

**AL-ENMA'A REAL ESTATE COMPANY
K.S.C.P. AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 OCTOBER 2022



Ernst & Young
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL ENMA'A REAL ESTATE COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Enma'a Real Estate 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 October 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 October 2022, 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 (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL-ENMA'A REAL ESTATE COMPANY K.S.C.P. (continued)

Report on the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Valuation of investment properties

The investment properties represent a significant part of the total assets (64%) of the Group, with a carrying value of KD 40,901,816 at the reporting date.

The fair value of Group's investment properties have been determined by external real estate appraisers. The determination of fair value of the investment properties is highly dependent on estimates and assumptions, such as rental value, maintenance status, market knowledge and historical transactions. Given the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we have considered this as a key audit matter.

We have challenged the appropriateness of the properties' related data supporting the external appraisers' valuations. We performed additional procedures for areas of higher risk and estimation. This included, where relevant, comparison of judgements made to current and emerging market practices and challenging the valuations on a sample basis. Further, we have considered the objectivity and expertise of the external real estate appraisers. We also assessed the appropriateness of the disclosures relating to the investment properties of the Group in Note 6 to the consolidated financial statements.

Debt instruments subject to provision of expected credit losses

As at 31 October 2022, debt instruments subject to provision of expected credit losses amounting to KD 19,623,350 represent 31% of total assets. The management used significant accounting judgments and estimates to estimate the provision for expected credit losses of debt instruments. Management evaluated the estimated provision based on specific reviews of customer accounts. This process involves significant accounting judgments and estimates as disclosed in Note 2.6 to the consolidated financial statements. We consider, therefore, this matter as a key audit matter.

The management estimated the provision for expected credit losses by taking into consideration the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

We evaluated management's assumptions, judgment and estimations for the purpose of recoverability of the debt instruments balances.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL-ENMA'A REAL ESTATE COMPANY K.S.C.P. (continued)

Report on the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Debt instruments subject to provision of expected credit losses (continued)

Our audit procedures include verifying and challenging the assumptions used by the management to calculate the ECL balances and recalculating the allowance for expected credit losses charged against the receivable balances of the Group and ensuring that they are adequate accurate, and sufficient. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL and ensured that the macroeconomic factors of the economy were taken into consideration when calculating the ECL on the debt instruments of the Group. We have also considered subsequent settlement when performing analysis of receivables' aging brackets.

We also considered the adequacy of the Group's disclosure relating to the provision of expected credit losses in Note 10 and Note 11 to the consolidated financial statements.

Other information included in the Group's 2022 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL-ENMA'A REAL ESTATE COMPANY K.S.C.P. (continued)

Report on the Consolidated Financial Statements (continued)

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF
AL-ENMA’A REAL ESTATE COMPANY K.S.C.P. (continued)**

Report on the Consolidated Financial Statements (continued)

**Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements
(continued)**

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.

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL-ENMA'A REAL ESTATE COMPANY K.S.C.P. (continued)**

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, 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 have occurred during the year ended 31 October 2022 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 October 2022 that might have had a material effect on the business of the Parent Company or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO 68 A
EY
(AL-AIBAN, AL-OSAIMI & PARTNERS)

12 January 2023
Kuwait

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 October 2022

	<i>Notes</i>	2022 KD	2021 KD
REVENUES			
Revenue from services rendered		5,770,146	7,232,947
Revenue from real estate activities		1,881,866	2,033,413
Revenue from construction contracts		1,549,667	1,174,204
		9,201,679	10,440,564
COST OF REVENUES			
Cost of services rendered		4,464,713	6,026,849
Cost of real estate activities		446,995	523,815
Cost of construction contracts		3,332,274	3,555,630
		8,243,982	10,106,294
GROSS PROFIT			
		957,697	334,270
Reversal of (allowance for) expected credit losses	10 & 11	193,468	(152,759)
Provision for obsolete and slow-moving inventories	9	-	(81,658)
General and administrative expenses		(1,219,717)	(1,028,762)
LOSS FROM OPERATIONS			
		(68,552)	(928,909)
Net investment income (loss)	3	486,623	(554,220)
Other income		293,092	86,827
Finance costs on murabaha payables		(338,279)	(246,063)
Finance costs on lease liabilities	7	(138,622)	(220,222)
PROFIT (LOSS) FOR THE YEAR			
		234,262	(1,862,587)
BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE			
	4	0.52 fils	(4.13) fils

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

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries
CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME
For the year ended 31 October 2022

	2022 KD	2021 KD
Profit (loss) for the year	234,262	(1,862,587)
Other comprehensive loss: <i>Items that will not be reclassified subsequently to the consolidated statement of income:</i>		
Change in fair value of financial assets at fair value through other comprehensive income	(196,063)	(541,635)
Other comprehensive loss for the year	(196,063)	(541,635)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	38,199	(2,404,222)

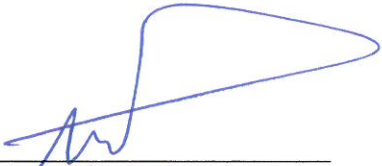
The attached notes 1 to 29 form part of these consolidated financial statements.

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 October 2022

	Notes	2022 KD	2021 KD
ASSETS			
Non-current assets			
Property, plant and equipment	5	83,807	168,523
Investment properties	6	40,901,816	40,522,273
Investments in associate		9,795	9,795
Financial assets at fair value through other comprehensive income	8	373,025	569,952
Accounts receivable and other assets	11	762,114	725,296
Right-of-use assets	7	2,549,303	4,228,107
		<u>44,679,860</u>	<u>46,223,946</u>
Current assets			
Inventories	9	38,866	46,428
Financial assets at fair value through profit or loss		-	2,899
Contract assets	10	954,330	1,667,590
Accounts receivable and other assets	11	6,356,487	10,481,933
Investment deposits	12,13	9,704,162	5,803,616
Bank balances and cash	13	2,038,540	931,140
		<u>19,092,385</u>	<u>18,933,606</u>
TOTAL ASSETS		<u><u>63,772,245</u></u>	<u><u>65,157,552</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	14	45,053,468	45,053,468
Share premium		-	176,642
Statutory reserve	15	-	8,384,971
Cumulative changes in fair values reserve		(3,820,580)	(3,623,850)
Accumulated losses		(107,861)	(8,904,403)
TOTAL EQUITY		<u>41,125,027</u>	<u>41,086,828</u>
Non-current liabilities			
Employees' end of service benefits	17	1,128,617	1,720,925
Murabaha payables	18	11,501,916	2,915,367
Accounts payable and other liabilities	19	1,327,120	3,317,557
Lease liabilities	7	711,357	1,393,629
		<u>14,669,010</u>	<u>9,347,478</u>
Current liabilities			
Accounts payable and other liabilities	19	5,745,428	6,428,520
Contract liabilities	10	-	525,189
Murabaha payables	18	1,550,508	5,871,689
Lease liabilities	7	682,272	1,897,848
		<u>7,978,208</u>	<u>14,723,246</u>
TOTAL LIABILITIES		<u>22,647,218</u>	<u>24,070,724</u>
TOTAL EQUITY AND LIABILITIES		<u><u>63,772,245</u></u>	<u><u>65,157,552</u></u>


 Saleh Turki Saleh Al-Khamis
 Chairman

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

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2022

	<i>Share capital KD</i>	<i>Share premium KD</i>	<i>Statutory reserve KD</i>	<i>Voluntary reserve KD</i>	<i>Cumulative changes in fair values reserve KD</i>	<i>Accumulated losses KD</i>	<i>Total KD</i>
As at 1 November 2021	45,053,468	176,642	8,384,971	-	(3,623,850)	(8,904,403)	41,086,828
Profit for the year	-	-	-	-	-	234,262	234,262
Other comprehensive loss for the year	-	-	-	-	(196,063)	-	(196,063)
Total comprehensive (loss) income for the year	-	-	-	-	(196,063)	234,262	38,199
Extinguishment of accumulated losses (Note 29)	-	(176,642)	(8,384,971)	-	-	8,561,613	-
Transfer of gain on disposal of financial assets at fair value through other comprehensive income to retained earnings	-	-	-	-	(667)	667	-
As at 31 October 2022	45,053,468	-	-	-	(3,820,580)	(107,861)	41,125,027
As at 1 November 2020	45,053,468	176,642	8,384,971	4,479,673	(3,082,215)	(11,351,344)	43,661,195
Loss for the year	-	-	-	-	-	(1,862,587)	(1,862,587)
Other comprehensive loss for the year	-	-	-	-	(541,635)	-	(541,635)
Total comprehensive loss for the year	-	-	-	-	(541,635)	(1,862,587)	(2,404,222)
Extinguishment of accumulated losses (Note 29)	-	-	-	(4,479,673)	-	4,479,673	-
Zakat (Note 28)	-	-	-	-	-	(170,145)	(170,145)
As at 31 October 2021	45,053,468	176,642	8,384,971	-	(3,623,850)	(8,904,403)	41,086,828

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

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 October 2022

	Notes	2022 KD	2021 KD
OPERATING ACTIVITIES			
Profit (loss) for the year		234,262	(1,862,587)
<i>Non-cash adjustments to reconcile profit (loss) for the year to net cash flows:</i>			
Depreciation on property, plant and equipment and right-of-use assets	5,7	1,784,535	1,810,253
Gain on sale of property, plant and equipment		(70,180)	(1,776)
Investment (income) loss, net	3	(486,623)	554,220
(Reversal of) allowance for expected credit losses, net	10,11	(193,468)	152,759
Provision for employees' end of service benefits, net	17	122,046	260,485
Finance costs on murabaha payables		338,279	246,063
Finance costs on murabaha payables (under cost of real estate activities)		99,432	-
Finance costs on lease liabilities	7	138,622	220,222
Provision for obsolete and slow-moving inventories	9	-	81,658
		<u>1,966,905</u>	<u>1,461,297</u>
Changes in working capital:			
Inventories		7,562	(1,391)
Financial assets at fair value through profit or loss		2,722	-
Contract assets		815,785	1,884,281
Contract liabilities		(525,189)	269,644
Accounts receivable and other assets		4,745,736	2,100,391
Accounts payable and other liabilities		(3,239,694)	(2,102,097)
Cash flows from operations		<u>3,773,827</u>	<u>3,612,125</u>
Employees' end of service benefits paid	17	(714,354)	(337,720)
Net cash flows from operating activities		<u>3,059,473</u>	<u>3,274,405</u>
INVESTING ACTIVITIES			
Additions to property, plant and equipment	5	(21,135)	(17,046)
Proceeds from sale of property, plant and equipment		70,300	5,016
Profit from investment deposits received	3	107,257	60,495
Proceeds from sale of financial assets at fair value through other comprehensive income		864	-
Net cash flows from investing activities		<u>157,286</u>	<u>48,465</u>
FINANCING ACTIVITIES			
Proceeds from murabaha payables		41,643,164	32,332,723
Payments of murabaha payables		(37,318,759)	(34,526,305)
Finance costs paid		(496,748)	(246,063)
Payment of lease liabilities	7	(2,036,470)	(2,492,319)
Net cash flows from (used in) financing activities		<u>1,791,187</u>	<u>(4,931,964)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>5,007,946</u>	<u>(1,609,094)</u>
Cash and cash equivalents at 1 November		6,734,756	8,343,850
CASH AND CASH EQUIVALENTS AT 31 OCTOBER	13	<u><u>11,742,702</u></u>	<u><u>6,734,756</u></u>
Non-cash transactions excluded from the consolidated statement of cash flows:			
Transfer to allowance for ECL on contracts and delayed penalties (Note 11)		(566,165)	-
Transfer for allowance for ECL on contracts and delayed penalties (Note 19)		566,165	-
Additions to right-of-use assets (Note 7)		-	(16,149)
Additions to lease liabilities (Note 7)		-	16,149
		<u>-</u>	<u>-</u>

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

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

1 CORPORATE INFORMATION

The consolidated financial statements of Al-Enma'a Real Estate Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively, the "Group") for the year ended 31 October 2022 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors 12 January 2023.

The General Assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements in the Annual General Assembly meeting of the Parent Company's shareholders.

The Parent Company is a Kuwaiti Public Shareholding Company registered and incorporated in Kuwait on 15 August 1993 whose shares are listed on Bursa Kuwait. The Parent Company is a subsidiary of Kuwait Finance House K.S.C.P. (the "Ultimate Parent Company"), a registered Islamic Bank in Kuwait whose shares are listed on Bursa Kuwait.

The Parent Company is engaged in real estate activities inside and outside Kuwait. The Parent Company's activities in real estate include contracting, management and maintenance of real estate. The Parent Company undertakes contracts to construct buildings and to carry out real estate, commercial, residential, industrial and touristic projects as well as security of public and private real estate, and the transportation of funds and precious metals, in addition to maintenance of mechanical and electrical spare parts and building materials. Surplus funds are invested in direct equity investments, real estate and equity portfolios managed by specialist managers, both local and foreign. All activities are conducted in accordance with Islamic Sharia.

The registered office of the Parent Company is located at Abdullah Mubarak Street, Al-Enma'a Tower, First, Second and Mezzanine Floors, Kuwait.

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

The consolidated financial statements of the Group have been prepared under the historical cost basis except for investment properties, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is also the functional currency of the Parent Company.

Certain of the prior year amounts have been reclassified to conform to the amounts of current year presentation. The reclassification has no impact on results or equity of the Group.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 October 2022.

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; and
- ▶ The ability to use its power over the investee to affect its returns.

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

2.2 BASIS OF CONSOLIDATION (continued)

Generally, there is a presumption that a majority of voting rights result 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 with the other vote holders of the investee;
- ▶ Rights arising from other contractual arrangements; and
- ▶ 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 other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group 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 into 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.

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 the consolidated statement of comprehensive income. Any investment retained is recognised at fair value.

Details of the subsidiary companies included in the consolidated financial statements as at 31 October are set out below:

Name of company	Country of incorporation	Effective interest in equity		Principal activities
		2022	2021	
ERESCO Security K.S.C. (Closed)	Kuwait	99%	99%	Security services
Al Reyada Facilities Guarding S.P.C	Kuwait	100%	100%	Security services
Al Reyada for Security and Safety of Equipment and tools S.P.C	Kuwait	100%	100%	Security services
Al Reyada for Security Consulting Services S.P.C	Kuwait	100%	100%	Security services
United Real Estate Consultancy S.P.C	Kuwait	100%	100%	Real Estate Consulting Services
Al-Enma'a For Security Services Company K.S.C. (Closed)	Kuwait	99%	99%	Security Services
Enma'a Gulf Real Estate Company W.L.L.	Saudi Arabia	99%	99%	Real estate activities
Eresco Real Estate Development Company S.P.C. *	Bahrain	-	100%	Real estate activities

1% of ERESKO Security K.S.C. (Closed), Enma'a Gulf Real Estate Company W.L.L. and Al-Enma'a For Security Services K.S.C. (Closed) are held in the name of a related party as nominee on behalf of the Parent Company, who has confirmed in writing that the Parent Company is the beneficial owner of those shares.

* Eresco Real Estate Development Company S.P.C. was liquidated during the year ended 31 October 2022.

2.3 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 October 2022, except for the adoption of new standards effective as of 1 November 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The adoption of these standards did not have material impact on the financial performance or consolidated financial position of the Group.

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

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- ▶ A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- ▶ Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- ▶ Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

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 was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.

This amendment had no material impact on the financial statements of the Group.

2.4 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 consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

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

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

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

The Group has determined that the customer controls all of the work in progress for the contracts being executed. This is because under those contracts, the final product is made to customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin.

Revenue is recognised over time based on the input method using cost incurred relative to the total costs to complete the contract as the measure of progress. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the consolidated statement of income. The related costs are recognised in the consolidated statement of income when they are incurred and are reduced by any incidental income that is not included in contract revenue. Invoices are issued according to contractual terms and are usually payable within 30 to 90 days. Excess billings are presented as contract liabilities and un invoiced amounts are presented as contract assets.

For cost-plus contracts, revenue is recognised to the extent of cost incurred on satisfying the performance obligation plus the percentage mark up on these costs as a fixed fee as per the contract.

Contract revenue includes the initial amount of revenue agreed in the contract and any variation in contract value, claims and incentives to the extent that it is approved either written, oral or implied by customer business practices.

Contract costs to fulfil the performance obligation includes costs that relate directly to the contract or to an anticipated contract that can be specifically identified and are expected to be recovered. Costs of obtaining a contract are generally expensed as the period of amortisation is less than a year. Contract revenues and costs relating to contracts on which the work performed to the consolidated statement of financial position date is insignificant are recognised to the extent of cost incurred, and accordingly no profit is recognised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

▶ *Variable consideration*

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group at the reporting date is not entitled to any variable consideration.

▶ *Warranty obligations*

The Group contractually provides warranties for general repairs of defects that existed at the time of completion of the projects. These assurance-type warranties are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The Group provides a one-to-three years warranty beyond the end of the construction period. These service-type warranties are sold either separately or bundled together with the installation of equipment. Contracts for bundled sales of equipment and a service-type warranty comprise two performance obligations because the promises to transfer the equipment and to provide the service-type warranty are capable of being distinct. Using the relative stand-alone selling price method, a portion of the transaction price is allocated to the service-type warranty and recognised as a contract liability. Revenue is recognised over the period in which the service-type warranty is provided based on the time elapsed.

▶ *Significant financing component*

The Group also receives long-term advances from its construction contracts with customers. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Rendering of services

Revenue from services rendered represents revenue from managing properties, security services and maintenance services provided for others. Revenue from services rendered is recognised when earned.

Real estate activities

Revenue and profits from real estate activities represents revenue from managing real estate for others and renting properties. Real estate rental income arising from operating leases on investment properties is recognised in the consolidated statement of income on a straight-line basis over the lease terms.

Dividend income

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

Investment deposits

Profit from investment deposits is recognised on an accrual basis based on the expected profit distribution rates.

Finance costs

Finance 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 finance costs are expensed in the period they occur. Finance costs consist of profit and other costs that an entity incurs in connection with the borrowing of funds.

Taxation

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

National Labour Support Tax (NLST)

The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. Cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

Zakat

Zakat is calculated at 1% of the profit for the year in accordance with the requirements of the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007. Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of income.

In addition, in accordance with its internal guidelines, the Parent Company is calculating additional Zakat at 2.577% of the net assets that are subject to Zakat at the end of the year. Such amount is charged to voluntary reserve/accumulated losses, and paid under the direction of the Ultimate Parent Company's Fatwa and Sharea'a Supervisory Board.

Foreign currencies translation

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 of the transaction that first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rates of exchange at the reporting date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Group companies

As at the reporting date, the assets and liabilities of foreign operations are translated into the Parent Company's presentation currency at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised directly in the consolidated statement of other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

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 such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use and 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 and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the consolidated statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 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 consolidated statement of income.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and any accumulated losses, if any. Land is not depreciated. Depreciation is calculated on a straight line basis over the estimated useful lives as follows:

▶ Buildings	10 to 15 years
▶ Furniture and equipment	2 to 7 years
▶ Motor vehicles	3 to 6 years

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 consolidated statement of income when the asset is derecognised.

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

Expenditure incurred to replace a component of an item of property, plant 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, plant and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Investment properties

Investment properties comprise properties under development and developed properties that are held to earn rentals or for capital appreciation or both. Properties held under a lease are classified as investment properties when they are held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment properties are measured initially at cost, including transaction costs. Transaction costs include professional fees for legal services, commissions and other costs to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

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 the consolidated statement of income in the year in which they arise.

Transfers are made to or from investment properties 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, plant and equipment up to the date of change in use.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the investment property would result in either gains or losses on the retirement or disposal of the investment property. Any gains or losses are recognised in the consolidated statement of income in the period of derecognition. No properties held under operating lease have been classified as investment properties.

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 Group's investment in its associates is accounted for using the equity method of accounting.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

Under the equity method, the investment in the associate is initially recognised at cost in the consolidated statement of financial position. 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 consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of other comprehensive income. 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 share of profit of associates is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associates.

The financial statements of the associates are prepared for the same reporting period as the Group and in case of different reporting date of associate, which are not more than three months, from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. Where 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 the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this 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 amount in the consolidated statement of income.

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 and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Inventories

Inventory items are intended to be used partially in the Group's contracts, and are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each item to its present location and condition, determined on a weighted average basis.

Net realisable value is determined based on the estimated costs to purchase or replace a similar item including any expenses to be incurred in bringing such item to its present location and condition, determined on a weighted average basis.

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 remeasurement 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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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 a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease liabilities

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the borrowing 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 finance cost and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

Financial instruments – Initial recognition and subsequent measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities (other than on financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or issue of financial liabilities at fair value through profit or loss are recognised immediately in consolidated statement of income.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Financial assets at amortised cost

Financial assets such as contract assets, accounts receivable and other assets, investment deposits, and cash and cash equivalents that meet the following conditions are subsequently measured at amortised cost:

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

All other financial assets are subsequently measured at fair value through profit or loss except for equity instruments when the Group may make an irrevocable election/designation at initial recognition to recognise fair value in other comprehensive income.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – Initial recognition and subsequent measurement (continued)

Financial assets (continued)

Classification of financial assets (continued)

Amortised cost and effective yield method

The effective yield method is a method of calculating the amortised cost of a debt instrument and of allocating profit income over the relevant period.

For financial instruments at amortised cost, the effective profit rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

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

Profit income is recognised using the effective yield method for debt instruments measured subsequently at amortised cost. Profit income is calculated by applying the effective profit rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, profit income is recognised by applying the effective profit rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, profit income is recognised by applying the effective profit rate to the gross carrying amount of the financial asset.

Financial assets at FVOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVOCI. Designation at FVOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. The cumulative gain or loss will not be reclassified to consolidated statement of income on disposal of the equity investments, instead, they will be transferred to accumulated losses.

The Group has designated all investments in equity instruments that are not held for trading as at FVOCI on initial application of IFRS 9.

Dividends on these investments in equity instruments are recognised in consolidated statement of income when the Group's right to receive the dividends is established in accordance with IFRS 15: Revenue from contracts with customers, unless the dividends clearly represent a recovery of part of the cost of the investment.

Fair Value Through Profit and Loss (FVTPL)

Financial assets whose business model is to acquire and sell, or whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, are classified as FVTPL.

The Group classifies financial assets fair value through profit and loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the consolidated statement of financial position at fair value.

In addition to the above, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – Initial recognition and subsequent measurement (continued)

Financial assets (continued)

Classification of financial assets (continued)

Fair Value Through Profit and Loss (FVTPL) (continued)

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the consolidated statement of income. Interest income and dividends are recognised in the consolidated statement of income according to the terms of the contract, or when the right to payment has been established

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. No impairment loss is recognised for equity instruments that are classified as financial assets at FVOCI. The amount of expected credit losses is updated at each reporting date.

The Group always recognises lifetime ECL for trade receivables which generally do not have a significant financing component. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a trade receivables.

Credit-impaired financial assets at amortised cost

A financial asset is credit-impaired when one or more events, constituting an event of default for internal credit risk management purposes as historical experience indicates, that have a detrimental impact on the estimated future cash flows of that financial asset have occurred that meet below criteria. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- ▶ significant financial difficulty of the issuer or the borrower;
- ▶ a breach of contract, such as a default or past due event;
- ▶ the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- ▶ it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- ▶ the disappearance of an active market for that financial asset because of financial difficulties.

Write-off of financial assets at amortised cost

The Group writes off a financial asset at amortised cost when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, considering legal advice where appropriate. Any recoveries made are recognised in the consolidated statement of income.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for loan commitments and financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective profit rate.

The Group recognises an impairment loss in consolidated statement of income for all financial assets at amortised cost with a corresponding adjustment to their carrying amount through a loss allowance account.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – Initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

From 1 November 2017, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in consolidated statement of income on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective yield method.

The Group's financial liabilities include murabaha payables, accounts payable and other liabilities, and contract liabilities, and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Murabaha payables

Murabaha payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated at the contractual amount payable, less deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Accounts payable and other liabilities

Liabilities are recognised for amounts to be paid in the future for goods or 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

Offsetting of financial instruments

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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.

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

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

Employees' end of service benefits

The Group provides end of service benefits to its employees in accordance with Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period 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.

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

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 of the obligation amount can be made.

Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in the consolidated statement of financial position.

Contingencies

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

Contract balances

Contract assets

A Contract asset is the right to consideration in exchange of goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before the payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

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

Classification of real estate properties

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

The Group classifies property as an investment property if it is acquired, developed or is in the process of development to principally generate rental income or for capital appreciation, or for undetermined future use.

The Group classifies property as trading property if it is principally acquired or developed for sale in the ordinary course of business, if any.

Classification of financial instruments

Management decides on acquisition of a financial instrument whether it should be classified as "at fair value through profit or loss" or "at fair value through other comprehensive income".

Classification of financial instruments as "at fair value through profit or loss" depends on how management monitors the performance of these financial instruments. When they have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as "at fair value through profit or loss".

The Group classifies all other financial instruments as financial assets at fair value through other comprehensive income.

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 described 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 beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Valuation of investment properties

The fair value of developed investment properties is determined based on valuation performed annually by independent professional real estate valuation experts using recognised valuation techniques. Developed investment properties are valued using the income capitalisation approach; or, the market approach based on recent transactions for properties with characteristics and location similar to those of the Group's properties.

The fair value of investment properties under development is also determined based on valuation performed annually by independent professional real estate valuation experts using recognised valuation techniques recommended by the International Valuation Standards Committee, except if such values cannot be reliably determined. The fair value of investment properties under development is determined using a combination of the market approach for the land and cost approach for the construction work.

Recognition of construction contract revenue

Recognised amounts of construction contract revenues and related receivables reflect management's best estimate of each contract's outcome and stage of completion. This includes the assessment of the profitability of on-going construction contracts and the order backlog. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty.

Profit on uncompleted contracts

Profit on uncompleted contracts is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. This requires the Group's management to determine the level at which reasonable estimates can be reached.

Accumulated costs and estimated earnings on uncompleted contracts

Revenue from fixed price construction contracts is measured by reference to the percentage of actual costs incurred to date to the estimated total costs for each contract applied to the estimated contract revenue, and reduced by the proportion of revenue previously recognised. This requires the Group to use judgment in the estimation of the total cost expected to complete each project.

Useful lives of property, plant and equipment

Management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where management believes the useful lives differ from previous estimates.

Impairment of property, plant and equipment

A decline in the value of property, plant and equipment could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- ▶ significant decline in the market value which would be expected from the passage of time or normal use;
- ▶ significant changes in the technology and regulatory environments; or
- ▶ evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

Valuation of unquoted equity investments

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

- ▶ recent arm's length market transactions;
- ▶ current fair value of another instrument that is substantially the same;
- ▶ the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- ▶ Other valuation models.
- ▶ Net assets value "NAV" when the underlying assets are measured in fair value.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of financial assets at amortised cost

The allowance for expected credit losses for financial assets disclosed in Note 10 and Note 11 are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

3 INVESTMENT INCOME (LOSS), NET

	2022 KD	2021 KD
Unrealised gain (loss) on revaluation of investment properties (Note 6)	379,543	(615,777)
Unrealised gain on financial assets at fair value through profit or loss	-	1,062
Realised loss on financial assets at fair value through profit or loss	(177)	-
Profit from investment deposits	107,257	60,495
	<u>486,623</u>	<u>(554,220)</u>

4 BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

Basic earnings (losses) per share are calculated by dividing the profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (losses) per share are calculated by dividing the profit (loss) for the year 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 the conversion of all the dilutive potential ordinary shares into ordinary shares. As at 31 October, the Parent Company had no outstanding dilutive potential shares.

	2022	2021
Profit (loss) for the year (KD)	234,262	(1,862,587)
Weighted average number of shares outstanding during the year	450,534,680	450,534,680
Basic and diluted earnings (losses) per share	<u>0.52 fils</u>	<u>(4.13) fils</u>

5 PROPERTY, PLANT AND EQUIPMENT

	<i>Furniture and equipment KD</i>	<i>Motor vehicles KD</i>	<i>Total KD</i>
Cost:			
At 1 November 2020	1,706,284	230,961	1,937,245
Additions	17,046	-	17,046
Disposals	(126,671)	(15,475)	(142,146)
Reclassification	(53,583)	53,583	-
At 31 October 2021	<u>1,543,076</u>	<u>269,069</u>	<u>1,812,145</u>
Additions	21,135	-	21,135
Disposals	(272,729)	(168,911)	(441,640)
At 31 October 2022	<u>1,291,482</u>	<u>100,158</u>	<u>1,391,640</u>

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

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At 31 October 2022

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	<i>Furniture and equipment KD</i>	<i>Motor vehicles KD</i>	<i>Total KD</i>
Depreciation:			
At 1 November 2020	1,423,106	230,910	1,654,016
Charge for the year	128,512	-	128,512
Disposals	(123,433)	(15,473)	(138,906)
Reclassification	(53,573)	53,573	-
	<hr/>	<hr/>	<hr/>
At 31 October 2021	1,374,612	269,010	1,643,622
Charge for the year	105,731	-	105,731
Disposals	(272,645)	(168,875)	(441,520)
	<hr/>	<hr/>	<hr/>
At 31 October 2022	1,207,698	100,135	1,307,833
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 October 2022	83,784	23	83,807
	<hr/>	<hr/>	<hr/>
At 31 October 2021	168,464	59	168,523
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Depreciation charged for the year has been charged to the consolidated statement of income as follows:

	2022 KD	2021 KD
Cost of services rendered	10,645	20,811
Cost of construction contracts	581	552
General and administrative expenses	94,505	107,149
	<hr/>	<hr/>
	105,731	128,512
	<hr/> <hr/>	<hr/> <hr/>

6 INVESTMENT PROPERTIES

	2022 KD	2021 KD
As at 1 November	40,522,273	41,138,050
Unrealised gain (loss) on revaluation (Note 3)	379,543	(615,777)
	<hr/>	<hr/>
As at 31 October	40,901,816	40,522,273
	<hr/> <hr/>	<hr/> <hr/>

As at 31 October, investment properties are categorised into:

	2022 KD	2021 KD
Developed properties	34,851,000	34,648,000
Lands	6,050,816	5,874,273
	<hr/>	<hr/>
	40,901,816	40,522,273
	<hr/> <hr/>	<hr/> <hr/>

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

6 INVESTMENT PROPERTIES (continued)

As at 31 October, investment properties are geographically located as follows:

	2022 KD	2021 KD
Kuwait	34,851,000	34,648,000
Gulf Council Countries	6,050,816	5,874,273
	40,901,816	40,522,273

The fair value of investment properties has been determined based on valuation performed by two independent professional real estate valuation experts who are specialised in valuing such type of properties. Both valuers have used the following methods:

- ▶ Developed properties have been valued using the income capitalisation approach
- ▶ Land have been valued using the market approach based on recent transactions for properties with characteristics and location similar to those of the Group's properties;

Description of the above valuation methods is provided in detail in (Note 26).

For valuation purpose, the Group has selected the lower of those two valuations (2021: the lower of two valuations). Based on those valuations, the Group has recognised an unrealised gain (loss) of KD 379,543 (2021: unrealised loss of KD 615,777) in the consolidated statement of income (Note 3).

The significant assumptions made relating to valuation of developed properties are set out below:

	2022	2021
Total area available for rent (sqm)	15,654	15,654
Average monthly rent per sqm (KD)	11	12
Average yield rate (%)	5.9%	6.6%
Occupancy rate (%)	81%	78%

As at 31 October 2022, investment properties with a carrying value of KD 17,149,000 and KD 4,717,000 and KD 7,923,000 (2021: KD 17,080,000, KD Nil and KD 11,378,000) are pledged as a security against letter of grantees and murabaha payables to the Ultimate Parent Company, other related parties and local financial institutions, respectively (Note 18).

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the significant assumptions underlying the valuation of the investment properties:

	<i>Changes in significant assumptions</i>	2022 KD	2021 KD
Average monthly rent per sqm (KD)	+/- 1%	348,510	346,480
Average yield rate	+/-1%	345,059	343,050

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

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7 LEASES

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	<i>Right -of-use assets KD</i>	<i>Lease liabilities KD</i>
As at 1 November 2021	4,228,107	3,291,477
Depreciation expense	(1,678,804)	-
Finance costs	-	138,622
Payments of lease liabilities	-	(2,036,470)
As at 31 October 2022	2,549,303	1,393,629

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

	<i>Right -of-use assets KD</i>	<i>Lease liabilities KD</i>
As at 1 November 2020	5,893,699	5,547,425
Additions	16,149	16,149
Depreciation expense	(1,681,741)	-
Finance costs	-	220,222
Payment of lease liabilities	-	(2,492,319)
As at 31 October 2021	4,228,107	3,291,477

The Group discounted its lease payments using an incremental borrowing rate of 5% (2021: 5%) per annum.

Set out below, are the amounts recognised in consolidated statement of income related to leases:

	<i>2022 KD</i>	<i>2021 KD</i>
Depreciation expense of right-of-use assets (recorded under cost of services rendered)	1,678,804	1,681,741
Finance costs	138,622	220,222
As at 31 October	1,817,426	1,901,963

8 INVESTMENT SECURITIES

	<i>2022 KD</i>	<i>2021 KD</i>
Financial assets at fair value through other comprehensive income (FVOCI)		
Local unquoted equity securities	3,835	4,996
Foreign unquoted equity securities	369,190	564,956
	373,025	569,952

Fair value hierarchy disclosures are provided in (Note 26).

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

9 INVENTORIES

	2022	2021
	KD	KD
Spare parts and others	56,916	203,087
Less: provision for obsolete and slow-moving inventories	(18,050)	(156,659)
	38,866	46,428

The movement in the provision for obsolete and slow moving inventories is as follows:

	2022	2021
	KD	KD
At 1 November	(156,659)	(86,572)
Charge for the year	-	(81,658)
Written-off during the year	138,609	11,571
At 31 October	(18,050)	(156,659)

10 CONTRACT ASSETS/CONTRACT LIABILITIES

	2022	2021
	KD	KD
Accumulated costs and estimated earnings on contracts in progress	88,628,777	85,561,431
Progress billings on contracts in progress	(87,570,216)	(84,212,274)
	1,058,561	1,349,157
Less: allowance for expected credit losses	(104,231)	(206,756)
	954,330	1,142,401

Contract assets/contract liabilities are presented in the consolidated statement of financial position as follows:

	2022	2021
	KD	KD
Contract assets, net	954,330	1,667,590
Contract liabilities	-	(525,189)
	954,330	1,142,401

Retention receivables or payables relating to contracts in progress are disclosed in (Note 11) and (Note 19), respectively.

The movements in the allowance for expected credit losses of contract assets is as follows:

	2022	2021
	KD	KD
At 1 November	206,756	295,251
Reversal of allowance for ECL during the year	(102,525)	(88,495)
At 31 October	104,231	206,756

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

10 CONTRACT ASSETS/CONTRACT LIABILITIES (continued)

The following table shows lifetime ECL that has been recognised for contract assets in accordance with the simplified approach set out in IFRS 9:

	<i>Lifetime ECL - not credit impaired KD</i>	<i>Total KD</i>
31 October 2022		
Expected credit loss rate	9.85%*	
Estimated total gross carrying amount	1,058,561	1,058,561
Lifetime ECL	(104,231)	(104,231)
As at 31 October		<u>954,330</u>
	<i>Lifetime ECL - not credit impaired KD</i>	<i>Total KD</i>
31 October 2021		
Expected credit loss rate	11.03%*	
Estimated total gross carrying amount	1,874,346	1,874,346
Lifetime ECL	(206,756)	(206,756)
As at 31 October		<u>1,667,590</u>

* represents average expected credit loss rate.

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

11 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	<i>Non-current</i>		<i>Current</i>						<i>Total KD</i>
	<i>Retention receivables (Note 11.1) KD</i>	<i>Retention receivables (Note 11.1) KD</i>	<i>Trade receivables and amounts due from contract owners (Note 11.2) KD</i>	<i>Amounts due from related parties (Note 11.3) KD</i>	<i>Subcontractor debit balances (Note 11.4) KD</i>	<i>Advances to subcontractors (Note 11.5) KD</i>	<i>Prepaid expenses and refundable deposits KD</i>	<i>Other receivables KD</i>	
2022									
Gross balance	875,655	2,624,848	6,186,309	132,007	7,873,308	115,960	174,798	581,904	18,564,789
Less: Allowance for ECL	(113,541)	(326,071)	(3,127,877)	(7,476)	(7,549,949)	-	-	(321,274)	(11,446,188)
Retention receivables, net	<u>762,114</u>	<u>2,298,777</u>	<u>3,058,432</u>	<u>124,531</u>	<u>323,359</u>	<u>115,960</u>	<u>174,798</u>	<u>260,630</u>	<u>7,118,601</u>
2021									
Gross balance	833,947	3,314,596	7,140,051	137,539	10,747,827	323,936	114,531	810,544	23,422,971
Less: Allowance for ECL	(108,651)	(400,832)	(3,302,747)	(24,757)	(8,107,597)	-	-	(271,158)	(12,215,742)
Retention receivables, net	<u>725,296</u>	<u>2,913,764</u>	<u>3,837,304</u>	<u>112,782</u>	<u>2,640,230</u>	<u>323,936</u>	<u>114,531</u>	<u>539,386</u>	<u>11,207,229</u>

The movements in the allowance for ECL during the years ended 31 October is as follows:

	<i>2022 KD</i>	<i>2021 KD</i>
At 1 November	12,215,742	11,977,689
(Reversal of) allowance for ECL during the year	(90,943)	241,254
Write-offs during the year	(112,446)	(3,201)
Transfer to provision for expected losses from contracts and delayed penalties (Note 19)	(566,165)	-
At 31 October	<u>11,446,188</u>	<u>12,215,742</u>

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

11 ACCOUNTS RECEIVABLE AND OTHER ASSETS (continued)

11.1 Retention receivables

Retention receivables include certain balances of KD 3,292,631 (2021: KD 2,703,482) related to projects that have been already delivered to customers, for which, final payment certificates amounting to KD 1,184,756 (2021: KD 2,027,905) are yet to be billed pending the final agreement with the subcontractors.

11.2 Trade receivables and amounts due from contract owners

As at 31 October, the ageing analysis of trade receivables and amounts due from contract owners is as follows:

	<i>Not past due</i>	<i>Past due</i>		<i>Total</i> KD
	<i>Less than 3 months KD</i>	<i>3 to 6 months KD</i>	<i>More than 6 months KD</i>	
2022				
Total gross carrying amount at default	966,939	44,519	5,174,851	6,186,309
Expected credit loss	(536,955)	(33,750)	(2,557,172)	(3,127,877)
Expected credit loss rate	56%	76%	49%	51%
2021				
Total gross carrying amount at default	1,155,537	141,640	5,842,874	7,140,051
Expected credit loss	(553,502)	(95,169)	(2,654,076)	(3,302,747)
Expected credit loss rate	48%	67%	45%	46%

Trade receivables and receivables from contract owners are non-interest bearing and are generally on terms of 30 to 60 days.

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual customers, the Group's management believes that no further provision is required in respect of trade receivables and amounts due from contract owners.

Note 24.1.1 includes qualitative disclosures relating to the credit risk and analysis relating to Group's trade receivables and amounts due from contract owners.

It is not the practice of the Group to obtain collaterals over trade receivables and amounts due from contract owners.

11.3 Amounts due from related parties

Terms and conditions relating to related party receivables are provided in (Note 21).

11.4 Subcontractor debit balances

During the prior years, the Parent Company filed legal cases against foreign subcontractors on the ground of the non-fulfillment of the subcontracts' contractual obligations relating to certain construction contracts undertaken by the Parent Company, for which, the court is yet to pronounce its verdict.

Based on the Parent Company's external legal counsels opinion, there is a significant uncertainty involved in the determination of the expected outcome of these legal cases. As a result, the management of the Group has fully impaired certain subcontractors outstanding balances of KD 7,435,105 (2021: KD 7,704,954).

11.5 Advances to subcontractors

Advances to subcontractor are secured by letters of guarantee with a total value of KD 642,496 (2021: KD 764,804) which are held as collateral.

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

12 INVESTMENT DEPOSITS

Investment deposits of KD 9,704,162 (2021: KD 5,803,616) are placed with a local Islamic bank and are denominated in Kuwaiti Dinars. Investment deposits have an original maturity of three months or less, and are automatically renewable for a similar periods.

Investment deposits placed with the Ultimate Parent Company (Note 21) amount to KD 5,704,162 as at 31 October 2022 (2021: KD 5,803,616). The average rate of profit on these deposits during the year ended 31 October 2022 was 1.105% (2021: 1.042%) per annum.

The Group has pledged investment deposits with a carrying amounting KD 5,453,616 (2021: KD 5,453,616) to the Ultimate Parent Company against Murabaha payables to fulfil collateral requirements (Note 18).

The Parent Company manages, on behalf of the Ultimate Parent Company, a portfolio of real estate assets. These real estate assets and the investment deposits relating to these fiduciary accounts are not included in the consolidated statement of financial position, but disclosed as part of the fiduciary assets (Note 22).

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows are reconciled to the related items in the consolidated statement of financial position as follows:

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Investment deposits (Note 12)	9,704,162	5,803,616
Bank balances and cash	2,038,540	931,140
	<hr/>	<hr/>
Cash and cash equivalents at 31 October	11,742,702	6,734,756
	<hr/>	<hr/>

Bank balances and cash amounting to KD 839,001 and KD 7,218 (2021: KD 719,002 and Nil) are held with the Ultimate Parent Company and other related parties (Note 21).

The Parent Company manages, on behalf of the Ultimate Parent Company, a portfolio of real estate assets. These real estate assets and the bank balances relating to these fiduciary accounts are not included in the consolidated statements financial position, hence disclosed as part of the fiduciary assets (Note 22).

14 SHARE CAPITAL

	<i>Authorised, issued and fully paid</i>	
	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
450,534,680 shares of 100 fils each (fully paid in cash)	45,053,468	45,053,468
	<hr/>	<hr/>

15 STATUTORY RESERVE

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation, a minimum of 10% of the profit for the year before contributions to KFAS, NLST, Zakat and Board of Directors' remuneration shall be transferred to statutory reserve. 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.

No amount was transferred to the statutory reserve for the year ended 31 October 2022 since previously incurred accumulated losses have not yet been recovered.

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

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16 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 contributions to KFAS, NLST, Zakat 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.

No amount was transferred to the voluntary reserve for the year ended 31 October 2022 since previously incurred accumulated losses have not yet been recovered.

17 EMPLOYEES' END OF SERVICE BENEFITS

The movement of the provision for employees' end of service benefits recognised in the consolidated statement of financial position as at 31 October is as follows:

	2022 KD	2021 KD
As at 1 November	1,720,925	1,798,160
Charge for the year	194,814	260,485
Reversal during the year (included in 'other income')	(72,768)	-
Payments made during the year	(714,354)	(337,720)
As at 31 October	<u>1,128,617</u>	<u>1,720,925</u>

18 MURABAHA PAYABLES

	2022 KD	2021 KD
Gross amount	13,141,620	8,817,215
Less: deferred profit	(89,196)	(30,159)
	<u>13,052,424</u>	<u>8,787,056</u>

Murabaha payables represent amounts payable on a deferred settlement basis for assets purchased under Islamic financing arrangements. Murabaha payables carry profit at a rate ranging from 3.25% to 5.25% (2021: 3.25 % to 3.5%) per annum.

As at 31 October 2022, murabaha payables with carrying values of KD 5,048,288, KD 3,083,687 and KD 4,920,449 were granted by the Ultimate Parent Company, related local financial institution and other local financial institutions (2021: KD 8,787,056 were granted by other local financial institutions) (Note 21).

As at 31 October 2022, murabaha payables are secured by certain pledged investment deposits, to the Ultimate Parent Company, with a carrying value of KD 5,453,616 (2021: KD 5,453,616) (Note 12). In addition, murabaha payables are secured, to the Ultimate Parent Company, other related parties and local financial institutions, against certain investment properties with a carrying value of KD 17,149,000, KD 4,717,000 and KD 7,923,000, respectively (2021: KD 17,080,000, KD Nil and KD 11,378,000, respectively) (Note 6).

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At 31 October 2022

19 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2022 KD	2021 KD
Trade payables*	1,524,920	1,729,776
Advance payment received from contract owners	157,794	197,407
Deferred income	37,224	32,439
Retentions payable	1,550,601	3,090,924
Dividend payable	59,431	59,431
Other liabilities	1,783,139	3,719,645
Provision for legal claims	1,959,439	916,455
	<u>7,072,548</u>	<u>9,746,077</u>

*Trade payables are non-interest bearing and are normally settled on 60-day terms

The maturity analysis of accounts payables and other liabilities as at 31 October is as follows:

	2022 KD	2021 KD
Current	5,745,428	6,428,520
Non-current	1,327,120	3,317,557
Total interest-bearing loans and borrowings	<u>7,072,548</u>	<u>9,746,077</u>

20 SEGMENT INFORMATION

For management purposes, the Group is organised into business units, based on their products and services, in order to manage its various lines of business. For segment reporting, the Group has five reportable operating segments as follows:

<i>Construction projects:</i>	Undertaking contracts to construct buildings.
<i>Services rendered:</i>	Undertaking maintenance of mechanical and electrical spare parts and building materials, providing security services, and managing real estate for others.
<i>Real estate:</i>	Managing its own properties and renting properties for others.
<i>Investments:</i>	Participating and investing in shares of local and foreign companies and real estate properties.

No operating segments have been aggregated to form the above reportable operating segments.

Management of the Parent Company monitors the operating results of its business units separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Reported segment profit or loss is based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to Group profit or loss.

During the years ended 31 October 2022 and 31 October 2021 there were no significant inter-segment transactions. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment.

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 SEGMENT INFORMATION (continued)

Segment information as at and for the year ended 31 October is as follows:

	<i>Construction projects KD</i>	<i>Services rendered KD</i>	<i>Real estate KD</i>	<i>Investments KD</i>	<i>Unallocated KD</i>	<i>Total KD</i>
31 October 2022						
Segment revenues	<u>1,549,667</u>	<u>5,770,146</u>	<u>1,881,866</u>	<u>486,623</u>	<u>293,092</u>	<u>9,981,394</u>
Operating and administrative expenses	<u>3,331,693</u>	<u>2,779,668</u>	<u>446,995</u>	-	<u>1,408,645</u>	<u>7,967,001</u>
Depreciation	<u>581</u>	<u>1,685,045</u>	<u>-</u>	-	<u>94,505</u>	<u>1,780,131</u>
Segment costs	<u>3,332,274</u>	<u>4,464,713</u>	<u>446,995</u>	<u>-</u>	<u>1,503,150</u>	<u>9,747,132</u>
(Loss) profit for the year	<u>(1,782,607)</u>	<u>1,305,433</u>	<u>1,434,871</u>	<u>486,623</u>	<u>(1,210,058)</u>	<u>234,262</u>
 <i>31 October 2021</i>						
Segment revenues	<u>1,174,204</u>	<u>7,232,947</u>	<u>2,033,413</u>	<u>(554,220)</u>	<u>86,827</u>	<u>9,973,171</u>
Operating and administrative expenses	<u>3,555,078</u>	<u>4,324,297</u>	<u>523,815</u>	-	<u>1,622,315</u>	<u>10,025,505</u>
Depreciation	<u>552</u>	<u>1,702,552</u>	<u>-</u>	<u>131</u>	<u>107,018</u>	<u>1,810,253</u>
Segment costs	<u>3,555,630</u>	<u>6,026,849</u>	<u>523,815</u>	<u>131</u>	<u>1,729,333</u>	<u>11,835,758</u>
(Loss) profit for the year	<u>(2,381,426)</u>	<u>1,206,098</u>	<u>1,509,598</u>	<u>(554,351)</u>	<u>(1,642,506)</u>	<u>(1,862,587)</u>

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 October 2022

20 SEGMENT INFORMATION (continued)

a) Products and services information (continued)

	Construction projects KD	Services rendered KD	Real Estate KD	Investments KD	Unallocated KD	Total KD
<i>31 October 2022</i>						
Assets	6,379,759	3,310,628	34,950,584	18,288,490	842,784	63,772,245
Liabilities	4,862,064	2,789,711	145,292	13,102,734	1,747,417	22,647,218
Capital expenditures and commitments	-	13,779	-	-	7,356	21,135
<i>As at 31 October 2021</i>						
Assets	8,678,025	8,374,088	34,851,777	12,857,206	396,456	65,157,552
Liabilities	6,884,110	3,860,271	857,622	8,185,705	4,283,016	24,070,724
Capital expenditures and commitments	-	-	-	-	17,046	17,046

b) Geographical segment

The Group operates in primarily in the domestic market in Kuwait and the regional market in the Gulf Countries. The following table shows the distribution of the Group's segment assets and revenues by geographical markets.

	<u>Kuwait</u>		<u>Gulf council countries</u>		<u>Total</u>	
	<u>2022</u> <u>KD</u>	<u>2021</u> <u>KD</u>	<u>2022</u> <u>KD</u>	<u>2021</u> <u>KD</u>	<u>2022</u> <u>KD</u>	<u>2021</u> <u>KD</u>
Non-current assets	38,205,340	39,663,926	6,474,520	6,560,020	44,679,860	46,223,946
Revenues	9,784,973	10,123,947	196,421	(150,776)	9,981,394	9,973,171

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

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At 31 October 2022

21 RELATED PARTY TRANSACTIONS

These represent transactions with major shareholders, associates, directors and executive officers of the Group, close members of their families and companies of which they are principal owners or over which they are able to exercise control or significant influence entered into by the Group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Parent Company's Board of Directors.

Transactions and balances with related parties included in the consolidated financial statements are as follows:

	<i>Other related parties*</i> KD	<i>Ultimate Parent Company</i> KD	<i>Total 2022</i> KD	<i>Total 2021</i> KD
<i>Consolidated statement of income</i>				
Revenue from services rendered	-	1,942,047	1,942,047	3,261,850
Profit on investment deposits	10,740	71,867	82,607	60,495
Cost of real estate activities	6,005	-	6,005	6,052
Cost of services rendered	28,408	-	28,408	28,325
Cost of construction contracts	42,045	-	42,045	3,039
General and administrative expenses	15,358	-	15,358	19,935
Finance costs on murabaha payables	95,659	86,096	181,755	16,880

Revenue from services rendered includes KD 171,637 (2021: KD 186,001) which has been earned from trust and fiduciary activities rendered to the Ultimate Parent Company (Note 22).

* Other related parties include affiliates of the Ultimate Parent Company.

	<i>Other related parties</i> KD	<i>Ultimate Parent Company</i> KD	<i>Total 2022</i> KD	<i>Total 2021</i> KD
<i>Consolidated statement of financial position</i>				
Amounts due from related parties, net (Note 11)	-	124,531	124,531	112,782
Investment deposits (Note 12)	-	5,704,162	5,704,162	5,803,616
Bank balances and cash (Note 13)	7,218	839,001	846,219	719,002
Accrued revenue (included under accounts receivable and other assets)	-	-	-	87,923
Murabaha payables (Note 18)	3,083,687	5,048,288	8,131,975	-
Accounts payable and other liabilities	11,677	-	11,677	-

Amounts due from related parties are interest free and are receivable on demand.

	2022 KD	2021 KD
<i>Key management compensation</i>		
Salaries and other short-term benefits	233,512	228,057
Employees' end of service benefits	25,282	18,042
	<u>258,794</u>	<u>246,099</u>

As of 31 October 2022 and 31 October 2021, the Group held certain investment deposits and bank balances in its capacity as fiduciary assets with a related party entity as disclosed in (Note 22).

Al-Enma'a Real Estate Company K.S.C.P. and its Subsidiaries

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22 FIDUCIARY ASSETS

The Group manages rented real estate portfolios on behalf of the Ultimate Parent Company and other third parties. The collected rental income is deposited in fiduciary bank accounts.

The below schedule illustrates the details of the Group's fiduciary assets as at 31 October:

	2022			2021		
	<i>Owned by the Ultimate Parent Company KD</i>	<i>Owned by other third parties KD</i>	<i>Total KD</i>	<i>Owned by the Ultimate Parent Company KD</i>	<i>Owned by other third parties KD</i>	<i>Total KD</i>
Investment deposits*	2,500,000	-	2,500,000	2,500,000	-	2,500,000
Bank balances*	3,076,036	853,236	3,929,272	3,627,890	849,844	4,477,734
	<u>5,576,036</u>	<u>853,236</u>	<u>6,429,272</u>	<u>6,127,890</u>	<u>849,844</u>	<u>6,977,734</u>

* Investment deposits of KD 2,500,000 (2021: KD 2,500,000) and bank balances of KD 3,912,480 (2021: KD 4,469,721) are held with the Ultimate Parent Company.

Revenue from services rendered includes KD 430,281 (2021: KD 428,957) arising from trust and fiduciary activities, out of which, KD 171,637 (2021: KD 186,001) has been earned from services rendered to the Ultimate Parent Company (Note 21).

23 CONTINGENT LIABILITIES

- As at 31 October 2022, the Group has contingent liabilities representing letters of guarantee and letters of credit issued in the ordinary course of business amounting to KD 16,947,094 (2021: KD 17,490,594) from which it is anticipated that no material liability will arise.
- Letter of guarantees amounting to KD 11,246,335 (2021: KD 11,729,335) related to delayed projects amounting to KD 81,339,813 (2021: KD 81,339,813) for which the Parent Company did not have approved extension on the project completion date.
- The Parent Company has legal cases filed by subcontractors and the management of the Parent Company does not expect probable obligation from those legal cases (Note 27).

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk, the latter being subdivided into profit rate risk, foreign currency risk and equity price risk. No changes were made in the risk management objectives and policies during the years ended 31 October 2022 and 31 October 2021. The management of the Parent Company reviews and agrees policies for managing each of these risks which are summarised below:

24.1 Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument leading to financial loss.

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

24.1 Credit risk (continued)

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party and to monitor the collection of receivables on an ongoing basis. The Group limits its credit risk with regard to bank balances by only dealing with reputable banks. In addition, receivable balances are monitored on an ongoing basis, the Group's exposure to bad debts is disclosed in (Note 11).

Maximum exposure to credit risk

The Group's exposure to credit risk from bank balances and accounts receivable arises from default of the counterparty. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The maximum exposure is the carrying amount as described in the consolidated statement of financial position.

24.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The risk is managed by the Group by ensuring bank facilities are available and by monitoring on a regular basis that sufficient funds are available to meet future commitments.

The Group limits its liquidity risk by ensuring adequate credit facilities are available. The Group terms of service require amounts to be paid within 60 days of the date of rendering of service. Trade payables are normally settled within 60 days of the date of purchase.

The following table summarises the maturities of the Group's undiscounted financial liabilities as at 31 October, based on contractual payment dates and current market profit rates:

	<i>Less than 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over one year KD</i>	<i>Total KD</i>
2022					
Murabaha payables	347,768	347,098	890,357	11,556,397	13,141,620
Accounts payable and other liabilities*	61,878	221,034	5,267,498	1,327,120	6,877,530
Lease liabilities	1,200	1,200	734,400	732,000	1,468,800
Total financial liabilities	410,846	569,332	6,892,255	13,615,517	21,487,950
Contingent liabilities	10,854,878	2,998,112	514,125	2,579,980	16,947,095
	<i>Less than 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over one year KD</i>	<i>Total KD</i>
2021					
Murabaha payables	5,259,689	284,816	349,076	2,923,634	8,817,215
Accounts payable and other liabilities*	-	59,431	6,692,376	2,764,424	9,516,231
Lease liabilities	1,200	1,200	1,055,335	1,708,665	2,766,400
Total financial liabilities	5,260,889	345,447	8,096,787	7,396,723	21,099,846
Contingent liabilities	1,611,180	4,379,280	10,159,234	1,340,900	17,490,594

* Excluding deferred income and advance payments from contract owners.

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**24.3 Market risk**

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market variables such as profit rates, foreign exchange rates and equity prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all financial instruments traded in the market.

24.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to significant profit rate risk since its borrowings are from Islamic financial institutions at fixed profit rates.

24.3.2 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The following table demonstrates the sensitivity of the Group's results and other comprehensive income (due to changes in the fair value of financial assets and liabilities) to a 5% possible change in the exchange rates, with all other variables held constant:

	2022		2021	
	<i>Effect on results for the year</i> KD	<i>Effect on other comprehensive income</i> KD	<i>Effect on results for the year</i> KD	<i>Effect on other comprehensive income</i> KD
<i>Currency</i>				
US Dollar	-	18,476	-	7,540
Bahraini Dinar	303,184	9,772	297,721	20,958
	<u>303,184</u>	<u>28,248</u>	<u>297,721</u>	<u>28,498</u>

Management believes that there is a limited risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposure.

25 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 shareholders' value.

The Group manages its capital structure and adjusts it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 October 2022 and 31 October 2021. Capital comprises share capital, share premium, statutory reserve, voluntary reserve, cumulative changes in fair values reserve, and accumulated losses and is measured at KD 41,125,027 as at 31 October 2022 (2021: KD 41,086,828).

26 FAIR VALUE MEASUREMENTS

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.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of assets recorded at fair value by valuation technique:

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; and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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26 FAIR VALUE MEASUREMENTS (continued)

Fair value hierarchy (continued)

The following table shows an analysis of assets recorded at fair value by level of the fair value hierarchy at 31 October:

	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
2022				
Investment properties	-	6,050,816	34,851,000	40,901,816
Financial assets at fair value through other comprehensive income	-	-	373,025	373,025
	<u>-</u>	<u>6,050,816</u>	<u>35,224,025</u>	<u>41,274,841</u>
	<u><u>-</u></u>	<u><u>6,050,816</u></u>	<u><u>35,224,025</u></u>	<u><u>41,274,841</u></u>
2021				
Investment properties	-	5,874,273	34,648,000	40,522,273
Financial assets at fair value through profit or loss	2,899	-	-	2,899
Financial assets at fair value through other comprehensive income	-	-	569,952	569,952
	<u>2,899</u>	<u>5,874,273</u>	<u>35,217,952</u>	<u>41,095,124</u>
	<u><u>2,899</u></u>	<u><u>5,874,273</u></u>	<u><u>35,217,952</u></u>	<u><u>41,095,124</u></u>

During the years ended 31 October 2022 and 2021, there were no transfers between fair value hierarchies.

The following table shows a reconciliation of the opening and closing amounts of level 3 assets which are recorded at fair value:

	<i>At the beginning of the year KD</i>	<i>Net gain recorded in the consolidated statement of income KD</i>	<i>Net losses recorded in the consolidated statement of comprehensive income KD</i>	<i>Net purchases, transfers, sales and settlements KD</i>	<i>At the end of the year KD</i>
31 October 2022					
Investment properties	34,648,000	203,000	-	-	34,851,000
Financial assets at fair value through other comprehensive income	569,952	-	(196,063)	(864)	373,025
	<u>35,217,952</u>	<u>203,000</u>	<u>(196,063)</u>	<u>(864)</u>	<u>35,224,025</u>
	<u><u>35,217,952</u></u>	<u><u>203,000</u></u>	<u><u>(196,063)</u></u>	<u><u>(864)</u></u>	<u><u>35,224,025</u></u>
	<i>At the beginning of the year KD</i>	<i>Net loss recorded in the consolidated statement of income KD</i>	<i>Net losses recorded in the consolidated statement of comprehensive income KD</i>	<i>Net purchases, transfers, sales and settlements KD</i>	<i>At the end of the year KD</i>
31 October 2021					
Investment properties	35,113,000	(465,000)	-	-	34,648,000
Financial assets at fair value through other comprehensive income	1,111,587	-	(541,635)	-	569,952
	<u>36,224,587</u>	<u>(465,000)</u>	<u>(541,635)</u>	<u>-</u>	<u>35,217,952</u>
	<u><u>36,224,587</u></u>	<u><u>(465,000)</u></u>	<u><u>(541,635)</u></u>	<u><u>-</u></u>	<u><u>35,217,952</u></u>

Description of significant unobservable inputs to valuation of financial assets:

Unquoted equity securities classified as financial assets at fair value through other comprehensive income are valued using certain inputs and assumptions to determine the fair value based on the average market multiples method, price to book value of comparable companies, and discount for lack marketability and control.

26 FAIR VALUE MEASUREMENTS (continued)

Description of valuation methods used in the fair valuation of investment properties:

- ▶ Properties are valued using the income capitalisation approach. Income capitalisation approach is based on capitalisation of the discounted annual cash flows from the property, which is calculated by discounting rental income generated annually by the property, using the current market discount rate.
- ▶ Lands are valued using the market approach. Market approach is based on a comparison of active market prices for similar properties and recent arm's length market transactions, adjusted for difference in the nature, location or condition of the specific property.

27 LEGAL CASES

- a) On 13 December 2020, the Court of First Instance has issued an initial verdict stating that an amount of KD 163,159 is due to the Group from a customer. The decision has been appealed by both sides of the legal case. The appeal was accepted in form and in subject, however, on 30 May 2022, the appeal was rejected by the court for premature filing. The management of the Group is in process of filing another appeal.
- b) On 26 January 2021, the Court of first instance has issued an initial verdict stating that an amount of KD 6,588,572 is due from the Group to a subcontractor. The decision has been appealed by the Group and the Court of Appeals decision to discuss the matter was set on 20 February 2022. The Court of Appeals' verdict came against the Group's favor mandating the Group to pay KD 6,588,752. The Group has appealed against the ruling in the Cassation Court. On 12 June 2022, the Court of Cassation approved the Group's request to suspend the enforcement of the abovementioned verdict awaiting the outcome of the final ruling.

The Parent Company has also filed another case against the same subcontractor. On 17 May 2022, the Court of first instance issued an initial verdict obligating the subcontractor to pay the Parent Company an amount of KD 2,850,286 and the related legal charges. The subcontractor appealed against the ruling, and the hearing session has been scheduled on 23 October 2022. On 20 November 2022, the Court judgment was issued in favor of the Parent Company with the same amount due to enrichment without reason.

Management and the legal counsel believe that there is uncertainty around the case and the ultimate outcome of the case by the Court of Cassation cannot be determined presently. However, management believes they have sufficient provisions against the legal cases on account of the related claim with the same subcontractor and the provisions already recorded against the receivables from the subcontractor.

28 ZAKAT

During the year ended 31 October 2021, an additional Zakat of KD 170,145 has been charged to the accumulated losses to be paid under the direction of the Ultimate Parent Company's Fatwa and Sharea'a Supervisory Board in accordance with the Parent Company's internal guidelines.

29 ANNUAL GENERAL ASSEMBLY MEETING (AGM)

The Annual General Assembly Meeting ("AGM") of the Parent Company's shareholders was held on 20 March 2022 and approved:

- the consolidated financial statements for the year ended 31 October 2021;
- the distribution of Board of directors' remuneration of KD 7,375 (2020: KD 7,000) to the independent member of the Board of Directors.
- the Board of Directors' recommendation not to distribute dividends for the year ended 31 October 2021;
- the extinguishment of accumulated losses balance of KD 8,561,613 against KD 176,642 of the share premium and KD 8,384,971 of the statutory reserve; and
- The authorisation of the Board of Directors to trade in the Parent Company's shares to the extent of 10% of its share capital in accordance with guidelines of the law No.7 of 2010 and its executive regulations and subsequent amendments.

The AGM of the Parent Company's shareholders which was held on 23 March 2021 and approved the extinguishment of accumulated losses balance of KD 4,479,673 against the voluntary reserve.

The Board of Directors of the Parent Company has proposed a board remuneration to the independent member of the Board of Directors amounting to KD 9,000 for the year ended 31 October 2022 (2021: KD 7,375). This proposal is subject to the approval of the shareholders' at the annual general assembly meeting.