Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Financial statements and independent auditor's report for the year ended 31 December 2020

Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Contents

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Independent auditor's report

The Shareholders
Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Opinion

We have audited the financial statements of Kuwait Lube Oil Company K.S.C. (Closed) ("the Company"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors report included in the Company's annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum and Articles of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, or of the Company's Memorandum and Articles of Association during the year ended 31 December 2020 that might have had a material effect on the business of the Company or on its financial position.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 17 June 2021

Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Statement of financial position
as at 31 December 2020

	Notes	2020 KD	2019 KD
Assets			
Property, plant and equipment	*4*	3,206,146	2,858,908
Right of use assets	*5*	37,597	57,136
Non-current assets		3,243,743	2,916,044
Inventories	*6*	407,602	626,503
Trade and other receivables	*7*	143,447	632,940
Due from related parties	*8*	2,252	9,504
Cash and bank balances	*9*	10,955	81,587
Current assets		564,256	1,350,534
Total assets		3,807,999	4,266,578
Equity			
Share capital	*10*	2,250,000	2,250,000
Statutory reserve	*11*	396,016	396,016
Other reserve	*12*	(19,800)	-
Accumulated losses		(955,139)	(312,643)
Total equity		1,671,077	2,333,373
Liabilities			
Employees' end of service indemnity	*13*	131,979	111,876
Non-current liabilities		131,979	111,876
Bank overdrafts	*9*	936,098	811,178
Trade and other payables	*14*	270,773	521,617
Due to related parties	*8*	772,378	471,884
Lease liabilities	*5*	25,694	16,650
Current liabilities		2,004,943	1,821,329
Total liabilities		2,136,922	1,933,205
Total equity and liabilities		3,807,999	4,266,578

The accompanying notes form an integral part of these financial statements.

Jassim Mohammed Jassim Al Wazzan
(Vice - Chairman)

Kuwait Lube Oil Company K.S.C. (Closed)
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Statement of profit or loss and other comprehensive income
for the year ended 31 December 2020

	Notes	2020 KD	2019 KD
Revenues		881,197	1,222,860
Cost of revenue		(1,047,154)	(1,275,455)
Gross loss		(165,957)	(52,595)
Selling and distribution expenses		(81,866)	(170,461)
General and administrative expenses		(353,821)	(266,231)
Other income / (loss)	*16*	8,491	(8,679)
Results from operating activities		(593,153)	(497,966)
Finance cost		(49,343)	(27,884)
Loss for the year		(642,496)	(525,850)
Other comprehensive loss			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit obligations	*13*	(19,800)	-
Total other comprehensive loss for the year		(19,800)	-
Total comprehensive loss for the year		(662,296)	(525,850)

The accompanying notes form an integral part of these financial statements.

Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Statement of changes in equity
for the year ended 31 December 2020

	Share capital KD	Statutory reserve KD	Other reserve KD	Accumulated losses KD	Total KD
Balance at 1 January 2018	2,250,000	396,016	-	213,207	2,859,223
Total comprehensive loss for the year					
Loss for the year	-	-	-	(525,850)	(525,850)
Total comprehensive loss for the year	-	-	-	(525,850)	(525,850)
Balance at 31 December 2019	2,250,000	396,016	-	(312,643)	2,333,373
Balance at 1 January 2020	2,250,000	396,016	-	(312,643)	2,333,373
Total comprehensive loss for the year					
Loss for the year	-	-	-	(642,496)	(642,496)
Other comprehensive loss					
Remeasurements of defined benefit obligations (Note 13)	-	-	(19,800)	-	(19,800)
Total comprehensive loss for the year	-	-	(19,800)	(642,496)	(662,296)
Balance at 31 December 2020	2,250,000	396,016	(19,800)	(955,139)	1,671,077

The accompanying notes form an integral part of these financial statements.

Kuwait Lube Oil Company K.S.C. (Closed)
State of Kuwait

Statement of cash flows
for the year ended 31 December 2020

	Notes	2020 KD	2019 KD
Cash flows from operating activities			
Loss for the year		(642,496)	(525,850)
Adjustment for:			
Depreciation	*4 & 5*	180,540	182,033
Finance costs		49,343	27,884
Provision for expected credit losses	*7*	144,313	93,385
Provision for obsolete and slow-moving items	*6*	89,401	-
Gain on disposal of property, plant and equipment	*16*	(3,356)	-
Provision for / (reversal of) employees' end of service indemnity	*13*	16,841	(104,624)
		(165,414)	(327,172)
Changes in:			
- Inventories		129,500	171,308
- trade and other receivables		345,180	31,995
- net movement in related parties balance		(17,491)	6,864
- trade and other payables		(250,844)	115,123
Employees' end of service indemnity paid	*13*	(16,538)	(12,269)
Net cash from / (used in) operating activities		24,393	(14,151)
Cash flows from investing activities			
Purchase of property, plant and equipment	*4*	(496,451)	(1,043,686)
Proceeds from disposal of property, plant and equipment		3,360	-
Net cash used in investing activities		(493,091)	(1,043,686)
Cash flows from financing activities			
Finance costs		(47,141)	(24,801)
Net change in short term loan from the Parent Company	*8*	325,237	439,130
Lease liabilities paid	*5*	(4,950)	(79,221)
Net cash from financing activities		273,146	335,108
Net change in cash and cash equivalents		(195,552)	(722,729)
Cash and cash equivalents at the beginning of the year	*9*	(729,591)	(6,862)
Cash and cash equivalents at the end of the year	*9*	(925,143)	(729,591)

The accompanying notes form an integral part of these financial statements.

1. Reporting entity

Kuwait Lube Oil Company K.S.C. (Closed) (the "Company") is a closed Kuwaiti shareholding company registered and incorporated on 10 February 1981 in Kuwait under commercial registration number 30853 dated 18 March 1981. The Company is a subsidiary of Mezzan Holding Company K.S.C.P. (the "Parent Company"). The Company's registered address is P.O. Box 26266, Safat 13123, Kuwait.

The principal activities of the Company comprise the following:

a) Repairing and remanufacturing all kinds, forms and possible uses of oil and lubricants.
b) Importing plants, equipment, raw materials and packaging materials required for this industry.
c) Trading in all kinds and forms of oil and lubricants inside and outside the country.

The financial statements of the Company for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 16 June 2021 The shareholders of the Company have the power to amend these financial statements at Annual General Assembly.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the requirements of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, and the Company's Articles and Memorandum of Association and the Ministerial Order No. 18 of 1990.

b) Basis of measurement

The financial statements have been prepared on historical cost or amortised cost basis.

c) Functional and presentation currency

The financial statements are presented in Kuwaiti Dinars ("KD"), which is the Company's functional currency.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described below in Note 3(l).

e) Changes in accounting policies

A number of amendments to standards and interpretations are effective for annual periods beginning on 1 January 2020 as below, but they do not have material effect on the Company's financial statements.

- Amendments to IFRS 3: Definition of a Business;
- Adoption of profit rate benchmark reform (IBOR reform Phase 1);
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Conceptual Framework for Financial Reporting issued on 29 March 2018; and
- Amendments to IFRS 16 Covid019 Related Rent Concession

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except as disclosed in Note 2(e).

a) Financial Instruments

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

i. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI or FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of deposits and due from a related party that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

Subsequent measurement

Subsequent to initial recognition, financial assets at amortized cost. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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 interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes due from related parties, trade and other receivables and bank balances.

Business model assessment

The Company determines its business model at the level that best reflects how it manages Company's of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the statement of income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income.

Derecognition

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

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

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

The Company has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Under the lifetime ECL, the Company determines whether the financial asset is in one of the three stages in order to determine the amount of ECL to recognize:

Stage 1: 12 months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Company methodology for specific provisions remains largely unchanged.

Lifetime ECL are recorded on financial assets that is credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

For trade and other receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Company allocates each exposure to a credit risk grade based on the data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are segmented by geographic region and industry classification and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past three years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

The Company evaluates the probability of default considering the period of past due receivables. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. Except for governmental institutions, the Company considers a financial asset in default when contractual payments are 360 days past due. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows

The Company has elected to measure loss allowances at an amount equal to 12 month ECLs for the bank balances and due from related parties, for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort.

Credit impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial; or
- the disappearance of an active market for a security because of financial difficulties.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

ii. Financial liabilities

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in the statement of profit or loss.

The Company's financial liabilities include trade and other payables and due to related parties.

Trade and other payables 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 the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

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

b) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

In carrying out impairment reviews of products in development and marketed products assets a number of significant assumptions have to be made. These include the probability of success in obtaining regulatory approvals, future rate of market growth, discount rates, the market demand for the products acquired, the future profitability of acquired businesses or products, and levels of reimbursement for pharmaceutical products. If actual results should differ, or changes in expectations arise, impairment charges may be required which would adversely impact reported results.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. For assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

c) Property, plant and equipment

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs recognized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for the intended use.

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

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

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in the statement of profit or loss. Land and capital work in progress are not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Buildings	5 to 30 years
Plant and machinery	3 to 15 years
Motor vehicles	5 to 7 years
Furniture, fixtures and equipment	3 years

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

d) <u>Inventories</u>

Inventories are stated at the lower of cost and net realisable value. Cost is the weighted average cost and includes those expenses incurred in bringing each product to its present location and condition, as follows:

Raw materials, spares and consumables	purchase cost on a weighted average basis.
Work in progress and finished goods	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

e) <u>Current versus non-current</u>

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

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 months after the reporting period; or
- Cash or cash equivalent, unless restricted from being exchanged or used, to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Company classifies all other liabilities as non-current.

f) Employees' end of service indemnity

The Company accounts for retirement benefits under IAS 19 "Employee Benefits". Benefits are payable to the Company's employees on completion of employment in accordance with the Kuwaiti Labour Law.

The cost of providing defined retirement benefit plans are determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Re-measurement of the Company's defined benefit obligation which mainly comprises actuarial gain and losses are recognised immediately in statement of other comprehensive income. Past service cost is recognised immediately in the period of plan amendment in the statement of profit or loss. Interest expense is determined on defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into account any changes in the defined benefit obligation during the period as a result of benefit payments. The liability is not externally funded.

Liabilities for defined contribution plans are expensed as the related service is provided. Further, with respect to its national employees, the Company also makes contributions to social security scheme calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

h) Government grants

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

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

i) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Company as a lessee. The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company 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 Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Company's lease liabilities are included in Interest-bearing loans and borrowings

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery 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 to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

j) <u>Revenue</u>

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

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer (if any).

Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods 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 Company has no contracts with a right of return and volume rebates.

k) Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Zakat

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

l) Critical accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made judgements and 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. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Company's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are shown below with respect to the judgements/estimates involved.

Significant judgements

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

Classification of financial assets

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

Useful lives of property, plant and equipment

The Company's 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 differs from previous estimates.

Estimates and assumptions

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

Valuation of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

Retirement Benefit Obligation

The cost of providing retirement benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial valuations are based on a number of assumptions and require significant judgements made by the management. The management believes that the assumptions used in determining the retirement benefit obligation using actuarial valuation method are reasonable.

Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance). The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 17.

m) Standards and interpretations not yet effective or adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 with earlier application permitted, however, the Company has not early adopted any of these new or amended standards in preparing these financial statements.

- Reference to the Conceptual Framework – Amendments to IFRS 3;
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities;
- Profit Rate Benchmark Reform (Phase 2); and
- IFRS 17 – Insurance contracts.

The new standards and amendments are not expected to have a material impact on the Company's financial statements in the period of initial application.

4. Property, plant and equipment

	Buildings KD	Plant and machinery KD	Motor vehicles KD	Furniture, fixtures and equipment KD	Capital work in progress KD	Total KD
Cost						
Balance at 1 January 2020	2,560,819	2,513,241	350,439	34,527	908,763	6,367,789
Additions	-	-	-	-	496,451	496,451
Disposals	-	-	(16,680)	-	-	(16,680)
Transfers	-	1,405,214	-	-	(1,405,214)	-
Balance at 31 December 2020	2,560,819	3,918,455	333,759	34,527	-	6,847,560
Accumulated depreciation and impairment losses						
Balance at 1 January 2020	1,299,860	1,835,825	340,145	33,051	-	3,508,881
Charge for the year	48,581	89,741	10,045	842	-	149,209
Disposals	-	-	(16,676)	-	-	(16,676)
As at 31 December 2020	1,348,441	1,925,566	333,514	33,893	-	3,641,414
Carrying amount						
As at 31 December 2020	1,212,378	1,992,889	245	634	-	3,206,146

The buildings are constructed on land leased from Government of Kuwait and are renewable on yearly basis.

	Buildings KD	Plant and machinery KD	Motor vehicles KD	Furniture, fixtures and equipment KD	Capital work in progress KD	Total KD
Cost						
Balance at 1 January 2019	2,446,419	2,490,239	350,439	33,506	3,510	5,324,103
Additions		-	-	611	1,043,075	1,043,686
Transfers	114,400	23,012	-	410	(137,822)	-
Balance at 31 December 2019	2,560,819	2,513,241	350,439	34,527	908,763	6,367,789
Accumulated depreciation and impairment losses						
Balance at 1 January 2019	1,254,488	1,749,313	328,203	30,496	-	3,362,500
Charge for the year	45,372	86,512	11,942	2,555	-	146,381
As at 31 December 2019	1,299,860	1,835,825	340,145	33,051	-	3,508,881
Carrying amount						
As at 31 December 2019	1,260,959	677,416	10,294	1,476	908,763	2,858,908

The depreciation charge for the year was allocated as follows:

	2020 KD	2019 KD
Cost of revenue	83,270	79,753
Selling and distribution expenses	50,874	50,533
General and administrative expenses	15,065	16,095
	149,209	146,381

5. Leases

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year:

	Right-of-use assets	
	2020 KD	2019 KD
Balance at 1 January	57,136	92,788
Additions	11,792	-
Depreciation	(31,331)	(35,652)
Balance at 31 December	37,597	57,136

	Lease liabilities	
	2020 KD	2019 KD
Balance at 1 January	16,650	92,788
Additions	11,792	-
Finance costs	2,202	3,083
Lease liabilities paid	(4,950)	(79,221)
Balance at 31 December	25,694	16,650

The Company allocated the depreciation charge for the current and comparative year to the cost of revenue.

The rent expense relating to short term leases for the year was allocated as follows:

	2020 KD	2019 KD
Cost of revenue	36,707	27,336
Selling and distribution expenses	360	360
General and administrative expenses	525	1,219
	37,592	28,915

6. Inventories

	2020 KD	2019 KD
Raw materials and consumables	427,858	502,228
Finished goods	76,143	103,615
Work in progress	17,642	45,300
	521,643	651,143
Provision for obsolete and slow-moving inventories	(114,041)	(24,640)
	407,602	626,503

The Company recognized provision for obsolete and slow-moving inventories amounted to KD 89,401 (2019: Nil) in cost of revenue.

7. Trade and other receivables

	2020 KD	2019 KD
Trade receivables	428,413	508,331
Provision for expected credit losses	(327,784)	(208,491)
	100,629	299,840
Advances to suppliers	7,342	305,111
Prepaid expenses	18,705	16,782
Other receivables	16,771	11,207
	143,447	632,940

The net carrying value of trade receivables is considered a reasonable approximation of fair value. Note 17 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Company's trade receivables. Other classes within trade and other receivables do not contain impaired assets.

	2020 KD	2019 KD
Balance at the beginning of year	208,491	115,106
Provision for the year	144,313	93,385
Write off	(25,020)	-
Balance at the end of year	327,784	208,491

8. Related party transactions

Related parties represent shareholders who have representation in the Company's board of directors and their close relatives, key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms approved by the Group's management. Outstanding balances at the year-end are unsecured and interest free, except as disclosed below, and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2020, the Company has not recorded any provision for expected credit losses relating to amounts owed by related parties (2019: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. Related party balances are unsecured and there are no agreed repayment terms, accordingly these balances are treated as receivable/ payable on demand.

In prior year, the Parent Company advanced short-term loans of KD 764,367 (2019: KD 439,130) to the Company at an interest rate of 3.5% (2019: 3.5%) per annum. This facility is unsecured and repayable within one year from the reporting date.

Key management personnel

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company.

Details of significant related parties balances and transactions are disclosed below:

	Parent company KD	Entities under common control KD	2020 Total KD	2019 Total KD
Statement of financial position				
Due from related parties	-	2,252	2,252	9,504
Due to related parties	764,367	8,011	772,378	471,884
Statement of profit or loss				
Sales	-	6,928	6,928	7,076
Cost of sales	-	59,316	59,316	142,972
General and administrative expenses	47,880	-	47,880	47,874
Finance costs	22,125	-	22,125	5,204
Statement of cash flows				
Short term loan proceeds	325,237	-	325,237	439,130
Compensation of key management personnel				
Salaries and other short-term benefits			34,402	36,317
Employees' end of service benefits			1,731	1,687
			36,133	38,003

9. Cash and cash equivalents

	2020 KD	2019 KD
Cash at banks	9,074	79,843
Cash in hand	1,881	1,744
	10,955	81,587
Bank overdrafts	(936,098)	(811,178)
Cash and cash equivalents in the statement of cash flows	(925,143)	(729,591)

The Company has obtained overdrafts facilities from local banks to fund working capital requirements, which are repayable on demand. These facilities carry effective interest rate of 3% (2019: 4%) per annum.

10. Share capital

The authorised, issued and fully paid share capital comprises of 2,250,000 shares (2019: 2,250,000 shares) of KD 1 (2019: KD 1) per share, which is fully paid in cash.

11. Statutory reserve

In accordance with the Companies Law and the Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before contribution to KFAS, Zakat and Board of Directors' remuneration shall be transferred annually to the statutory reserve. The annual general assembly of the Company may resolve to discontinue such annual transfers, 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.

12. Other reserve

This represents remeasurement losses from actuarial changes arising from changes in financial assumptions relating to defined benefit obligations.

13. Employees' end of service indemnity

The Company provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, subject to the completion of a minimum service period, calculated under the provisions of the Labour Law applicable in each regulatory environment, and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the period of employment. The plan typically exposes the Company to actuarial risks such as: discount rate, salary risk and withdrawal risk. The most recent actuarial valuation of the present value of various defined benefit obligations were carried out at 31 December 2020. The present value of the defined benefit obligations and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

Discount rate	A decrease in the discount rate will increase the plan liability.
Salary risk	The present value of the end of service benefit plan liability is calculated by reference to the estimated future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.
Withdrawal risk	Benefits are paid when an employee leaves employment either through resignation or retirement. The rate of withdrawal therefore affects the timing of the payment and consequently the liability at the reporting date.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. The key assumptions in determining the end of service provisions were based on a discount rate of 3.13% and an expected rate of salary increase in the range of 1% to 2%.

Movement in the provision recognised in the statement of financial position are as follows:

	2020 KD	2019 KD
Balance at the beginning of year	111,876	228,769
Provision / (reversal) made during the year	16,841	(104,624)
Re-measurements gain recognised in OCI	19,800	-
Benefits paid	(16,538)	(12,269)
	131,979	111,876

Sensitivity analysis:

The sensitivity analyses below have been determined based on reasonably possible changes of the below mentioned assumptions as at the reporting period, while holding all other assumptions constant.

- A reduction in the discount rate by 100 basis points would result in an increase of end of service benefits obligations by KD 3,695; and
- An increase in the salary growth rate by 100 basis points would result in increase of end of service benefits obligations by KD 3,959.

14. Trade and other payables

	2020 KD	2019 KD
Trade creditors	165,286	364,653
Accrued expenses	70,363	59,567
Other payables	35,124	97,397
	270,773	521,617

15. Government grant

To counter the negative financial impacts of COVID-19 pandemic, the Government of Kuwait has announced number of measures to aid private entities. These measures include government assistance in the form of salary support to national workforce in the private sector for a period up to six months effective from April 2020. During the year, the Company has received financial support amounting to KD 29,086 which is accounted for in accordance with IAS 20 "Accounting for Government Grants and Disclosures of Government Assistance" and has recognised this amount in profit or loss within staff costs.

16. Other income / (loss)

	2020 KD	2019 KD
Gain on disposal of property, plant and equipment	3,356	-
Foreign currency exchange gain / (loss)	2,875	(12,637)
Other miscellaneous income	2,260	3,958
	8,491	(8,679)

17. Financial risk management

Overview

The Company is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Financial management framework

This note presents information about the Company's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. No significant changes were made in the risk management objectives and policies during the years ended 31 December 2020 and 31 December 2019.

The management of the Company is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. The management of the Company reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's bank balances, trade and other receivables and amounts due from related parties.

The carrying amount of financial assets represents the maximum credit exposure. At the reporting date, the maximum exposure to credit risks was as follows

	2020 KD	2019 KD
Bank balances	9,074	79,843
Trade receivables	100,629	299,840
Other receivables	16,771	11,207
Due from related parties	2,252	9,504
	128,726	400,394

Bank balances and cash

The bank balances are maintained with financial institutions of appropriate credit ratings. Impairment on bank balances has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its bank balances have low credit risk based on the external credit ratings of the counterparties. The 12 month ECL computed on the bank balances is not significant.

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments. Outstanding receivables are regularly monitored by management.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, trading history with the Company and existence of previous financial difficulties.

The Company sells its products and renders services to a large number of customers. At the reporting date, its 5 largest customers account for 58.03% of outstanding trade receivables (2019: 39.13%).

The Company uses a provision matrix based on the Company's historical observed default rates to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. The Company assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 360 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

The table below provides information about the credit risk exposure on the Company's trade receivables using a provision matrix:

	2020			
	Weighted average loss	**Gross carrying amount KD**	**Loss amount KD**	**Net carrying amount KD**
Current (not past due)				
Past due				
1 - 90 days	20.89%	96,661	20,190	76,471
91 - 180 days	5.42%	295	16	279
181 - 270 days	8.93%	795	71	724
271 – 360 days	12.53%	26,472	3,317	23,155
More than 360 days	100%	304,190	304,190	-
		428,413	327,784	100,629

	2019			
	Weighted average loss	**Gross carrying amount KD**	**Loss amount KD**	**Net carrying amount KD**
Current (not past due)				
Past due				
1 - 90 days	62.28%	150,954	94,020	56,934
91 - 180 days	2.52%	53,575	1,350	52,225
181 - 270 days	4.94%	133,081	6,568	126,513
271 – 360 days	6.97%	68,973	4,805	64,168
More than 360 days	100%	101,748	101,748	-
		508,331	208,491	299,840

Due from related parties

Transactions with related parties are carried out on a negotiated contract basis. Impairment on the due from related parties have been measured on the basis of lifetime expected credit losses. The Company considers that these have low credit risk based on historical experiences and experienced credit judgment. At the reporting date, these are neither impaired nor due.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Company limits its liquidity risk by ensuring that funds are available from the Parent Company and by monitoring on a regular basis that sufficient funds are available to meet future commitments. The Company's terms of sales require amounts to be paid within 30 to 75 days of the date of sale, unless otherwise covered by a specific contract or agreement. The Company's terms of trade with its principal suppliers generally require the amounts to be paid within periods ranging from 30 to 45 days from the date of purchase unless otherwise covered by specific contract or agreement.

Liquidity risk is managed by the finance department of the Parent Company. To manage this risk, the Company invests in bank accounts that are readily realisable. The maturity profile is monitored by finance department to ensure adequate liquidity is maintained.

At the reporting date, all financial liabilities mature within one year from the date of financial positions, except for non-current portion of lease liabilities.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to change in market prices. Market risks arise for open positions in interest rate, currency and equity product, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is not exposed to any interest rate risk as it does not have any variable rate financial instruments.

Foreign currency risk

The Company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Company companies. The functional currencies of Company companies are primarily the UAE Dirhams, Saudi Riyals and US Dollars.

The Company is mainly exposed to foreign currency risk on its bank balances, trade receivables and trade payables denominated in foreign currencies and net investment in foreign operations.

The table below analyses the effect on profit before tax and directors' remuneration (due to change in the fair value of monetary assets and liabilities) and other comprehensive income of an assumed 5% strengthening in the value of the currency rate against the KD from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or other comprehensive income, whereas a positive amount reflects a net potential increase.

At the reporting date, the Company's net long / (short) position to foreign currency risk was as follows:

Currency	Foreign Currency denominated balances		Change in currency rate by + 5% and its effect on (loss) profit	
	2020	*2019*	*2020*	*2019*
	KD	*KD*	*KD*	*KD*
Saudi Riyals	303	173	15	1
United Arab Emirates Dinar	(1,717)	(148,101)	(86)	(7,406)
US Dollars	(84,422)	(374,181)	(4,221)	(18,709)

An equivalent weakening in each of the abovementioned currencies against the KD would result in an equivalent but opposite impact.

18. 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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. At the reporting date, the estimated fair values of the Company's financial instruments are not significantly different from their carrying values.

19. Capital management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No change were made in the objectives policies or process during the years ended 31 December 2020 and 31 December 2019. Capital comprises share capital, statutory reserve and retained earnings, and is measured at KD 1,671,077 (2019: KD 2,333,373).

20. COVID-19 Update

On 11 March 2020, the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic and recommended containment and mitigation measures. Since then, extraordinary actions have been taken by the State of Kuwait to contain and combat the outbreak and spread of COVID-19. These actions include travel bans, quarantines, stay-at-home orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. Whilst the restrictions are easing it remains unclear when the COVID-19 pandemic will abate.

The management has considered the potential impact of the current economic downturn and volatility on the reported amounts of the Company's assets and liabilities and considered these to represent best assessment based on available or observable information. As the outbreak continues to evolve, it is challenging at this juncture, to predict the full extent and duration of its business and economic impact. The management continue to monitor the situation and its impact on the Company's operation and financial position. As at the reporting date, the management has assessed that the Company will continue to operate as a going concern for the next 12 months from the date of the financial statements.