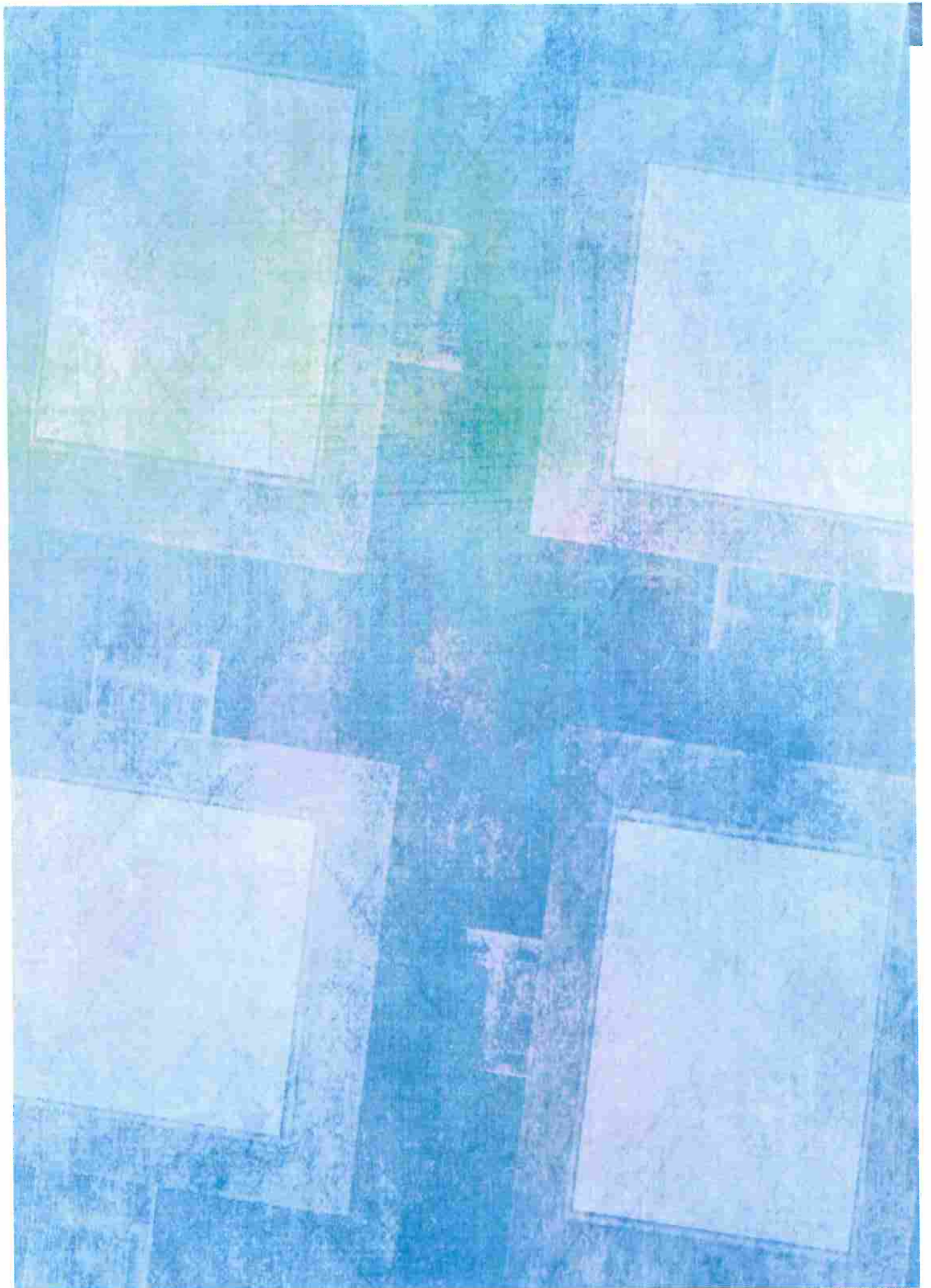


ANNUAL REPORT  
2020



Injazzat Real Estate Development Co. K.S.C.P.  
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[www.injazzat.com](http://www.injazzat.com)





**HIS HIGHNESS**  
**SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH**  
Amir of the State of Kuwait



**HIS HIGHNESS**  
**SHEIKH MISHAL AL-AHMAD AL-JABER AL-SABAH**  
Crown Prince



**HIS HIGHNESS**  
**SHEIKH SABAH AL KHALID AL-SABAH**  
Prime Minister





## BOARD MEMBERS

**Dr. Abdulmohsen Medeij Al-Medeij**  
Chairman

**Mr. Mohamed Abdul Hameed Al Marzook**  
Vice Chairman

**Mr. Mohammad Ibrahim Al Farhan**  
Board Member and CEO

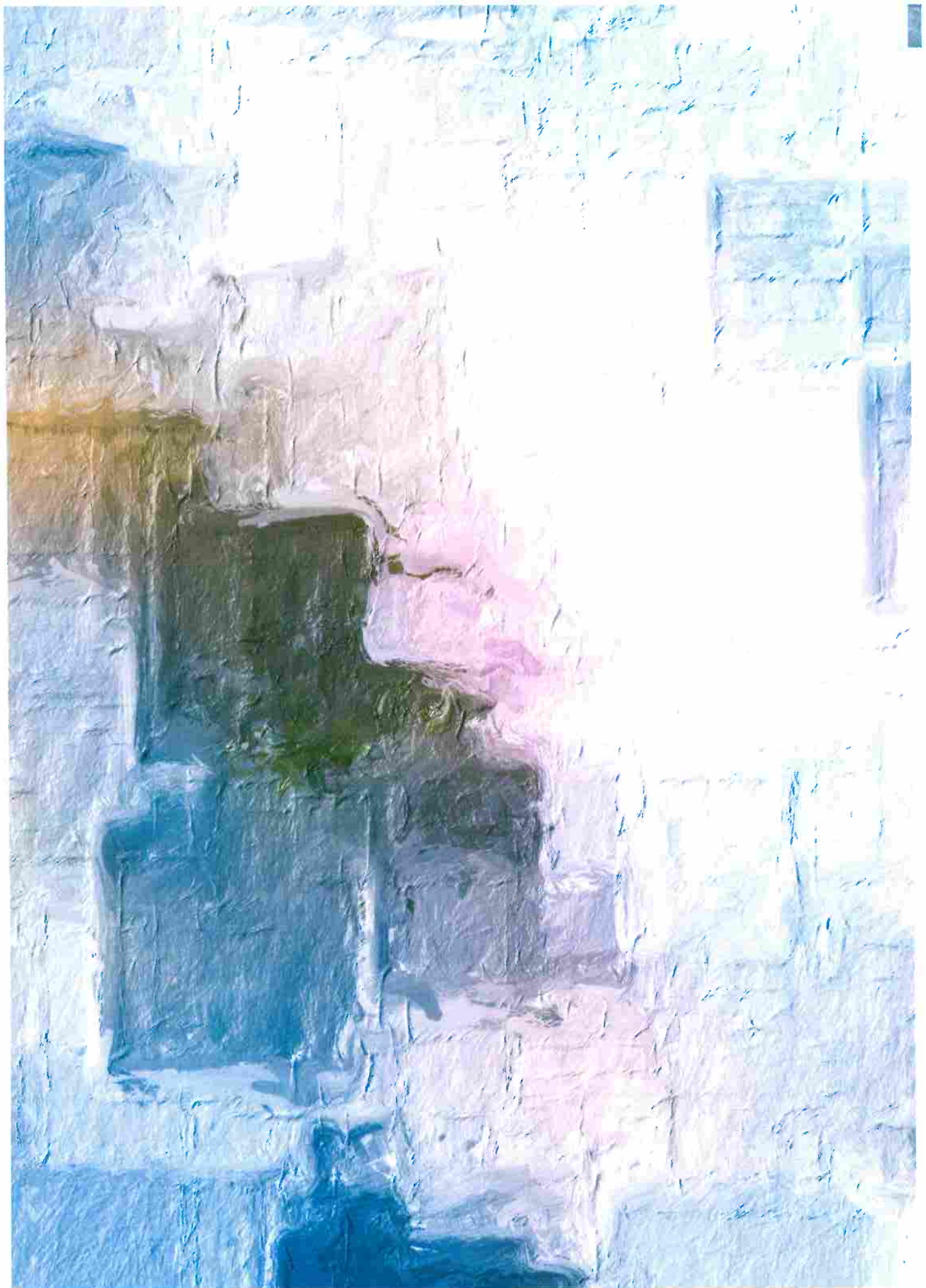
**Mr. Iesa Ahmed Khalaf**  
Board Member

**Mr. Wafa Haidar Al Shehabi**  
Board Member

**Mr. Ayman Abdullateef Al-Shaya**  
Board Member

**Mr. Hamad Emad Al Saqer**  
Board Member

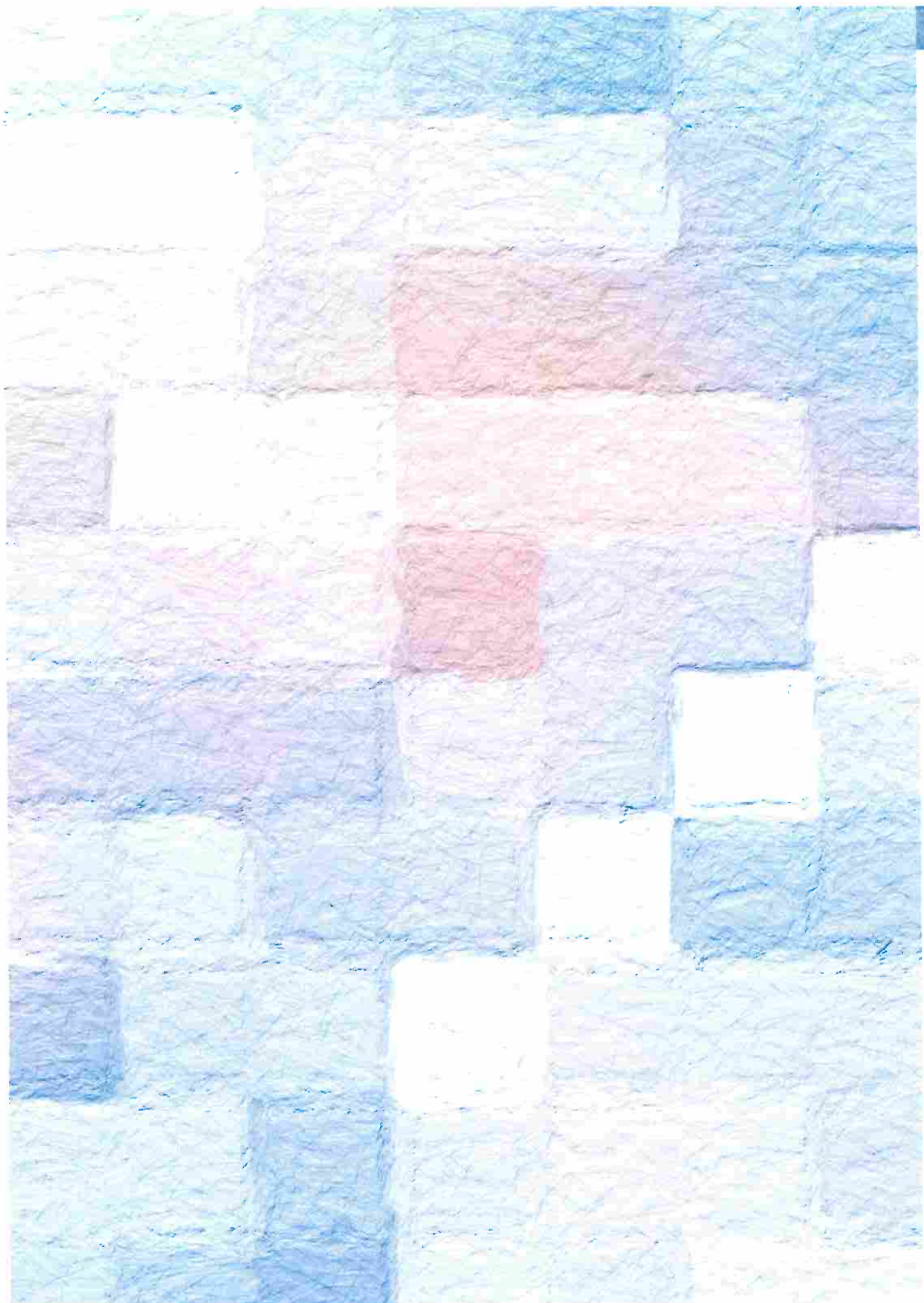




# Contents

Chairman's Message.....	3
Corporate Governance Report.....	05-34
The Company's Projects .....	35-39
Financial Analysis For 2019.....	41-44
Consolidated financial statements and independent auditors' reports.....	45-99





# INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.

## Esteemed Shareholders of Injazzat Real Estate Development Company KSCP

Peace be upon you,

Our honorable shareholders,

We welcome you in the ordinary general meeting for the fiscal year of 2020 for Injazzat Real Estate Development Company and we are here to present to you the annual report of Injazzat Real Estate Development Company for the fiscal year ended on 31 December 2020 including the annual audited financial information and the governance report.

As you know, the whole world is affected by disorders and changes due to the spread of globally renewed Corona virus affecting greatly the economies of the whole world and the many global industries were collapsed due to the lack of demand in 2020 in addition to the decrease of demand on many other economic activities and the demand is expected to be reduced within the few upcoming years.

Despite of the disorders of the area affecting negatively the stability and dynamics of the operational revenues and in the light of the eagerness of Injazzat Company to fulfill its obligations, the officials of the company keeps on the continuity of the cash flows and considers the best methods to structure the assets and seize the investment chances aiming at achieving the highest balance degrees between the revenues and expenses and continuing in achieving the highest revenues on the available assets.

Locally, the company conducts currently the required maintenance operations and renews the most important assets of the real estate companies located in Dajeej Area to increase the rent as this will be reflected to the market value of the building and for the various income sources and creating investment horizons, the company acts currently to set up and develop (Prime Tower) tower consisting of 2 bedrooms, ground floor, Mezzanine floor and 22 floors in the east area and definitely in Ahmed Jaber Street remarked by the vitality and high demand and it is expected to complete the construction of the tower at the end of 2021.

At the original level, we completed a residential complex consisting of two towers which are Catamaran (1) Tower and Catamaran (2) Tower in addition to business and entertainment units for the residents of the towers in Al Seef Area in Kingdom of Bahrain as Catamaran (1) Tower containing 311 residential units most of which was sold was operated and at the end of 2020, we completed building and preparing Catamaran (2) Tower consisting of 272 residential units and it is expected that the actual operation of Catamaran (2) Tower will begin in the first half of the 2021 and such towers are deemed the heart of the luxury real estate projects in Kingdom of Bahrain.

In the state of United Arab Emirates, the company succeeded in keeping on high property occupancy rates in comparison with their similar ones in Emirate of Dubai in the light of the current conditions in United Arab Emirates and the whole world and the low demand of the real estate projects in the emirate of Dubai definitely.

The company completed building and constructing real estate projects including residential, trading and industrial properties

representing a business complex in Jabal Ali Area and the whole complex units and the labor accommodation complexes were leased and the company considered the best available methods to utilize such properties and one of the most achievements in 2020 is Residence Injazzat Property consisting of 53 residential apartments in addition to a number of shops located in the square area located near Khalifa Tower including many luxury residential real estate projects such as City of Mohammed Bin Rashid in the area of One Square.

Globally, the company continued in procuring the real estate revenues regularly and maintained the highest occupancy rates in the light of the current conditions and the company considered the best real estate investment chances to vary and promote the asset portfolio and make sure the required balance between the investment revenues and the surrounding risks.

In terms of the financial position of the company and despite of the difficult conditions we lived, the assets of the company reached 100.6 million Kuwaiti Dinars at the end of 2020 in comparison of 99.9 million Kuwaiti Dinars at the end of 2019, i.e., the growth reached 1% and the rights of the shareholders reached 53.2 million Kuwaiti Dinars in comparison of 52.3 million Kuwaiti Dinars in 2019, i.e., the growth reached 2%.

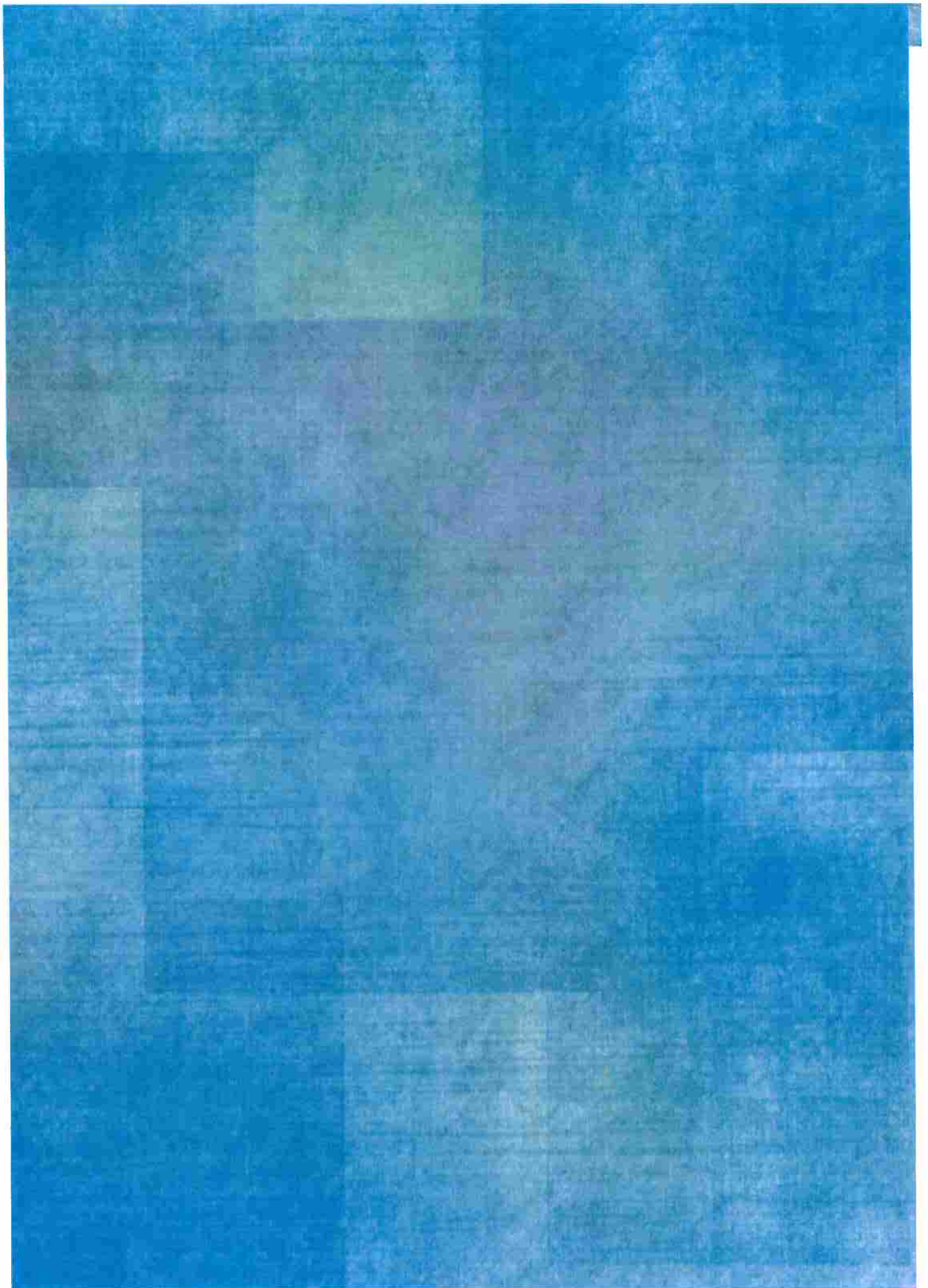
In terms of the financial performance, the total revenues reached at the end of 2020 4.7 million Kuwaiti Dinars in comparison with (2.1) million Kuwaiti Dinars in negative at the end of 2019 due mainly to the registration of investment property appraisal losses with the amount of (8.7) million Kuwaiti Dinars so the growth of the total revenues becomes 327.5% at the end of 2020.

Accordingly, the profits of the company in 2020 reached 831 Thousand Kuwaiti Dinars, i.e., 2.5 Fils in comparison with the losses of the last year 2019 amounting (6.9) million Kuwaiti Dinars, i.e. (20.5) Fils, so the increased profits reached 112.1% after polarizing the taxes and the share of Kuwait Scientific Progress Corporation.

In conclusion, we deeply thank all board directors of Injazzat Real Estate Development Company for all their efforts, works and contributions greatly promoting the leading role of the company among the real estate companies in the area and this was reflected on the performance of the company in 2020 and I deeply thank all personnel of the company, subsidiaries and sister companies for their great efforts exerted within 2020.

**Dr. Abdulmohsen Medeij Al-Medeij**  
Chairman



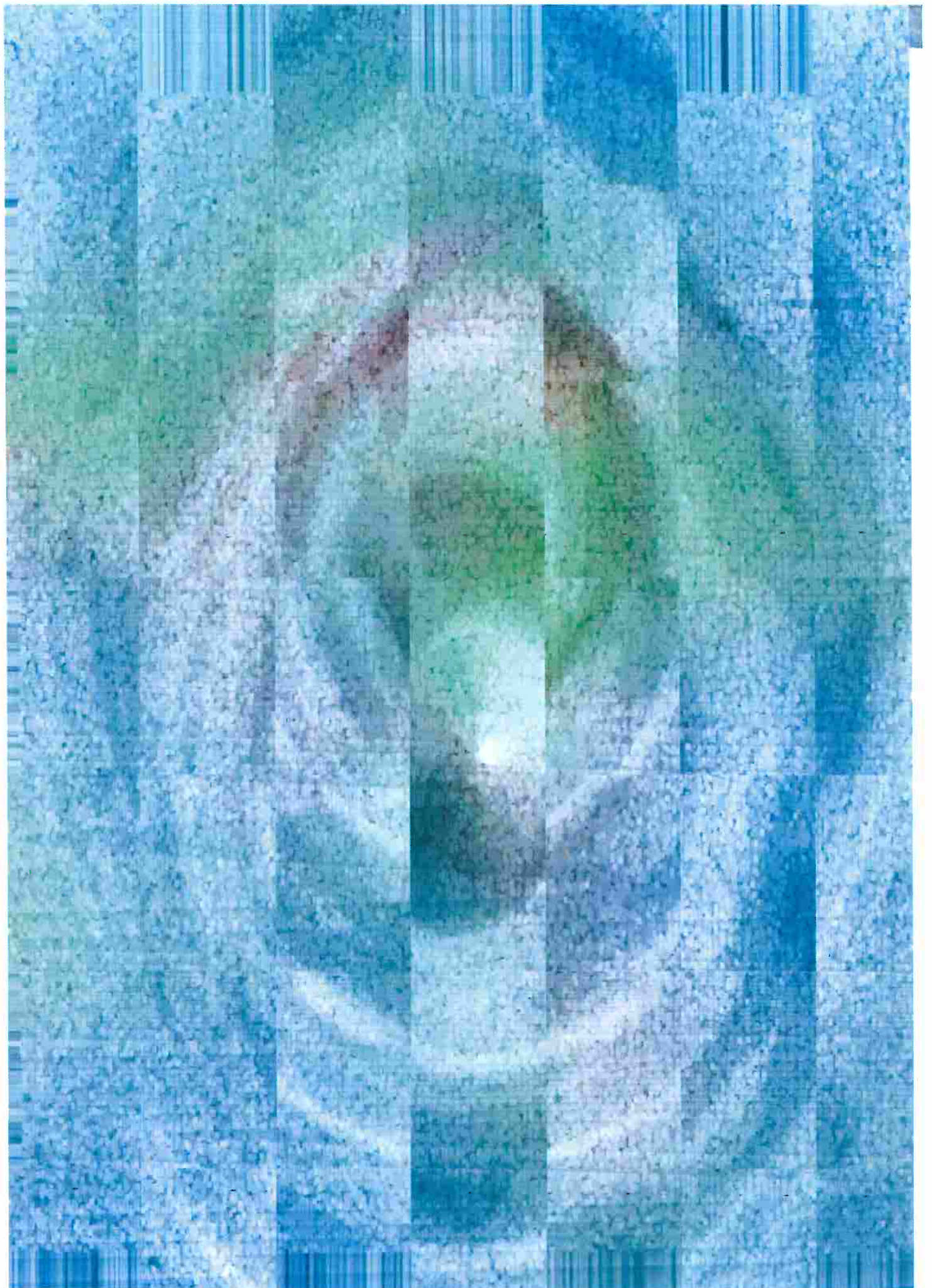






## **CORPORATE GOVERNANCE REPORT**

### **2020**



## TABLE OF CONTENTS

Introduction	8
First Rule : Developing Balanced Structure for Board:	9
Second Rule : Proper Definition of Duties and Responsibilities:	13
Third Rule : Selecting Competent Persons for Membership of Board or Executive Department:	22
Fourth Rule : Ensuring Integrity of Financial Reports:	25
Fifth Rule : Developing Proper System for Risks Management and Internal Control:	29
Sixth Rule : Promoting Professional Behaviour and Morals:	31
Seventh Rule : Accurate Disclosure and Transparency Timely:	33
Eighth Rule : Respecting Rights of Shareholders:	35
Ninth Rule : Recognizing Role of Interested Persons:	37
Tenth Rule : Promoting and Improving Performance:	38
Eleventh Rule : Concentrating on Significance of Social Liability:	39





## Introduction

The board of Injazzat Real Estate Development Company is eager to apply the instructions of the regulatory parties and the leading practices in the field of the governance and commitment and accordingly, the company was eager to promote the role of the regulatory environment in the company and make sure that the company and its management and activities comply with the regulatory instructions and the governance rules in contributing to promote the principle of transparency and protecting the rights of the shareholders and interested persons and promote the trust in dealing and this may achieve an effective control on the performance of the company.

In the light of the abovementioned facts, the board is pleased to disclose to M/S shareholders in its annual report of governance the most important achievements of the company concerning the compliance by the company with the instructions of M/S Capital Market Authority concerning the fifteenth book – Governance of Companies and the most important achievements of the company in applying the rules of the company governance shall be as follows:

### First Rule: Developing Balanced Structure for Board:

The board of the company consists of seven directors as of 31 December 2020 and the board consists of a balanced structure containing five non-executive members, one independent member and one executive member. The formation of the board is remarked by variety in the scientific qualifications and practical experiences for the directors of the board and the board was elected in the ordinary general meeting of the company held on 15 May 2019 and the following schedule outlines a brief of the board formation, scientific qualifications, and practical experiences of the company directors:

Name	Classification of Director	Academic Qualification and Scientific Experience	Date of Nomination / Appointment
<b>Dr. Abdulmohsen Medejj Al-Medejj</b>	Chairman (Non-Executive)	<ul style="list-style-type: none"><li>• Obtaining a PhD in philosophy – Dated – from Durham University in England in 1983.</li><li>• Minister of Oil – 1994 – 1996.</li><li>• Member of National Assembly 1992 – 2003.</li><li>• Vice Prime Minister and Minister of Education and Higher Education 2011 – 2014.</li><li>• Vice Prime Minister and Minister of Commerce and Industry 2014 – 2015.</li><li>• Practical experience for the term of more than 30 years in the governmental authorities, banks, and ministries in the State of Kuwait.</li></ul>	16 / 12 / 2019

Mr. Mohammed Abdul Hamid Al Marzouq	Vice Chairman (Non-Executive)	<ul style="list-style-type: none"> <li>• Bachelor's degree in Funding – San Francisco in United States of America</li> <li>• Practical experience for the term of more than 20 years in the companies of investment and properties in the State of Kuwait</li> </ul>	15 May 2019
Mr. Mohammed Ibrahim Al Farhan	Board Director and Chief Executive Officer (Executive)	<ul style="list-style-type: none"> <li>• Bachelor's Degree in accounting – Saint Joseph California University in United States of America</li> <li>• Experience for the term of more than 30 years in executive and leadership positions and boards and representing certain companies in the field of properties and investment</li> </ul>	15 May 2019
Mr. Essa Ahmed Khalaf	Board Director (Independent)	<ul style="list-style-type: none"> <li>• Master's degree in business administration – Dallas University – Texas in United States of America</li> <li>• Experience in leadership positions for the term of more than 30 years.</li> </ul>	15 May 2019
Mr. Wafa Haider Al Shahabi	Board Director (Non-Executive)	<ul style="list-style-type: none"> <li>• Master's degree in mechanical engineering – Wisconsin University in United States of America.</li> <li>• Practical experience in the fields of investment and industry for the term of more than 40 years.</li> </ul>	15 May 2019
Mr. Ayman Abdul Latif Al Shayaa	Board Director (Non-Executive)	<ul style="list-style-type: none"> <li>• Bachelor's Degree in mechanical engineering – Kuwait University.</li> <li>• Obtaining leadership positions for the term of more than 30 years.</li> </ul>	15 May 2019
Mr. Hamad Emad Al Saqr	Board Director (Non-Executive)	<ul style="list-style-type: none"> <li>• Bachelor's degree in Funding – American University in the State of Kuwait.</li> <li>• Practical experience in the field of properties and banks in the State of Kuwait.</li> </ul>	15 May 2019



The board of the company held (6) meetings within 2020 and we summarize the meetings of the company board as follows:

Name	Meeting (1) On 3 / 3 / 2020	Meeting (2) On 2 / 4 / 2020	Meeting (3) On 5 / 8 / 2020	Meeting (4) On 5 / 8 / 2020	Meeting (5) On 2 / 11 / 2020	Meeting (6) On 2 / 2 / 2021
Dr. Abdul Mohsen Medeij Al Medeij	√	√	√	√	-	√
Mr. Mohammed Abdul Hamid Al Marzouq	√	√	√	√	√	√
Mr. Mohammed Ibrahim Al- Farhan	√	√	√	√	√	√
Mr. Essa Ahmed Khalaf	√	√	√	√	√	√
Mr. Wafa Haider Al Shahabi	√	√	√	√	√	√
<b>Dr. Abdulmohsen Medeij Al-Medeij</b>	√	√	-	-	√	√
Mr. Hamad Emad Al Saqr	√	√	√	√	√	√

The board of the company held on 7 January 2020 a meeting for nominating the Chairman of the board and Dr. Abdul Mohsen Medeij Al Medeij was nominated as chairman of Injazzat Real Estate Development Company K.J.C (Public).



### Applying the requirements of registering, coordinating, and maintaining minutes of board meetings

The company is eager to register, coordinate and maintain the minutes of the board meetings and the numbers of the minutes, date, and hour of beginning and ending the meeting, the names of attendants and place of meeting shall be recorded in the minute and the discussions, deliberations and resolutions taken by the board during the meetings shall be recorded in the minute. The secretariat of the board shall follow up and execute all resolutions taken by the board in coordination with all concerned departments in the company. A minute for each meeting shall be maintained under serial number as per the year in a special record to be kept safely inside the company. The secretariat shall have the qualifications assisting him in completing such duties and responsibilities and he shall coordinate the meetings of the board, refer the reports, and prepare and maintain the minutes in an accurate manner for each meeting separately.



## Second Rule: Proper Definition of Duties and Responsibilities:


The board exercises the works required by the management of the company as per its purposes and this power shall be limited only to the law, articles of association of the company or the resolutions taken by the general assembly. The company has an approved manual for delegating the powers as approved by the board and this manual shall clearly define the powers of the board and the executive management. The company has a manual for the regulations concerning the board and committees including the proper definition of the duties and responsibilities and the company has job descriptions for the directors of the board and the executive management and the duties of the board directors and the executive management shall be summarized as follows:


### Responsibilities, Duties and Achievements of Board:

The duties and responsibilities of the board shall include, but not limited to, as follows:

- Approving the key targets, strategies, plans and policies of the company.
- Recognizing the annual estimated balance sheets and approving the periodic and annual fiscal information.
- Supervising the main capital expenditures of the company and owning and disposing of the assets.




- 
- Making sure that the company complies with the policies and procedures including the respect by the company of the applicable regulations and internal controls.
  - Ensuring the accuracy and integrity of the information and data required to be disclosed as per the applicable policies and regulations of the disclosure and transparency.
  - Sending effective contacting channels allowing the shareholders of the company to recognize continually and periodically its various activity aspects and the essential developments.
  - Forming competent committees as per a charter outlining the term, powers and liabilities of the committee and the method of the board control thereon and the resolution of formation shall include the nomination of the members and defining their duties, rights and obligations as well as appraising the performance and work of such committees and their main members.
  - Making sure that the policies and regulations approved by the company are remarked by transparency and clearance supporting the process of taking the decision and determining the powers and authorities between the board and the executive management.
  - Defining the powers delegated to the executive management and the procedures of taking the decision and the delegation term and the board shall define the subjects it has the power to settle them,



and the executive management shall refer periodic reports about its exercise of the delegated powers.

- Controlling and supervising the performance of the executive management members and making sure that they perform all their duties.
- Defining the remuneration slips that will be granted to the personnel such as the fixed remuneration slip relating to the performance.
- Appointing or dismissing any of the executive management members including the chief executive officer and like.
- Developing policies regulating the relation with the interested persons to keep on their rights.
- Developing a mechanism to regulate the dealings with the relevant parties to minimize the conflict of interests.
- Making sure periodically the effectiveness and competency of the internal controls applicable in the company and the subsidiaries.
- Following up the performance of each director of the board and the executive management as per the subjective performance indexes.

The board completed in 2020 its duties and responsibilities as per the instructions of the regulatory parties.



**The executive management of the company performs the following general liabilities:**

- 1- Supervising the application of the company governance framework established by the board.
- 2- Applying the work strategies and plans approved by the board reflecting the long- and short-term targets and priorities.
- 3- Incurring the whole liability before the board about all aspects of the operations and performance of the company.
- 4- Making sure that the proper operational and regulations of fiscal risks and control management exist and are applied.
- 5- Controlling closely the fiscal operations and results as per the plans and balance sheets.
- 6- Representing the company before the main customers, professional societies, service providers and regulatory authorities.
- 7- Preparing the transparent and inclusive performance reports and referring them to the board.
- 8- Complying with the requirements of the regulatory authorities.
- 9- The other obligations assigned to the executive management as per the directions of the board and the instructions of the regulatory authorities.



## **Committees Stemmed from Board**

The board formed the competent independent committees to assist it in performing the assigned duties and the regulations of such committees were approved by the board and their liabilities were defined and their members were appointed in consistent with the scientific qualifications and practical experiences required for each committee as follows:

### **First: Auditing and Risk Management Committee:**

The board formed the committee of auditing and risk management to perform its control role represented in assisting the board in verifying the adequacy of the internal controls, supervising the internal auditing operations and risk management, and verifying the independence of the external accounting auditor of the company and appraising his performance.

### **Forming Committee of Auditing and Risk Management**


The committee of auditing and risk management was formed by the board on 7 January 2020 as permanent committee continuing throughout the term of the board (three years).

The committee consists of three members including an “independent” member and two non-executive members and the committee held (4) meetings in 2020 as outlined below:

Name of Member	Position	Meeting (1) Held on 03 / 03 / 2020	Meeting (2) Held on 27 / 04 / 2020	Meeting (3) Held on 05 / 8 / 2020	Meeting (4) Held on 02 / 11 / 2020
Mr. Essa Ahmed Khalaf	President of Committee (Independent Member)	√	√	√	√
Mr. Wafa Haider Al Shahabi	Committee member	√	√	√	√
Mr. Hamad Emad Jasim Al Saqr	Committee member	√	√	√	√
Mr. Saed Hamideh	Secretary	√	√	√	√

**The most important responsibilities and achievements of the auditing and risk management committee shall be as follows:**


- Recommending the board for approving the appointment of the internal auditor and defining his remunerations.
- Recommending the board for re-appointing the external auditors and defining their remunerations and reviewing their appointment letters.
- Following up the works of the external auditors and making sure that they do not execute other works for the company except the services required by the auditing profession.

- 
- Considering the notes of the external auditors on the financial statements of the company and following up the actions taken in this regard.
  - Considering the applicable accounting policies, expressing the opinion, and recommending the board in this regard.
  - Appraising the adequacy of the internal controls applicable in the company and preparing a report including the recommendations of the committee in this regard.
  - Reviewing the periodic financial information and disclosing it to the board to state the opinion and recommend the approval thereof.
  - Reviewing and recognizing the auditing plans proposed by the internal auditor and stating notes thereon.
  - Reviewing the results of the regulatory authority reports and making sure that they took all required procedures in this regard.
  - Making sure that the company complies with the relevant, laws, policies, regulations, and instructions.
  - Reviewing the strategies and policies of risk management.
  - Reviewing the periodic risk reports and considering the key risks faced by the company.

### **Second: Committee of Nominations and Remunerations:**

The committee of nominations and remunerations aims at assisting the board in performing its supervisory liabilities and duties to ensure the





nomination of the competencies required for the executive and administrative positions in the company and make sure that they are executed as per an institutional frame remarked by the whole competence and transparency mainly serving the interest of the company and then achieving the targets of the shareholders to ensure the safety and adequacy of the remuneration and allocation policy applicable by the company concerning the directors of the board and the executive management and make sure that the policy of remunerations applicable by the company is fair and contributes mainly in polarizing the human cadres having the professional competence and high technical capabilities as well as firming up the loyalty principle in the company.

### **Forming Committee of Nominations and Remunerations:**

The committee of Nominations and Remunerations was formed by the board on 7 January 2020 as permanent committee continuing throughout the term of the board (three years) and the committee consists of three members including two non-executive members one independent member and the committee held one meeting in 2020 as outlined below:

No.	Name of Member	Capacity	Meeting (1) Held on 02 / 02 / 2021
1	Dr. Abdul Mohsen Medij Al Medij	President of Committee	✓
2	Mr. Essa Ahmed Khalaf	Committee Member (Independent)	✓
3	Mr. Ayman Abdul Latif Al Shayaa	Committee Member	✓

**The most important duties and achievements of Nomination and Remuneration Committee:**

- Supervising the process of appraising the board, the self-appraisal of the directors and appraising the performance of the chief executive officer.
- Defining the required needs of the proper skills for the membership of the board and reviewing such needs annually.
- Polarizing the applications of the persons who are desirous to fill up the executive positions as required and reviewing such applications.
- Making sure that the capacity of independence does not terminate for the independent director of the board.
- Defining the various slips of the remunerations that will be granted to the personnel.



**Applying the requirements allowing the directors of the board to obtain the accurate and timely information and data:**

The secretariat of the board shall prepare the administrative and legal requirements of the board as he is the reference and supporting point for all directors of the board and he ensures that they obtain the required and timely information from all concerned departments and makes sure that such information is delivered to the directors. The secretariat is eager to authenticate all conducted resolutions and discussions and keep on and regulate the records of the meeting minutes, the minutes of the committees stemmed from the board and the relevant documents and reports.

**Third Rule: Selecting Competent Persons for Membership of Board and Executive Management:**

**Forming Committee of Nominations and Remunerations:**

The committee consists of three members including two non-executive members and one independent member and the committee held one meeting in 2020.

**Remunerations of Board Directors:**

The remuneration system of the board directors includes as follows:



### **Remunerations of Board Directors:**

They are calculated as per the provisions contained in article 198 of the law of companies no. 1 of 2016 stipulating that the total remunerations of the board directors may not be estimated for more than ten percent of the net profit after deducting the depreciation, reserve, and distribution of revenues of no less than 5% of the capital to the shareholders or any higher percentage stipulated in the articles of association of the company. The independent director may be exempted from the abovementioned maximum remunerations after obtaining the consent of the ordinary general meeting and the remunerations of the board directors shall be approved by the ordinary general meeting of the company.

### **Allowances of Committees Stemmed from Board:**

Such allowances represent the work consideration of the board directors in consideration of attending and taking part in the works of the committees and performing the duties assigned to the committees after being delegated by the board to complete them as per the regulations of the committees approved by the board and the board director is granted an annual cash allowance for his participation in the work of each committee.

### **Other Allowances:**

The other cash allowances represent the delegation by the board of any of its directors to exercise certain powers and liabilities of the board as per the text of article 185 contained in the law of companies no. 1 of 2016.

### **Remunerations and Incentives of Executive Management:**

The remunerations of the executive management are divided into two sections:

#### **First: Fixed Remunerations and Allowances:**

Shall include fixed salaries, allowances and benefits granted to the members of the executive management as per the approved employment contracts and the internal policies applicable in the company.

#### **Second: Variable Remunerations:**

Shall include the variable remunerations relating to the performance and achievement of the company targets.

Committee of Nominations and Remunerations recommends the board on the values of the remunerations proposed to be granted to the members of the executive management.

- The remunerations granted to the directors of the board and the executive managements in 2020 shall be analyzed as follows:

	Total Salaries and Benefits Kuwaiti Dinar	Allowance of attending committees of board
Board Directors	-	-
Executive Management	259,633	-

The company prepared a detailed report of all amounts obtained by the directors of the board and the executive management to be disclosed to M/S the shareholders of the company in the ordinary general meeting of the company for approval and moreover, the company maintains an accurate and detailed statement for all salaries, remunerations, and other benefits payable to each of the board directors and the members of the executive management and the shareholders have the right to recognize them.

#### Fourth Rule: Ensuring Integrity of Financial Reports:

##### Undertaking of integrity and safety of the prepared financial reports:

The executive management presented a written undertaking to the board of Injazzat Real Estate Development Company to ensure the integrity and safety of the financial reports of the company and they include all financial aspects including operation information and results and they are prepared as per the international financial reporting standards and the board presents to the shareholders of the company an undertaking of the integrity and

safety of the financial information and reports relating to the activity of the company.

**Recognition of Executive Management for  
Integrity and Fairness of Financial Information**

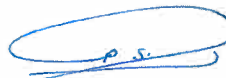
We, director, chief executive officer and general manager assistant of the financial and administrative department, hereby recognize as being aware that the accumulated financial information of Injazzat Real Estate Development Company K.J.C consisting of:

- Accumulated statement of financial position as of 31 December 2020.
- Accumulated statement of income.
- Accumulated statement of changes in titles.
- Accumulated statement of cash flows.

For the fiscal year ended at this date and the clarifications about such accumulated financial information including the summary of the key accounting policies fairly showing in all financial aspects the accumulated financial position as of 31 December 2020, its accumulated financial performance, accumulated cash flows for the fiscal year ended at the same date as per the international standards of preparing the financial reports.



**Saed Mahmoud Hamideh  
Deputy General Manager  
Financial and Administration**



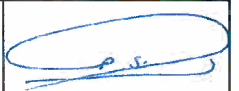


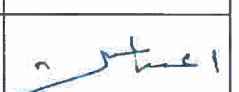
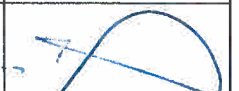


**Mohammed Ibrahim Al Farhan  
Board Director  
Chief Executive Officer**



**Recognition of Board for  
Integrity and Fairness of Financial Information**

We, Chairperson, Board Directors of Injazzat Real Estate Development Company K.J.C (Public), hereby undertake that the financial information provided to the external auditor is accurate and safe and the financial reports of the company were properly and fairly disclosed as per the international accounting standards applicable in the State of Kuwait and approved by the authority and they outline the financial position of the company as of 31 December 2020 based on the information and reports presented to us by the executive management and the external auditor and we exerted every effort to make sure of the integrity and accuracy of such reports.

Name and Position	Signature
Dr. Abdul Mohsen Medejj Al Medejj Chairman	
Mr. Mohammed Abdul Hamid Al Marzouq Vice Chairman	
Mr. Mohammed Ibrahim Al Farhan Board Director and Chief Executive Officer	
Mr. Wafa Haider Al Shehabi Board Director	
Mr. Essa Ahmed Khalaf Board Director	
Mr. Ayman Abdul Latif Al Shayaa Board Director	
Mr. Hamad Emad Al Saqr Board Director	



### **Forming Committee of Auditing and Risk Management:**


The committee of auditing and risk management confirmed that it reviewed the periodic and annual financial information and discussed it with the executive management before disclosing it to the board.

The committee of auditing and risk management meets periodically with the external auditors assigned to audit the accounts of the company to discuss the annual accounting policies and financial information and the committee held (4) meetings in 2020.

### **Confirming Independence and Neutrality of External Auditor:**

Any services presented by the external auditor shall be disclosed to the committee of auditing and risk management to make sure of the independence of the external auditor.

The committee of auditing and risk management appraised the performance of the external auditor and recommended the board on the appointment or re-appointment of the external auditor.



The committee of auditing and risk management recommended the board for reappointing an external auditor from the registered auditors for the fiscal year ended on 31 December 2020 who is Mr. Badr Adel Abdul Qader from Al Ebian And Al Oseimi and Co. Office – Earnest Yung as auditor for the company and he was approved by a resolution issued by the ordinary general meeting held on 8 June 2020.

Fifth Rule: Developing Proper Regulation for Risk Management and Internal Control

**Risk Management Unit:**

The company set up a risk management unit subordinated directly to the board and the organizational structure of the company was approved after amendment in a manner outlining the establishment of the risk management unit and the board assigned one of the external consultancy parties to perform all duties of the risk management.

**Internal Auditing Unit:**

An independent internal auditing unit subordinated directly to the board was established and the board assigned one of the competent offices to perform the duties of the unit.



### **Forming Committee of Auditing and Risk Management:**

The committee was re-formed on 7 January 2020 consisting of 3 directors of the board including one independent director and the board defined the term of the committee membership as per the membership term of the board.

### **Regulations of Internal Disciplines and Control:**

The company depends on a group of the discipline regulations and regulatory rules covering all activities and managements of the company and such regulations and rules keep on the integrity of the financial position of the company, accuracy of its information and competency of its operations in all aspects. The organization structure of the company reflects the double control disciplines including the proper definition of the authorities and liabilities, the complete separation in the duties, the unavailability of any interest conflicts, double control and double signature and the company has policies and actions for all departments.

### **Appointing Independent Office for Reviewing Performance of Internal Auditing:**

The board of the company appointed an independent auditor to perform the works of examining and appraising the internal controls of the company and disclosing them to the board and a copy of the report shall be annually sent to Capital Market Authority.






## Sixth Rule: Promoting Professional Behavior and Morals:

### Standards and Definitions of Professional Behavior and Morals:

The company represented by the board and the executive management and all its personnel believes that the professional and moral conduct is one of the factors of the company success in achieving its targets and starting from this point, the board approved a policy concerning the definition of the professional and moral behavior standards in the company including the standards of the professional and moral conduct and the liabilities of the company, board, executive management, and personnel. The company has also the reporting policy developing a mechanism allowing the personnel and the interested persons to inform about any improper or suspicious practices and taking the proper steps to perform an independent investigation. The executive management assigned the department directors to take the required actions to apply the standards of the professional and moral conduct. In executing your obligations towards the company, the personnel, especially, shall:

- Recognize, understand, and completely adhere to the internal rules, procedures, and guidelines applicable in the company at any time.
- Comply with and adhere to the applicable laws.
- Avoid any situation that may lead to the conflict of interests and in case of suspecting this or facing any obstacle, the section under



which the employee acts shall be informed immediately of this conflict of interest of the compliance officer of the company shall be informed thereof.


- Completely adhere to the confidentiality of the professional secrets.
- Abstain from violating the powers granted to them and respect the rules in respect of the approved signatures.
- Continue in incurring the whole liability for which they authorize the third person and exercise the sufficient supervision and control.
- Respect the dignity and privacy of colleagues.

### **Policies and Procedures of Company for Minimizing Conflicts of Interests:**

The company has approved policies and actions to minimize the conflicts of interests and their treatment methods and dealing with them within the frame of the company governance, considering the law of companies and there are no amendments on the policy.

The policy of minimizing the conflicts of interests approved by the board aims at ensuring the application of the proper actions to discover the essential conflicts of interests and effectively deal with them and making sure that the board deals with the existing and prospected conflicts of interests and all decisions are taken for the interest of the company.

The obligation by all personnel of the standards of professional and moral conduct is continually verified by the human resource management in the



company and the internal auditing works conducted in all departments of the company.


The company maintains a record for informing about any violations in the policies or professional and moral conduct as no notification was recorded in 2020.

### Seventh Rule: Accurate and Timely Disclosure and Transparency

#### Disclosure and Transparency:

The company has a manual of policies and actions including the policies and mechanisms of the disclosure and transparency and such policies included clearly the general rules and the disclosure procedures and mechanisms and the policy outlined the liability by the compliance department in the company of managing the disclosure operations and verifying the compliance with the information required to be disclosed timely and in a detailed and accurate manner as per the instructions of Capital Market Authority and the applicable rules and regulations. The policy confirmed disclosing and updating the information on the website of the company.

The company has an approved action plan for regulating the deliberation of the informed persons in promoting the principle of disclosure and transparency in all its transactions and there are no amendments thereon as this plan outlined the informed persons in the company, the information



required to be disclosed, time of disclosure and deliberation prohibition periods and it detailed the deliberation of the informed persons for the financial papers.

### **Disclosure Record:**

The company keeps on a record for the directors and executive management disclosures so that the record shall include disclosures in proportion with the title and deliberations of the company shares in addition to the recognitions and undertakings presented by the board directors in their informed capacity and this records shall be maintained in the head office of the company and it may be accessed by all shareholders of the company without fees or consideration and it shall be periodically updated in a manner reflecting the reality of the relevant party situations.

### **Investor Affair Unit:**

The company has an independent unit liable for providing and presenting the information, data and reports required for the current and prospected investors in the company and the duties of the unit shall be managed by Mr. Saud Al Fouzan and all information, reports and news shall be disseminated via the website of the company and he shall contact the investors and shareholders by contacting the number 22276254 or the following email:

**[sfowzan@injazzat.com](mailto:sfowzan@injazzat.com)**




### **Information Technology in Disclosure Operations:**

The company developed the basic structure of the information technology and depended greatly thereon in the disclosure operations and a section allocated for the company governance was set up in which all information and data assisting the current and prospected shareholders and investors is disclosed to exercise their rights and appraise the performance of the company.

### **Eighth Rule: Respecting Rights of Shareholders**

All categories of shareholders enjoy equal rights in a manner not affecting the interests of the company and in consistent with the relevant rules and regulations and such rights include as follows:


- Recognizing and taking part in amending the articles of association and the regulations.
- Taking part in the general meetings and stating the notes, recommendations, and reservations on the performance of the company.
- Assigning other persons to attend the general meetings by virtue of a special power of attorney.

- 
- Voting in the nomination of the board directors and nominating to the membership of the company board as per the applicable rules and mechanisms.
  - Obtaining the required information and reports assisting in taking the investment decisions.
  - Obtaining the distributed profits.
  - Freely disposing of the shares by purchase / sale / transfer.

The board and the executive management of the company seek to deal with the information contained on the abovementioned records as per the highest protection and privacy degrees in consistent with the law and regulations of Capital Market Authority and the instructions and regulatory disciplines issued thereby.

The company has a record kept in Kuwaiti Joint Stock Company containing the names, nationalities and counties of the shareholders and the numbers of shares owned thereby.

The board and executive management of the company seek to provide the effective participation of the shareholders in the general meetings, discussing the subjects included in the agenda and the relevant inquiries, raising the questions thereon to the directors of the board and the external auditor and the board or the external auditor shall reply to the questions to the extent consistent with the interests of the company.




The company developed the policies regulating the relation and rights of the shareholders and the interested persons and such policies are developed by the company under the possession of the shareholder for reference at any time.

**Ninth Rule: Recognizing Role of Interested Persons:**

The company respects and protects the rights of the interested persons in all its internal and external dealings and transactions as the contributions of the interested persons are deemed very important supplier to create the competitive capability of the company and support its profitability levels and in order to protect the transactions of the interested persons in the company, whether contracts or transactions, the company approved policies and internal controls including, without limitation:

- Policy of protecting the rights of the interested persons.
- Policy of minimizing the conflict of interests.
- Policy of informing the violations.
- Policy of the transactions with the relevant parties.
- Policy and procedures of procurement and contracting.

The company provides information about the company and discloses it in the website allowing the interested person to obtain the required information about the company and the company enables the interested person from obtaining the financial information and data relating to their



activities and dealings with the company through the financial management of the company.

The board of the company approved the violation reporting policy by virtue of which the company shall observe the transparency and professional and moral conduct in all dealings and give the interested persons the chance to inform of any illegal, immoral, or illegitimate activities and the company shall observe the confidentiality of the investigations conducted on the violation and protect the informing person and not harm him.

#### Tenth Rule: Promoting and Improving Performance:

##### Training Directors of Board and Executive Management:

One of the investment companies held a training course in the year for the directors of the board and the members of the executive management on the amendments conducted on the laws and regulations in 2020.

##### Appraising Performance of Board and Executive Management:

The company prepared systems and mechanisms for appraising the directors of the board and the executive management by developing a group of subjective performance estimation indexes relating to the extent of achieving the strategic targets of the company.

##### Institutional Morals:

The company has policies and actions contributing in achieving the strategic targets and promoting the institutional morals of the personnel assisting in keeping on the financial integrity of the company.



The company prepares integrated reports assisting the directors of the board and the executive management in taking the decisions contributing in achieving the interests of the shareholders.

**Eleventh Rule: Concentrating on Significance of Social Liability**

The company has an approved policy for the social liability aiming at balancing between the targets of the company and the targets of the society and ensuring the direction of the company on managing its social liabilities achieving the sustainable development of the society and the personnel by contributing in providing work opportunities, reducing the unemployment levels in the society and utilizing the available resources.

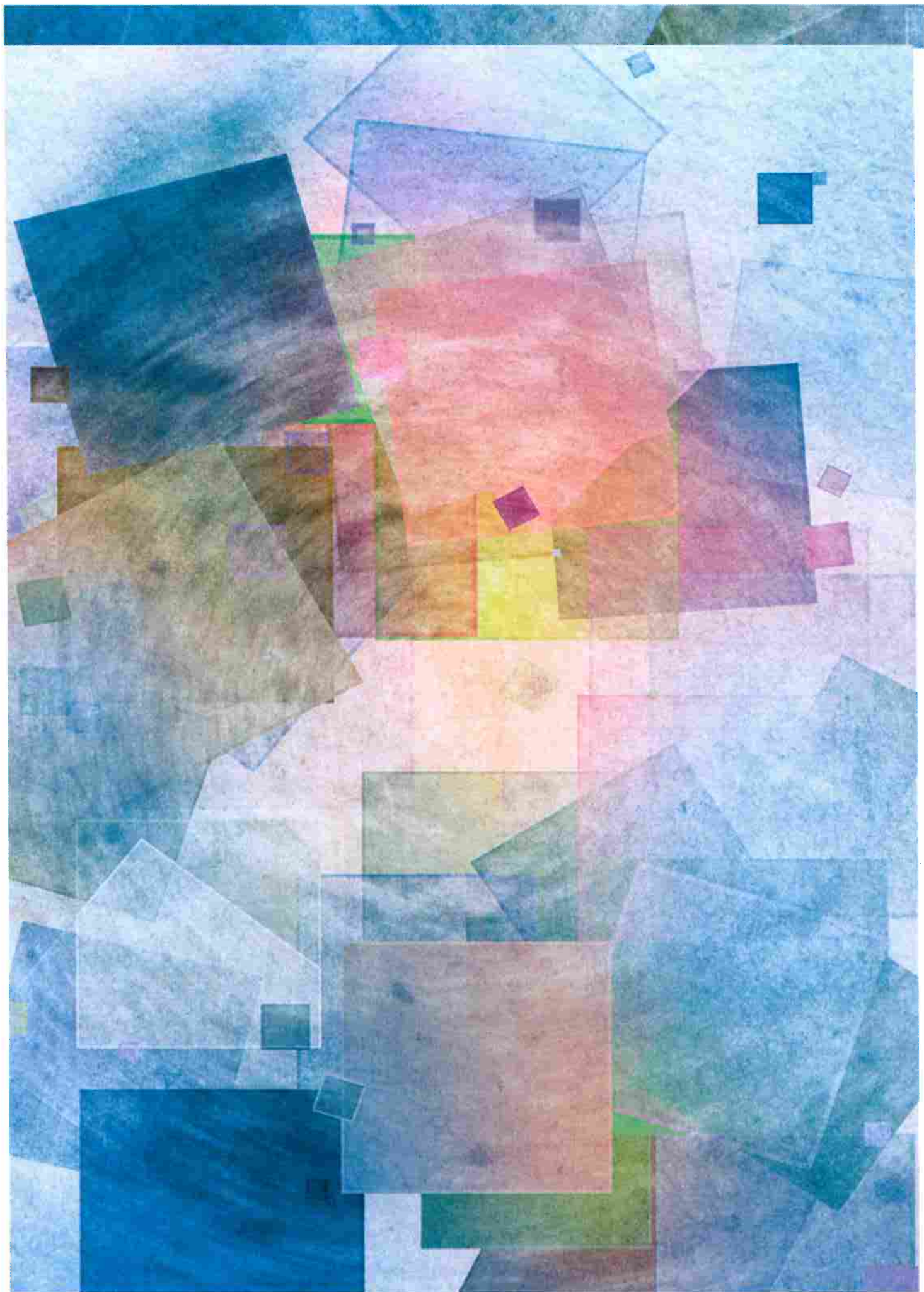
Injazzat Company launched many initiatives in the field of the social liability by using materials and supplies reserving the environment and public hygiene and internal power saving materials by its eagerness in all its projects to develop a system for waste management in all projects of the company in a safe manner keeping on the environment and public hygiene of the society and the company launched in 2020 a number of social initiatives as follows:

- 1- Injazzat Company presented the material support to Loyak Organization to encourage the society members to be volunteers and the human and integrated action between the same society individuals.



**Dr. / Abdul Mohsen Medeij Al Medeij**

**Chairman**





## **THE COMPANY PROJECTS**

### **2020**

## Introduction

Since its incorporation in 1998, Injazzat Real Estate Development Company focused on achieving its strategic objectives aiming maximize shareholders profitability, increase cash flow rates, and achieve the highest institutional standards by sourcing the best investment opportunities and methods available in the markets, as well as investing in creative channels aiming to achieve the desires and aspirations of the company, investors, and shareholders. It focused on developing and operating the real estate projects as per the highest standards aiming to create various periodic revenues ensuring the continuous profit rates exceeding similar investments. The company succeeded in executing a number of the successful transactions from developed real estate projects and creating tools and entities to manage and operate a number of the projects to promote and diversify the sources of the company revenues.

The management contributed to the success of the company by concentrating on promising markets in the area, especially the markets that are expected to grow in the upcoming period. Additionally, the company focused on investing in creative real estate sectors which added value to the investments.

## Local Market

Injazzat focused on seizing investment opportunities as well as project development to achieve rewarding returns. The company was able to maximize returns through investing in various assets in the local real estate market which are inline with the company's strategy and regulations such as:

- Acquisition and Disposition
- Development and Operations
- Trading operations
- Project Management

## Al Dajeej Building

Al Dajeej Building is located in Al Dajeej area Al Farwaniya governate and was acquired by the Company to become one of the Company's income generating assets. It reinforces the Company's strategy for local expansion, specifically in properties with regular returns. The building has been leased through government contracts. Additionally, the company is renovating the unoccupied space in the building in order to release at a higher return.

## Prime Tower

Injazzat has acquired an old building located in Sharq, Ahmed Al Jaber street with a land size of 300 sqm and built up area of 920%.The company has demolished the building and began constructing an office tower consisting of 2 basements, ground floor, mezzanine, and 22 floors making up 6, 207 sqm. The units will be sold as individual office floors during the construction of the building.





## GCC Countries

The company has long been investing in the markets of the Arabian Gulf regions due to the growth in the economic and legislative factors, therefore serving investors through investing directly in the purchase, development, and operation of real estate, or through creating strategic partnerships with Gulf investors that will open up new investment prospects in the region.

### Kingdom of Bahrain

#### Dhow Real Estate Company

Dhow Real Estate Company was established in 1999 as a Bahraini company fully owned by Injazzat, to invest, develop and trade in Bahrain's real estate sector. It has realized fine gains from a number of sales and acquisition deals. The Company enhanced the list of its income-generating assets through developing warehouses at the Bahrain Investment Wharf Project. In addition, the Company still owns several strategically located plots in the areas of Al Seef, and Ras Zuwaid.

#### Al Yal Real Estate Company

Al Yal Real Estate was established in equal partnership with Al Dow Real Estate Company in the Kingdom of Bahrain, to merge and develop three pieces of land owned by the two companies at Al Seef area. The company is developing its largest project (Catamaran Towers) which consists of two residential buildings comprising 583 apartments with a commercial complex in the middle. The project also includes 3 floors that hold up to 600 parking spaces. They contain restaurants and commercial shops. One of the two towers is being sold as units, and the other will be kept for rent al purposes. The first tower that is being sold as units has been completed in the second quarter of 2019 and the second tower has been completed in the fourth quarter of 2020 and is expected to be leased in the first quarter of 2021.

#### First Real Estate Company

Injazzat Real Estate Development Company established "First Real Estate Company" in the Kingdom of Bahrain in 2002, shared equally with a qualified Bahraini investor who is an expert in both the construction and real estate fields, to build and develop residential complexes.

In 2005, the Company underwent restructuring, and its capital was increased to BD 30 million through adding some new assets and allowing the entry of new investors. The Company maintains the quality and performance of its current income-generating assets that enjoy high occupancy rates. In parallel, it works to continuously invest in new promising future projects through the development of its lands and assets situated in strategic locations.

### United Arab Emirates

#### Al Qouz Labor Camp building 604 - 606

The company owns 50% of Al Qouz residential building through its subsidiary known as Al Bateel along with another investor. The project is located in Dubai, covering a land area of 100,136 sq.ft. and a total built-up area of approximately 227,000 sq.ft. The project avails 656 rooms in addition to 24 offices and 8 retail shops.

#### Al Qouz Labor Camp building 596

Al Qouz labor camp 596 covers a land area of approximately 50,051 sq.ft. and a total built-up area of approximately 113,700 sq.ft. It comprises 328 rooms, in addition to 12 offices and 4 commercial shops.

#### Al Muhaisna Labor Camp building

The building is located in Al Muhaisna region, Dubai, and covers a total land area of about approximately 56,914 sq.ft. It comprises two floors and 399 rooms and 2 commercial units. The company purchased this project in equal partnership with First Real Estate Company-Kingdom of Bahrain.



### Al Sanbook Real Estate Company buildings

In association with strategic local investors, the Company acquired Al Sanbook Real Estate Company which owned 2 plots of lands in Jabal Ali – Dubai, covering a total area of 41,980 sq.ft. The plots were developed into labor accommodation buildings with a total built-up area of 159,000 sqft providing a total room of 380. The buildings were completed in 2016 and are fully leased.

### Dunes Village, Dubai Investment Park

Injazzat through its subsidiary (Al Bateel Real Estate Company) acquired two residential buildings at Dubai Investment Park each building consists of 52 residential apartments each and covers an area of 108,298 sq.ft. Both buildings are fully leased.

### Jabal Ali 9223 & 9224 labor camp project

The company acquired 2 plots of land with a total area of 50,000 sq.ft. and with a built-up area of 201,190 sq.ft. The project accommodates 345 rooms located in Jabal Ali – Dubai and was completed in 2019 and is fully leased.

### Jabal Ali Commercial Project

The company acquired a land in Jabal Ali through its subsidiary (Al Bateel Real Estate Company) with an area of 24,372 square feet. The objective is to build a commercial complex to serve the residents in the area. The building has been completed in the third quarter of 2020 and is fully leased to a single tenant . The entire building has been pre-leased to a single tenant.

### Injazzat Residence – Al Maydan

The company purchased a 30,000 sq.ft. plot in Al Maydan, United Arab Emirates with the aim of developing a residential building with a total built-up area of 107,000 sq.ft. and the project consist of 53 apartments and 3 retail shops. The project has been completed in the fourth quarter of 2020.



### International Level

In order to achieve the highest levels of balance in investments, diversity of sources of income, distribution of risk and geographical concentration, Injazzat has headed to investing in global markets characterized by stability and balance as to mitigate risks including European and U.S. markets. This contributed to the diversity of the company’s real estate portfolio where it cooperated with several asset managers experienced in managing and operating the company’s assets in international markets.

## FRANCE

### **Alpha Investment Fund**

The Company established and submitted a real estate fund, in compliance with the Islamic Shari'ah principles, known as the Alpha Investment Fund. Its investment strategy targets profitable office buildings and warehouses across the North and South eastern French cities between Paris in the north and Marseilles in the south. The Fund manager has started liquidating the holding Spv's and is expected to exit from the fund in 2020.

## GERMANY

### **Hitachi Power Building Project:**

The Company invested 50% of shares into an office building in Duisburg City, Germany, located in the Düsseldorf Governorate. Duisburg is one of the major world centers well-known for steel production and trade. It is famous for its river port, Duisport, the largest and most important river port in Europe. The building consists of 8 floors and two basement floors dedicated for car parking. The total area of the building is 218,000sq.ft. The building is leased to Hitachi Power Systems Company under a long-term lease and generates high periodic returns.

## UNITED STATES OF AMERICA

### **399 Jefferson, Parsippany**

Injazzat owns a significant share of an office building located in Parsippany, New Jersey, USA, covering a total area of 206,155 sq.ft. The building is leased with long term contract to a reputable medical company.

### **Denton Harvest Hill**

The Company acquired a plot of raw land in Texas in 2016 with the intention of building infrastructure and splitting the land to about 150 plots and then resell the plots as residential lands prior to development.

### **Valpak building**

The company owns a majority share in the Valpak building as an industrial factory & commercial office in the city of St. Petersburg suburb of the city of Tampa, located in Florida, USA. The building has an area of 465,000 square feet and is fully leased with a long-term lease creating stable cash flows for the company.





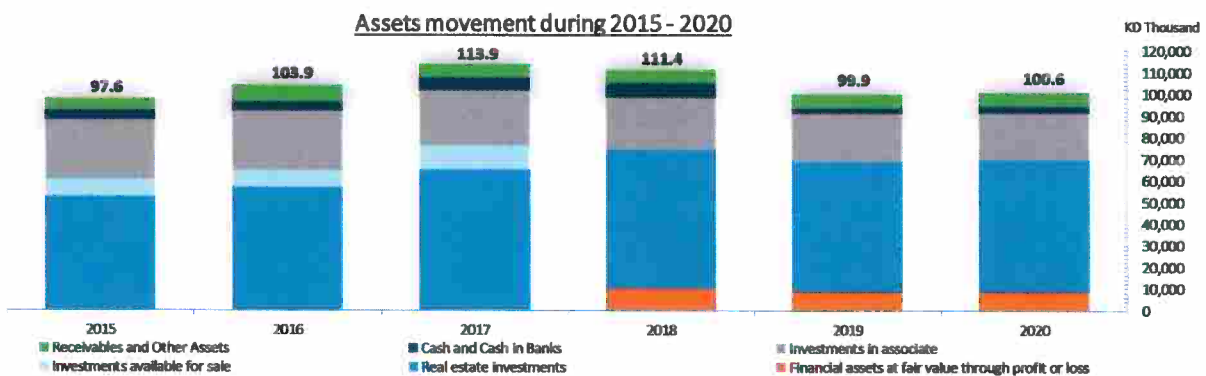




## **FINANCIAL ANALYSIS OF YEAR 2020**

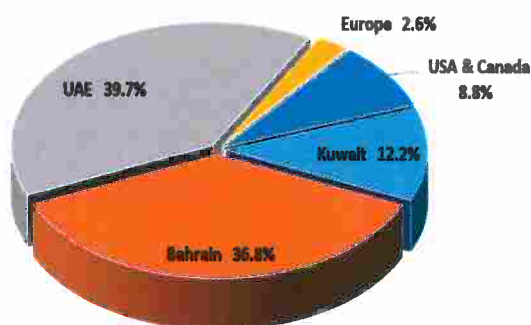
## FINANCIAL POSITION:

Despite of the unprecedented challenges, Injazzat Company reserved the stability of its financial position in 2020 and the balance of the company did not outline any essential changes within the year in respect of the volume and structure of the assets and the geographical distribution or in respect of the liabilities for the volume of debts and other liabilities. The assets of the company increased within 2020 to about 100.6 million Kuwaiti Dinars with the increase of about 719.8 thousand Kuwaiti Dinars or about 0.7% in comparison with its level in 2019 reaching 99.9 million Kuwaiti Dinars due to the increase of the investment property item which is one of the highest value items in the total assets to about 61.4 million Kuwaiti Dinars (61% of the total assets), in comparison with about 60.3 million Kuwaiti Dinars (60.4% of the total assets). The company did not make any additions to the investment properties, but it incurred development costs of 1.6 million Kuwaiti Dinars, so their value increased and the item of cash and balances in banks increased to about 2.8 million Kuwaiti Dinars (2.8% of the total assets) in comparison with about 22.4 million Kuwaiti Dinars (2.4% of the total assets). On the other hand, the item of investments in sister companies decreased little to about 22 million Kuwaiti Dinars (21.8% of the total assets) in comparison with about 22.4 million Kuwaiti Dinars (22.4% of the total assets) and the item of financial assets included in the fair value through the profits or losses decreased also to about 8.2 million Kuwaiti Dinars (8.1% of the total assets) in comparison with about 8.4 million Kuwaiti Dinars (8.4% of the total assets) at the end of 2019,

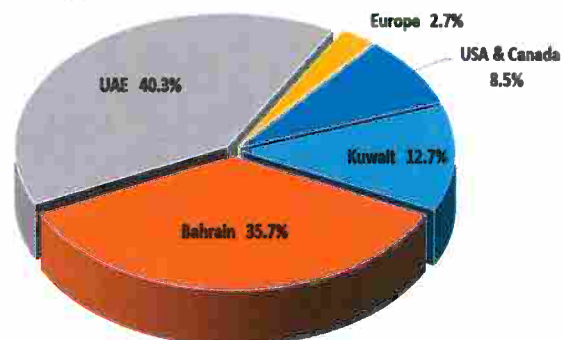


The assets of the company were distributed at the end of 2020 in the geographical aspect with the percentage of 12.7% in the local market, 76.1% in the market of region or states of Gulf Cooperation Council and 11.2% in the European and American market in comparison with 12.2%, 76.5% and 11.3% respectively in 2019.

**Assets Geographic Distribution as of end 2019**



**Assets Geographic Distribution as of end 2020**



In respect of the liabilities, they slightly decreased to about 245 thousand Kuwaiti Dinars, i.e 0.5% to reach about 47.4 million Kuwaiti Dinars in comparison with about 47.7 million Kuwaiti Dinars at the end of 2019. The volume of banking loans increased about 250 thousand Kuwaiti Dinars as they reached 40 million Kuwaiti Dinars in consideration of the total debts reaching about 39.8 million Kuwaiti Dinars at the end of 2019, i.e they increased to about 0.6% and formed about 39.8% of the total liabilities and equities. The loans are guaranteed by the investment properties and investments in sister companies owned by the group. The total percentage of liabilities to the total



assets in 2020 decreased to about 47.1% in comparison with about 47.7% in 2019 and the percentage of liabilities to the total equities to about 89.1% in comparison with 91.2% at the end of 2019.

The item of the equity of the parent company owners increased to about 53.2 million Kuwaiti Dinars in comparison with about 52.3 million Kuwaiti Dinars in 2019, i.e it increased about 965 thousand Kuwaiti Dinars or with the percentage of 1.8% and this achieved due to the profits obtained by the company in 2020. Accordingly, the carrying value of the company shares registered the level 159 Fils in 2020 in comparison with 156 Fils in 2019.

## FINANCIAL PERFORMANCE

The company was able to achieve profits in 2020 and it was an exceptional year in its difficulties due to the negative consequences of Novel Corona Virus Crisis on all sectors in general and the real estate sector in particular and the net profits of the company reached about 0.831 million Kuwaiti Dinars in comparison with the losses of 2019 reaching about 6.9 million Kuwaiti Dinars.

Within the year, the fair value of the investment properties decreased about 0.536 million Kuwaiti Dinars in comparison with the great decrease reaching about 8.7 million Kuwaiti Dinars due to taking one of the extraordinary allocations in 2019 and it was precedent allocation contributing in the stability of the performance in 2020. The company achieved profits in its share from the conclusions of the sister companies reaching about 691 thousand Kuwaiti Dinars in comparison with the losses reaching 393 thousand Kuwaiti Dinars. On the other hand, the profit of selling financial assets included in the fair value through the profits or losses decreased reaching about 0.156 million Kuwaiti Dinars in comparison with about 1.4 million Kuwaiti Dinars at the end of 2019. The item of the property lease revenues decreased also to about 308 thousand Kuwaiti Dinars reaching to about 2.9 million Kuwaiti Dinars in comparison with about 3.2 million Kuwaiti Dinars at the end of 2019.

On the other hand, the total expenses decreased to about 3.9 million Kuwaiti Dinars in comparison with about 4.8 million Kuwaiti Dinars as most items of expenses decreased and the funding costs decreased to about 1.7 million Kuwaiti Dinars or about 461 thousand Kuwaiti Dinars in comparison with about 2.2 million Kuwaiti Dinars. The administrative and general expenses (including the costs of employees) decreased also to about 314 thousand Kuwaiti Dinars reaching to about 0.737 million Kuwaiti Dinars in comparison with about 1.1 million Kuwaiti Dinars in 2019. The costs of property operations decreased to about 168 thousand Kuwaiti Dinars reaching to about 1 million Kuwaiti Dinars in comparison with about 1.2 million Kuwaiti Dinars in 2019.

The basic and diluted share profitability concerning the shareholders of the parent company reached about 2.48 Fils in consideration of losses reaching about 20.52 Fils per share in 2019. The board proposed not to distribute cash profits or encash the remunerations of the board directors for the fiscal year ended in December 2020.

All financial indexes of the company improved as the revenue index of the total Assets (ROA) increased to about 0.8% in comparison with the losses reaching about -13.2% in 2019. The revenue indexes of the shareholders' equity (ROE) increased to about 1.6% in comparison with the losses reaching about -6.9% in 2019. The following table refers to the comparison between the performance indexes of the company to the average performance of a sample of the real estate companies included in Kuwait Stock Market:

Ratio	Aljazzar Real Estate	Real Estate Sector
Price/Earnings per share (P/E)	30.0	28.0
Price/Book Value (P/B)	0.5	0.7
Return On Equity (ROE) %	1.6%	-1.6%
Return On Assets (ROA) %	0.8%	-0.8%

\*The rate 39 of company included in Kuwait Stock Market in the real estate sector its financial information is available to be calculated on an annual basis.

\*\* The share price multiplexor on the share profitability P/E calculated after excluding the companies incurring losses in the remaining period of 2020.

## ANALYSIS OF SHARE PERFORMANCE IN 2020

The liquidity of Kuwait Stock Market increased in 2020 in comparison with its level in 2019 and this means that the attraction of the shares included therein increased by the support of the local and foreign investor but the prices decreased in comparison with their index performance as Shal index decreased to about -13.4% in comparison with the end of 2019 and the company index decreased to about -6.9% in comparison with the increase of the sector index to about 3.7% for the same period. At the end of 2020, the price of the company share was closed at 74.5 Kuwaiti Fils in comparison with the share closure level at the end of 2019 reaching 80 Kuwaiti Fils and the market price reached the highest level in 2020 at 86.9 Kuwaiti Fils whereas the share price registered the least level at 64.2 Kuwaiti Fils.

The following diagram shows the share price movement of the company within the last ten years (2011 – 2020) and the share performance of the company refers to recession with the percentage of -4.5% in comparison with the increase to about 3.7% in the real estate sector within the period.



The value of the deliberated shares for the company reached in 2020 about 395 thousand Kuwaiti Dinars with the daily deliberation rate of about 1.6 thousand Kuwaiti Dinars with the recession rate reached about -60.4% in comparison with the deliberation value rate in 2019 reaching about 1 million Kuwaiti Dinars. The value of the deliberated shares is about 0.1% of the total deliberation value in the real estate sector within 2020 whereas the volume of the deliberated shares reached about 5.2 million shares with the daily deliberation rate of about 21.9 thousand shares with the recession rate reaching about -56.0% in comparison with the deliberation rate in 2019 reaching about 49.7 thousand shares.

The turnover rate of the share reached about 1.5% in comparison with the previous year level reaching 3.6% and the rate of the company is less than the rate of the real estate sector reaching about 27.3% in 2020. Whereas the total market value of the company decreased to about 25.8 million Kuwaiti Dinars reaching about 1.3% of the market value of the real estate sector and it is less about 1.9 million Kuwaiti Dinars than the achieved market value at the end of 2019 reaching 27.7 million Kuwaiti Dinars.

Year 2020	Value of Deliberated Share Million (KWD)	Number of Concluded Deals (Thousand Deals)	Volume of Deliberated Shares (Million Shares)	Capitalized Market Value (Million KWD)
Injazzat Real Estate Development Company	0.4	0.2	5.3	25.8
Total Real Estate Sector	559.2	282.5	8,863.9	2,050.3
Total Market	10,754.2	2,319.2	52,097.3	36,686.3
Percentage of Total Real Estate Sector	0.1 %	0.1 %	0.1 %	1.3 %
Percentage of Total Market	0.004 %	0.01 %	0.01 %	0.07 %



**Consolidated financial statements and independent auditors' report**  
**INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.**  
**AND SUBSIDIARIES**  
**31<sup>st</sup> December 2020**





## CONTENTS

Independent Auditor's Report.....	48-52
Consolidated statement of profit or loss.....	53
Consolidated statement of profit or loss and other comprehensive income .....	54
Consolidated statement of financial position .....	55
Consolidated statement of changes in equity .....	56-57
Consolidated statement of cash flows .....	58
Notes to the consolidated financial statements .....	59-99





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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.**

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

#### *Opinion*

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

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

#### *Basis for Opinion*

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

#### *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.

#### *Valuation of investment properties*

Investment properties represent 61% of the Group's total assets and are measured at fair value. Management of the Group engages professionally qualified external valuers to assess the fair value of its investment properties on an annual basis. The valuation of investment properties is highly dependent on estimates and assumptions, such as rental value, occupancy rates, discount rates, maintenance status, and financial stability of tenants, market knowledge and historical transactions, which, although not directly observable, but are corroborated by observable market data. The disclosures relating to the inputs are relevant, given the estimation uncertainty involved in these valuations. Further, there is valuation uncertainty arising from the outbreak of the COVID-19 pandemic. Given the size and complexity of the valuation of investment properties, and the importance of the disclosures relating to the inputs used in such valuations, we have considered this as a key audit matter.



## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)

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

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

##### *Valuation of investment properties (continued)*

Our audit procedures included, among others, the following:

- ▶ We have considered the methodology and the appropriateness of the valuation models and inputs used to value the investment properties.
- ▶ We performed procedures for areas of risk and estimation. This included, where relevant, comparison of judgments made to current market practices and challenging the valuations on a sample basis, particularly in light of COVID-19.
- ▶ Further, we have considered the objectivity, independence and expertise of the external real estate appraisers.
- ▶ We assessed the reasonableness of the key estimates and assumptions used by the external valuers.
- ▶ We assessed the adequacy and the appropriateness of the Group's disclosures concerning investment properties in Notes 9 and 22.2 to the consolidated financial statements.

##### *Valuation of financial assets at fair value through profit or loss*

The Group's financial assets at fair value through profit or loss represent 8% of the Group's total assets which are measured at fair value as disclosed in Note 8 to the consolidated financial statements.

Fair values of financial assets at fair value through profit or loss are measured using valuation techniques that include unobservable inputs, hence requiring management to make significant judgements and estimates in determining the fair value. Given the size and complexity of the valuation of these investment securities, including the impact of the current pandemic of COVID-19 uncertainties on their valuations, and the importance of the disclosures relating to the assumptions used in the valuation, we addressed this as a key audit matter.

Our audit procedures included, among others, the following:

- ▶ For valuations which used significant unobservable inputs, we assessed the reasonableness of the assumptions and inputs used in the valuations, to the extent possible to independent sources, and externally available market data to evaluate its relevance, completeness and accuracy.
- ▶ We assessed the adequacy and the appropriateness of the Group's disclosures concerning the fair value measurement of financial assets at fair value through profit or loss and the sensitivity to changes in unobservable inputs in Notes 8 and 22.1 to the consolidated financial statements.



## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)**

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

#### *Other information included in the Group's 2020 Annual Report*

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

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

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

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

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

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

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

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

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



## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)**

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)*

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

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

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

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





## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)*

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

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

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

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

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

8 March 2021  
Kuwait



INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements  
for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
<b>Income</b>			
Rental income		2,851,819	3,160,153
Valuation loss from investment properties	9	(536,222)	(8,655,684)
Change in fair value of financial assets at fair value through profit or loss	8	470,060	862,441
Gain on disposal of financial assets at fair value through profit or loss	8	156,497	1,398,615
Distribution income from financial assets at fair value through profit or loss	8	543,130	632,894
Management fees		345,063	668,403
Other income	3	199,967	337,021
Share of results of associates	10	691,352	(393,467)
Net foreign exchange differences		2,447	(86,625)
<b>Total income</b>		<b>4,724,113</b>	<b>(2,076,249)</b>
<b>Expenses</b>			
Real estate operating costs		(1,033,388)	(1,201,516)
Staff costs		(581,398)	(730,613)
Depreciation		(169,332)	(155,432)
Administrative expenses		(155,688)	(320,026)
Consultancy and professional fees		(171,446)	(206,810)
Finance costs		(1,741,290)	(2,202,724)
<b>Total expenses</b>		<b>(3,852,542)</b>	<b>(4,817,121)</b>
<b>Profit (loss) before tax and directors' remuneration</b>		<b>871,571</b>	<b>(6,893,370)</b>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(7,844)	-
National Labour Support Tax (NLST)		(23,053)	-
Zakat		(9,222)	-
<b>PROFIT (LOSS) FOR THE YEAR</b>		<b>831,452</b>	<b>(6,893,370)</b>
<b>BASIC AND DILUTED EARNINGS (LOSS) PER SHARE</b>			
<b>ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b>	4	<b>2.48 Fils</b>	<b>(20.52) Fils</b>

The attached notes set out on pages 59 to 99 form part of these consolidated financial statements.

INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements  
for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2020 KD	2019 KD
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>831,452</b>	<b>(6,893,370)</b>
<b>Other comprehensive income:</b>		
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Share of other comprehensive income (loss) of associates	43,931	(125,494)
Net exchange differences on translation of foreign operations	176,682	148,540
<b>Other comprehensive income for the year</b>	<b>220,613</b>	<b>23,046</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	<b>1,052,065</b>	<b>(6,870,324)</b>

The attached notes set out on pages 59 to 99 form part of these consolidated financial statements.

INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements  
for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>2020</b> <b>KD</b>	<b>2019</b> <b>KD</b>
<b>ASSETS</b>			
Cash and cash equivalents	5	2,367,007	1,939,824
Term deposits	6	429,710	429,586
Accounts receivable and other assets	7	5,817,370	5,806,429
Financial assets at fair value through profit or loss	8	8,162,790	8,429,204
Investment properties	9	61,413,721	60,323,903
Investment in associates	10	21,981,955	22,362,471
Property and equipment		456,806	618,189
<b>TOTAL ASSETS</b>		<b>100,629,359</b>	<b>99,909,606</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	11	34,564,860	34,564,860
Share premium	11	2,869,130	2,869,130
Statutory reserve	12	8,929,655	8,842,498
Voluntary reserve	13	43,579	4,421,250
Treasury shares	14	(1,104,916)	(1,017,932)
Treasury shares reserve		4,396,905	4,396,905
Foreign currency translation reserve		1,699,560	1,478,947
Fair value reserve		(712,709)	(712,709)
Retained earnings (Accumulated losses)		2,542,581	(2,579,385)
<b>Total equity</b>		<b>53,228,645</b>	<b>52,263,564</b>
<b>Liabilities</b>			
Accounts payable and other liabilities	15	7,383,555	7,878,883
Loans and borrowings	16	40,017,159	39,767,159
<b>Total liabilities</b>		<b>47,400,714</b>	<b>47,646,042</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>100,629,359</b>	<b>99,909,606</b>



Dr. Abdulmohsen Medejj AlMedejj  
Chairman



Mohammad Ibrahim Al-Farhan  
Chief Executive Officer

The attached notes set out on pages 59 to 99 form part of these consolidated financial statements.

INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements  
for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Parent Company

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	(Accumulated losses) retained earnings KD	Sub-total KD	Non-controlling interests KD	Total KD
As at 1 January 2020	34,564,860	2,869,130	8,842,498	4,421,250	(1,017,932)	4,396,905	1,478,947	(712,709)	(2,579,385)	52,263,564	-	52,263,564
Profit for the year	-	-	-	-	-	-	-	-	831,452	831,452	-	831,452
Other comprehensive income for the year	-	-	-	-	-	-	220,613	-	-	220,613	-	220,613
Total comprehensive income for the year	-	-	-	-	-	-	220,613	-	831,452	1,052,065	-	1,052,065
Extinguishment of accumulated losses (Note 11)	-	-	-	(4,421,250)	-	-	-	-	4,421,250	-	-	-
Purchase of treasury shares	-	-	-	-	(86,984)	-	-	-	-	(86,984)	-	(86,984)
Transfer to reserves	-	-	87,157	43,579	-	-	-	-	(130,736)	-	-	-
<b>At 31 December 2020</b>	<b>34,564,860</b>	<b>2,869,130</b>	<b>8,929,655</b>	<b>43,579</b>	<b>(1,104,916)</b>	<b>4,396,905</b>	<b>1,699,560</b>	<b>(712,709)</b>	<b>2,542,581</b>	<b>53,228,645</b>	<b>-</b>	<b>53,228,645</b>

The attached notes set out on pages 59 to 99 form part of these consolidated financial statements.

INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements  
for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the Parent Company										Total KD	
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	Retained earnings (accumulated losses) KD	Sub- total KD		Non- controlling interests KD
As at 1 January 2019	34,564,860	2,869,130	8,842,498	4,421,250	(922,378)	4,396,905	1,455,901	(712,709)	6,670,223	61,585,680	85,248	61,670,928
Loss for the year	-	-	-	-	-	-	-	-	(6,893,370)	(6,893,370)	-	(6,893,370)
Other comprehensive income for the year	-	-	-	-	-	-	23,046	-	-	23,046	-	23,046
Total comprehensive income (loss) for the year	-	-	-	-	-	-	23,046	-	(6,893,370)	(6,870,324)	-	(6,870,324)
Liquidation of subsidiaries	-	-	-	-	-	-	-	-	-	-	(85,248)	(85,248)
Purchase of treasury shares	-	-	-	-	(95,554)	-	-	-	-	(95,554)	-	(95,554)
Cash dividends (Note 11)	-	-	-	-	-	-	-	-	(2,356,238)	(2,356,238)	-	(2,356,238)
At 31 December 2019	34,564,860	2,869,130	8,842,498	4,421,250	(1,017,932)	4,396,905	1,478,947	(712,709)	(2,579,385)	52,263,564	-	52,263,564

The attached notes set out on pages 59 to 99 form part of these consolidated financial statements.



**Consolidated Financial Statements  
for the year ended 31 December 2020**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Notes	2020 KD	2019 KD
<b>OPERATING ACTIVITIES</b>			
Profit (loss) before tax and directors' remuneration		831,452	(6,893,370)
<i>Adjustments to reconcile profit (loss) before tax to net cash flows:</i>			
Valuation loss from investment properties	9	536,222	8,655,684
Change in fair value of financial assets at fair value through profit or loss	8	(470,060)	(862,441)
Distribution income from financial assets at fair value through profit or loss	8	(543,130)	(632,894)
Gain on disposal of financial assets at fair value through profit or loss	8	(156,497)	(1,398,615)
Share of results of associates	10	(691,352)	393,467
Depreciation expense on property and equipment		45,018	28,409
Depreciation expense on right-of-use assets		124,314	127,023
Interest income		(163,868)	(253,825)
Interest expense on lease liabilities		22,816	29,971
Finance costs		1,718,474	2,172,076
		<u>1,253,389</u>	<u>1,365,485</u>
<i>Working capital adjustments:</i>			
Accounts receivable and other assets		119,841	455,486
Accounts payable and other liabilities		435,452	(2,587,441)
		<u>1,808,682</u>	<u>(766,470)</u>
Receipt of government grants	25	45,900	-
<b>Net cash from (used in) operating activities</b>		<u>1,854,582</u>	<u>(766,470)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(8,968)	(112,572)
Proceeds from disposal of property and equipment		1,019	-
Proceeds from capital redemption of financial assets at fair value through profit or loss		429,703	-
Proceeds from disposal of financial assets at fair value through profit or loss		469,431	3,589,861
Additions to financial assets at fair value through profit or loss		(6,164)	-
Distribution income received from financial assets at fair value through profit or loss	8	543,130	632,894
Capital expenditure incurred on investment properties	9	(1,618,495)	(4,519,940)
Additions to interest in associates	10	(230,809)	(243,666)
Proceeds from capital redemption of investment in associates	10	1,346,608	318,070
Dividends received from an associate	10	-	374,614
Interest income received		163,868	253,825
Movement in term deposits		(124)	(5,676)
<b>Net cash from investing activities</b>		<u>1,089,199</u>	<u>287,410</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid to equity holders of the Parent Company	11	-	(2,311,824)
Proceeds from loans and borrowings	16	250,000	3,800,000
Repayment of loans and borrowings	16	-	(4,000,000)
Purchase of treasury shares		(86,984)	(95,554)
Finance costs paid		(2,527,953)	(1,147,741)
Payment of lease liabilities		(144,117)	(116,446)
<b>Net cash used in financing activities</b>		<u>(2,509,054)</u>	<u>(3,871,565)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Foreign currency translation adjustments		(7,544)	143,174
Cash and cash equivalents at beginning of the year	5	1,939,824	6,147,275
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	5	<u>2,367,007</u>	<u>1,939,824</u>
<b>Non-cash items excluded from the statement of cash flows:</b>			
Transitional adjustment to lease liabilities on adoption of IFRS 16		-	569,641
Transitional adjustment to right-of-use of assets on adoption of IFRS 16		-	(569,641)
Accounts payable and other liabilities		-	(900,000)
Proceeds from capital redemption of investment in associates		-	900,000
Extinguishment of accumulated losses (adjusted with retained earnings)		(4,421,250)	-
Extinguishment of accumulated losses (adjusted with voluntary reserve)		4,421,250	-

The attached notes set out on pages 59 to 99 form part of these consolidated financial statements.

**Consolidated Financial Statements****As at and for the year ended 31 December 2020****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1 CORPORATE AND GROUP INFORMATION****1.1 CORPORATE INFORMATION**

The consolidated financial statements of Injazzat Real Estate Development Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on March 8, 2021. The shareholders of the Parent Company have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

The Parent Company is a Kuwaiti shareholding company incorporated and domiciled in Kuwait and whose shares are publicly traded in Kuwait Stock Exchange ("Boursa Kuwait"). The Parent Company's registered postal address is P.O. Box 970, Safat 13010, State of Kuwait.

The Group is principally engaged in real estate activities. The primary objectives of the Parent Company is as follows:

- ▶ Ownership, purchasing, sale and development of all kinds of investment properties with exception to residential properties inside and outside the state of Kuwait for the benefit of the Parent Company and on the behalf of others.
- ▶ Ownership and sale of financial assets, bonds relating to real estate companies for the benefit of the Parent Company alone inside and outside the State of Kuwait.
- ▶ Preparation and delivery of studies relating to real estate activities.
- ▶ Maintenance activities relating to the properties owned by the Parent Company including civil, mechanical, electrical works and all required works to sustain the state of the properties.
- ▶ Organisation of real estate conventions relating to the Parent Company's projects in accordance with the regulations set out by the Ministry of Commerce.
- ▶ Hosting auctions.
- ▶ Ownership of malls and residential complexes and managing them.
- ▶ Ownership of hotels, health clubs, tourism related facilities and leasing and releasing them.
- ▶ Management, operating and leasing all types of investment properties.
- ▶ Establishment and management of real estate investment funds.
- ▶ It is permitted for the Parent Company to invest in managed funds managed by specialised managers.

Information on the Group structure is provided in Note 1.2 below. Information on other related party relationships of the Group is provided in Note 17.

**1.2 GROUP INFORMATION****a) Subsidiaries**

The consolidated financial statements of the Group include:

<i>Name</i>	<i>Country of incorporation</i>	<i>% equity interest</i>		<i>Principal activities</i>
		<i>2020</i>	<i>2019</i>	
Injazzat Entertainment Enterprises – K.S.C. (Closed)	Kuwait	100%	100%	Entertainment and tourism
Dhow Real Estate Company - B.S.C. (Closed)	Bahrain	100%	100%	Real estate
Al-Dhow International Real Estate Company – K.S.C. (Closed)	Kuwait	100%	100%	Real estate
Al Mal and Aqar Joint Project Company – W.L.L.	Kuwait	100%	100%	Real estate General trading and contracting
Injazzat Lusail Company – W.L.L.	Kuwait	100%	100%	Real estate
Al Bateel Real Estate Company – L.L.C.	UAE	100%	100%	Real estate
Injazzat S.A.R.L.	Luxemburg	100%	100%	Real estate
Al Barsha Real Estate Company K.S.C (Closed)	Kuwait	100%	100%	Real estate

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1 CORPORATE AND GROUP INFORMATION (continued)

1.2 GROUP INFORMATION (continued)

b) Associates

Set out below are the associates of the Group as at 31 December. For more details, refer to Note 10.

Name	Country of incorporation	% equity interest		Principal activities
		2020	2019	
Al Yal Real Estate Company W.L.L.	Bahrain	50%	50%	Real estate
Al Sanbook Real Estate L.L.C.	UAE	25%	25%	Real estate
Al Yal Seef Residence Company W.L.L.	Bahrain	50%	50%	Real estate
Cancorp Duisburg S.A.R.L.	Luxemburg	50%	50%	Real estate
First Real Estate Company – B.S.C. (Closed)	Bahrain	28%	28%	Real estate
Urban Quarter Company W.L.L	Bahrain	50%	50%	Real estate

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES

2.1 BASIS OF PREPARATION

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

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

The consolidated financial statements are presented in Kuwaiti Dinars (“KD”), which is also the functional of the Parent Company.

The Group presents its consolidated statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 21.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.2.1 New and amended standards and interpretations

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

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

In October 2019, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

In October 2019, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.’ The amendments to the definition of material is not expected to have a significant impact on the Group’s consolidated financial statements.

**Consolidated Financial Statements**

**As at and for the year ended 31 December 2020**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

**2.2.1 New and amended standards and interpretations (continued)**

***Adoption of profit rate benchmark reform (IBOR reform Phase 1)***

The Group has adopted profit rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 January 2020. IBOR reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by profit rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Group to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Group to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. These amendments did not have a material impact on the consolidated financial statements of the Group.

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

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the consolidated financial statements of the Group.

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

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

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

**2.2.2 Summary of accounting policies for new transactions and events**

***Government grants***

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

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

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.



Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

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

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

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

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Group.

**Amendments to IAS 1: Classification of Liabilities as Current or Non-current**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ▶ What is meant by a right to defer settlement
- ▶ That a right to defer must exist at the end of the reporting period
- ▶ That classification is unaffected by the likelihood that an entity will exercise its deferral right
- ▶ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on its current accounting policies and whether the Group may wish to re-assess covenants in its existing loan agreements.

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

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

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

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

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022, with earlier adoption permitted. The Group must apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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



**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

***Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16***

In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR. IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a RFR.

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are allowed as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend the hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and/or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. The reliefs allow that changes to the method for assessing hedge effectiveness due to modifications required by IBOR reform, will not result in the discontinuation of hedge accounting.

**2.4 SIGNIFICANT ACCOUNTING POLICIES**

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

**2.4.1 Basis of consolidation**

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

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

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

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

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

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

**Consolidated Financial Statements**

**As at and for the year ended 31 December 2020**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.1 Basis of consolidation (continued)**

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

**2.4.2 Investment in associates**

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

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

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate in the statement of profit or loss.

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

**2.4.3 Cash and cash equivalents**

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and cash on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost using effective interest rate.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.4 Financial instruments – initial recognition and subsequent measurement**

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

*i) Financial assets*

**Initial recognition and initial measurement**

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

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

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

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

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

**Subsequent measurement**

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

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

*a) Financial assets at amortised cost (debt instruments)*

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

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

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

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

**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.4 Financial instruments – initial recognition and subsequent measurement (continued)**

**i) Financial assets (continued)**

**Subsequent measurement (continued)**

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

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

**c) Financial assets at fair value through profit or loss**

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

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

**Derecognition**

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

**ii) Financial liabilities**

**Initial recognition and measurement**

The Group's financial liabilities include tawarruq payables, amounts due to related parties and accounts payable and accruals.

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

**Subsequent measurement**

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

- ▶ Financial liabilities at fair value through profit or loss
- ▶ Financial liabilities at amortised cost (including loans and borrowings)

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



**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.4 Financial instruments – initial recognition and subsequent measurement (continued)**

**ii) Financial liabilities (continued)**

**Financial liabilities at amortised cost**

**Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

**Accounts payable and accruals**

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

**Derecognition**

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

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

**iii) Offsetting of financial instruments**

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

**2.4.5 Impairment of financial assets**

Equity investments are not subject to ECLs. Further, the Group has no debt investments measured at FVOCI.

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

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

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

The Group considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.



**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.6 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying appropriate valuation models.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

**2.4.7 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**2.4.8 Property and equipment**

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

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

Furniture and fixtures and equipment	3 - 5 years
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The carrying values of property 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.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in profit or loss as the expense is incurred.

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

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

Depreciation of these assets commences when the assets are ready for their intended use.

**Consolidated Financial Statements**

**As at and for the year ended 31 December 2020**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.9 Impairment of non-financial assets**

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

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

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

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

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

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

**2.4.10 End of service benefits**

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

In addition, with respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. These contributions are expensed when due.

**2.4.11 Provisions**

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

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

**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.12 Treasury shares**

The Group's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-distributable. Any realised 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 then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares and the voting rights related to these shares are discarded. 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.

**2.4.13 Earnings per share (EPS)**

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent Company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

**2.4.14 Dividend distribution**

The Group recognises a liability to pay a dividend when the distribution is no longer at the discretion of the Group. As per the companies' law, a distribution is authorised when it is approved by the Shareholders at the annual general assembly ("AGM"). A corresponding amount is recognised directly in equity.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

**2.4.15 Revenue recognition**

*Rental income*

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property.

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the consolidated statement of profit or loss due to its operating nature, except for contingent rental income which is recognised when it arises.

*Fee income*

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

**2.4.16 Dividend income**

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

**2.4.17 Interest income and expense**

Interest income and expense are recognised in the statement of profit or loss for all interest-bearing financial instruments using the effective interest (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

**Consolidated Financial Statements**

**As at and for the year ended 31 December 2020**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.18 Taxes**

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

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

*National Labour Support Tax (NLST)*

NLST is calculated at 2.5% of the profit for the year attributable to the Parent Company in accordance with Law No. 19 of 2000 and the Ministry of Finance resolutions No. 24 of 2006.

*Zakat*

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

*Sales tax*

Expenses and assets are recognised net of the amount of sales tax, except:

- ▶ When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- ▶ When receivables and payables are stated with the amount of sales tax included the net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**2.4.19 Finance costs**

Finance cost are calculated and recognised on a time proportionate basis taking into account the principal finance balance outstanding and the cost rate applicable, using the EIR method. Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Capitalisation of financing cost ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

**2.4.20 Foreign currencies**

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).



**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.20 Foreign currencies (continued)**

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

*Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

**2.4.21 Fiduciary assets**

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated financial statements, as they are not assets of the Group.

**2.4.22 Contingencies**

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

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

**2.4.23 Segment information**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers, distribution methods and nature of regulatory environment where appropriate are aggregated and reported as reportable segments.

**2.4.24 Fair value measurement**

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

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

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

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

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

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



**Consolidated Financial Statements**

**As at and for the year ended 31 December 2020**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.24 Fair value measurement (continued)**

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

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

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

**2.4.25 Leases**

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').

**i) Group as a lessee**

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any premeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The Company's leases are for a duration of four to five years, from the date of inception of the lease.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies - Impairment of non-financial assets.

*Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.25 Leases (continued)**

**i) Group as a lessee (continued)**

*Lease liabilities (continued)*

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the 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 interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

*Short-term leases and leases of low-value assets*

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

**ii) Group as a lessor**

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**Significant judgments**

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

*Classification of real estate properties*

Determining the classification of a property depends on particular circumstances and management's intentions. Property that is held for resale in the ordinary course of business or that in the process of development for such sale is classified as inventory. Property held to earn rental income or for capital appreciation, or both is classified as investment property. Property held for use in the production or supply of goods and services or for administrative purposes is classified as property and equipment.

*Classification of financial assets*

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**Significant judgments (continued)**

***Determining the lease term of contracts with renewal and termination options – Group as lessee***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operations if a replacement is not readily available.

***Control assessment of structured entities***

The Group has ownership interest in structured entities. Structured entities encompass a wide variety of often complex arrangements and require a detailed and specific assessment of the investee's relevant activities and the investor's rights to make decisions about them. Further considerations shall be made as to whether the Group has the practical ability to direct the relevant activities, its exposure to variable returns, and ability to affect those returns by exercising its power over the investee. Reaching a conclusion may involve significant judgement.

**Estimates and assumptions**

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

***Impairment of associates***

Investment in associates are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associates less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the associate in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**Estimates and assumptions (continued)**

***Impairment of financial assets at amortised cost***

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

***Useful lives of depreciable assets***

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

***Valuation of investment properties***

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in Note 9.

***Leases - Estimating the incremental borrowing rate***

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

***Fair value measurement***

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

**3 OTHER INCOME**

	<b>2020</b>	<b>2019</b>
	<b>KD</b>	<b>KD</b>
Interest income on bank balances	<b>446</b>	25,783
Interest income on receivables from a related party (Note 17)	<b>163,422</b>	228,042
Other income	<b>36,099</b>	83,196
	<b>199,967</b>	337,021



## INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

### Consolidated Financial Statements

As at and for the year ended 31 December 2020

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 4 EARNINGS (LOSS) PER SHARE (EPS)

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

	<i>2020</i>	<i>2019</i>
Profit (loss) for the year attributable to the equity holders of the Parent Company (KD)	<u>831,452</u>	<u>(6,893,370)</u>
Weighted average number of ordinary shares (shares)	<u>345,648,600</u>	<u>345,648,600</u>
Less: weighted average number of treasury shares (shares)	<u>(10,875,930)</u>	<u>(9,640,908)</u>
Weighted average number of shares outstanding (shares)	<u>334,772,670</u>	<u>336,007,692</u>
Basic and diluted earnings (loss) EPS (fils)	<u>2.48</u>	<u>(20.52)</u>

#### 5 CASH AND CASH EQUIVALENTS

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Cash on hand	<u>21,040</u>	<u>1,281</u>
Bank balances	<u>2,345,967</u>	<u>1,938,543</u>
<b>Cash and cash equivalents</b>	<u><b>2,367,007</b></u>	<u><b>1,939,824</b></u>

#### 6 TERM DEPOSITS

Time deposits amounting to KD 429,710 (2019: KD 429,586) are restricted and held against letters of guarantee provided to the Group (Note 24).

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2020 KD	2019 KD
<b>Financial assets</b>		
Receivables from related parties (Note 17)	125,998	185,818
Receivables on sale of investment property <sup>1</sup>	3,737,901	3,926,873
Other receivables	542,258	158,818
	<u>4,406,157</u>	<u>4,271,509</u>
<b>Non-financial assets</b>		
Advances to contractors	433,653	486,899
Prepayments and other assets	977,560	1,048,021
	<u>1,411,213</u>	<u>1,534,920</u>
	<u>5,817,370</u>	<u>5,806,429</u>

<sup>1</sup> Receivable on sale of investment property yield interest at 4.18% (2019: 5.35%) per annum. For further information on terms and conditions relating to related party receivables, refer to Note 17.

The classes within accounts receivable do not contain impaired assets.

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

Note 20.2 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Group's trade receivables. Other classes within accounts receivable do not contain impaired assets.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 KD	2019 KD
Financial assets at fair value through profit or loss:		
- Unquoted equity securities	8,162,790	8,429,204
	<u>8,162,790</u>	<u>8,429,204</u>

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques is presented in Note 22.

Unquoted equity securities represent the Group's interests in unconsolidated structured entities. The Group concluded that it does not control, and therefore should not consolidate the structured entities.

**Details of nature, purpose and activities of unconsolidated structured entities**

The Group is principally involved with structured entities through investments in and sponsoring structured entities that provide specialised investment opportunities. Structured entities are generally used by the Group to finance the purchase of investment properties by issuing debt and equity securities that are collateralised by the assets held in the structured entities.

**Risk associated with unconsolidated structured entities**

Management assessed that the Group's maximum exposure to loss for its involvement with structured entities at the reporting date is the carrying value of these interests. In making the assessment, considerations were made to commitments and guarantees related to these interests and the Group's contractual and non-contractual involvement.

**Consolidated Financial Statements**

**As at and for the year ended 31 December 2020**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

The following table summarises the net asset value of interests in unconsolidated structured entities recognised in the consolidated statement of financial position of the Group, as at 31 December:

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Assets	<b>41,929,976</b>	40,827,073
Liabilities	<b>26,897,862</b>	26,441,350
Net assets	<b>15,032,114</b>	14,385,723

The structured entities had no contingent liabilities or capital commitments as at 31 December 2020 or 2019.

The Group's interests in unconsolidated structured entities are located in the following geographical locations:

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
United States of America	<b>15,032,114</b>	14,385,723
	<b>15,032,114</b>	14,385,723

The following table illustrates the details of income and expenses included in the consolidated statement of profit or loss for structured entities.

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Change in fair value of financial assets at fair value through profit or loss	<b>470,060</b>	862,441
Distribution income from financial assets at fair value through profit or loss	<b>543,130</b>	632,894
Gain on disposal of financial assets at fair value through profit or loss	<b>156,497</b>	1,398,615

**9 INVESTMENT PROPERTIES**

The movement in investment properties during the year is as follows:

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
At 1 January	<b>60,323,903</b>	64,487,981
Capital expenditure on owned property <sup>1</sup>	<b>1,618,495</b>	4,519,940
Change in fair value <sup>2</sup>	<b>(536,222)</b>	(8,655,684)
Foreign currency translation adjustments	<b>7,545</b>	(28,334)
At 31 December	<b>61,413,721</b>	60,323,903

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**9 INVESTMENT PROPERTIES (continued)**

The Group's investment properties are located in the following geographical locations:

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
Kuwait	<b>11,811,000</b>	11,110,000
Other GCC countries	<b>49,602,721</b>	49,213,903
	<b><u>61,413,721</u></b>	<b><u>60,323,903</u></b>

<sup>1</sup> During the year ended 31 December 2020, the Group made no additions to or disposed of any investment properties. Further the Group incurred development expenditure of KD 1,618,495 during the year ended 31 December 2020 (2019: KD 4,519,940).

<sup>2</sup> The fair value of investment properties is determined based on valuations performed by independent and accredited valuers with recognised and relevant professional qualification and with recent experience in locations and categories of investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). Based on these valuations, the fair value of investment properties witnessed a decrease of KD 536,222 compared to its carrying values as at 31 December 2020 (2019: KD 8,655,684).

Investment properties with a carrying value of KD 20,244,696 (2019: KD 16,806,879) are pledged as security to fulfil collateral requirements of certain bank borrowings (Note 16).

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2020 and 2019 are disclosed in Note 22.2.



**INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES**

**Consolidated Financial Statements**

**As at and for the year ended 31 December 2020**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**10 INVESTMENT IN ASSOCIATES**

**Summarised financial information for associates**

The following table illustrates the summarised financial information of the associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts.

	<i>Al Yal Real Estate Company W.L.L.</i>		<i>First Real Estate Company B.S.C. (Closed)</i>		<i>Cancorp Duisburg S.A.R.L.</i>		<i>Individually immaterial associates</i>		<i>Total</i>	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Current assets	19,647,611	21,439,304	4,437,333	22,901,532	242,932	230,630	949,781	1,045,289	25,277,657	45,616,755
Non-current assets	6,425,553	6,776,506	60,605,109	42,781,108	16,646,166	13,260,201	5,376,002	5,796,064	89,052,830	68,613,879
Current liabilities	9,295,954	9,693,971	2,809,272	5,449,914	2,678,443	288,138	734,248	1,121,141	15,517,917	16,553,164
Non-current liabilities	-	-	24,397,142	23,797,947	9,088,765	8,334,631	3,731,588	3,710,274	37,217,495	35,842,852
<b>Equity</b>	<b>16,777,210</b>	<b>18,521,839</b>	<b>37,836,028</b>	<b>36,434,779</b>	<b>5,121,890</b>	<b>4,868,062</b>	<b>1,859,947</b>	<b>2,009,938</b>	<b>61,595,075</b>	<b>61,834,618</b>
<b>Ownership interest held by the Group</b>	<b>50%</b>	<b>50%</b>	<b>27.812%</b>	<b>27.812%</b>	<b>50%</b>	<b>50%</b>	-	-	-	-
<b>Group's carrying amount of the investment</b>	<b>8,388,605</b>	<b>9,260,920</b>	<b>10,522,955</b>	<b>10,133,240</b>	<b>2,560,945</b>	<b>2,434,031</b>	<b>509,450</b>	<b>534,280</b>	<b>21,981,955</b>	<b>22,362,471</b>
Revenue	650,795	367,818	3,266,788	284,539	1,128,875	1,067,398	400,400	(400,875)	5,446,858	1,318,880
Profit (loss) for the year	479,434	242,542	1,399,463	(1,560,485)	250,760	425,508	(232,532)	(1,044,419)	1,897,125	(1,936,854)
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Total comprehensive income (loss) for the year	479,434	242,542	1,399,463	(1,560,485)	250,760	425,508	(232,532)	(1,044,419)	1,897,125	(1,936,854)
Dividends received from associates	-	-	-	374,614	-	-	-	-	-	374,614
<b>Group's share of results for the year</b>	<b>239,784</b>	<b>121,271</b>	<b>391,755</b>	<b>(443,923)</b>	<b>125,380</b>	<b>212,754</b>	<b>(65,567)</b>	<b>(283,569)</b>	<b>691,352</b>	<b>(393,467)</b>

INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 INVESTMENT IN ASSOCIATES (continued)

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

	At Yal Real Estate Company W.L.L.		First Real Estate Company B.S.C. (Closed)		Cancorp Duisburg S.A.R.L.		Individually immaterial associates		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
<b>Reconciliation to carrying amounts:</b>										
Opening net assets at 1 January	9,260,920	8,909,692	10,133,240	10,966,889	2,434,031	2,635,805	534,280	1,718,064	22,362,471	24,230,450
Additions	40,889	243,666	-	-	149,635	-	40,285	-	230,809	243,666
Return of capital	(1,161,470)	-	-	-	(185,138)	(318,070)	-	(900,000)	(1,346,608)	(1,218,070)
Share of results for the year	239,784	121,271	391,755	(443,923)	125,380	212,754	(65,567)	(283,569)	691,352	(393,467)
Foreign currency	8,482	(13,709)	(2,040)	(15,112)	37,037	(96,458)	452	(215)	43,931	(125,494)
Dividends received	-	-	-	(374,614)	-	-	-	-	-	(374,614)
At 31 December	<u>8,388,605</u>	<u>9,260,920</u>	<u>10,522,955</u>	<u>10,133,240</u>	<u>2,560,945</u>	<u>2,434,031</u>	<u>509,450</u>	<u>534,280</u>	<u>21,981,955</u>	<u>22,362,471</u>

The above associates are private entities that are not listed on any stock exchange; therefore, no quoted market prices are available for its shares.

As at 31 December 2020, investment in associates with a carrying amount of KD 18,793,513 (2019: KD 19,280,485) are pledged as security to fulfil collateral requirements of certain loans and borrowings (Note 16).

INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 SHARE CAPITAL, SHARE PREMIUM AND DIVIDENDS

(a) Share capital

	Number of shares		Authorised, issued and fully paid	
	2020	2019	2020 KD	2019 KD
Shares of 100 fils each (paid in cash)	<u>345,648,600</u>	<u>345,648,600</u>	<u>34,564,860</u>	<u>34,564,860</u>

(b) Share premium

Share premium is not available for distribution.

(c) Distributions made and proposed

	2020 KD	2019 KD
<b>Cash dividends on ordinary shares declared and paid:</b>		
Final dividend for 2019: Nil (2018: 7 fils per share)	-	<u>2,356,238</u>
<b>Proposed dividends on ordinary shares:</b>		
Proposed cash dividend for 2020: Nil (2019: Nil)	-	-

The annual general meeting (AGM) of the shareholders held on 8 June 2020 approved the consolidated financial statements for the year ended 31 December 2019 and resolved not to distribute cash dividends or directors' remuneration for the year then ended.

Further, the shareholders of the Parent Company in the AGM resolved to extinguish accumulated losses as at 31 December 2019 amounting to KD 4,421,250.

12 STATUTORY RESERVE

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

13 VOLUNTARY RESERVE

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

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 TREASURY SHARES

	2020	2019
Number of treasury shares	11,497,569	10,286,398
Percentage of total outstanding shares (%)	3.33%	2.98%
Cost (KD)	1,104,916	1,017,932
Market value (KD)	908,308	807,482

Reserves equivalent to the cost of the treasury shares held are not available for distribution during the holding period of such shares as per CMA guidelines.

15 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2020 KD	2019 KD
Accounts payable	878,420	687,632
Retentions payable	-	397,435
Payable to an associate (Note 17)	80,469	205,808
Rental income received in advance	550,329	461,181
Advance received on sale of investment property	2,798,700	2,480,130
Accrued interest	260,374	1,069,853
Accrued expenses	1,029,617	895,267
Lease liabilities	382,768	483,166
Other liabilities	1,402,878	1,198,411
	<u>7,383,555</u>	<u>7,878,883</u>

For explanations on the Group's liquidity risk management processes, refer to Note 20.3.

16 LOANS AND BORROWINGS

	<i>Currency</i>	<i>Interest rate</i>	2020 KD	2019 KD
Bank loans	Kuwaiti Dinar	CBK discount rate +1.75% - 2.25%	<u>40,017,159</u>	<u>39,767,159</u>

The Group's secured bank loans comprise:

- ▶ Term loan with limit of KD 40,500,000 (2019: KD 40,500,000), carries an interest rate of 2.25% (2019: 2.6%) per annum over CBK discount rate and repayable over five annual installments started on 15 July 2022 and ending on 15 July 2026, with a bullet payment on 15 August 2026.
- ▶ Revolving loan facility with limit of KD 5,000,000 (2019: KD 3,350,000), carries an interest rate of 1.75% (2019: 1.75%) per annum over CBK discount rate and repayable in one installment on 15 January 2022. At 31 December 2020, the Group had available KD 3,900,000 (2019: KD 2,250,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Bank loans are secured over certain of the Group's investment properties and investment in associates.

Information about the Group's exposure to interest rate and liquidity risks is included in Note 20.



INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 LOANS AND BORROWINGS (continued)

Changes in liabilities arising from financing activities:

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	2020 KD	2019 KD
As at 1 January	39,767,159	39,967,159
Cash flows:		
Repayments of borrowings	-	(4,000,000)
Proceeds from borrowings	250,000	3,800,000
As at 31 December	<u>40,017,159</u>	<u>39,767,159</u>

17 RELATED PARTY DISCLOSURES

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

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

	2020 KD	2019 KD
<b>Consolidated statement of financial position</b>		
Receivables from related parties (Note 7)		
Associate	4,282	64,102
Other related parties	121,716	121,716
	<u>125,998</u>	<u>185,818</u>
Receivables on sale of investment property (Note 7)	<u>3,737,901</u>	<u>3,926,873</u>
Payable to related parties		
Associate (Note 15)	<u>80,469</u>	<u>205,808</u>
<b>Consolidated statement of profit or loss</b>		
Management fees	104,985	24,645
Interest income on receivables from a related party	163,422	228,042
	<u>268,407</u>	<u>252,687</u>

Terms and conditions of transactions with related parties

Except for receivables on sale of investment property (Note 7), outstanding balances at the year-end are unsecured, interest free and repayable on demand. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2020, the Group has not recorded any allowances for expected credit losses relating to amounts owed by related parties (2019: KD Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 RELATED PARTY DISCLOSURES (continued)

**Transactions with key management personnel**

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

	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
<i>Compensation of key management personnel of the Group</i>		
Salaries and short-term benefits	<b>343,263</b>	353,002
Employees' end of service benefits	<b>47,163</b>	47,163
	<b>390,426</b>	400,165

The Board of Directors of the Parent Company proposed no directors' remuneration for the year ended 31 December 2020.

INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 SEGMENT INFORMATION

For management purposes, the Group's activities are concentrated in real estate investments. The Group's activities are concentrated in two main segments: Domestic (Kuwait) and International (Kingdom of Bahrain, United Arab Emirates, Saudi Arabia, Qatar, Europe and USA). The Group's segments information are as follows:

	2020			2019		
	Domestic KD	International KD	Total KD	Domestic KD	International KD	Total KD
Rental income	430,580	2,421,239	2,851,819	430,580	2,729,573	3,160,153
Valuation loss from investment properties	88,133	(624,355)	(536,222)	(2,249,986)	(6,405,698)	(8,655,684)
Change in fair value of financial assets at fair value through profit or loss	-	470,060	470,060	-	862,441	862,441
Gain on sale of financial assets at fair value through profit or loss	-	156,497	156,497	-	1,398,615	1,398,615
Distribution income from financial assets at fair value through profit or loss	-	543,130	543,130	-	632,894	632,894
Management fees	-	345,063	345,063	-	668,403	668,403
Other income	164,049	35,918	199,967	296,395	40,626	337,021
Share of results of associates	-	691,352	691,352	-	(393,467)	(393,467)
Net foreign exchange differences	2,447	-	2,447	(86,625)	-	(86,625)
Total income (loss)	685,209	4,038,904	4,724,113	(1,609,636)	(466,613)	(2,076,249)
Real estate operating costs*	(139,221)	(894,167)	(1,033,388)	(109,815)	(1,091,701)	(1,201,516)
Staff costs	(581,398)	-	(581,398)	(730,613)	-	(730,613)
Depreciation	(142,820)	(26,512)	(169,332)	(126,045)	(29,387)	(155,432)
Administrative expenses	(103,876)	(51,812)	(155,688)	(320,026)	-	(320,026)
Consultancy and professional fees	(165,709)	(5,737)	(171,446)	(185,957)	(20,853)	(206,810)
Finance costs	(49,039)	(1,692,251)	(1,741,290)	(33,235)	(2,169,489)	(2,202,724)
Taxation	(40,119)	-	(40,119)	-	-	-
Total expenses	(1,222,182)	(2,670,479)	(3,892,661)	(1,505,691)	(3,311,430)	(4,817,121)
<b>(Loss) profit for the year</b>	<b>(536,973)</b>	<b>1,368,425</b>	<b>831,452</b>	<b>(3,115,327)</b>	<b>(3,778,043)</b>	<b>(6,893,370)</b>

\*Real estate operating costs are entirely attributable to investment properties that generate rental income.

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 SEGMENT INFORMATION (continued)

	31 December 2020			31 December 2019		
	Domestic KD	International KD	Total KD	Domestic KD	International KD	Total KD
Total assets	18,801,736	81,827,623	100,629,359	17,980,444	81,929,162	99,909,606
Total liabilities	3,302,934	44,097,780	47,400,714	4,233,990	43,412,052	47,646,042
Commitments	1,237,095	444,095	1,681,190	1,668,063	971,711	2,639,774
<b>Other disclosures</b>						
	Domestic KD	International KD	Total KD	Domestic KD	International KD	Total KD
Total non-current assets <sup>1</sup>	12,196,555	71,655,927	83,852,482	11,631,233	71,673,330	83,304,563
Additions to non-current assets <sup>2</sup>	621,027	1,243,410	1,864,437	611,402	4,834,423	5,445,825
Investment in associates	-	21,981,955	21,981,955	-	22,362,471	22,362,471

<sup>1</sup> Non-current assets for this purpose consist of property and equipment, investment properties and investment in associates.

<sup>2</sup> Additions to non-current assets consists of additions of property and equipment, investment properties and investment in associates.

**Disaggregated revenue information**

The following presents the disaggregation of the Group's revenue from contracts with customers:

Timing of revenue recognition	31 December 2020			31 December 2019		
	Domestic KD	International KD	Total KD	Domestic KD	International KD	Total KD
Services performed at a point in time	-	227,727	227,727	-	608,308	608,308
Services performed over time	-	117,336	117,336	-	60,095	60,095
	-	345,063	345,063	-	668,403	668,403

**Consolidated Financial Statements**

**As at and for the year ended 31 December 2020**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**19 FIDUCIARY ASSETS**

Fiduciary assets comprise real estate investment property managed on behalf of clients. Income earned from fiduciary assets amounted to KD 12,352 for the year ended 31 December 2020 (2019: KD 19,816).

**20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial liabilities comprise bank borrowings and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include receivables and cash and balances that derive directly from its operations. The Group also holds investments in equity instruments.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Parent Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the risk management committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Parent Company's Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

**20.1 Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include bank borrowings, other payables, cash at bank, equity investments and certain accounts receivable.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**a) Foreign currency risk**

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

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

The following tables set out the Group's exposure to foreign currency exchange rates on monetary financial assets and (liabilities) at the reporting date:



Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

**20.1 Market risk (continued)**

**a) Foreign currency risk (continued)**

	<i>2020</i> <i>Equivalent</i> <i>KD</i>	<i>2019</i> <i>Equivalent</i> <i>KD</i>
US Dollar (USD)	1,273,989	308,083
UAE Dirham (AED)	966,150	573,730
Bahraini Dinars (BHD)	597,249	573,343
Euro (EUR)	248,890	257,480

*Foreign currency sensitivity*

The following tables demonstrate the effect of a reasonably possible change in the aforementioned exchange rates, with all other variables held constant. The impact on the Group's profit due to changes in the fair value of monetary assets and liabilities is as follows:

<i>Currency</i>	<i>Change in</i> <i>exchange rate</i>	<i>Effect on profit or loss</i> <i>(relates to monetary financial</i> <i>assets and liabilities)</i>	
		<i>2020</i>	<i>2019</i>
		<i>KD</i>	<i>KD</i>
USD	±10%	127,398	30,808
AED	±10%	96,615	57,373
BHD	±10%	59,724	57,334
EUR	±10%	24,889	25,748

There is no sensitivity effect on OCI as the Group has no assets classified as fair value through OCI or designated hedging instruments.

An equivalent decrease in each of the aforementioned currencies against the KD would have resulted in an equivalent but opposite impact.

**b) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates. During 2020 and 2019, the Group's borrowings at variable rate were mainly denominated in KD.

The Group's policy is to manage its interest cost by availing competitive credit facilities from local financial institutions and constantly monitoring interest rate fluctuations.

*Exposure to interest rate risk*

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows.

	<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
<b>Variable-rate instruments</b>		
Financial assets	3,868,455	4,096,993
Financial liabilities	<u>(40,017,159)</u>	<u>(39,767,159)</u>
	<u>(36,148,704)</u>	<u>(35,670,166)</u>

*Cash flow sensitivity analysis for variable-rate instruments*

A reasonably possible change of 50 basis points (2019: 50 basis points) in interest rates at the reporting date would have resulted in a decrease in profit for the year by KD 180,744 (2019: KD 178,351). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

**20.1 Market risk (continued)**

**c) Equity price risk**

The Group's equity investments are susceptible to market price risk arising from uncertainties about future values of the financial assets at fair value through profit or loss.

The Group holds strategic equity investments in structured entities, which complement the Group's operations (Note 8). Management believes that the exposure to market price risk from this activity is acceptable in the Group's circumstances.

At the reporting date, the exposure to unquoted equity investments at fair value was KD 8,162,790 (2019: KD 8,429,204). Sensitivity analyses of these investments have been provided in Note 22.

**20.2 Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily rental income receivables), including cash at banks and other financial instruments.

The Group's policy is to closely monitor the creditworthiness of the counterparties. In relation to rental income receivable, management assesses the tenants according to Group's criteria prior to entering into lease arrangements. The credit risk on bank balances is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

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

	2020 KD	2019 KD
Bank balances (Note 5)	2,345,967	1,938,543
Term deposits (Note 6)	429,710	429,586
Accounts receivable and other assets (Note 7)	4,406,157	4,271,509
	<u>7,181,834</u>	<u>6,639,638</u>

**Bank balances and term deposits**

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

Impairment on bank balances and term deposits has been measured on a 12- month expected loss basis and reflects the short maturities of the exposures. The Group considers that its bank balances and term deposits have low credit risk based on the external credit ratings of the counterparties and CBK guarantee of deposits placed with local banks.

**Tenant receivables**

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of tenant receivables from individual customers, which comprise a very large number of small balances. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 365 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise. As at the reporting date, the majority of the Group's counterparty exposure has a low risk of default and does not include any past-due amounts. Accordingly, management identified impairment loss to be immaterial.

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

**20.2 Credit risk (continued)**

As at 31 December 2020, the maximum credit exposure to a single counterparty amounted to KD 3,737,901 (2019: KD 3,926,873), which is secured by an investment property registered in the name of the Group and can be called upon if the counterparty is in default under the terms of the agreement.

**Other assets**

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

**20.3 Liquidity risk**

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking facilities. The Group's loans and borrowings will mature after one year, (2019: 8.80% of the loan will mature within one year) based on the carrying value of borrowings reflected in the consolidated financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	<i>Less than 3 months KD</i>	<i>3-12 months KD</i>	<i>More than 1 year KD</i>	<i>Total KD</i>
<b>31 December 2020</b>				
Accounts payable and other liabilities (excluding advances)	4,449,007	1,606,089	778,132	6,833,228
Loans and borrowings	-	1,495,143	45,580,337	47,075,480
	<u>4,449,007</u>	<u>3,101,232</u>	<u>46,358,469</u>	<u>53,908,708</u>
<b>31 December 2019</b>				
Accounts payable and other liabilities (excluding advances)	4,550,843	2,151,553	715,309	7,417,705
Loans and borrowings	-	6,614,378	40,353,576	46,967,954
	<u>4,550,843</u>	<u>8,765,931</u>	<u>41,068,885</u>	<u>54,385,659</u>

**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**21 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products.

	<i>Less than 3 months KD</i>	<i>3-12 months KD</i>	<i>More than 1 year KD</i>	<i>Total KD</i>
<b>Assets</b>				
Cash and cash equivalents	2,367,007	-	-	2,367,007
Term deposits	-	429,710	-	429,710
Accounts receivable and other assets	1,968,743	3,848,627	-	5,817,370
Financial assets at fair value through profit and loss	-	-	8,162,790	8,162,790
Investment properties	-	-	61,413,721	61,413,721
Investment in associates	-	-	21,981,955	21,981,955
Property and equipment	-	-	456,806	456,806
	<u>4,335,750</u>	<u>4,278,337</u>	<u>92,015,272</u>	<u>100,629,359</u>
<b>Liabilities</b>				
Accounts payable and other liabilities	4,999,334	1,606,089	778,132	7,383,555
Loans and borrowings	-	-	40,017,159	40,017,159
	<u>4,999,334</u>	<u>1,606,089</u>	<u>40,795,291</u>	<u>47,400,714</u>
<b>Net liquidity gap</b>	<u>(663,584)</u>	<u>2,672,248</u>	<u>51,219,981</u>	<u>53,228,645</u>

The maturity profile of assets and liabilities at 31 December 2019:

	<i>Less than 3 months KD</i>	<i>3-12 months KD</i>	<i>More than 1 year KD</i>	<i>Total KD</i>
<b>Assets</b>				
Cash and cash equivalents	1,939,824	-	-	1,939,824
Term deposits	-	429,586	-	429,586
Accounts receivable and other assets	1,768,832	4,037,597	-	5,806,429
Financial assets at fair value through profit and loss	-	-	8,429,204	8,429,204
Investment properties	-	-	60,323,903	60,323,903
Investment in associates	-	-	22,362,471	22,362,471
Property and equipment	-	-	618,189	618,189
	<u>3,708,656</u>	<u>4,467,183</u>	<u>91,733,767</u>	<u>99,909,606</u>
<b>Liabilities</b>				
Accounts payable and other liabilities	5,012,025	2,151,553	715,305	7,878,883
Loans and borrowings	-	4,600,000	35,167,159	39,767,159
	<u>5,012,025</u>	<u>6,751,553</u>	<u>35,882,464</u>	<u>47,646,042</u>
<b>Net liquidity gap</b>	<u>(1,303,369)</u>	<u>(2,284,370)</u>	<u>55,851,303</u>	<u>52,263,564</u>

## Consolidated Financial Statements

As at and for the year ended 31 December 2020

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 22 FAIR VALUE MEASUREMENT

## Fair value hierarchy

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

Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

## 22.1 Financial instruments

The following tables provide the fair value measurement hierarchy of the Group's financial assets:

	Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Total KD	KD	KD	KD
<b>31 December 2020</b>				
<i>Financial assets at fair value through profit or loss</i>				
Unquoted equity securities	8,162,790	-	-	8,162,790
<b>31 December 2019</b>				
<i>Financial assets at fair value through profit or loss</i>				
Unquoted equity securities	8,429,204	-	-	8,429,204

There were no transfers between any levels of the fair value hierarchy during 2020 or 2019.

## Valuation techniques

The Group invests in structured entities that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Group uses a NAV based valuation technique for these positions. The NAV of the investments is adjusted, as necessary, to reflect considerations such as market liquidity discounts and other specific factors related to the investments. Accordingly, such instruments are included within Level 3.

For all other financial assets and liabilities, management assessed that the carrying value approximates fair value.

## Reconciliation of Level 3 fair values

The following table shows a reconciliation of all movements in the fair value of items categorised within Level 3 between the beginning and the end of the reporting period:

	At 1 January KD	Total gains recognised in profit or loss KD	Net (sales) and purchases KD	At 31 December KD
<b>31 December 2020</b>				
<i>Financial assets at fair value through profit or loss:</i>				
Unquoted equity securities	8,429,204	626,557	(892,971)	8,162,790



INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 FAIR VALUE MEASUREMENT (continued)

22.1 Financial instruments (continued)

Reconciliation of Level 3 fair values (continued)

	<i>At 1 January</i> KD	<i>Total gains recognised in profit or loss</i> KD	<i>Net (sales) and purchases</i> KD	<i>At 31 December</i> KD
<i>31 December 2019</i>				
<i>Financial assets at fair value through profit or loss:</i>				
Unquoted equity securities	9,721,768	2,261,056	(3,553,620)	8,429,204

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December are as shown below:

Significant unobservable valuation inputs	Range	Sensitivity of the input to fair value
Discount for lack of marketability (DLOM)	21% (2019: 21%)	10% (2019: 10%) increase (decrease) in the discount would decrease (increase) the fair value by KD 1,217,227 (2019: KD 1,135,216)

The discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

22.2 Non-financial instruments

The following tables provide the fair value measurement hierarchy of the Group's non-financial assets:

	<i>Total</i> KD	Fair value measurement using		
		<i>Quoted prices in active markets (Level 1)</i> KD	<i>Significant observable inputs (Level 2)</i> KD	<i>Significant unobservable inputs (Level 3)</i> KD
<i>31 December 2020</i>				
Investment properties	<u>61,413,721</u>	<u>-</u>	<u>-</u>	<u>61,413,721</u>
<i>31 December 2019</i>				
Investment properties	<u>60,323,903</u>	<u>-</u>	<u>-</u>	<u>60,323,903</u>

There were no transfers between any levels of the fair value hierarchy during 2020 or 2019.

Reconciliation for recurring fair value measurement of investment properties categorised within Level 3 of the fair value hierarchy is disclosed in Note 9.

**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**22 FAIR VALUE MEASUREMENT (continued)**
**22.2 Non-financial instruments (continued)**

There were no other changes in valuation techniques during the year. The table below illustrates the valuation techniques used to derive to Level 3 fair values and the significant unobservable inputs used in the fair value measurement of investment properties.

<i>Valuation technique</i>	<i>Fair value 2020 KD</i>	<i>Fair value 2019 KD</i>	<i>Key unobservable inputs</i>	<i>Range 2020</i>	<i>Range 2019</i>
Income capitalisation approach	<b>35,633,003</b>	29,321,711	<ul style="list-style-type: none"> <li>▸ Average rent (per sqm) (KD)</li> <li>▸ Yield rate (%)</li> </ul>	<b>7 – 53</b> <b>1.36%-8.91%</b>	4 - 55 2.43%-16.42%
Market comparison approach	<b>25,780,718</b>	31,002,192	<ul style="list-style-type: none"> <li>▸ Price (per sqm) (KD)</li> </ul>	<b>165 – 12,203</b>	165 - 10,587

**Sensitivity analysis**

Significant increase (decrease) in average rent per sqm, yield rate and price per sqm in isolation would result in a significantly higher (lower) fair value of the properties.

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment properties located in Kuwait.

	<i>Changes in valuation assumptions</i>	<i>Impact on profit for the year</i>	
		<i>2020 KD</i>	<i>2019 KD</i>
Average rent	+/- 5%	<b>1,781,650</b>	1,466,086
Yield rate	+/- 50 bp	<b>4,924,828</b>	4,716,531
Price per sqm	+/- 5%	<b>6,890,967</b>	6,057,135

**23 CAPITAL MANAGEMENT**

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

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, transact in treasury shares, issue new shares, or sell assets to reduce debt.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt interest-bearing loans and borrowings, less cash and cash equivalents. For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves.

INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements

As at and for the year ended 31 December 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 CAPITAL MANAGEMENT (continued)

	2020 KD	2019 KD
Interest-bearing loans and borrowings	40,017,159	39,767,159
Less: Cash and cash equivalents	(2,367,007)	(1,939,824)
Less: Time deposits	(429,710)	(429,586)
<b>Net debt</b>	<b>37,220,442</b>	<b>37,397,749</b>
Capital	53,228,645	52,263,564
<b>Capital and net debt</b>	<b>90,449,087</b>	<b>89,661,313</b>
<b>Gearing ratio</b>	<b>41.2%</b>	<b>41.7%</b>

24 COMMITMENTS AND CONTINGENCIES

*Capital commitments*

As at 31 December 2020, the Group had ongoing construction contracts with third parties and is consequently committed to future capital expenditure in respect of investment properties under development of KD 1,681,190 (2019: KD 2,639,774). There are no contractual commitments in respect of completed investment properties.

*Operating lease commitments – Group as a lessor*

The Group has entered into operating leases on its investment property portfolio. These leases have terms of between one and two years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions.

Future minimum rentals receivable under operating leases as at 31 December are, as follows:

	2020 KD	2019 KD
Within one year	1,895,137	1,713,939
After one year, but not more than 5 years	1,739,386	2,253,934
	<b>3,634,523</b>	<b>3,967,873</b>

*Legal claim contingency*

The Group operates in the real estate industry and is subject to legal disputes with tenants in the normal course of business. Management does not believe that such proceedings will have a material effect on its results and financial position.

*Contingencies*

	2020 KD	2019 KD
Letters of guarantee	1,948,460	1,947,336

The Group has contingent liabilities in respect of bank guarantee arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. Time deposits amounting to KD 429,710 (2019: KD 429,586) are restricted against letters of guarantee provided to the Group by its bank (Note 6).

**Consolidated Financial Statements**

As at and for the year ended 31 December 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****25 IMPACT OF COVID-19 OUTBREAK**

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

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

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

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

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

***Tenant and other receivables***

The Group was required to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These were primarily related to adjusting the forward-looking estimates used by the Group in the estimation of ECL as the segmentation applied in previous periods may no longer be appropriate and may need to be revised to reflect the different ways in which the COVID-19 outbreak affects different types of customers (e.g. by extending payment terms for trade receivables or by following specific guidance issued by the government in relation to the collection of rentals or other payments). The Group will continue to assess impact of the pandemic as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

***Impairment of non-financial assets***

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

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

***Fair value measurement of investment properties***

The market disruption caused by the COVID-19 pandemic resulted in a reduction in transactional evidence and market yields, and accordingly, there is an increased risk that the price realised in an actual transaction would differ from the value conclusion arrived by the valuers.

The highly uncertain economic outlook for the period may have a material adverse effect on the tenants' operations, the viability of their business and their ability to meet their rental obligations. This uncertainty is factored into the valuation of investment property, specifically in estimating rent payments from existing tenants, the void periods, occupancy rates, expected market rental growth rates and the discount rate, all of which are significant inputs into the fair value determination. As a result of this increased uncertainty, the assumptions may be revised significantly in 2021.

**Consolidated Financial Statements**

**As at and for the year ended 31 December 2020**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**25 IMPACT OF COVID-19 OUTBREAK (continued)**

***Fair value measurement of investment securities***

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

***Government assistance***

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

During the current year, the Group received an aggregate amount of KD 45,900. The financial support is accounted for in accordance with IAS 20 'Accounting for Government Grants and Disclosures of Government Assistance' and recognised in profit or loss as a deduction to 'staff costs' on a systematic basis over the periods in which the Group recognises expenses for the related staff costs. There is no outstanding balance of deferred income or receivable related to this grant as at 31 December 2020.

***Going concern assessment***

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







