

**MUBARRAD HOLDING COMPANY - K.S.C.P.  
AND ITS SUBSIDIARIES  
STATE OF KUWAIT  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
WITH  
INDEPENDENT AUDITOR'S REPORT**

MUBARRAD HOLDING COMPANY - K.S.C.P.  
AND ITS SUBSIDIARIES  
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
WITH  
INDEPENDENT AUDITORS' REPORT

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Independent auditor's report

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[www.rsm.global/kuwait](http://www.rsm.global/kuwait)**INDEPENDENT AUDITOR'S REPORT**To the Shareholders of  
Mubarrad Holding Company - K.S.C.P. and its Subsidiaries  
State of Kuwait**Report on the Audit of the Consolidated Financial Statements****Opinion**

We have audited the consolidated financial statements of Mubarrad Holding Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with the (IESBA Code). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

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

**Valuation of investment properties**

Investment properties as at December 31, 2019 amounting to KD 13,967,371 represent a significant part of the Group's total assets. The valuation of investment properties is a key audit matter because it contains significant judgments and assumptions that are highly reliant on estimates. The Group's policy is to evaluate investment properties at least once a year through licensed external valuers. These assessments, among other valuations, are based on assumptions such as estimated rental income, discount rates, occupancy rates, market knowledge, developer risks and historical transactions. For the purpose of estimating the fair value of investment properties, valuers had used income capitalization and sales comparison valuation techniques, taking into consideration the nature and use of investment properties. We have reviewed the valuation reports issued by the licensed external valuers and have focused on the adequacy of disclosures of investment properties as provided in Note 9 to the consolidated financial statements.



### **Other Information included in the Annual Report of the Group for the year ended December 31, 2019**

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditors' report thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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


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

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

#### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, and its Executive Regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended December 31, 2019 that might have had a material effect on the business of the Parent Company or on its financial position.

State of Kuwait  
February 13, 2020

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

**MUBARRAD HOLDING COMPANY - K.S.C.P. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2019**  
(All amounts are in Kuwaiti Dinars)

	<u>ASSETS</u>	Notes	2019	2018
<b>Current assets:</b>				
Cash and cash equivalents		3	3,022,061	3,743,823
Accounts receivable and other debit balances		4	1,139,297	1,107,904
Due from a related party		5	-	10,214
Inventories		6	605,317	580,839
<b>Total current assets</b>			<b>4,766,675</b>	<b>5,442,780</b>
<b>Non-current assets:</b>				
Financial assets at fair value through profit or loss		7	887,889	901,910
Investment in associate		8	3,784,469	3,866,830
Investment properties		9	13,967,371	13,217,854
Property, plant and equipment		10	1,488,921	1,518,134
Goodwill			91,005	91,005
<b>Total non-current assets</b>			<b>20,219,655</b>	<b>19,595,733</b>
<b>Total assets</b>			<b>24,986,330</b>	<b>25,038,513</b>
 <u>LIABILITIES AND EQUITY</u>				
<b>Current liabilities:</b>				
Lease liabilities		11	2,405,522	2,502,692
Accounts payable and other credit balances		12	1,344,366	1,429,163
Due to a related party		5	655	655
<b>Total current liabilities</b>			<b>3,750,543</b>	<b>3,932,510</b>
<b>Non-current liabilities</b>				
Lease liabilities		11	27,068	499,844
Provision for end of service indemnity		13	487,371	429,689
<b>Total non-current liabilities</b>			<b>514,439</b>	<b>929,533</b>
<b>Total liabilities</b>			<b>4,264,982</b>	<b>4,862,043</b>
<b>Equity:</b>				
Share capital		14	16,369,277	16,369,277
Statutory reserve		15	1,064,121	955,086
Treasury shares		17	(671)	(476,135)
Treasury shares reserve			84,388	84,388
Other components of equity			(3,594)	(3,594)
Effect of changes in other comprehensive income of associate			117,874	117,874
Foreign currencies translation reserve			(1,458,221)	(1,768,988)
Retained earnings			4,491,956	4,841,265
<b>Equity attributable to Shareholders of the Parent Company</b>			<b>20,665,130</b>	<b>20,119,173</b>
Non-controlling interests			56,218	57,297
<b>Total equity</b>			<b>20,721,348</b>	<b>20,176,470</b>
<b>Total liabilities and equity</b>			<b>24,986,330</b>	<b>25,038,513</b>

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements.

Abdullah Mohammed Al-Shatti  
Chairman



**MUBARRAD HOLDING COMPANY - K.S.C.P. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
(All amounts are in Kuwaiti Dinars)

	Notes	2019	2018
Sales		912,436	1,108,564
Cost of sales		(779,887)	(870,929)
Gross profit		132,549	237,635
Revenues from transportation, leasing and maintenance operations		483,355	731,002
Cost of transportation, leasing and maintenance operations		(399,684)	(527,148)
Gross profit		83,671	203,854
Rental revenues		1,746,119	1,340,838
Rental costs		(247,229)	(250,736)
Gross profit		1,498,890	1,090,102
<b>Total gross profit</b>		<b>1,715,110</b>	<b>1,531,591</b>
General and administrative expenses	18	(769,063)	(688,300)
Depreciation	10	(44,842)	(36,270)
Net provision for doubtful debts no longer required (charged)	4	9,592	(9,442)
Net provision for slow moving inventories	6	-	(1,018)
<b>Profit from operations</b>		<b>910,797</b>	<b>796,561</b>
Net investment (loss) income		(12,764)	148,420
Share of results from associate	8	(79,761)	32,633
Change in fair value of investment properties	9	279,510	682,000
Return income		50,283	73,241
Finance charges		(189,210)	(214,836)
Foreign exchange gain		85,853	(3,344)
Other income		48,840	300,455
<b>Profit for the year before contributions to Kuwait Foundation for the Advancement of Science (KFAS), National Labor Support Tax (NLST), Zakat and Board of Directors' remuneration</b>		<b>1,093,548</b>	<b>1,815,130</b>
Contribution to KFAS	2(t)	(8,245)	(13,303)
Contribution to NLST	2(u)	(27,969)	(46,099)
Contribution to Zakat	2(v)	(9,501)	(15,917)
Board of Directors' remuneration	21	(30,000)	(30,000)
<b>Profit for the year</b>		<b>1,017,833</b>	<b>1,709,811</b>
<u>Attributable to</u>			
Shareholders of the Parent Company		1,014,632	1,668,373
Non-controlling interests		3,201	41,438
		<b>1,017,833</b>	<b>1,709,811</b>
		<b>Fils</b>	<b>Fils</b>
<b>Basic and diluted earnings per share attributable to Shareholders of the Parent Company</b>	19	<b>6.28</b>	<b>10.30</b>

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements.



**MUBARRAD HOLDING COMPANY - K.S.C.P. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

(All amounts are in Kuwaiti Dinars)

	2019	2018
Profit for the year	<u>1,017,833</u>	<u>1,709,811</u>
<b>Other comprehensive income:</b>		
<b><u>Item that may be reclassified subsequently to consolidated statement of profit or loss</u></b>		
Exchange differences on translating foreign operations	<u>310,767</u>	<u>16,956</u>
<b>Other comprehensive income for the year</b>	<u>310,767</u>	<u>16,956</u>
<b>Total comprehensive income for the year</b>	<u><u>1,328,600</u></u>	<u><u>1,726,767</u></u>
Attributable to:		
Shareholders of the Parent Company	<u>1,325,399</u>	<u>1,685,329</u>
Non-controlling interests	<u>3,201</u>	<u>41,438</u>
	<u><u>1,328,600</u></u>	<u><u>1,726,767</u></u>

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements.

**MUBARRAD HOLDING CO. K.S.C.P. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
(All amounts are in Kuwaiti Dinars)

	Equity attributable to shareholders of the Parent Company											
	Effects of changes in											
	Share Capital	Statutory reserve	Treasury shares	Treasury shares reserve	Cumulative changes in fair value	Other components of equity	comprehensive income of associate	Foreign currencies translation reserve	Retained earnings	Sub-total	Non – controlling interests	Total equity
Balance at December 31, 2018	16,369,277	955,086	(476,135)	84,388	-	(3,594)	117,874	(1,768,988)	4,841,265	20,119,173	57,297	20,176,470
Profit for the year	-	-	-	-	-	-	-	-	1,014,632	1,014,632	3,201	1,017,833
Other comprehensive income for the year	-	-	-	-	-	-	-	310,767	-	310,767	-	310,767
Total comprehensive income for the year	-	-	-	-	-	-	-	310,767	1,014,632	1,325,399	3,201	1,328,600
Dividends in-kind - 5% (Note 20)	-	-	475,464	-	-	-	-	-	(475,464)	-	-	-
Cash dividends - 5% (Note 20)	-	-	-	-	-	-	-	-	(779,442)	(779,442)	-	(779,442)
Cash dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(4,280)	(4,280)
Transferred to statutory reserve	-	109,035	-	-	-	-	-	-	(109,035)	-	-	-
Balance at December 31, 2019	16,369,277	1,064,121	(671)	84,388	-	(3,594)	117,874	(1,458,221)	4,491,956	20,665,130	56,218	20,721,348
Balance at December 31, 2017	16,369,277	777,717	-	84,388	15,072	1,588	117,874	(1,785,944)	4,089,333	19,669,305	57,351	19,726,656
Impact of adoption of IFRS 9 at January 1, 2018	-	-	-	-	(15,072)	(5,182)	-	-	79,392	59,138	(61)	59,077
Balance as at January 1, 2018 (Restated)	16,369,277	777,717	-	84,388	-	(3,594)	117,874	(1,785,944)	4,168,725	19,728,443	57,290	19,785,733
Profit for the year	-	-	-	-	-	-	-	-	1,668,373	1,668,373	41,438	1,709,811
Other comprehensive income for the year	-	-	-	-	-	-	-	16,956	-	16,956	-	16,956
Total comprehensive income for the year	-	-	-	-	-	-	-	16,956	1,668,373	1,685,329	41,438	1,726,767
Purchase of treasury shares	-	-	(476,135)	-	-	-	-	-	-	(476,135)	-	(476,135)
Cash dividends - 5% (Note 20)	-	-	-	-	-	-	-	-	(818,464)	(818,464)	-	(818,464)
Cash dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(41,431)	(41,431)
Transferred to statutory reserve	-	177,369	-	-	-	-	-	-	(177,369)	-	-	-
Balance at December 31, 2018	16,369,277	955,086	(476,135)	84,388	-	(3,594)	117,874	(1,768,988)	4,841,265	20,119,173	57,297	20,176,470

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements.

**MUBARRAD HOLDING CO. K.S.C.P. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
(All amounts are in Kuwaiti Dinars)

	Notes	2019	2018
<b>Cash flows from operating activities:</b>			
Profit for the year from before contributions to KFAS, NLST, Zakat and Board of Directors' remuneration		1,093,548	1,815,130
Adjustments for:			
Depreciation	10	59,167	53,526
Net provision for doubtful debts (no longer required) charged	4	(9,592)	9,442
Net provision for slow moving inventories		-	1,018
Net investment loss (income)		12,764	(148,420)
Share of results from associate	8	79,761	(32,633)
Change in fair value of investment properties	9	(279,510)	(682,000)
Return income		(50,283)	(73,241)
Finance charges		189,210	214,836
Provision for end of service indemnity	13	71,730	71,542
		<u>1,166,795</u>	<u>1,229,200</u>
Changes in operating assets and liabilities:			
Accounts receivable and other debit balances		(21,801)	763,857
Net movement in related parties		(11,795)	(11,617)
Inventories		(24,478)	181,147
Accounts payable and other credit balances		(64,080)	(503,557)
Cash flows generated from operations		<u>1,044,641</u>	<u>1,659,030</u>
Payment for end of service indemnity	13	(14,048)	(11,729)
Payment of KFAS		(16,008)	(17,413)
Payment of NLST		(48,084)	(48,062)
Payment of Zakat		(18,767)	(18,818)
Payment of Board for Directors' remuneration		(30,000)	(30,000)
<b>Net cash flows generated from operating activities</b>		<u>917,734</u>	<u>1,533,008</u>
<b>Cash flows from investing activities:</b>			
Net increase in investment deposits		-	4,000,000
Proceeds from sale of financial assets at fair value through profit or loss	7	1,257	122,220
Paid for additions of property, plant and equipment	10	(5,540)	(3,390)
Paid for additions of investment properties		-	(2,300,000)
Net paid for acquisition of a subsidiary		-	(958,497)
Dividend income received		-	49,876
Return income received		50,283	59,390
<b>Net cash flows generated from investing activities</b>		<u>46,000</u>	<u>969,599</u>
<b>Cash flows from financing activities:</b>			
Net movement in finance lease installments		(723,763)	255,794
Purchase of treasury shares		-	(476,135)
Dividends paid		(767,295)	(468,669)
Finance charges paid		(137,297)	(211,399)
<b>Net cash flows used in financing activities</b>		<u>(1,628,355)</u>	<u>(900,409)</u>
Foreign currencies translation adjustments		<u>(57,141)</u>	<u>1,503</u>
Net (decrease) increase in cash and cash equivalents		<u>(721,762)</u>	<u>1,603,701</u>
Cash and cash equivalents at beginning of the year		<u>3,743,823</u>	<u>2,140,122</u>
Cash and cash equivalents at end of the year	3	<u>3,022,061</u>	<u>3,743,823</u>

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements.



**MUBARRAD HOLDING COMPANY - K.S.C.P. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

(All amounts are in Kuwaiti Dinars)

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1. Incorporation and activities of the Parent Company

Mubarrad Holding Company K.S.C.P. "the Parent Company", is a Kuwaiti Public Shareholding Company registered in State of Kuwait and was incorporated pursuant to Memorandum of Incorporation of a limited liability Company, authenticated at the Ministry of Justice - Real Estate Registration and Authentication Department – under No. 366/Volume 1 dated March 6, 1996 and its subsequent amendments, the latest of which was notarized on the Company's Commercial Registry pursuant to a Memorandum No. 5/12 dated December 4, 2017 issued from Shareholding Companies' Administration, based on the Parent Company Shareholders' Extraordinary General Assembly meeting held on November 22, 2017.

The main activities for which the Parent Company was incorporated are as follows:

- Managing the Parent Company's subsidiaries and participating in managing other companies in which it holds ownership stakes and providing necessary support thereto.
- Investing funds through trading in shares, bonds, and other financial securities.
- Acquisition of properties and movables necessary to carry out business activities as allowable by the Law.
- Financing and extending loans to investee companies and providing guarantees to third parties, provided that the ownership of the Parent Company is not less than 20% in the capital of the lending company.
- Acquisition of industrial rights and related intellectual properties, trademarks, industrial models, franchises and other rights, and renting such properties and rights to subsidiaries and other companies, inside State of Kuwait or abroad.

The Parent Company shall comply with the provisions of Islamic Sharia, and in no case it shall interpret the above activities as permitting the Parent Company to carry out any usurious business in the form of interest or any other form directly or indirectly.

The Parent Company may perform directly all of the above activities inside or outside the State of Kuwait or through agents on its behalf. The Parent Company may have an interest or participation in entities of similar activities which could assist the Parent Company in achieving its objectives inside or outside the State of Kuwait. The Parent Company may also establish, participate in or acquire such entities.

The Parent Company is registered in the commercial register under Ref. No. 64715 on October 10, 2004.

The registered address of the Parent Company's office is Old Khaitan, Block 29, Street 22, State of Kuwait.

The Parent Company is 39.152% owned by A'ayan Leasing and Investment Group K.S.C. (Public) ("The Ultimate Parent Company").

The consolidated financial statements of the Group were authorized for issue by the Parent Company's Board of Directors on February 13, 2020. The consolidated financial statements are subject to approval by The Parent Company's shareholders' Ordinary General Assembly. The Parent Company's shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant Accounting policies

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

Significant accounting policies are summarized as follows:

a) Basis of preparation

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



The consolidated financial statements are presented in Kuwaiti Dinars which is the functional currency of the Parent Company and are prepared under the historical cost basis, except for financial assets at fair value through profit or loss and Investment properties that are stated at their fair values.

#### **Adoption of new and revised Standards**

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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of January 1, 2019:

##### IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019 and accordingly, the comparative information is not restated.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

#### **Impact on Lessee Accounting**

##### **Former operating leases:**

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet. Applying IFRS 16, for all leases (except as noted below), the Group:

- 1) Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- 2) Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- 3) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated statement of profit or loss.

Lease incentives (e.g. free rent period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortized as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognize a provision for onerous lease contracts.

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(All amounts are in Kuwaiti Dinars)

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the consolidated statement of profit or loss.

**Former finance leases**

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

**Impact on Lessor Accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change, the Group has reclassified certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses has been recognized on the finance lease receivables.

**Financial Impact of initial application of IFRS 16**

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the balance sheet at the date of initial application was 5.5%.

The table below shows the reconciliation of operating lease commitments under IAS 17 as at December 31, 2018 and the lease liabilities recognized in the balance sheet at the date of initial application:

	KD
Undiscounted operating lease commitments under IAS 17 as at December 31, 2018	296,634
Less: Exemption for short term leases	(9,396)
Less: Other adjustments	(180,000)
Undiscounted operating lease commitments transitioned under IFRS 16	107,238
Discounted operating lease commitments transitioned under IFRS 16	97,390
Lease liabilities recognized in the balance sheet as at January 1, 2019	97,390

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current year:

	2019
<b>Impact on profit or loss</b>	
Increase in depreciation and amortization expenses	(8,288)
Increase in finance costs	(5,239)
Decrease in other expenses	46,756
Increase in profit for the year	33,229
<b>Impact on earnings per share</b>	
Increase in earnings per share from continuing operations	0.21



<b>Impact on assets, liabilities and equity as at December 31, 2019</b>	<b>As if IAS 17 still applied KD</b>	<b>IFRS 16 adjustments KD</b>	<b>As presented KD</b>
Property, plant & equipment (Note 10)	-	16,126	16,126
Investment properties (Note 9)	-	77,490	77,490
<b>Net impact on total assets</b>	<b>-</b>	<b>93,616</b>	<b>93,616</b>
Lease liabilities	-	60,387	60,387
<b>Net impact on total liabilities</b>	<b>-</b>	<b>60,387</b>	<b>60,387</b>
<b>Impact on retained earnings</b>	<b>-</b>	<b>33,229</b>	<b>33,229</b>

#### **Group as a lessee**

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. It resulted in a decrease in 'Other expenses' and an increase in depreciation and interest expense.

#### **Group as a lessor**

The Group, as a lessor, has reclassified certain of its sublease agreements as finance lease. The leased assets have been derecognized and finance lease asset receivables have been recognized. This change in accounting changes the timing of recognition of the related revenue (recognized in finance income).

#### **Impact on statement of cash flows**

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group.

Under IFRS 16, lessees must present:

- short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities (the Group has included these payments as part of payments to suppliers and employees);
- cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include interest paid as part of financing activities); and
- cash payments for the principal portion for lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of IFRS 16 did not have an impact on net cash flows.

#### **Amendments to IFRS 9: Prepayment features with negative compensation**

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

#### **Amendments to IAS 28: Long-term interests in associates and joint ventures**

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.



The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28: Investments in Associates and Joint Ventures.

Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

**Annual Improvements 2015 – 2017 Cycle (issued in December 2017)**

**IFRS 3 – Business Combinations**

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

**IFRS 11 – Joint Arrangements**

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

**IAS 23 – Borrowing Costs**

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The amendments do not have any material impact on the consolidated financial statements.

**New and revised IFRS Standards in issue but not yet effective**

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

**Definition of a Business (Amendments to IFRS 3)**

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

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

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

These amendments are not expected to have any material impact on the consolidated financial statements.

b) Basis of consolidation:

The consolidated financial statements incorporate the financial statements of Mubarrad Holding Co. K.S.C.P. (the Parent Company) and the following subsidiaries (collectively, the "Group"):

Name of subsidiaries	Country of incorporation	Principal activities	Percentage of holding (%)	
			2019	2018
Batic Manufacturing Co. - W.L.L.*	State of Kuwait	Industrial	99%	99%
Mubarrad for Development and Limited Investment Co. W.L.L.	Republic of Sudan	Logistics services	100%	100%
Inshaa' National Real Estate - Sole proprietorship	State of Kuwait	Real estate	100%	100%
Emdad Equipment Leasing Co. K.S.C. (Closed)	State of Kuwait	Logistics services	98%	98%
Takatof Real Estate Co. E.S.C.*	Arab Republic of Egypt	Real estate	98%	98%

\* The effective ownership interest of the Group in these subsidiaries is 100%.

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

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

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

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

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

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiary. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.



Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the Non-controlling shareholder's share of changes in equity since the date of the combination.

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

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

c) Current vs non-current classification:

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

d) Financial instruments:

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

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

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and cash equivalents, investment deposits, accounts receivable, due from/to related parties, financial assets at fair value through profit or loss, finance lease payables and accounts payable.

- **Financial assets:**

- i. **Classification of financial assets**

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

Business model assessment

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

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

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Interest (the 'SPPI test'). 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition that may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Initial recognition

Purchases and sales of those financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at FVTPL.

Derecognition

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



Measurement categories of financial assets

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

- Debt instruments at amortized cost
- Financial assets at Fair value through profit or loss (FVTPL)

Debt instruments at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. In general, effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Cash and cash equivalents, term deposits, trade receivables, due from related parties and other assets are classified as debt instruments at amortized cost.

- Cash and cash equivalents

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

- Term deposits

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

- Trade receivables

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



Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment as at FVTOCI on initial recognition.

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

The Group classifies investments in quoted equity and debt investments under financial assets at FVPL in the consolidated statement of financial position.

**ii. Impairment of financial assets**

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

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

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

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

- Stage 1 - financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk and
- Stage 2 (not credit impaired) - financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low
- 'Stage 3' (credit impaired) - financial assets that have objective evidence of impairment at the reporting date and assessed as credit impaired when one or more events have a detrimental impact on the estimated future cash flows have occurred.

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



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

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

- **Financial liabilities:**

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

**Financial liabilities at amortized cost**

Financial liabilities that are not at FVTPL as above are measured subsequently at amortized cost using the effective interest method.

1. Accounts payable

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

2. Finance lease payables

Finance lease payables represent amounts payable on a deferred settlement basis for items purchased under financing contracts. Financing contracts are stated at the gross amount of the payable, net of deferred expenses payable in the future. Financing contracts expenses are recognized when matured on a time proportion basis using effective returns method.

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

- e) Inventories

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

In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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



f) Investment properties

Investment properties comprise completed property, property under construction or re-development held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost including purchase price and transaction costs. Subsequent to initial recognition, investment properties are stated at their fair value at the end of reporting period. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of profit or loss for the period in which they arise. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

g) Investment in associates

Associates are those enterprises in which the Group has significant influence which is the power to participate in the financial and operating policy decisions of the associate. The consolidated financial statements include the Group's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The Group accounted for its investment in associates based on reviewed financial statements of the associates as at September 30, 2019 with amendments for any material transactions for the period from October 1 up to December 31, 2019.

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

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

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

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



The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired and determine if necessary, to recognize any impairment loss with respect to the investment. If there is such evidence, the entire carrying amount of the investment (including goodwill) is tested for impairment and the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in consolidated statement of profit or loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

h) Business combinations and Goodwill

a) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date and the resulting gain / loss is included in the consolidated statement of profit or loss or other comprehensive income as appropriate.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39: Financial Instruments: Recognition and Measurement. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

b) Goodwill

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

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



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

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

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investment in associates' in note 2 (g).

i) Property, plant and equipment

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

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

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property, plant and equipment as follows:

	Years
Buildings	20
Tools	4 – 6
Machinery & equipment	5 – 10
Transportation vehicles	6 – 10
Furniture and decoration	4 - 5
Right-of-use assets	3 - 5

Right of utilization of leasehold land is not depreciated and is stated at cost less impairment losses.

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

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



j) Impairment of assets

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

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

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

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

k) End of service indemnity

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

l) Dividend distribution to shareholders

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

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

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

m) Share capital

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



n) Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves and then share premium. Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

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

o) Other components of equity

Other components of equity is used to record the effect of changes in ownership interest in subsidiaries, changes in the subsidiaries' equity, without loss of control.

p) Revenue from contracts with customers

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

The five steps in the model are as follows to account for revenue arising from contracts:

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

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

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



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

Control is transferred at a point in time if none of the criteria for a good or service to be transferred over time are met. The Group considers the following factors in determining whether control of an asset has been transferred:

- The Group has a present right to payment for the asset.
- The customer has legal title to the asset.
- The Group has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

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

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

Revenue for the Group arises from the following activities:

Sale of goods

Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when or as the Group transfers control of the goods to the customer. For standalone sales, that are neither customized by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods. Delivery occurs when goods have been shipped to the specific location, have been purchased at store by the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Transportation contracts

Revenue from transportation contract is recognized over time by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract.

Interest income and expense

Interest income and expense are recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income

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

Rent

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

Gain on sale of investments

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



Other income

Other income are recognized on an accrual basis.

q) Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

r) Finance charges

Finance charges directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific financing pending their expenditure on qualifying assets is deducted from the Finance costs eligible for capitalization. All other finance costs are recognized in consolidated statement of profit or loss in the period in which they are incurred. Finance costs consist of interest and other costs that an entity incurs in connection with the borrowing funds.

s) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) **Finance lease:**

a) The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated statement of profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

(ii) **Operating lease:**

b) Group as a lessor

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

c) Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

1) Right of use assets

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



2) Lease liabilities

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

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

3) Short-term leases and leases of low-value assets

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

t) Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit of the Parent Company before contribution to Kuwait Foundation for Advancement of Science (KFAS), contribution to National Labor Support Tax (NLST), Zakat and Board of Director's remuneration, and after deducting its share of income from Kuwait shareholding subsidiaries and associates and transfer to statutory reserve.

u) National Labor Support Tax (NLST)

National Labor Support Tax is calculated at 2.5% on the profit of the Parent Company before contribution to Kuwait Foundation for Advancement of Science (KFAS), contribution to National Labor Support Tax (NLST), Zakat and Board of Director's remuneration after deducting its share of profit from listed associates & un-consolidated subsidiaries subject to the same law, also its share of NLST paid by listed subsidiaries subject to the same law and cash dividends received from listed companies subject to the same law in accordance with law No. 19 for year 2000 and Ministerial resolution No. 24 for year 2006 and their executive regulations.

v) Contribution to Zakat

Contribution to Zakat is calculated at 1% of the profit of the Parent Company before contributions to Kuwait Foundation for Advancement of Science (KFAS), National Labor Support Tax (NLST), contribution to Zakat and Board of Director's remuneration after deducting its share of profit from Kuwaiti shareholding associates & un-consolidated subsidiaries subject to the same law, also its share of Zakat paid by Kuwaiti shareholding subsidiaries subject to the same law and cash dividends received from Kuwaiti shareholding companies in accordance with law No. 46 for year 2006 and Ministerial resolution No. 58 for year 2007 and their executive regulations.

w) Foreign currencies

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



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

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

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

x) Contingencies

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

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

y) Segment reporting

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

z) Critical accounting estimates and judgments

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

a) Judgments

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

(i) Revenue Recognition

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

(ii) Classification of land

Upon acquisition of land, the Group classifies the land into one of the following categories, based on the intention of the management for the use of the land:

- 1) Properties under development:  
When the intention of the Group is to develop land in order to sell it in the future, both the land and the construction costs are classified as properties under development.
- 2) Work in progress:  
When the intention of the Group is to develop a land in order to rent or to occupy it in the future, both the land and the construction costs are classified as work in progress.
- 3) Properties held for trading:  
When the intention of the Group is to sell land in the ordinary course of business, the land are classified as properties held for trading.
- 4) Investment properties:  
When the intention of the Group is to earn rentals from land or hold land for capital appreciation or if the intention is not determined for land, the land is classified as investment property.

The Group classifies the land as investment properties when the intention of the Group is to earn rentals from land or hold land for capital appreciation or if the intention is not determined.

(iii) Provision for doubtful debts and inventories

The determination of the recoverability of the amount due from customers and the marketability of the inventory and the factors determining the impairment of the receivable and inventory involve significant judgment.

(iv) Classification of financial assets

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

(v) Business combinations

At the time of Group's acquisition to subsidiaries, the Group considers whether the acquisition represents the acquisition of a business or of an asset (or a group of assets and liabilities). The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the assets. More specifically, consideration is made to the extent of which significant processes are acquired. The significance of processes requires significant judgment.

Where the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of an asset (or a group of assets and liabilities). The cost of acquisition is allocated to the assets and liabilities acquired based on their relative fair values, and no goodwill or deferred tax is recognized.

(vi) Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

(vii) Control assessment

When determining control over an investee, management considers whether the Group has a 'de facto' power to control an investee if it holds less than 50% of the investee's voting rights. The assessment of the investee's relevant activities and the ability to use the Group's power to affect the investee's variable returns requires significant judgment.



(viii) Significant influence assessment

When determining significant influence over an investee, management considers whether the Group has the power to participate in the financial and operating policy decisions of the investee if it holds less than 20% of the investee's voting rights. The assessment, which requires significant judgment, involves consideration of the Group's representation on the investee's board of directors, participation in policy making decisions and material transactions between the investor and investee.

(ix) Leases

Critical judgements required in the application of IFRS 16 include, among others, the following:

- Identifying whether a contract (or part of a contract) includes a lease;
- Determining whether it is reasonably certain that an extension or termination option will be exercised;
- Classification of lease agreements (when the entity is a lessor);
- Determination of whether variable payments are in-substance fixed;
- Establishing whether there are multiple leases in an arrangement,.
- Determining the stand-alone selling prices of lease and non-lease components.

b) Estimates and assumptions:

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

(i) Fair value of unquoted financial assets

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

(ii) Useful lives of depreciable assets

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

(iii) Impairment of Goodwill

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

(iv) Provision for doubtful debts and inventories

The extent of provision for doubtful debts and inventories involves estimation process. Provision for doubtful debts is based on a forward looking ECL approach as explained in Note 4. Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventory are subject to management approval.

(v) Valuation of investment properties

The Group carries its investment properties at fair value, with change in fair values being recognized in the consolidated statement of profit or loss. The fair value of investment property is determined by real estate valuation experts using recognized valuation techniques and the principles of IFRS 13. Investment property under construction is measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined.

Three main methods were used to determine the fair value of the investment properties:

- (a) Formula based discounted cash flow is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.
- (b) Income approach, where the property's value is estimated based on the its income produced, and is computed by dividing the property's net operating income by the expected rate of return on the property in the market, known as 'Capitalization Rate'.
- (c) Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

(vi) Impairment of non-financial assets

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

(vii) Leases

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

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

3. Cash and cash equivalents

	2019	2018
Cash on hand and at banks	1,722,061	1,243,823
Short-term bank deposits	1,300,000	2,500,000
	<u>3,022,061</u>	<u>3,743,823</u>

The effective rate of return on short-term bank deposits is 2.81% to 3.5% (2018: 2.81%) per annum; these deposits have an average contractual maturity of 92 days.



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4. Accounts receivable and other debit balances

	2019	2018
Trade receivables (a)	2,358,784	2,285,625
Less: Allowance for expected credit losses (b)	(1,551,510)	(1,580,771)
	807,274	704,854
Staff receivables	47,753	49,736
Less: Allowance for expected credit losses	(9,680)	(9,680)
	38,073	40,056
Other receivables (c)	154,922	207,758
Advance payments to suppliers	5,947	10,973
Prepaid expenses	51,582	40,985
Accrued income	7,209	17,005
Refundable deposits	67,790	67,865
Cheques under collection	6,500	18,408
	1,139,297	1,107,904

(a) **Trade receivables:**

Trade receivables are non-interest bearing and are generally due within 90 days.

The Group applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, trade receivables have been assessed on a collective basis respectively and grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the ageing profile of customers over the past three years before December 31, 2019 as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery. Failure to make payments within 365 days from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery and therefore is considered as credit impaired.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

As at December 31, 2019

	Days past due					
	Less than 90 days	91 – 180 days	181 – 365 days	Over 365 days	Impaired	Total
Expected credit loss rate	0.357%	0.496%	4.148%	6.2524%	100%	-
Gross carrying amount	300,292	207,769	178,249	139,163	1,533,311	2,358,784
Life time expected credit loss	1,072	1,032	7,394	8,701	1,533,311	1,551,510

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As at December 31, 2018

	Less than 90 days	Days past due			Impaired	Total
		91 – 180 days	181 – 365 days	Over 365 days		
Expected credit loss rate	0.4604%	1.317%	5.232%	5.119%	100%	-
Gross carrying amount	245,646	197,039	212,573	67,920	1,562,447	2,285,625
Life time expected credit loss	1,131	2,595	11,121	3,477	1,562,447	1,580,771

**(b) Allowance for expected credit losses:**

The movement in allowance for credit losses is as follows:

	2019	2018
Balance at the beginning of the year	1,580,771	1,574,391
Charged for the year	18,199	13,082
Utilized during the year	(19,669)	-
Provision no longer required	(27,791)	(6,702)
Balance at the end of the year	1,551,510	1,580,771

- (c) Other receivables include an amount of KD 154,922 represents the Parent Company's share in the excluded assets of a disposed associate, which were waived to the benefit of the Parent Company at the disposal date, pursuant to the sale agreement of the associate and are currently in the process of being transferred to the name of the Parent Company.

**5. Related party disclosures**

The Group has entered into various transactions with related parties, i.e. shareholders, board of directors, key management personnel, associates, entities under common control and other related parties. Prices and terms of payment are to be approved by the Group's management. Significant related party transactions and balances are as follows:

**Balances included in the consolidated statement of financial position**

	Major Shareholders	Other related parties	Total	
			2019	2018
Due from a related party	-	-	-	10,214
Investment property (real estate portfolio managed by a related party – Note 9)	2,560,000	-	2,560,000	2,431,000
Financial assets at FVPL	-	290,705	290,705	296,022
Due to a related party	655	-	655	655

**Transactions included in the consolidated statement of profit or loss**

	Major Shareholders	Other related parties	Total	
			2019	2018
Rental revenues	-	30,000	30,000	36,000
Rental costs	4,307	-	4,307	4,084
Net investment income	-	-	-	45,000

**Compensation to key management personnel**

	2019	2018
Short term benefits	111,311	120,658
End of service benefits	12,340	12,898
Board of Directors' remuneration	30,000	30,000
	153,651	163,556



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6. Inventories

	2019	2018
Raw materials - spare parts	891,970	852,205
Work in progress	44,898	60,185
	936,868	912,390
Less: provision for obsolete and slow moving items (a)	(331,551)	(331,551)
	605,317	580,839

(a) The movement in the provision for slow-moving items was as follows:

	2019	2018
Balance at the beginning of the year	331,551	330,533
Charged for the year	-	3,589
Provision for slow moving inventories no longer required	-	(2,571)
Balance at the end of the year	331,551	331,551

7. Financial assets at fair value through profit or loss

	2019	2018
<b>Quoted:</b>		
Equity securities	1,746	3,741
Total	1,746	3,741
<b>Unquoted:</b>		
Equity securities	429,224	428,984
Investment portfolios and funds	456,919	469,185
Total	886,143	898,169
	887,889	901,910

Movement during the year was as follows:

	2019	2018
Balance at the beginning of the year	901,910	1,002,100
Disposals	(1,257)	(44,298)
Transfer to investment properties (Note 9)	-	(118,966)
Changes in fair value	(12,764)	(1,247)
Changes in fair value due to the effect of applying IFRS 9 on the opening retained earnings	-	64,321
Balance at the end of the year	887,889	901,910

8. Investment in associate

Investment in associate consists of the following:

Name of the associate	Country of incorporation	Principal activities	Percentage of ownership		Amount	
			2019	2018	2019	2018
Oman Integral Logistics Co. - O.S.C.C.	Sultanate of Oman	Logistic services	50%	50%	3,784,469	3,866,830

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Movement during the year is as follows:

	2019	2018
Balance at the beginning of the year	3,866,830	3,815,271
Share of results from associate	(79,761)	32,633
Foreign currency translation reserve	(2,600)	18,926
Balance at the end of the year	<u>3,784,469</u>	<u>3,866,830</u>

The Group's share in contingent liabilities of the associate as of December 31, 2019 amounted to KD 19,420 (2018: KD 11,573).

Summarized financial information of the associate is as follows:

**Summarized statement of financial position**

	Oman Integral Logistics Co. – O.S.C.C.	
	2019	2018
<b>Assets:</b>		
Cash and cash equivalents	303,010	189,809
Other current assets	1,585,882	1,721,344
Total current assets	1,888,892	1,911,153
Non-current assets	9,015,747	8,765,137
Total assets	<u>10,904,639</u>	<u>10,676,290</u>
<b>Liabilities:</b>		
Financial liabilities	73,220	627,178
Other current liabilities	811,382	1,518,942
Total current liabilities	884,602	2,146,120
Non-current liabilities	2,491,884	785,309
Non-controlling interests	101,817	153,736
Total liabilities	<u>3,478,303</u>	<u>3,085,165</u>
Net assets	<u>7,426,336</u>	<u>7,591,125</u>
Share in associates' net assets	3,713,168	3,795,563
Intercompany eliminations	(41,521)	(41,555)
Net assets after eliminations	<u>3,671,647</u>	<u>3,754,008</u>
Goodwill related to the investment in associate	112,822	112,822
<b>Carrying value of investment in associate</b>	<u>3,784,469</u>	<u>3,866,830</u>

**Summarized Statement of profit or loss and other comprehensive income**

	Oman Integral Logistics Co. – O.S.C.C.	
	2019	2018
Revenues	5,674,173	4,261,038
Operating expenses	(5,563,528)	(4,042,009)
Finance charges	(164,454)	(63,788)
Provision for doubtful debts	(53,152)	-
Non-controlling interests	(52,561)	(89,975)
Net (loss) profit	<u>(159,522)</u>	<u>65,266</u>
Share of results from associate	<u>(79,761)</u>	<u>32,633</u>



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9. Investment properties

	Commercial complexes	Residential complex	Total
At January 1, 2018	8,349,003	-	8,349,003
Additions	2,750,000	-	2,750,000
Transfers from financial assets at FVTPL (Note 7)		118,966	118,966
Change in fair value	682,000	-	682,000
Effect of consolidation of a subsidiary	1,320,000	-	1,320,000
Foreign currency translation adjustments	(964)	(1,151)	(2,115)
At December 31, 2018	13,100,039	117,815	13,217,854
Impact of adoption of IFRS 16 – "Leases" (Note 2 - a)	77,490	-	77,490
Change in fair value	279,510	-	279,510
Foreign currency translation adjustments	378,773	13,744	392,517
<b>At December 31, 2019</b>	<b>13,835,812</b>	<b>131,559</b>	<b>13,967,371</b>

The Group leases vacant land. The average lease term is 3 years (2018 - 4 years). The Group's obligations are secured by the lessors' title to the leased assets for such leases.

Management of the Group has complied with the Executive Regulations of Capital Markets Authority with respect to guidelines for valuation of investment properties.

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

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

2019				
Class of the investment property	Valuation technique	Level 2	Level 3	Total
Commercial complexes	Market sales comparison	<b>9,875,812</b>	-	<b>9,875,812</b>
Commercial complexes	Discounted cash flows	-	<b>3,960,000</b>	<b>3,960,000</b>
Residential complex	Market sales comparison	<b>131,559</b>	-	<b>131,559</b>
<b>Total</b>		<b>10,007,371</b>	<b>3,960,000</b>	<b>13,967,371</b>
2018				
Class of the investment property	Valuation technique	Level 2	Level 3	Total
Commercial complexes	Market sales comparison	3,247,039	-	3,247,039
Commercial complexes	Discounted cash flows	-	9,853,000	9,853,000
Residential complex	Market sales comparison	117,815	-	117,815
<b>Total</b>		<b>3,364,854</b>	<b>9,853,000</b>	<b>13,217,854</b>

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- As of December 31, 2019, certain investment properties for a fair value of KD 7,357,371 (2018: KD 6,847,039) have been acquired through finance lease agreements, are registered under the name of local bank and a foreign financial institution, until the settlement of the contractual payments as disclosed in Note (11).
- Investment properties include a property with a fair value of KD 2,560,000 as at December 31, 2019 (2018: KD 2,431,000) managed by a related party (Note 5).
- Certain investment properties are constructed on lands leased from Public Authority for Industry in the State of Kuwait for five years ending in 2020 and 2021 and are renewable for similar periods.



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10. Property, plant and equipment

	Right of utilization of leasehold land	Buildings	Tools	Machinery and equipment	Transportation vehicles	Furniture and decoration	Right of use assets	Total
<b>Cost:</b>								
At January 1, 2018	693,000	667,948	297,793	3,185,840	23,150	29,680	-	4,897,411
Additions	-	-	1,392	1,572	330	96	-	3,390
At December 31, 2018	693,000	667,948	299,185	3,187,412	23,480	29,776	-	4,900,801
Impact on adoption of IFRS 16 at January 1, 2019	-	-	-	-	-	-	19,900	19,900
Additions	-	-	1,728	3,170	642	-	4,514	10,054
<b>At December 31, 2019</b>	<b>693,000</b>	<b>667,948</b>	<b>300,913</b>	<b>3,190,582</b>	<b>24,122</b>	<b>29,776</b>	<b>24,414</b>	<b>4,930,755</b>
<b>Accumulated depreciation:</b>								
At January 1, 2018	-	196,387	259,108	2,824,596	19,439	29,611	-	3,329,141
Charge for the year	-	33,397	1,892	17,256	945	36	-	53,526
At December 31, 2018	-	229,784	261,000	2,841,852	20,384	29,647	-	3,382,667
Charge for the year	-	33,397	2,055	14,325	976	126	8,288	59,167
<b>At December 31, 2019</b>	<b>-</b>	<b>263,181</b>	<b>263,055</b>	<b>2,856,177</b>	<b>21,360</b>	<b>29,773</b>	<b>8,288</b>	<b>3,441,834</b>
<b>Net book value:</b>								
<b>At December 31, 2019</b>	<b>693,000</b>	<b>404,767</b>	<b>37,858</b>	<b>334,405</b>	<b>2,762</b>	<b>3</b>	<b>16,126</b>	<b>1,488,921</b>
At December 31, 2018	693,000	438,164	38,185	345,560	3,096	129	-	1,518,134

Depreciation charge has been allocated as follows:

	2019	2018
Consolidated statement of profit or loss	44,842	36,270
Cost of transportation, leasing and maintenance operations	14,325	17,256
	59,167	53,526

- Right of utilization represents land leased by one of the Group's subsidiary from the "Public Authority for Industry" based on a contract to utilize the area in Amghara Industrial area, which will expire on September 11, 2022 and is renewable.

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**11. Lease liabilities**

	2019	2018
Gross amount of finance lease payables	2,449,474	3,161,559
Less: unamortized future finance charges	(77,271)	(159,023)
Present value of finance lease payables	2,372,203	3,002,536
Impact of adoption of IFRS 16 – Leases	60,387	-
Total lease liabilities	2,432,590	3,002,536

Analyzed as:

	2019	2018
Current portion	2,405,522	2,502,692
Non-current portion	27,068	499,844
	2,432,590	3,002,536

The Parent Company renewed a lease agreement containing a bargain purchase option with a local bank, to finance the purchase of a right of utilization of an industrial plot, located at third Shuwaikh Industrial Area, Block (D), Plot No. (165), for a single rental annual payment due on June 30, 2020 with a bargain purchase option upon the complete settlement of the contractual payments. The finance lease agreement is renewed annually until the full settlement of the finance lease liability, with a bargain purchase option upon the settlement of all contractual payments.

The leased asset is registered under the name of the lending bank until the settlement of all contractual payments (Note 9).

On November 8, 2015, the Subsidiary Company - Takatof Real Estate Co. E.S.C. entered into a finance lease agreement with a foreign financial institution, to finance the purchase of a land and an administrative building constructed thereon, the land is located at New Cairo City – Block No. 211, Second Sector, Arab Republic of Egypt, for 21 quarterly lease payments, the latest is due on November 15, 2020 with a bargain purchase option after completing all contractual payments. The leased asset is registered under the name of foreign financial institution until the settlement of the contractual payments. The finance lease agreement carries annual interest rate at 7.727% plus LIBOR rate.

**12. Accounts payable and other credit balances**

	2019	2018
Trade payables (a)	162,587	46,138
Advances from customers	53,152	47,397
Accrued expenses	159,930	156,392
Accrued staff leave	144,241	146,192
Dividends payable	542,496	526,073
Deposits for others	57,875	47,904
KFAS payable	9,714	15,509
NLST payable	27,969	46,099
Zakat payable	11,222	18,959
Board of Directors' remuneration payable	30,000	30,000
Others	145,180	348,500
	1,344,366	1,429,163

(a) Trade payables are non-interest bearing and are normally settled on average period of 90 days.



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13. Provision for end of service indemnity

	2019	2018
Balance at beginning of the year	429,689	369,876
Charge for the year	71,730	71,542
Paid during the year	(14,048)	(11,729)
Balance at end of the year	487,371	429,689

14. Capital

Authorized, issued and paid up capital consists of 163,692,769 shares of 100 fils each amounting to KD 16,369,277 (2018 -163,692,769 shares of 100 fils each amounting to KD 16,369,277) and all shares are in cash and in kind (Cash amounted to KD 13,096,328 and in kind amounted to KD 3,272,949).

15. Statutory reserve

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contributions to, Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST), Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

16. Voluntary reserve

As required by the Parent Company's Articles of Association, a percentage of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. The Board of Directors did not propose any percentage to be transferred to voluntary reserve. Hence, no transfer was made to the voluntary reserve.

17. Treasury shares

	2019	2018
Number of treasury shares	10,996	7,804,455
Percentage of ownership	0.007%	4.77%
Market value (KD)	979	569,725
Cost (KD)	671	476,135

The Parent Company has allotted an amount equal to treasury shares balance from the available retained earnings as at as at December 31, 2019. Such amount will not be available for distribution during the treasury shares holding period. Treasury shares are not pledged.

18. General and administrative expenses

	2019	2018
Staff costs	497,421	506,434
Rent	10,040	13,070
Others	261,602	168,796
	769,063	688,300

19. Basic and diluted earnings per share attributable to Shareholders of the Parent Company

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. There are no potential dilutive ordinary shares. The information necessary to calculate the basic earnings per share based on the weighted average number of outstanding shares during the year is as follows:

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	2019	2018
Profit for the year attributable to Shareholders of the Parent Company	<u>1,014,632</u>	<u>1,668,373</u>
Number of shares outstanding	<b>Shares</b>	<b>Shares</b>
Weighted average number of issued shares	<u>163,692,769</u>	<u>163,692,769</u>
Less: Weighted average number of treasury shares	<u>(2,082,134)</u>	<u>(1,670,706)</u>
Weighted average number of outstanding shares	<u>161,610,635</u>	<u>162,022,063</u>
	<b>Fils</b>	<b>Fils</b>
Basic and diluted earnings per share attributable to Shareholders of the Parent Company	<u>6.28</u>	<u>10.30</u>

20. Proposed dividends

The Board of Directors' meeting held on February 13, 2020 recommend cash dividends of 5% cash dividends (5 fils for each share held), for a total distribution of KD 818,409 for the year ended December 31, 2019. This recommendation is subject to the approval of the Ordinary Shareholders' Annual General Assembly of the Parent Company.

The Shareholders' Ordinary Annual General Assembly meeting held on April 8, 2019 approved the distribution of 5% cash dividends (5 fils for each share held), for a total amount of KD 779,442 for the year ended December 31, 2018 (KD 818,464 for the year ended December 31, 2017) and 5% dividends in-kind through treasury shares.

21. Board of Directors' remuneration

The Board of Directors' meeting held on February 13, 2020 proposed an amount of KD 30,000 as remuneration to Board members for the year ended December 31, 2019. This remuneration is subject to the approval of Parent Company shareholders' Ordinary General Assembly upon its session.

The Board of Directors' remuneration for the comparative year amounted to KD 30,000 was approved by Shareholders' Ordinary General assembly held on April 8, 2019.

22. Legal cases

There are certain lawsuits raised by / against the Group, the results of which cannot be assessed till being finally cleared by the court. In the opinion of the Group's management and legal counsel, there will be no material adverse impact on the Group consolidated financial statements, and hence, no additional provisions were recorded in the Group's records due to the sufficiency of the currently recorded provisions for those claims as of the reporting date.

23. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalents, investment deposits, accounts receivable, due from a related party, financial assets at FVTPL, finance lease payables, payables and due to related party and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

**Interest rate risk:**

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



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

	2019		
	Increase (Decrease) in interest rate	Balances on December 31,	Effect on consolidated statement of profit or loss
Short-term bank deposits	± 0.5%	1,300,000	±6,500
Lease liabilities	± 0.5%	2,432,590	±12,163

	2018		
	Increase (Decrease) in interest rate	Balances on December 31,	Effect on consolidated statement of profit or loss
Short-term bank deposits	± 0.5%	2,500,000	±12,500
Lease liabilities	± 0.5%	3,002,536	±15,013

**Credit risk:**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash and cash equivalents, investment deposits, accounts receivable and due from related party. The Group's cash at banks and investment deposits are placed with high credit rating financial institutions. Receivables are presented net of allowance for expected credit losses. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

Cash at banks and term deposits

The Group's cash at banks, term deposits measured at amortized cost are considered to have a low credit risk and the loss allowance is based on the 12 months expected loss. The Group's cash and term deposits are placed with high credit rating financial institutions with no recent history of default. Based on management's assessment, the expected credit loss impact arising from such financial assets are insignificant to the Group as the risk of default has not increased significantly since initial recognition.

**Foreign currency risk:**

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

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between foreign currencies and Kuwaiti Dinar:

	2019		
	Increase / (Decrease) against Kuwaiti Dinar	Effect on consolidated statement of profit or loss	Effect on consolidated other comprehensive income
Egyptian Pound	± 5.00%	±897	±165,835
Omani Riyal	± 5.00%	±24,925	±114,357
US Dollar	± 5.00%	±61	-
Total		±25,883	±280,192

	2018		
	Increase / (Decrease) against Kuwaiti Dinar	Effect on consolidated statement of profit or loss	Effect on consolidated other comprehensive income
Egyptian Pound	± 5.00%	±768	±122,150
Omani Riyal	± 5.00%	±69,360	±118,638
US Dollar	± 5.00%	±1,019	-
Arab Emirates Dirham	± 5.00%	±765	-
Total		±71,912	±240,788

**Liquidity risk:**

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

**Maturity table of financial liabilities**

	2019		
	3-12 months	1 – 5 years	Total
Lease liabilities	2,405,522	27,068	2,432,590
Accounts payable and other credit balances	1,344,366	-	1,344,366
Due to a related party	655	-	655
Total	3,750,543	27,068	3,777,611

	2018		
	3-12 months	1 – 5 years	Total
Lease liabilities	2,502,692	499,844	3,002,536
Accounts payable and other credit balances	1,429,163	-	1,429,163
Due to related party	655	-	655
Total	3,932,510	499,844	4,432,354

**Equity price risk:**

Equity price risk is the risk that fair values of equity instruments decrease as the result of changes in level of equity indices and the value of individual stocks. To manage such risks, the Group diversifies its investments in different sectors within its investment portfolio and are continuously monitored.

**24. Fair value measurement**

The Group measures financial assets such as financial assets at FVPL and non-financial assets such as investment properties at fair value at each reporting date.

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



All assets and liabilities for which fair value is measured or disclosed in the 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.

The following table shows an analysis of items recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	1,746	456,919	429,224	887,889
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	3,741	469,185	428,984	901,910

The Management of the Group has assessed that fair value of its financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

During the year, there were no transfers between Level 1, Level 2 and Level 3.

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

The fair value details of investment properties are disclosed in Note 9.

## 25. Capital risk management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital. In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.

## 26. Segment information

For management purposes, the Group has the following strategic divisions as reportable operating segments:

Transportation, leasing and maintenance segment: represents goods transport, leasing and charter means of transportation and maintenance of others' vehicles.

Auto body industry segment: represents vehicles' body manufacturing, importing, marketing and exporting.

Investment segment: represents financial assets at fair value through profit or loss, investment in associate and investment properties.

**A. Segment analysis by activities**

There are transactions between activities. These segments represent the basis by which the Group presents its main operations, as follows:

2019				
	Transportation, leasing and maintenance segment	Vehicles body manufacturing segment	Investment segment	Total
Total revenues	512,886	946,596	2,174,991	3,634,473
Total costs	(537,125)	(996,971)	(1,082,544)	(2,616,640)
(Loss) profit for the year	(24,239)	(50,375)	1,092,447	1,017,833

	Transportation, leasing and maintenance segment	Vehicles body manufacturing segment	Investment segment	Eliminations	Total
Segment assets	3,214,893	2,213,872	30,063,046	(10,505,481)	24,986,330
Segment liabilities	(358,397)	(514,254)	(6,577,897)	3,185,566	(4,264,982)

2018				
	Transportation, leasing and maintenance segment	Vehicles body manufacturing segment	Investment segment	Total
Total revenues	797,538	1,113,226	2,517,199	4,427,963
Total costs	(672,951)	(1,083,345)	(961,856)	(2,718,152)
Profit for the year	124,587	29,881	1,555,343	1,709,811

	Transportation, leasing and maintenance segment	Vehicles body manufacturing segment	Investment segment	Eliminations	Total
Segment assets	3,208,903	2,215,892	29,180,119	(9,566,401)	25,038,513
Segment liabilities	(298,456)	(415,899)	(7,239,734)	3,092,046	(4,862,043)

**B. Geographical segments**

The group has allocated its assets among the following reportable geographic segments:

2019					
	State of Kuwait and GCC countries	Africa	Total Segments	Adjustments and Eliminations	Total
Total revenues	3,819,609	664,642	4,484,251	(849,778)	3,634,473
Segment assets	31,548,418	3,943,393	35,491,811	(10,505,481)	24,986,330
Segment liabilities	(5,810,229)	(1,640,319)	(7,450,548)	3,185,566	(4,264,982)

2018					
	State of Kuwait and GCC countries	Africa	Total Segments	Adjustments and Eliminations	Total
Total revenues	4,644,187	494,217	5,138,404	(710,441)	4,427,963
Segment assets	31,120,669	3,484,245	34,604,914	(9,566,401)	25,038,513
Segment liabilities	(5,966,142)	(1,987,947)	(7,954,089)	3,092,046	(4,862,043)