673,278)	894,912
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE	19	(7.53)	9.84

The attached notes 1 to 29 form part of these financial statements.

Kuwait Foundry Company K.S.C.P.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
(LOSS) PROFIT FOR THE YEAR	(673,278)	894,912
Other comprehensive (loss) income		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	93,198	137,241
<i>Other comprehensive (loss) income that will not be reclassified to profit or loss in subsequent periods:</i>		
Net (loss) gain on equity instruments designated at FVOCI	(4,332,239)	1,420,065
Total other comprehensive (loss) income for the year	(4,239,041)	1,557,306
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	(4,912,319)	2,452,218

The attached notes 1 to 29 form part of these financial statements.

Kuwait Foundry Company K.S.C.P.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	<i>Share capital KD</i>	<i>Share premium KD</i>	<i>Statutory reserve KD</i>	<i>Voluntary reserve KD</i>	<i>Fair value reserve KD</i>	<i>Foreign currency translation reserve KD</i>	<i>Retained earnings KD</i>	<i>Total KD</i>
As at 1 January 2020	7,232,559	8,026,028	3,616,280	76,190	(576,058)	(1,512,066)	4,743,612	21,606,545
Loss for the year	-	-	-	-	-	-	(673,278)	(673,278)
Other comprehensive (loss) income	-	-	-	-	(4,332,239)	93,198	-	(4,239,041)
Total comprehensive (loss) income	-	-	-	-	(4,332,239)	93,198	(673,278)	(4,912,319)
Transfer of fair value reserve on derecognition of equity investments designated at FVOCI	-	-	-	-	(73,482)	-	73,482	-
Gain on disposal of equity investments at FVOCI	-	-	-	-	-	-	1,065	1,065
Cash dividends (Note 26)	-	-	-	-	-	-	(1,084,883)	(1,084,883)
Distribution in-kind (Note 26)	-	-	-	-	-	-	(2,000,000)	(2,000,000)
At 31 December 2020	7,232,559	8,026,028	3,616,280	76,190	(4,981,779)	(1,418,868)	1,059,998	13,610,408
As at 1 January 2019	15,388,423	17,100,000	5,463,472	211,404	4,744,249	(1,649,307)	1,095,860	42,354,101
Profit for the year	-	-	-	-	-	-	894,912	894,912
Other comprehensive income	-	-	-	-	1,420,065	137,241	-	1,557,306
Total comprehensive income	-	-	-	-	1,420,065	137,241	894,912	2,452,218
Reduction in share capital (Note 12)	(8,155,864)	-	-	-	-	-	-	(8,155,864)
Transfer of fair value reserve on derecognition of equity investments designated at FVOCI	-	-	-	-	(6,740,372)	-	6,740,372	-
Gain on disposal of equity investments at FVOCI	-	-	-	-	-	-	1,348	1,348
Cash dividends (Note 26)	-	-	-	(135,214)	-	-	(3,988,880)	(4,124,094)
Distribution of equity reserves (Note 26)	-	(9,073,972)	(1,847,192)	-	-	-	-	(10,921,164)
At 31 December 2019	7,232,559	8,026,028	3,616,280	76,190	(576,058)	(1,512,066)	4,743,612	21,606,545

The attached notes 1 to 29 form part of these financial statements.

Kuwait Foundry Company K.S.C.P.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	<i>Notes</i>	2020 KD	2019 KD
OPERATING ACTIVITIES			
(Loss) profit before tax and directors' remuneration		(673,278)	1,203,980
<i>Non-cash adjustments to reconcile (loss) profit before tax to net cash flows:</i>			
Interest income		(4,904)	(210,382)
Depreciation of property, plant and equipment	4	26,529	29,480
Allowance for expected credit losses on financial assets at amortised cost	9	-	49,245
Dividend income	18	(72,770)	(924,489)
Share of results of an associate	5	-	288,678
Changes in fair value of financial assets at FVPL	18	(1,039,250)	(1,451)
Impairment loss on investment in an associate	5	2,064,208	-
Reversal of allowance for expected credit losses on loan to an associate	7	(3,098)	-
Gain on sale of financial assets at FVPL	18	-	(35,854)
Provision for employees' end of service benefits		12,391	(128,935)
		309,828	270,272
<i>Working capital adjustments:</i>			
Inventories		18,653	90,345
Trade and other receivables		135,615	293,862
Trade and other payables		(411,817)	(210,683)
Cash flows from operations		52,279	443,796
Employees' end of service benefits paid		(62,989)	(690,346)
Taxes paid		(240,790)	-
Receipt of government grants	28	4,568	-
Net cash flows used in operating activities		(246,932)	(246,550)
INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment	4	(14,918)	(16,682)
Proceeds from disposal of financial assets at FVOCI		4,581	20,116,691
Proceeds from disposal of financial assets at FVPL		215,778	768,497
Proceeds from capital redemption of financial assets at FVOCI		122,468	-
Loans and advances		(312,550)	1,499,964
Dividend income received		72,770	924,489
Interest income received		4,904	210,382
Net cash flows from investing activities		93,033	23,503,341
FINANCING ACTIVITIES			
Cash dividends paid	26	(1,032,434)	(3,855,639)
Distribution of equity reserves	26	-	(10,624,724)
Payments to equity holders on reduction of share capital	12	-	(7,864,932)
Net cash flows used in financing activities		(1,032,433)	(22,345,295)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,186,333)	911,496
Cash and cash equivalents as at 1 January		2,299,991	1,388,495
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,113,658	2,299,991

The attached notes 1 to 29 form part of these financial statements.

1 CORPORATE INFORMATION

The financial statements of Kuwait Foundry Company K.P.S.C. (“the Company”) for the financial year ended 31 December 2020 were authorised for issue in accordance with a resolution of the board of directors on 1 February 2021, and the shareholders have the power to amend these financial statements at the annual general assembly meeting (AGM).

The Company is a public shareholding company, incorporated and domiciled in Kuwait and whose shares are publicly traded in Boursa Kuwait. The Company’s registered office is located at Al Rai Industrial Area, Street (10), Kuwait.

The Company’s primary objectives are, as follows:

- ▶ Casting of iron and other metals, manufacturing the sanitary tools,
- ▶ Manufacturing the accessories for sewage systems, manufacturing of casting joint for “Asbestos” pipes,
- ▶ Manufacturing of water valves, manufacturing of water pumps, manufacturing casting accessories for Rain water drains,
- ▶ Manufacturing casting joints for water extensions, manufacturing casting pipes by centrifugal method,
- ▶ Manufacturing all the requirements related to casting industry, importing the materials necessary to achieve the Company objectives and all the commercial activities related to marketing and distribution of the Company products.
- ▶ The Company may have an interest or participate under any manner in the entities carrying out works similar to the Company objective or which may assist the Company to achieve its objectives in Kuwait or abroad. It may buy these entities or take it as its subsidiaries.
- ▶ The Company may invest its available excess funds through portfolios managed by specialised companies and parties. The Company may also pledge the Company’s properties, provide guarantees, make loans and lend to subsidiaries, associates and companies in which the Company’s ownership is 5% or more.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The financial statements have been prepared on a historical cost basis except for investment securities that are measured at fair value. The financial statements have been presented in Kuwaiti Dinars (‘KD’), which is also the functional and presentation currency of the Company.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2.1 New standards, interpretations, and amendments adopted by the Company

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial information of the Company.

Amendments to IFRS 3: *Definition of a Business*

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.1 New standards, interpretations, and amendments adopted by the Company (continued)

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 financial statements of, nor is there expected to be any future impact to the Company.

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 financial statements of the Company.

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

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

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

2.2.2 Summary of accounting policies for new transactions and events

Government grants

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become 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 in March 2018 without significantly changing its requirements.

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

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

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

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

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

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

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

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

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by 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 Company 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 Company.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

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

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

A specific adaptation for contracts with direct participation features (the variable fee approach)

A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4.1 Revenue recognition

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements since it typically controls the good before transferring them to the customer.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when control of the goods is transferred to the customer, generally on delivery of the goods.

2.4.2 Interest income

Interest income is recognised in the statement of profit or loss for all interest-bearing financial instruments using the effective interest method.

2.4.3 Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

The Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associate, subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

Zakat

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

2.4.4 Dividend income

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

2.4.5 Dividend distribution

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company.

- ▶ Interim dividends to shareholders are recognised when declared by the directors after obtaining the necessary pre-approvals.
- ▶ Final dividends are recognised when the distribution is authorised when it is approved by the shareholders at the AGM.

2.4.6 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- ▶ Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- ▶ Held primarily for the purpose of trading;
- ▶ Expected to be realised 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 Company classifies all other assets as non-current.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.6 Current versus non-current classification (continued)

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 Company classifies all other liabilities as non-current.

2.4.7 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and capital work in progress are not depreciated. Following completion, capital work in progress is transferred into the relevant class of property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- ▶ Building on a leasehold land 20 years
- ▶ Machinery, equipment and tools 10 years
- ▶ Operation patterns 5-6 years
- ▶ Motor vehicles 3-5 years
- ▶ Furniture and office equipment 4-5 years

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in the statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

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

2.4.8 Inventories

Inventories are valued at the lower of cost and net realisable value after providing allowances for any obsolete or slow-moving items. Costs comprise direct materials and where applicable, direct labour 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 realisable 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 realisable value.

2.4.9 Investment in an associate

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

The Company's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.9 Investment in an associate (continued)

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

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the profit or loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' in the statement of profit or loss.

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

The Company's share of losses of an associate is recognised only until the carrying amount of the Company's equity interest in the associate is reduced to zero. After the Company's interest is reduced to zero, a liability is recognised only to the extent that the Company has an obligation to fund the associate's operations, or has made payments on behalf of the associate.

2.4.10 Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and initial measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Initial recognition and initial measurement (continued)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

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

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

a) Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

d) Financial assets at fair value through profit or loss

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

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

Derecognition

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

- ▶ The rights to receive cash flows from the asset have expired; or
- ▶ The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Derecognition (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment

The Company recognises allowance for Expected Credit Losses (ECL) for all debt instruments not held at fair value through profit or loss as follows:

- ▶ Trade and other receivables and bank balances
- ▶ Loans and advances

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

ii) Financial liabilities

Initial recognition and measurement

The Company's financial liabilities include trade and other payables.

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

Subsequent measurement

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

- ▶ Financial liabilities at fair value through profit or loss
- ▶ Financial liabilities at amortised cost

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Financial instruments - initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Financial liabilities at amortised cost

Accounts payable and accruals

Accounts payable and accruals are recognised for amounts to be paid in the future for services received, whether billed by the supplier or not.

Derecognition

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

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

iii) Offsetting of financial instruments

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

2.4.11 Impairment of non-financial assets

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.12 Employees' end of service benefits

The Company provides end of service benefits to all its employees under the Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Further, with respect to its national employees, the Company also makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

2.4.13 Provisions

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

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

2.4.14 Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or statement of profit or loss, respectively). Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

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

2.4.15 Contingencies

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

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

2.4.16 Segment information

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.17 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

2.4.18 Events after the reporting period

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Significant judgements

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

Classification of financial assets

The Company determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Company also applies judgment to assess if there is a change in business model in circumstances when the assets within that business model are realised differently than the original expectations.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.1 Significant judgements

Going concern assessment

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the necessary resources to continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

Fair value measurement

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

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- ▶ Recent arm's length market transactions;
- ▶ Current fair value of another instrument that is substantially the same;
- ▶ An earnings multiple;
- ▶ The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- ▶ Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

Provision for impairment of inventories

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

Impairment of trade and other receivables

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

Kuwait Foundry Company K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

4 PROPERTY, PLANT AND EQUIPMENT

	<i>Building on a leasehold land*</i> <i>KD</i>	<i>Machinery, equipment and tools</i> <i>KD</i>	<i>Operation patterns</i> <i>KD</i>	<i>Motor vehicles</i> <i>KD</i>	<i>Furniture and office equipment</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Cost						
As at 1 January 2019	2,081,390	4,471,060	1,244,684	124,564	141,099	8,062,797
Additions	-	2,210	12,256	-	2,216	16,682
Disposals	-	-	(42,146)	-	(12,609)	(54,755)
At 31 December 2019	2,081,390	4,473,270	1,214,794	124,564	130,706	8,024,724
Additions	-	120	9,401	-	5,397	14,918
Disposals	-	(5,471)	(16,057)	-	(3,488)	(25,016)
At 31 December 2020	2,081,390	4,467,919	1,208,138	124,564	132,615	8,014,626
Depreciation						
As at 1 January 2019	1,786,828	4,444,186	1,244,684	117,117	136,164	7,728,979
Depreciation charge for the year	1,681	6,863	12,256	3,015	5,665	29,480
Disposals	-	-	(42,146)	-	(12,609)	(54,755)
At 31 December 2019	1,788,509	4,451,049	1,214,794	120,132	129,220	7,703,704
Depreciation charge for the year	1,629	8,677	9,401	3,015	3,807	26,529
Disposals	-	(5,471)	(16,057)	-	(3,488)	(25,016)
At 31 December 2020	1,790,138	4,454,255	1,208,138	123,147	129,539	7,705,217
Net book value						
At 31 December 2020	291,252	13,664	-	1,417	3,076	309,409
At 31 December 2019	292,881	22,221	-	4,432	1,486	321,020

* The Company's building is constructed on a leasehold land granted by the Public Authority of Industry (PAI), which will expire on 1 November 2021. Management believes that it is reasonably certain to renew the lease for a similar term.

Kuwait Foundry Company K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

4 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation included in the statement of profit or loss is allocated, as follows:

	2020 KD	2019 KD
Cost of sales	24,448	28,034
General and administrative expenses (Note 17)	2,081	1,446
	<u>26,529</u>	<u>29,480</u>

Fair value disclosure

The Company complies with the real estate valuation procedures set out in Module 11 “Dealing in Securities” of the CMA Executive Bylaws, which requires valuations of local real estate properties classified as property, plant and equipment to be determined by at least two independent, registered and accredited real estate appraisers provided that one of them is a local bank and that the lower value is taken into account. The fair value of the leasehold land and building as at 31 December 2020 determined based on valuations carried out by the respective appraisers using the market comparison approach amounted to KD 28,235,000 (31 December 2019: KD 27,796,094).

Significant increase (decrease) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis.

5 INVESTMENT IN AN ASSOCIATE

The Company has 50% interest in Egyptian Kuwaiti Foundry Company S.A.E (“EKF”), an associate involved in the casting and molding of iron products. The Company’s interest in the associate is accounted for using the equity method. The above associate is a private entity that is not listed on any stock exchange; therefore, no quoted market prices are available for its shares.

A reconciliation of the above summarised financial information to the carrying amount of the associate is set out below:

	2020 KD	2019 KD
As at 1 January	1,358,508	1,509,945
Share of loss	-	(288,678)
Foreign currency translation adjustments	93,198	137,241
Loan capitalised (Note 7)	612,502	-
Impairment loss	(2,064,208)	-
As at 31 December	<u>-</u>	<u>1,358,508</u>

Impairment assessment of the associate

Given the substantial economic downturn that is predicted from the immediate impacts of the COVID-19 pandemic, management determined based on the current market conditions and near-term prospects of the associate that the Company’s investment in EKF is impaired, and accordingly, the Company recorded a full impairment for the remaining carrying value of the investment in the associate.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Unquoted equity investments	10,835,996	15,294,219
	10,835,996	15,294,219

Disposal of equity investments

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. Since 1 January 2020, the Company has redeemed its shares in an unquoted security. The shares sold had a fair value of KD 122,468, and the Company realised a loss of KD 40,482 which had already been included in OCI. This loss has been transferred to retained earnings.

The hierarchy of determining and disclosing the fair values of the investment securities by valuation techniques is presented in Note 24.

7 LOANS AND ADVANCES

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Loan to an associate (Note 21)	-	299,952
	-	299,952

Loan to an associate

On 6 August 2017, the Company entered into an agreement with other investors to finance the associate an amount of USD 4,000,000 relating to trade purchase and working capital commitments by the associate, for which the Company's share of the loan is USD 2,000,000.

In 2017, the Company granted the associate an amount of USD 1,000,000. On 16 February 2020, the Company advanced the remaining balance of USD 1,000,000.

During the year ended 31 December 2020, the Company forgave the debt to the associate. As a result, the forgiveness of debt is treated as an equity contribution in the associate (Note 5) and the previously recognised allowance for expected credit losses of KD 3,098 relating to the amounts owed by the associate has been reversed.

For terms and conditions of transactions with related parties, refer to Note 21.

Kuwait Foundry Company K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

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8 INVENTORIES

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Raw materials and spare parts	1,009,114	1,088,962
Finished goods	1,325,008	1,288,127
Goods in transit	24,314	-
	<u>2,358,436</u>	<u>2,377,089</u>

During the year ended 31 December 2020, KD 328,683 (2019: KD 638,701) was recognised as an expense for inventories. This is recognised in cost of sales.

9 TRADE AND OTHER RECEIVABLES

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Trade receivables	81,493	214,170
Less: Allowance for expected credit losses	(50,107)	(50,107)
	<u>31,386</u>	<u>164,063</u>
Staff receivables	31,710	42,077
Refundable deposits	9,583	9,483
Prepaid expenses	14,013	11,299
Other receivables	9,731	6,588
	<u>96,423</u>	<u>233,510</u>

Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Note 23 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Company's trade receivables. Other classes within accounts receivable do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

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

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
At 1 January	50,107	862
Allowance recognised in profit or loss during the year	-	49,245
	<u>50,107</u>	<u>50,107</u>

Kuwait Foundry Company K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Unquoted investments	-	1,176,528
	<u>-</u>	<u>1,176,528</u>

Distributions in-kind

The shareholder of the Company in the ordinary general assembly meeting held on 7 December 2020 resolved to distribute the Company's entire stake in an unquoted equity investment, namely Bawabat Al Kuwait Holding K.S.C.C. (i.e. 10 million shares carried at KD 2,000,000) to the shareholders pro-rated to their shareholding in the Company).

The hierarchy of determining and disclosing the fair values of the investment securities by valuation techniques is presented in Note 24.

11 CASH AND CASH EQUIVALENTS

For the purpose of statement of cash flows, cash and cash equivalents comprise the following:

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Cash at banks	1,113,658	2,299,991
Total cash and cash equivalents	<u>1,113,658</u>	<u>2,299,991</u>

At 31 December 2020, the Company had available KD 750,000 (31 December 2019: KD 750,000) of undrawn committed overdraft facilities.

12 SHARE CAPITAL

	<i>Number of shares</i>		<i>Authorised, issued and fully paid</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Shares of 100 fils each (paid in cash)	<u>72,325,590</u>	<u>72,325,590</u>	<u>7,232,559</u>	<u>7,232,559</u>

The Company's Board of Directors in their meeting held on 11 June 2019 proposed the reduction of authorised, issued and paid-up share capital of the Company from KD 15,388,423 to KD 7,232,559 and distributing the reduction amount of KD 8,155,864 to the shareholders pro-rated to their shareholding in the Company. This proposal has been approved by the shareholders at the EGM held on 28 July 2019. The capital reduction was authenticated in the commercial register on 19 August 2019 under registration number 12194.

13 SHARE PREMIUM

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

For details of movement in share premium during the year, refer to Note 26.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

14 RESERVES**a) Statutory reserve**

In accordance with the Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before tax and directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Company's board of directors. The annual general assembly of the Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

For details of movement in the reserve during the year, refer to Note 26.

b) Voluntary reserve

In accordance with the Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before tax and directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve. In 1998, the AGM of the shareholders resolved to discontinue transfers to the voluntary reserve.

For details of movement in the reserve during the year, refer to Note 26.

15 TRADE AND OTHER PAYABLES

	2020	2019
	KD	KD
Trade payables	21,016	23,872
Advances from customers	96,388	137,619
Accrued expenses	25,760	50,383
Board of Directors' remuneration payable	-	30,000
Kuwait Foundation for the Advancement of Sciences ("KFAS") payable	72,886	72,886
Zakat payable	1,019	65,157
National Labour Support Tax ("NLST") payable	25,218	201,871
Dividends and distributions payable	570,357	855,827
Other payables	62,248	37,437
	874,892	1,475,052

Terms and conditions of the above financial liabilities:

- ▶ Trade payables are non-interest bearing and are normally settled on 90-day terms
- ▶ Other payables are non-interest bearing and have an average term of six months

For explanation on the Company's liquidity risk management processes, refer to Note 23.

16 SELLING AND MARKETING EXPENSES

	2020	2019
	KD	KD
Staff costs	13,404	22,419
Sales commission	-	3,188
Outlet expenses	4,800	1,280
Other expenses	7,663	18,968
	25,867	45,855

Kuwait Foundry Company K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

17 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Staff costs	127,010	324,568
Professional fees	25,000	16,375
Depreciation of property, plant and equipment (Note 4)	2,081	1,446
Portfolio management fees	-	12,266
Maintenance expenses	2,038	1,939
Other expenses	50,262	46,816
	<u>206,391</u>	<u>403,410</u>

18 NET INVESTMENT INCOME

	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Dividend income	72,770	924,489
Changes in fair value of financial assets at fair value through profit or loss	1,039,250	1,451
Gain on sale of financial assets at fair value through profit or loss	-	35,854
	<u>1,112,020</u>	<u>961,794</u>

19 BASIC AND DILUTED EARNINGS PER SHARE (EPS)

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

	<i>2020</i>	<i>2019</i>
(Loss) profit for the year (KD)	<u>(673,278)</u>	<u>894,912</u>
Weighted average number of shares outstanding during the year (shares)	<u>89,460,801</u>	<u>90,933,524</u>
Basic and diluted earnings per share (Fils)	<u>(7.53)</u>	<u>9.84</u>

In accordance with International Accounting Standard IAS 33: "Earnings Per Share", the prior year comparative information has been restated as a result of the reduction in share capital (Note 12). EPS for year ended 31 December 2019 was 10.64 fils before the retrospective adjustment to the weighted average number of shares following the reduction in share capital.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

20 COMMITMENTS AND CONTINGENCIES**20.1 Operating lease commitments – Company as a lessee**

The Company has entered into operating lease for the leasehold land with a lease term of five years, which is renewable indefinitely, head office space for the Company and certain machinery and equipment.

At the reporting date, the future minimum rentals payable under non-cancellable operating leases is as follows:

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Future minimum lease payments:		
Within one year	25,943	44,474
After one year but not more than five years	-	25,943
	25,943	70,417

20.2 Contingent liabilities

At 31 December 2020, the Company had contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 22,150 (2019: KD 22,150).

21 RELATED PARTY DISCLOSURES

The Company's related parties include its associates and joint ventures, major shareholders, entities under common control, directors and executive officers of the Company, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Company's management.

The following table shows the aggregate value of transactions and outstanding balances with related parties:

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Statement of financial position		
Loans and advances (associate) – Note 7	-	299,952
Statement of profit or loss		
Revenue from contracts with customers	15,991	32,715

Terms and conditions of transactions with related parties

Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash, there have been no guarantees provided or received for any related party receivables or payables.

Transactions with key management personnel

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The aggregate value of transactions and outstanding balances related to key management personnel were as follows.

	<i>Transaction values for the year ended 31 December</i>		<i>Balance outstanding as at 31 December</i>	
	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Salaries and other short-term benefits	73,146	352,418	16,320	16,320
Post-employment benefits	5,135	19,379	49,565	44,430
	78,281	371,797	65,885	60,750

The Board of Directors of the Company did not propose a directors' remuneration for the year ended 31 December 2020 (2019: KD 30,000).

Kuwait Foundry Company K.S.C.P.

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As at and for the year ended 31 December 2020

22 SEGMENT INFORMATION

For management purposes, the Company is organised into business units based on its products and services and has two reportable segments, as follows:

- ▶ Manufacturing: which represents the manufacturing of iron and other metal products.
- ▶ Investment: which represents the Company's investments in securities and investment units to utilise the Company's financial surplus.

The following tables present revenue and profit information for the Company's operating segments for the year ended 31 December 2020 and 31 December 2019, respectively:

	<i>Manufacturing KD</i>	<i>Investment KD</i>	<i>Unallocated KD</i>	<i>Total KD</i>
<i>As at 31 December 2020</i>				
Total assets	2,718,546	10,835,996	1,159,378	14,713,922
Total liabilities	179,653	-	923,861	1,103,514
<i>Year ended 31 December 2020</i>				
Revenue	1,208,836	1,116,924	19,396	2,345,156
Segment profit (loss)	461,001	(947,284)	(186,995)	(673,278)
Depreciation	24,448	-	2,081	26,529
Impairment loss on investment in an associate	-	(2,064,208)	-	(2,064,208)
<i>As at 31 December 2019</i>				
Total assets	2,871,654	18,129,207	2,359,956	23,360,817
Total liabilities	198,928	-	1,555,344	1,754,272
<i>Year ended 31 December 2019</i>				
Revenue	1,906,063	1,172,176	259,706	3,337,945
Segment profit (loss)	716,777	883,498	(705,363)	894,912
Depreciation	(28,034)	-	(1,446)	(29,480)
Share of results of an associate	-	(288,678)	-	(288,678)
Other disclosures: Investment in an associate	-	1,358,508	-	1,358,508

Geographical information

The Company derives revenue from the transfer of goods at a point in time and predominantly in Kuwait.

The majority of the Company's non-current assets are located in Kuwait, except for unquoted equity securities of KD 10,746,196 which are domiciled in the Kingdom of Bahrain.

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23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Company's Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. No significant changes were made in the risk management objectives and policies during the years ended 31 December 2020 and 31 December 2019. The management of the Company reviews and agrees policies for managing each of these risks which are summarised below:

23.1 Credit risk

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Trade receivables	31,386	164,063
Other receivables	65,037	69,447
Loans and advances	-	299,952
Cash and short-term deposits	1,113,658	2,299,991
	1,210,081	2,833,453

Trade receivables

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment. At 31 December 2020, 40% (2019: 59%) of the Company's trade receivables are covered by letters of credit and other forms of credit insurance. These credit enhancements obtained by the Company resulted in a decrease in the ECL of KD 32,892 as at 31 December 2020 (2019: KD 40,000).

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

	<i>Trade receivables</i>				<i>Total</i> <i>KD</i>
	<i>Current</i> <i>KD</i>	<i>Days past due</i>			
	<i><90 days</i> <i>KD</i>	<i>91-180 days</i> <i>KD</i>	<i>>180 days</i> <i>KD</i>		
31 December 2020					
Expected credit loss rate	-	-	10%	84%	
Estimated gross carrying amount at default	1,381	6,773	15,199	58,140	81,493
Estimated credit loss	-	-	(1,508)	(48,599)	(50,107)

Kuwait Foundry Company K.S.C.P.

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23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

23.1 Credit risk (continued)

	<i>Trade receivables</i>				<i>Total KD</i>
	<i>Current KD</i>	<i>Days past due</i>			
	<i><90 days KD</i>	<i>91-180 days KD</i>	<i>>180 days KD</i>		
<i>31 December 2019</i>					
Expected credit loss rate	-	17%	30%	43%	
Estimated gross carrying amount at default	41,621	83,433	18,426	70,690	214,170
Estimated credit loss	-	(14,030)	(5,512)	(30,565)	(50,107)

Cash and cash equivalents and term deposits

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

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Other receivables

Other receivables are considered to have a low risk of default and management believes that the counterparties have a strong capacity to meet contractual cash flow obligations in the near term. As a result, the impact of applying the expected credit risk model at the reporting date was immaterial.

23.2 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a regular basis and periodically assess the financial viability of the receivables.

The Company's terms of sales require amounts to be paid within 30-90 days of the date of sale. Trade payables are normally settled within 30-90 days of the date of purchase. The maturity profile is monitored by the Company's management to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December, based on contractual undiscounted payments:

<i>At 31 December 2020</i>	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>More than 12 months KD</i>	<i>Total KD</i>
Accounts payable and accruals*	<u>16,747</u>	<u>719,330</u>	<u>-</u>	<u>736,077</u>
<i>At 31 December 2019</i>	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>More than 12 months KD</i>	<i>Total KD</i>
Accounts payable and accruals*	<u>20,342</u>	<u>873,737</u>	<u>-</u>	<u>894,079</u>

* Accounts payable and accruals exclude provisions and advances from customers.

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

23.3 Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign currency exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market. Financial instruments affected by market risk include managed funds.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short-term changes in fair value.

23.3.1 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Company's investment portfolio.

The Company's listed and non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to non-listed investments at fair value was KD 10,835,996. Sensitivity analyses of these investments have been provided in Note 24.

23.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial instruments, which potentially subject the Company to interest rate risk, consist principally of cash and cash equivalents and term deposits. The Company's term deposits are short-term in nature and yield interest at commercial rates. Therefore, the Company believes there is minimal risk of significant losses due to interest rate fluctuations.

As at the reporting date, the Company does not hold interest bearing liabilities.

23.3.3 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company incurs foreign currency risk on transactions denominated in a currency other than the KD. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency).

The Company currently does not use financial derivatives to manage its exposure to currency risk. The Company manages its foreign currency risk based on the limits determined by management and a continuous assessment of the Company's open positions, current and expected exchange rate movements. The Company ensures that its net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

Exposure to currency risk

The Company incurs foreign currency risk on dealing with certain financial assets and that are denominated in a currency other than Kuwaiti Dinar. The currency giving rise to this risk is primarily US Dollar. At the reporting date, the Company's net exposure in foreign currency in US Dollar is KD Nil (2019: KD 1,000,000).

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

**23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)****23.3 Market risk (continued)****23.3.3 Foreign currency risk (continued)***Foreign exchange rate sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in exchange rates, with all other variables constant.

Currency	Change in exchange rate	Effect on profit	
		2020 KD	2019 KD
US Dollars	5%	-	15,150

24 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

24 FAIR VALUE MEASUREMENT (continued)

Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	<i>Non-listed equity investments</i>		
	<i>Financial assets at FVOCI</i>	<i>Financial assets at FVTPL</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
31 December 2020			
As at 1 January 2019	15,294,219	1,176,528	16,470,747
Remeasurement recognised in OCI	(4,332,239)	-	(4,332,239)
Capital redemption	(122,468)	-	(122,468)
Purchases / sales (net)	(3,516)	(215,778)	(219,294)
Distribution in-kind (Note 10)	-	(2,000,000)	(2,000,000)
Remeasurement recognised in profit or loss	-	1,039,250	1,039,250
As at 31 December 2020	<u>10,835,996</u>	<u>-</u>	<u>10,835,996</u>
31 December 2019			
As at 1 January 2019	15,978,783	1,176,528	17,155,311
Remeasurement recognised in OCI	(684,564)	-	(684,564)
Remeasurement recognised in profit or loss	-	-	-
As at 31 December 2019	<u>15,294,219</u>	<u>1,176,528</u>	<u>16,470,747</u>

Description of significant unobservable inputs to valuation of financial assets:

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

	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>	<i>Range (weighted average)</i>	<i>Sensitivity of the input to fair value</i>
<i>FVOCI</i>				
Unquoted securities	Market multiple approach	Sector PBV multiple	1.09 (1.09)	10% increase (decrease) in the Sector PBV multiple would result in an increase (decrease) in fair value by KD 8,652
	Market multiple approach / DCF	DL0M	15% - 40%	10% increase (decrease) in the DL0M would result in (decrease) increase in fair value by KD 1,422,996
		WACC	15.1%	1% increase (decrease) in the WACC would result in an (decrease) increase in fair value by KD 1,544,385
	DCF	Terminal growth rate	2.25%	1% increase / (decrease) in the terminal growth rate would result in an (decrease) / increase in fair value by KD 530,993

* Discount for lack of marketability ("DL0M") represents the amounts that the Company has determined that market participants would take into account when pricing the investments.

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As at and for the year ended 31 December 2020

25 CAPITAL MANAGEMENT

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 2019. Capital represents equity attributable to equity holders of the Company and is measured at KD 13,610,408 as at 31 December 2020 (2019: KD 21,606,545).

26 DISTRIBUTIONS MADE AND PROPOSED

	<i>31 December</i>	
	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Cash dividends and distributions to the equity holders of the Company		
Dividends on ordinary shares declared and paid:		
Final dividends for 2019: 15 fils per share (2018: 8 fils per share) *	1,084,883	1,231,074
Interim dividends for 2020: 27.66 fils (2019: 40 fils per share) **	2,000,000	2,893,020
	1,084,883	4,124,094
Distribution of equity reserves ***	-	10,921,164

* The Board of Directors in their meeting held on 29 March 2020, proposed a cash dividend of 15% (2018: 8%) of the paid-up share capital (15 fils per share aggregating to KD 1,084,883) for the year ended 31 December 2019 (2018: 8 fils per share aggregating to KD 1,231,074). The proposed dividend for the year ended 31 December 2019 has been approved by the shareholders at the AGM held on 6 May 2020.

** The Company's Board of Directors in their meeting held on 12 November 2020 proposed an in-kind distribution of 27.66 fils per share aggregating to KD 2,000,000 (2019: cash dividend distribution of 40 fils per share aggregating to KD 2,893,020). This proposal has been approved by the shareholders at the ordinary general assembly held on 7 December 2020.

*** The Company's Board of Directors in their meeting held on 11 June 2019 proposed distributing equity reserves of KD 10,921,164 through partially utilising the statutory reserve and share premium amounting to KD 1,847,192 and KD 9,073,972, respectively. This proposal has been approved by the shareholders at the AGM held on 28 July 2019.

27 DEPRECIATION, STAFF COSTS, LEASE PAYMENTS AND COST OF INVENTORIES

	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Included in cost of sales:		
Depreciation	24,448	28,034
Staff costs	215,869	274,180
Expense relating to short-term leases	43,867	42,143
Costs of inventories recognised as an expense	328,683	638,701
Included in administrative expenses:		
Depreciation	2,081	1,446
Staff costs	127,010	324,568
Included in selling and marketing expenses:		
Staff costs	13,404	22,419

28 GOVERNMENT GRANT

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

During the year, the Company has received financial support amounting to KD 4,568, which is accounted for in accordance with IAS 20 '*Accounting for Government Grants and Disclosures of Government Assistance*' and is recognised in the statement of profit or loss within 'other income'.

29 IMPACT OF COVID-19 OUTBREAK

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

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

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

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

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

Trade and other receivables

The Company was required to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These were primarily related to adjusting the forward-looking estimates used by the Company in the estimation of ECL as the segmentation applied in previous periods may no longer be appropriate and may need to be revised to reflect the different ways in which the COVID-19 outbreak affects different types of customers. The Company will continue to assess impact of the pandemic as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

Impairment of non-financial assets

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

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

29 IMPACT OF COVID-19 OUTBREAK (continued)

Fair value measurement

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

Going concern assessment

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

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