

**Ali Al-Ghanim Sons Automotive Company
K.S.C. (Closed) and its Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021



Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18-20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2 295 5000
Fax: +965 2 245 6419
kuwait@kw.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALI AL-GHANIM SONS AUTOMOTIVE COMPANY K.S.C. (CLOSED)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, 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.

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
ALI AL-GHANIM SONS AUTOMOTIVE COMPANY K.S.C. (CLOSED) (continued)**

Report on the Audit of 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 judgement 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
ALI AL-GHANIM SONS AUTOMOTIVE COMPANY K.S.C. (CLOSED) (continued)**

Report on the Audit of 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.

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 December 2021 that might have had a material effect on the business of the Parent Company or on its financial position.



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

10 March 2022
Kuwait

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

| | <i>Notes</i> | <i>2021</i> <i>KD</i> | <i>2020</i> <i>KD</i> |
|----------------------------------------------------------------------------------------------------------------------------|--------------|--------------------------|--------------------------|
| CONTINUING OPERATIONS | | | |
| Sale of goods | | 155,191,059 | 109,789,693 |
| Rendering of services | | 9,280,296 | 8,129,626 |
| Revenue from contracts with customers | 4 | 164,471,355 | 117,919,319 |
| Vehicle rental income | | 4,511,126 | 3,990,115 |
| Cost of sales and services rendered | | (133,359,928) | (96,083,316) |
| GROSS PROFIT | | 35,622,553 | 25,826,118 |
| Other income | 5 | 3,162,624 | 1,691,262 |
| Share of results of an associate | 11 | (123,893) | - |
| Gain on disposal of property, plant and equipment | | 16,093 | 33,340 |
| Distribution costs | | (10,380,236) | (10,496,303) |
| Administrative expenses | | (10,723,959) | (7,820,500) |
| Finance costs | | (1,210,581) | (1,864,149) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS BEFORE TAX | | 16,362,601 | 7,369,768 |
| Contribution to Kuwait Foundation for Advancement of Sciences ("KFAS") | | (168,264) | (65,712) |
| Zakat | | (172,424) | (77,253) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS | 6 | 16,021,913 | 7,226,803 |
| DISCONTINUED OPERATIONS | | | |
| Loss for the year from discontinued operations | 29 | (1,430,103) | - |
| PROFIT FOR THE YEAR | | 14,591,810 | 7,226,803 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | 14,675,517 | 7,158,381 |
| Non-controlling interests | | (83,707) | 68,422 |
| | | 14,591,810 | 7,226,803 |
| BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | 7 | 52.88 fils | 25.80 fils |
| BASIC AND DILUTED EARNINGS PER SHARE FOR CONTINUING OPERATIONS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | 7 | 54.64 fils | 25.80 fils |

The attached notes 1 to 30 form part of these consolidated financial statements.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | 2021 KD | 2020 KD |
|------------------------------------------------------------------------------------------------------------|--------------------|------------|
| PROFIT FOR THE YEAR | 14,591,810 | 7,226,803 |
| Other comprehensive (loss) income | | |
| <i>Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods:</i> | | |
| Cash flow hedges – effective portion of changes in fair value | (1,535,999) | 283,394 |
| Cost of hedging reserve – changes in fair value | (280,780) | (171,079) |
| Cost of hedging reserve – amortised to profit or loss | 271,377 | 183,518 |
| Exchange difference on translation of foreign operations | (28,293) | (66,604) |
| Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods | (1,573,695) | 229,229 |
| <i>Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:</i> | | |
| Net loss on equity instruments designated at fair value through other comprehensive income | (47,059) | - |
| Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods | (47,059) | - |
| Other comprehensive (loss) income for the year | (1,620,754) | 229,229 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 12,971,056 | 7,456,032 |
| Attributable to: | | |
| Equity holders of the Parent Company | 13,070,595 | 7,415,182 |
| Non-controlling interests | (99,539) | 40,850 |
| | 12,971,056 | 7,456,032 |

The attached notes 1 to 30 form part of these consolidated financial statements.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

| | <i>Notes</i> | 2021 KD | 2020 KD |
|-------------------------------------------------------------------------|--------------|--------------------------|--------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 91,983,666 | 103,197,282 |
| Intangible assets | 9 | 326,587 | 352,414 |
| Medium-term instalment credit receivables | 10 | 341,325 | 328,282 |
| Investment in an associate | 11 | 251,107 | 375,000 |
| Financial assets at fair value through other comprehensive income | | - | 47,059 |
| | | 92,902,685 | 104,300,037 |
| Current assets | | | |
| Inventories | 12 | 24,086,817 | 30,089,394 |
| Accounts receivable and prepayments | 13 | 8,084,063 | 7,523,103 |
| Receivables from related parties | 19 | 326,751 | 2,515,897 |
| Cash and cash equivalents | 14 | 19,068,429 | 22,502,339 |
| | | 51,566,060 | 62,630,733 |
| Assets held for sale | 29 | 2,982,992 | - |
| | | 147,451,737 | 166,930,770 |
| TOTAL ASSETS | | | |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 15 | 27,750,000 | 17,750,000 |
| Statutory reserve | 15 | 2,731,756 | 1,230,135 |
| Asset revaluation surplus | | 20,791,681 | 24,958,000 |
| Cash flow hedge reserve | | (1,056,086) | - |
| Cost of hedging reserve | | (30,065) | (20,662) |
| Fair value reserve | | (47,059) | - |
| Foreign currency translation reserve | | (51,493) | (39,032) |
| Other reserves | | 733,212 | 733,212 |
| Retained earnings | | 6,519,962 | 18,526,247 |
| | | 57,341,908 | 63,137,900 |
| Equity attributable to equity holders of the Parent Company | | 6,627,301 | 6,953,266 |
| Non-controlling interests | | 63,969,209 | 70,091,166 |
| Total equity | | 63,969,209 | 70,091,166 |
| Non-current liabilities | | | |
| Loans and borrowings | 16 | 19,978,433 | 26,933,021 |
| Employees' end of service benefits | 17 | 4,712,757 | 4,464,096 |
| Accounts payable and accruals | 18 | 8,834,410 | 8,246,490 |
| | | 33,525,600 | 39,643,607 |
| Current liabilities | | | |
| Loans and borrowings | 16 | 2,253,202 | 10,586,290 |
| Accounts payable and accruals | 18 | 41,159,340 | 46,108,488 |
| Payables to related parties | 19 | 4,552,365 | 501,219 |
| | | 47,964,907 | 57,195,997 |
| Liabilities directly associated with assets classified as held for sale | 29 | 1,992,021 | - |
| | | 83,482,528 | 96,839,604 |
| Total liabilities | | 83,482,528 | 96,839,604 |
| TOTAL EQUITY AND LIABILITIES | | 147,451,737 | 166,930,770 |

Eng. Fahad Ali Mohammed Thunayan Alghanim
(Chairman)

The attached notes 1 to 30 form part of these consolidated financial statements.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

Attributable to equity holders of the Parent Company

| | Share capital KD | Statutory reserve KD | Asset revaluation surplus KD | Cash flow hedge reserve KD | Cost of hedging reserve KD | Fair value Reserve KD | Foreign currency translation reserve KD | Other reserves KD | Retained earnings KD | Sub-total KD | Non-controlling interests KD | Total equity KD |
|-----------------------------------------------------------------------------------------------------------------------|---------------------|-------------------------|---------------------------------|-------------------------------|-------------------------------|--------------------------|--------------------------------------------|----------------------|-------------------------|-------------------|---------------------------------|--------------------|
| As at 1 January 2021 | 17,750,000 | 1,230,135 | 24,958,000 | - | (20,662) | - | (39,032) | 733,212 | 18,526,247 | 63,137,900 | 6,953,266 | 70,091,166 |
| Profit (loss) for the year | - | - | - | - | (9,403) | (47,059) | (12,461) | - | 14,675,517 | 14,675,517 | (83,707) | 14,591,810 |
| Other comprehensive loss for the year | - | - | - | (1,535,999) | (9,403) | (47,059) | (12,461) | - | - | (1,604,922) | (15,832) | (1,620,754) |
| Total comprehensive (loss) income for the year | - | - | - | (1,535,999) | (9,403) | (47,059) | (12,461) | - | 14,675,517 | 13,070,595 | (99,539) | 12,971,056 |
| Increase of share capital (Note 15) | 10,000,000 | - | - | - | - | - | - | - | (10,000,000) | - | - | - |
| Transfer of cash flow hedge reserve to inventories | - | - | - | 479,913 | - | - | - | - | - | 479,913 | - | 479,913 |
| Transfer of land to the Ultimate Parent Company and transfer of revaluation surplus on derecognition of land (Note 8) | - | - | (4,166,319) | - | - | - | - | - | (840,681) | (5,007,000) | - | (5,007,000) |
| Transfer to reserves | - | 1,501,621 | - | - | - | - | - | - | (1,501,621) | - | - | - |
| Dividends to equity holders of the Parent Company (Note 20) | - | - | - | - | - | - | - | - | (14,339,500) | (14,339,500) | - | (14,339,500) |
| Dividends to non-controlling interest | - | - | - | - | - | - | - | - | - | - | (226,426) | (226,426) |
| At 31 December 2021 | 27,750,000 | 2,731,756 | 20,791,681 | (1,056,086) | (30,065) | (47,059) | (51,493) | 733,212 | 6,519,962 | 57,341,908 | 6,627,301 | 63,969,209 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2021

Attributable to equity holders of the Parent Company

| | Share Capital KD | Amounts collected for share capital increase KD | Statutory reserve KD | Asset revaluation surplus KD | Cash flow hedge reserve KD | Cost of hedging reserve KD | Foreign currency translation reserve KD | Other reserves KD | Retained earnings KD | Sub-total KD | Non-controlling interests KD | Total equity KD |
|--------------------------------------------------------------|---------------------|----------------------------------------------------|-------------------------|---------------------------------|-------------------------------|-------------------------------|--------------------------------------------|----------------------|-------------------------|-----------------|---------------------------------|--------------------|
| As at 1 January 2020 | 1,000,000 | 16,750,000 | 500,000 | 24,958,000 | 77,706 | (33,101) | - | - | 21,808,001 | 65,060,606 | 2,564,296 | 67,624,902 |
| Profit for the year | - | - | - | - | - | - | - | - | 7,158,381 | 7,158,381 | 68,422 | 7,226,803 |
| Other comprehensive income (loss) for the year | - | - | - | - | 283,394 | 12,439 | (39,032) | - | - | 256,801 | (27,572) | 229,229 |
| Total comprehensive income (loss) for the year | - | - | - | - | 283,394 | 12,439 | (39,032) | - | 7,158,381 | 7,415,182 | 40,850 | 7,456,032 |
| Increase of share capital (Note 15) | 16,750,000 | (16,750,000) | - | - | - | - | - | - | - | - | - | - |
| Arising on business combination* | - | - | - | - | - | - | - | 733,212 | - | 733,212 | 1,695,570 | 2,428,782 |
| Issue of share capital in a subsidiary | - | - | - | - | - | - | - | - | - | - | 2,373,169 | 2,373,169 |
| Transfer to reserves | - | - | 730,135 | - | - | - | - | - | (730,135) | - | - | - |
| Transfer of cash flow hedge reserve to inventories (Note 12) | - | - | - | - | (361,100) | - | - | - | - | (361,100) | - | (361,100) |
| Dividends to equity holders of the parent Company (Note 20) | - | - | - | - | - | - | - | - | (9,710,000) | (9,710,000) | - | (9,710,000) |
| Dividends to non-controlling interest | - | - | - | - | - | - | - | - | - | - | (183,750) | (183,750) |
| Other movements with non-controlling interests | - | - | - | - | - | - | - | - | - | - | 463,131 | 463,131 |
| At 31 December 2020 | 17,750,000 | - | 1,230,135 | 24,958,000 | - | (20,662) | (39,032) | 733,212 | 18,526,247 | 63,137,900 | 6,953,266 | 70,091,166 |

*This includes amounts pertaining to business combination in the newly formed subsidiary Ali Alghanim International Company for General Trading S.P.C. which has acquired entities under common control effective from 1 January 2020.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | Notes | 2021 KD | 2020 KD |
|-------------------------------------------------------------------------|-------|---------------------|---------------------|
| OPERATING ACTIVITIES | | | |
| Profit from continuing operations before tax | | 16,362,601 | 7,369,768 |
| Loss from discontinued operations | | (1,430,103) | - |
| Profit for the year | | 14,932,498 | 7,369,768 |
| <i>Adjustments to reconcile profit before tax to net cash flows:</i> | | | |
| Gain on disposal of property, plant and equipment | | (16,093) | (33,340) |
| Rent concession | 18 | (68,000) | (188,381) |
| Depreciation of property, plant and equipment | 8 | 7,446,848 | 6,742,492 |
| Impairment loss on property, plant and equipment & intangible assets | 8 & 9 | - | 81,367 |
| Amortisation of intangible assets | 9 | 45,827 | 70,206 |
| Share of results of an associate | 11 | 123,893 | - |
| Reversal of provision for old and obsolete inventories | 12 | (891,932) | (288,894) |
| Allowance for (reversal of) expected credit losses on trade receivables | 13 | 506,624 | (521,052) |
| Provision for employees' end of service benefits | 17 | 563,777 | 537,023 |
| Finance costs on loans and borrowings | | 856,807 | 1,653,467 |
| Interest expense on lease liabilities | 18 | 353,774 | 210,682 |
| | | 23,854,023 | 15,633,338 |
| <i>Working capital changes:</i> | | | |
| Inventories | | 7,777,088 | 10,310,913 |
| Medium-term instalment credit receivables | | (13,043) | 83,238 |
| Accounts receivable and prepayments | | (2,376,879) | 547,149 |
| Receivables from related parties | | 2,189,146 | (173,086) |
| Accounts payable and accruals | | (3,107,709) | 8,825,267 |
| Cash flows from operations | | 28,322,626 | 35,226,819 |
| Employees' end of service benefits paid | 17 | (315,116) | (113,060) |
| Net cash flows from operating activities | | 28,007,510 | 35,113,759 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 8 | (2,169,267) | (4,705,760) |
| Proceeds from disposal of property, plant and equipment | | 199,636 | 1,242,119 |
| Additions to investment in an associate | 11 | - | (375,000) |
| Additions to intangible assets | 9 | (20,000) | - |
| Net cash flows used in investing activities | | (1,989,631) | (3,838,641) |
| FINANCING ACTIVITIES | | | |
| Proceeds from loans and borrowings | | 25,669,250 | 18,198,470 |
| Repayment of loans and borrowings | | (40,956,926) | (26,389,837) |
| Dividends paid to non-controlling interests | | (226,426) | (183,750) |
| Issue of share capital in a subsidiary | | - | 2,373,169 |
| Transactions with non-controlling interests | | - | 463,131 |
| Net movement in payables to related parties | | 4,051,146 | 133,570 |
| Dividends paid | | (14,339,500) | (9,710,000) |
| Finance costs paid | | (856,807) | (1,653,467) |
| Payment of principal portion of lease liabilities | 18 | (1,915,776) | (1,161,148) |
| Net cash flows used in financing activities | | (28,575,039) | (17,929,862) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (2,557,160) | 13,345,256 |
| Cash and cash equivalents at 1 January | | 22,502,339 | 7,656,802 |
| Cash and cash equivalents acquired on business combination | | - | 1,500,281 |
| Bank balances and cash related to the transfer of assets held for sale | 29 | (885,683) | - |
| Foreign currency translation differences | | 8,933 | - |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 14 | 19,068,429 | 22,502,339 |

The attached notes 1 to 30 form part of these consolidated financial statements.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2021

Non-cash items excluded from the consolidated statement of cash flows:

| | <i>Notes</i> | <i>2021</i> <i>KD</i> | <i>2020</i> <i>KD</i> |
|------------------------------------------------------------------------------------------------------------------|--------------|--------------------------|--------------------------|
| Effective portion of gain on hedging instruments (adjusted with accounts receivables and prepayments) | | - | (268,694) |
| Effective portion of loss on hedging instruments (adjusted with accounts payable and accruals) | | 1,110,329 | - |
| Additions to lease liabilities (adjusted with accounts payables and accruals) | 18 | 3,271,812 | 366,537 |
| Additions to right-of-use assets (adjusted with additions to property, plant and equipment) | 8 | (3,271,812) | (366,537) |
| Transfer of property, plant and equipment from inventories (net) - (adjusted with property, plant and equipment) | 8 | 1,938,665 | 2,450,305 |
| Transfer of property, plant and equipment to inventories (net) - (adjusted with inventories) | 8 | (1,938,665) | (2,450,305) |
| Loss arising from transfer of land to the Ultimate Parent Company (adjusted with retained earnings) | 8 | 840,681 | - |
| (Loss) gain related to derecognition of lease liabilities (adjusted with accounts payables and accruals) | | (5,712) | 10,817 |
| Remeasurement of lease liabilities (adjusted with right-of-use assets and lease liabilities) | 18 | - | 14,707 |
| Derecognition of right-of-use assets | 8 | 192,680 | - |
| Derecognition of lease liabilities | 18 | (198,392) | - |
| Increase in share capital (adjusted with retained earnings) | 15 | 10,000,000 | - |

The attached notes 1 to 30 form part of these consolidated financial statements.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

1 CORPORATE INFORMATION AND ACTIVITIES

The consolidated financial statements of Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) (the “Parent Company”) and its Subsidiaries (collectively, the “Group”) for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Parent Company’s Board of Directors on 9 March 2022 and are subject to the approval of the shareholders of the Parent Company in the Annual General Assembly meeting (AGM). The shareholders have the power to amend these consolidated financial statements after their issuance at the AGM.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by the shareholders of the Parent Company at the Annual General Assembly meeting held on 29 April 2021.

The Parent Company is a closed shareholding Company registered and incorporated on 24 July 2018 in the State of Kuwait. The Parent Company is a wholly owned subsidiary of Ali Alghanim Sons Holding Company K.S.C. (Closed) (the “Ultimate Parent Company”).

The registered head office of the Parent Company is located at P.O. Box 21540, Safat 13076, Kuwait City.

The Parent Company’s primary objectives are, as follows:

- ▶ Selling and purchasing cars and its spare parts.
- ▶ Importing and exporting light and heavy vehicles and cars.
- ▶ Maintaining and renting light and heavy vehicles and cars.
- ▶ Trading of auto spare parts, renting equipment and their maintenance.
- ▶ The Parent Company may have interest or participate, in any respect, with the authorities which embark on businesses similar to its businesses and which may help it to achieve its objects in Kuwait or abroad; and it shall have the right to purchase these authorities.
- ▶ Possessing movables and real estate necessary for undertaking its activity within the limitation allowed by the law.
- ▶ Utilising the financial surpluses available with the Parent Company by means of investing them in financial portfolios to be managed by specialised companies and authorities.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

The consolidated financial statements have prepared on a historical cost basis except for certain leasehold land (classified as property, plant and equipment), derivative financial instruments, and equity financial assets that have been measured at fair value.

The consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows and the related notes for the year ended 31 December 2020 include the pre-incorporation result of the indirect subsidiaries acquired under common control as the business combination was effective from 1 January 2020.

The Group has prepared the consolidated financial statements on the basis that it will continue to operate as a going concern.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2021. 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:

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

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

Generally, there is a presumption that a majority of voting rights 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 at each reporting date 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-off 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.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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.

Non-controlling interests represent the equity in the subsidiaries not attributable directly, or indirectly, to the shareholders of the Parent Company. Net income and equity attributable to non-controlling interests are presented separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position.

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 consolidated statement of profit or loss. Any investment retained is recognised at fair value.

Group information

The consolidated financial statements include the following subsidiaries:

| <i>Name</i> | <i>Country of incorporation</i> | <i>Principal activities</i> | <i>Effective equity interest %</i> | |
|------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------------------|-------------|
| | | | <i>2021</i> | <i>2020</i> |
| Directly held: | | | | |
| Al Ahlia Heavy Vehicle Selling and Import Company K.S.C. (Closed) | State of Kuwait | Sales, purchase, import and export of heavy trucks and spare parts. | 55% | 55% |
| Ali Mohammed Thunayan Alghanim And Sons Automotive Company (Ali Mohammed Thunayan Alghanim and Partners) W.L.L.* | State of Kuwait | Buying and selling of motor vehicles and related products and providing motor vehicles maintenance services. | 100% | 100% |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

| Name | Country of incorporation | Principal activities | Effective equity interest % | |
|------------------------------------------------------------------------------------|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------|
| | | | 2021 | 2020 |
| MAKFM Automotive Company (Marzouq Ali Alghanim & Partners) W.L.L.* | State of Kuwait | Sales and purchase of automobiles, leasing and renting of automobiles and auto spare parts. | 100% | 100% |
| Alghanim Group Motery General Trading Company W.L.L. | State of Kuwait | General trading | 75% | 75% |
| Rove Car Rental and Leasing Company W.L.L. | State of Kuwait | Car rental and leasing | 40% | 40% |
| Ali Alghanim International Company for General Trading S.P.C. | State of Kuwait | General Trading, Investment in Financial Portfolios, Managed by specialized companies and bodies, Utilization of Financial surplus available with the company | 100% | 100% |
| Dwaliya Technical Inspection Company (Ali Alghanim & Sons and Partners) W.L.L.** | State of Kuwait | Inspection of vehicles as per statutory requirements | 51% | - |
| Held through Ali Alghanim International Company for General Trading S.P.C.: | | | | |
| Al Uroush for Automotive Trading Company Limited* | Iraq | Buy, sell, import, export all types sizes from different origins vehicles, parts related products including equipment and providing maintenance services. | 50% | 50% |
| Tareeq Al-Alf Meel Company for Car Trading Limited* | Iraq | Buy, sell, import, export all types sizes from different origins vehicles, parts related products including equipment and providing maintenance services. | 100% | 100% |
| German Automotive Holding Limited*** | Dubai | Holding Company | 51% | 51% |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

| Name | Country of incorporation | Principal activities | Effective equity interest % | |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------------------------------------------|-----------------------------|------|
| | | | 2021 | 2020 |
| Held through Ali Mohammed Thunayan Alghanim And Sons Automotive Company (Ali Mohammed Thunayan Alghanim and Partners) W.L.L.: | | | | |
| Dwaliya Technical Inspection Company (Ali Alghanim & Sons and Partners) W.L.L.** | State of Kuwait | Inspection of vehicles as per statutory requirements | - | 51% |

* The effective holding of the Group in these subsidiaries is 100% as nominees have confirmed in writing that the Parent Company has the beneficial ownership.

** As part of the Group's reorganization, effective from 1 January 2021, the subsidiary has transferred its equity interest in Dwaliya Technical Inspection Company (Ali Alghanim & Sons and Partners) W.L.L. to the Parent Company without any consideration. There is no impact on the consolidated financial statements due to the transaction.

*** At 31 December 2021, Global Auto S.A.E., an indirect subsidiary held through German Automotive Holding Limited was classified as a disposal group held for sale and as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. (Note 29).

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 as it does not have any interest rate hedge relationships.

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. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations (continued)

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

However, the Parent Company has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application. This amendment had no material impact on the consolidated financial statements of the Group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2021 did not have any material impact on the accounting policies, consolidated financial position or performance 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 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework - Amendments to IFRS 3

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

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

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

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

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

In May 2020, the IASB issued Amendments to IAS 16: *Property, Plant and Equipment — Proceeds before Intended Use*, which prohibits entities 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

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

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

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2021 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

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

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the 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.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (continued)

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.5.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs incurred are expensed and included in administrative expenses.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Accounting for business combinations involving entities or businesses under common control

Accounting for business combinations involving entities or businesses under common control is outside the scope of IFRS 3 *Business Combinations*. In the case of an absence of specific guidance in IFRS, the management use their judgement in developing and applying an accounting policy that is relevant and reliable. In making that judgement the management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or Interpretation.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.1 Business combinations and goodwill (continued)

Several such bodies have issued guidance, and some allow the pooling of interest method in accounting for business combinations involving entities under common control.

The management have adopted the pooling of interest method to account for the business combinations involving entities under common control. This method involves the following:

- ▶ The assets, liabilities and equity reserves of the combining entities are reflected at their carrying amounts (no fair valuation exercise is required).
- ▶ No new goodwill is recognised as a result of combination. Any difference between the consideration paid and the equity acquired is reflected directly in the equity.

2.5.2 Revenue recognition

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 Group expects to be entitled in exchange for those goods or services. The Group 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 - vehicles and spare parts

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. The normal credit term is 30 to 90 days upon delivery.

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

Rendering of services

Revenue from rendering of services is recognised at the point in time when the control of the related services is transferred to the customer, generally on completion of the underlying service.

Contract liabilities

Contract liabilities include advance payments received from customers and deferred revenue for service contracts for which revenue is recognised when the service is provided. Contract liabilities pertaining to obligations that are due to be performed within twelve months from the reporting period are presented under current liabilities.

Bundled sale of vehicles and maintenance services

The Group provides vehicle maintenance services that are either sold separately or bundled together with the sale of vehicles to a customer.

When sold separately, revenue from sale of maintenance services is recognised at the point in time when the maintenance services are provided to the customer.

Contracts for bundled sale of vehicles and maintenance services comprise two performance obligations because the promises to transfer the vehicle and to provide maintenance service are capable of being distinct and are separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the vehicle and maintenance service. The transaction price allocated towards such maintenance service is recognised as a contract liability until the service obligation has been met. Contract liabilities pertaining to obligations that are due to be performed within twelve months from the reporting period are presented under current liabilities.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.3 Leases

The Group 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.

Group as a lessee

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

i) 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 are 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 presented under 'property, plant and equipment' in the consolidated statement of financial position and are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

- ▶ Buildings - 5-10 years
- ▶ Vehicles - 3 years

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

The right-of-use assets are also subject to impairment. Refer to the accounting policy in section 'Impairment of non-financial assets'.

ii) Lease liabilities

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in 'accounts payables and accruals' in the consolidated statement of financial position.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and lease of low-value assets. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.3 Leases (continued)

Group as a lessor

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

2.5.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Land is measured at fair value less impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recognised in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss. A revaluation deficit is recognised in the consolidated statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

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

| | |
|----------------------------------|-----------------------------------|
| ▶ Buildings | 20- 25 years |
| ▶ Machinery and equipment | 5-8 years |
| ▶ Furniture and office equipment | 2-10 years |
| ▶ Motor vehicles | 5 years |
| ▶ Rental vehicle fleet | Over the period of lease contract |

For accounting policy relating to recognition and depreciation of right-of-use assets, refer to Note 2.5.3 'Leases' accounting policy.

When the rental vehicle fleet are subsequently held for sale, typically after the end of the rental contract, they are transferred to inventories at the net realisable value as on the date of transfer.

Capital work-in-progress is stated at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Following completion, capital work-in-progress is transferred into the relevant classification of property, plant and equipment.

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 profit or loss as the expense is incurred.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.4 Property, plant and equipment (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) 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 profit or loss when the asset is derecognised.

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

2.5.5 Intangible assets

Intangible assets include brand value and key money paid for securing operating leases for the Group's service centers. Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The useful life of intangible assets is assessed as either finite or indefinite.

Intangible assets with finite life are amortised over the useful economic life and are assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method is reviewed at least at each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the consolidated statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Amortisation of key money is calculated on a straight-line basis over the expected minimum term of the initial lease period (i.e. 5 - 10 years).

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or the cash-generating unit level. The assessment of indefinite useful life is renewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Group identified the brand to have an indefinite useful life. Therefore, the brand is carried at cost without amortisation, but is tested for impairment. Refer to the accounting policy on impairment of non-financial assets.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon 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 profit or loss.

2.5.6 Taxes

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Zakat

Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance Resolution No. 58/2007 effective from 10 December 2007.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.7 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

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

Such reversal is recognised in the consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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

2.5.8 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand, non-restricted cash at banks, cash held in investment portfolios and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

2.5.9 Term deposits

Term deposits represent deposits with banks due within three months or more from the placement date and earn interest.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.10 Financial instruments - initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and initial measurement

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

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

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

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

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

Subsequent measurement

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

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

a) Financial assets at amortised cost (debt instruments)

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

Since the Group's financial assets (trade and other receivables (including receivables from related parties) and bank balances and cash) meet these conditions, they are subsequently measured at amortised cost.

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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group does not have any financial assets classified under this category.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

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

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

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

The Group elected to classify irrevocably its non-listed equity investments under this category.

d) Financial assets at fair value through profit or loss

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

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

The Group does not have any financial assets classified under this category.

Derecognition

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

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

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

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

Impairment of financial assets

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

ii) Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables and loans and borrowings including bank overdrafts. Refer to 2.5.3 'Leases' accounting policy for the initial recognition and measurement of lease liabilities, as this is not in the scope of IFRS 9.

Subsequent measurement

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

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

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

Financial liabilities at amortised cost

Loans and borrowings

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

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

Accounts payables and accruals

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Financial liabilities (continued)

Derecognition

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

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

iii) Offsetting of financial instruments

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

2.5.11 Investment in associate

An associate is an entity in 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 associate is accounted for using the equity method. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the statement of comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income.

The share of result of an associate is shown on the face of the consolidated statement of profit or loss. This is the result attributable to equity holders of the associate and therefore is result after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associates are prepared for the same reporting period as the Group and in case of different reporting date of associates, 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 additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of profit or loss.

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

2.5.12 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such foreign exchange forward contracts to hedge its risk associated with foreign currency fluctuations on forecast transactions and firm commitments relating to purchase of inventories from foreign suppliers. Such derivative instruments are initially recognised at fair value on the date on which a contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.12 Derivative financial instruments and hedge accounting (continued)

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- ▶ There is ‘an economic relationship’ between the hedged item and the hedging instrument.
- ▶ The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship.
- ▶ The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses foreign exchange forward contracts to hedge its risk associated with foreign currency fluctuations on forecast transactions and firm commitments relating to purchase of inventories from foreign suppliers. The ineffective portion relating to foreign currency contracts is recognised within administrative expenses.

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in OCI and accumulated in a separate component of equity under cost of hedging reserve.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the year. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied. If the hedged item is time-period related, the amount accumulated in the cost of hedging reserve is amortised to profit or loss on straight-line basis over the period of the contract.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

For derivative contracts that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the derivative contract are taken directly to the consolidated statement of profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.12 Derivative financial instruments and hedge accounting (continued)

Fair value derivatives

The Group enters into foreign exchange forward contracts. Derivatives are stated at fair value. The fair value of a derivative includes unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

The resultant gains and losses from derivatives are included in the consolidated statement of profit or loss.

2.5.13 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition are accounted for as follows:

- ▶ Vehicles - purchase cost on a specific identification basis.
- ▶ Spare parts - purchase cost on a weighted average basis.
- ▶ Goods in transit - purchase cost incurred up to the reporting date.
- ▶ Work in progress - costs of direct materials and labour plus attributable overheads based on a normal level of activity.

Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect of the purchases of vehicles.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

2.5.14 Borrowing cost

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

2.5.15 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.16 Employees' end of service benefits

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

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

2.5.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

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

2.5.18 Contingencies

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

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

2.5.19 Foreign currencies

Transactions in foreign currencies are recognised at the respective functional currency spot rate of exchange at the date of transaction 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. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

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

2.5.20 Cash dividends

The Parent Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Parent Company. As per the Companies Law, a distribution is authorised when it is approved by the shareholders at the annual general assembly meeting ("AGM"). A corresponding amount is recognised directly in equity.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.21 Fair value measurement

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

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

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

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

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

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

All assets and liabilities for which the 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; and
- ▶ Level 3 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

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.

2.5.22 Events after the reporting period

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.23 Segment information

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

2.5.24 Government grants

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

The Group recognises the grant related to an expense item by presenting as other income in the consolidated statement of profit or loss.

2.5.25 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- ▶ Represents a separate major line of business or geographical area of operations
- ▶ Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- ▶ Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and disclosure of contingent liabilities at the reporting date. 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.

2.6.1 Judgements

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

Revenue from contracts with customers involving sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the Group is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Classification of financial assets

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

Control assessment

When determining control, management considers whether the Group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgment.

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

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

The Group has some lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group included the renewal period as part of the lease term for leases of properties with shorter non-cancellable period (i.e., three to five years), due to the significance of these assets to its operations and there will be a significant negative effect on operations if a replacement is not readily available.

Assessment of common control transactions

The management has concluded that pooling of interest method in accounting of business combinations involving entities under common control is most appropriate method considering no specific guidance under IFRS for same. In making this judgement, the management considers the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or Interpretation.

Consolidation of entities in which the Group holds de facto control

The Group considers that it controls Rove Car Rental and Leasing Company W.L.L. ("entity") even though it owns 40% of the voting rights. This is because the Group is the single largest shareholder of this entity. The remaining 60% of the equity shares in the entities are held by other shareholders, for which there is no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

2.6.1 Judgements (continued)

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain and staffing. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Assets held for sale

In 2021, the Group has commenced the process to partially sell a portion of its investment in Global Auto S.A.E. an indirect subsidiary held through German Automotive Holding Ltd, to a third-party investor. As a result, all the assets and liabilities of that indirect subsidiary are classified as held for sale regardless of whether the Group will retain a non-controlling interest in the former indirect subsidiary after the sale. The management has considered this entity to meet the criteria to be classified as held for sale for the following reasons:

- ▶ The Group's 33.33% equity interest in Global Auto S.A.E. is available for immediate sale and can be sold to third-party investors in its current condition;
- ▶ The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification;
- ▶ The third-party investor has been identified at the reporting date and discussions are at an advance stage; and
- ▶ The Board of Directors approved the plan to sell.

For more details, refer to Note 29.

2.6.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed 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.

Impairment of financial assets at amortised cost

The Group assesses, on a forward-looking basis, the ECLs associated with its debt instruments carried at amortised cost. 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.

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

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

2.6.2 Estimates and assumptions (continued)

Estimation of useful lives of assets

The Company determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available.

Impairment of inventories

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

Impairment of investment in associates

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

Fair value measurement

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

Revaluation of land

The Group carries certain properties (i.e. land) at revalued amounts, with changes in fair value being recognised in OCI. The properties were valued by reference to transactions involving properties of a similar nature, location and condition. The Group engaged an independent valuer to assess fair values. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

3 BUSINESS COMBINATIONS

Acquisition of Rove Car Rental and Leasing Company W.L.L. in 2020

During the prior year, effective 1 January 2020 (“acquisition date”), the Parent Company acquired 40% equity interest in Rove Car Rental and Leasing Company W.L.L. (“The Company”). The Company is incorporated and domiciled in the State of Kuwait and is principally engaged in car rental and leasing. The acquisition has been accounted for using the pooling of interest method.

Assets acquired and liabilities assumed

The carrying values of the identifiable assets and liabilities of the Company at the acquisition date were as follows:

| | <i>KD</i> |
|-----------------------------------------------------------------------------------|----------------------------|
| ASSETS | |
| Property and equipment | 7,204 |
| Accounts receivable and prepayments | 13,471 |
| Cash and bank balances | 260,590 |
| | <hr/> 281,265 <hr/> |
| LIABILITIES | |
| Employees’ end of service benefits | 2,168 |
| Accounts payable and accruals | 44,242 |
| | <hr/> 46,410 <hr/> |
| Total identifiable net assets | 234,855 |
| Less: Non-controlling interests | (140,913) |
| Less: Amount paid by subsidiary on behalf of the Parent Company | (20,000) |
| | <hr/> 73,942 <hr/> |
| Net assets taken over attributable to equity holders of the Parent Company | 73,942 |

As at acquisition date, the Group did not incur any cost for the acquisition of the Company. As a result, the difference between the transaction cost and the net assets assumed amounting to KD 73,942 is recognised in other reserve for the prior year ended 31 December 2020.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers

| | <i>2021</i> <i>KD</i> | <i>2020</i> <i>KD</i> |
|-----------------------------------------------------|--------------------------|--------------------------|
| Type of goods or service | | |
| Sales of vehicles and spare parts | 155,191,059 | 109,789,693 |
| Vehicle inspection, repair and maintenance services | 9,280,296 | 8,129,626 |
| Total revenue from contracts with customers | 164,471,355 | 117,919,319 |
| Geographical markets: | | |
| Kuwait | 153,268,335 | 108,389,584 |
| Iraq | 11,203,020 | 9,529,735 |
| | 164,471,355 | 117,919,319 |
| Timing of revenue recognition: | | |
| Goods transferred at a point in time | 155,191,059 | 109,789,693 |
| Services rendered at a point in time | 9,280,296 | 8,129,626 |
| Total revenue from contracts with customers | 164,471,355 | 117,919,319 |

5 OTHER INCOME

| | <i>2021</i> <i>KD</i> | <i>2020</i> <i>KD</i> |
|----------------------------|--------------------------|--------------------------|
| Insurance brokerage income | 1,290,520 | 891,178 |
| Foreign exchange gain | 850,000 | - |
| Other miscellaneous income | 1,022,104 | 800,084 |
| | 3,162,624 | 1,691,262 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

6 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

| | <i>2021</i> | <i>2020</i> |
|-------------------------------------------------------------------------------|--------------------|-------------------|
| | <i>KD</i> | <i>KD</i> |
| Staff costs included in: | | |
| Cost of sales and services rendered | 3,105,774 | 2,821,673 |
| Distributions costs | 2,349,294 | 2,188,738 |
| Administrative expenses | 5,965,006 | 4,476,497 |
| | <u>11,420,074</u> | <u>9,486,908</u> |
| Rent - operating leases included in*: | | |
| Cost of sales and services rendered | 18,000 | 18,000 |
| Distributions costs | 8,040 | 8,040 |
| Administrative expenses | 3,000 | 3,000 |
| | <u>29,040</u> | <u>29,040</u> |
| Costs of inventories recognised as an expense included in: | | |
| Cost of sales and services rendered | <u>124,010,850</u> | <u>86,808,040</u> |
| Rental vehicle fleet insurance charges included in: | | |
| Cost of sales and services rendered | <u>319,572</u> | <u>352,367</u> |
| Reversal of provision for old and obsolete inventories included in: | | |
| Administrative expenses (Note 12) | 396,655 | 210,236 |
| Distribution costs (Note 12) | 495,277 | 78,658 |
| | <u>891,932</u> | <u>288,894</u> |
| Allowance for expected credit losses on trade receivables included in: | | |
| Administrative expenses (Note 13) | 154,317 | 367,114 |
| Distribution costs (Note 13) | 352,307 | 153,938 |
| | <u>506,624</u> | <u>521,052</u> |
| Depreciation expense recognised included in: | | |
| Cost of sales and services rendered (Note 8) | 3,007,512 | 2,894,828 |
| Distributions costs (Note 8) | 2,266,077 | 2,454,213 |
| Administrative expenses (Note 8) | 2,173,259 | 1,393,451 |
| | <u>7,446,848</u> | <u>6,742,492</u> |

* This represents short-term rental.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

7 BASIC AND DILUTED EARNINGS PER SHARE (EPS)

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

| | <i>2021</i> | <i>2020</i> |
|--------------------------------------------------------------------------------------------------------------------|--------------------|-------------|
| Profit for the year from continuing operations attributable to equity holders of the Parent Company (KD) | 15,161,776 | 7,158,381 |
| Loss for the year from discontinued operations | (486,259) | - |
| | 14,675,517 | 7,158,381 |
| Weighted average number of shares outstanding during the year (shares) | 277,500,000 | 277,500,000 |
| Basic and diluted EPS attributable to equity holders of the Parent Company (Fils) | 52.88 | 25.80 |
| Basic and diluted EPS for continuing operations attributable to equity holders of the Parent Company (Fils) | 54.64 | 25.80 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the authorisation date of these consolidated financial statements.

Earnings per share calculations for 2020 have been adjusted to take account of the ordinary shares issued in 2021.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

8 PROPERTY, PLANT AND EQUIPMENT

| | Lands KD | Buildings KD | Machinery and equipment KD | Furniture and office equipment KD | Motor vehicles KD | Rental vehicle fleet KD | Right-of-use assets KD | Capital work-in-progress KD | Total KD |
|-----------------------------------------------------------|-------------------|-------------------|----------------------------------|-----------------------------------------|-------------------------|-------------------------------|------------------------------|-----------------------------------|--------------------|
| Cost or valuation: | | | | | | | | | |
| As at 1 January 2021 | 66,274,331 | 27,035,598 | 2,062,991 | 8,674,452 | 8,229,249 | 12,019,442 | 6,553,163 | 247,912 | 131,097,138 |
| Additions | - | 70,617 | 114,812 | 547,876 | 132,917 | 1,268,967 | 3,271,812 | 34,078 | 5,441,079 |
| Transfer from inventories | - | - | - | - | 1,314,239 | 1,975,043 | - | - | 3,289,282 |
| Transfer from capital work-in-progress | - | - | - | - | (1,905,387) | (5,838,239) | - | - | (7,743,626) |
| Transfer from advances to suppliers | - | 22,039 | - | - | - | - | - | (22,039) | - |
| Reclassification to derecognition | - | - | - | - | - | - | - | (156,578) | (156,578) |
| Disposals (derecognition) | - | (50,665) | - | (2,056) | - | (472,818) | (344,154) | - | (869,693) |
| Transfer of land to the Ultimate Parent Company (Note 19) | (5,007,000) | - | - | - | - | - | - | - | (5,007,000) |
| Assets held for sale (Note 29) | - | (20,128) | - | (88,705) | - | - | (2,120,600) | (22,104) | (2,251,537) |
| Exchange differences | (568) | 1,303 | (440) | (1,565) | 261 | - | (62,130) | (1,141) | (64,280) |
| Write offs | - | - | - | - | - | - | - | (41,260) | (41,260) |
| At 31 December 2021 | 61,266,763 | 27,058,764 | 2,177,363 | 9,130,002 | 7,771,279 | 8,952,395 | 7,298,091 | 38,868 | 123,693,525 |
| Depreciation and impairment: | | | | | | | | | |
| As at 1 January 2021 | - | 13,279,716 | 1,385,589 | 6,304,971 | 2,570,846 | 2,183,056 | 2,175,678 | - | 27,899,856 |
| Depreciation charge for the year | - | 1,309,328 | 344,338 | 452,387 | 1,544,001 | 1,879,859 | 1,916,935 | - | 7,446,848 |
| Transfer to inventories | - | - | - | - | (762,031) | (1,753,648) | - | - | (2,515,679) |
| Relating to disposals | - | (50,665) | - | (1,190) | - | (290,141) | (151,474) | - | (493,470) |
| Assets held for sale (Note 29) | - | (4,545) | - | (26,955) | - | - | (520,237) | - | (551,737) |
| Exchange differences | - | 1,252 | (467) | (1,077) | (198) | - | (75,469) | - | (75,959) |
| At 31 December 2021 | - | 14,535,086 | 1,729,460 | 6,728,136 | 3,352,618 | 2,019,126 | 3,345,433 | - | 31,709,859 |
| Net book value: | | | | | | | | | |
| At 31 December 2021 | 61,266,763 | 12,523,678 | 447,903 | 2,401,866 | 4,418,661 | 6,933,269 | 3,952,658 | 38,868 | 91,983,666 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

8 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Lands KD | Buildings KD | Machinery and equipment KD | Furniture and office equipment KD | Motor vehicles KD | Rental vehicle fleet KD | Right-of-use assets KD | Capital work-in-progress KD | Total KD |
|----------------------------------------|-------------|-----------------|----------------------------------|-----------------------------------------|-------------------------|-------------------------------|------------------------------|-----------------------------------|-------------|
| Cost or valuation: | | | | | | | | | |
| As at 1 January 2020 | 65,962,000 | 26,675,848 | 1,947,421 | 7,723,802 | 8,797,156 | 14,060,957 | 6,027,809 | 190,503 | 131,385,496 |
| Arising on business combination* | 312,331 | 246,973 | 68,764 | 90,390 | 185,257 | - | 539,832 | 132,324 | 1,575,871 |
| Additions | - | 114,144 | 49,156 | 749,887 | 110,683 | 3,646,432 | 366,537 | 35,458 | 5,072,297 |
| Remeasurement | - | - | - | - | - | - | (14,707) | - | (14,707) |
| Transfer from inventories | - | - | - | - | 1,064,836 | 2,543,342 | - | - | 3,608,178 |
| Transfer to inventories | - | - | - | - | (1,928,683) | (6,522,465) | - | - | (8,451,148) |
| Transfer from capital work-in-progress | - | - | - | 110,373 | - | - | - | (110,373) | - |
| Disposals (derecognition) | - | - | (2,350) | - | - | (1,708,824) | - | - | (1,711,174) |
| Write offs | - | - | - | - | - | - | (366,308) | - | (366,308) |
| Impairments | - | (1,367) | - | - | - | - | - | - | (1,367) |
| At 31 December 2020 | 66,274,331 | 27,035,598 | 2,062,991 | 8,674,452 | 8,229,249 | 12,019,442 | 6,553,163 | 247,912 | 131,097,138 |
| Depreciation and impairment: | | | | | | | | | |
| As at 1 January 2020 | - | 11,964,762 | 1,163,098 | 5,837,655 | 1,608,664 | 2,639,782 | 838,463 | - | 24,052,424 |
| Depreciation charge for the year | - | 1,314,954 | 223,274 | 467,316 | 1,627,681 | 1,772,052 | 1,337,215 | - | 6,742,492 |
| Transfer to inventories | - | - | - | - | (665,499) | (1,727,166) | - | - | (2,392,665) |
| Relating to disposals | - | - | (783) | - | - | (501,612) | - | - | (502,395) |
| At 31 December 2020 | - | 13,279,716 | 1,385,589 | 6,304,971 | 2,570,846 | 2,183,056 | 2,175,678 | - | 27,899,856 |
| Net book value: | | | | | | | | | |
| At 31 December 2020 | 66,274,331 | 13,755,882 | 677,402 | 2,369,481 | 5,658,403 | 9,836,386 | 4,377,485 | 247,912 | 103,197,282 |

*This includes amounts pertaining to business combination in the newly formed subsidiary Ali Alghanim International Company for General Trading S.P.C. which has acquired entities under common control effective from 1 January 2020.

The depreciation charge has been allocated in the consolidated statement of profit or loss as follows:

| | 2021 KD | 2020 KD |
|-------------------------------------|------------|------------|
| Cost of sales and services rendered | 3,007,512 | 2,894,828 |
| Distribution costs | 2,266,077 | 2,454,213 |
| Administrative expenses | 2,173,259 | 1,393,451 |
| | 7,446,848 | 6,742,492 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

8 PROPERTY, PLANT AND EQUIPMENT (continued)

Lands include leasehold lands carried at KD 49,305,000 (2020: KD 54,312,000). Notwithstanding the contractual terms of the leases, the management considers that, based on market experience, the leases are renewable indefinitely at similar nominal rates of ground rent and with no premium payable for renewal of the leases and, consequently, as is common practice in the State of Kuwait, these leases have been accounted for as freehold land. Further, the useful lives of buildings are also not adjusted in line with the expiry of the lease period.

During the current year, the Group transferred a previously revalued leasehold land amounting to KD 5,007,000 to the Ultimate Parent Company for no consideration and transferred the cost and asset revaluation surplus amounting to KD 840,681 and KD 4,166,319 respectively to retained earnings (Note 19).

Revaluation of properties (lands)

Fair value of lands was determined based on valuations performed by an accredited independent valuer who holds a recognised and relevant professional qualification and has valuation experience for similar properties in the State of Kuwait, using the market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the property.

If lands were measured using the cost model, the carrying amounts would be KD 40,154,319 (2020: KD 40,995,000) as at 31 December 2021.

The fair value measurement of revalued properties has been categorised as Level 2, based on inputs to the valuation technique used.

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value on a linear basis.

9 INTANGIBLE ASSETS

| | <i>Key money KD</i> | <i>Brand KD</i> | <i>Total KD</i> |
|----------------------------------|-------------------------|---------------------|---------------------|
| Cost: | | | |
| As at 1 January 2020 | 473,294 | 160,000 | 633,294 |
| Impairment | - | (80,000) | (80,000) |
| | <hr/> | <hr/> | <hr/> |
| As at 31 December 2020 | 473,294 | 80,000 | 553,294 |
| Additions | - | 20,000 | 20,000 |
| | <hr/> | <hr/> | <hr/> |
| As at 31 December 2021 | 473,294 | 100,000 | 573,294 |
| | <hr/> | <hr/> | <hr/> |
| Amortisation: | | | |
| As at 1 January 2020 | 130,674 | - | 130,674 |
| Amortisation charge for the year | 70,206 | - | 70,206 |
| | <hr/> | <hr/> | <hr/> |
| As at 31 December 2020 | 200,880 | - | 200,880 |
| Amortisation charge for the year | 45,827 | - | 45,827 |
| | <hr/> | <hr/> | <hr/> |
| As at 31 December 2021 | 246,707 | - | 246,707 |
| | <hr/> | <hr/> | <hr/> |
| Net book value: | | | |
| As at 31 December 2021 | 226,587 | 100,000 | 326,587 |
| | <hr/> | <hr/> | <hr/> |
| As at 31 December 2020 | 272,414 | 80,000 | 352,414 |
| | <hr/> | <hr/> | <hr/> |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

9 INTANGIBLE ASSETS (continued)

The Group identified the brand to have an indefinite useful life. Therefore, the brand is carried at cost without amortisation, but is tested for impairment in accordance with Note 2.5.7. Management has performed a qualitative impairment assessment and determined that no impairment was required (2020: impairment of KD 80,000 was recorded).

Amortisation charge for the year has been allocated in the consolidated statement of profit or loss as follows:

| | <i>2021</i> <i>KD</i> | <i>2020</i> <i>KD</i> |
|-------------------------------------|--------------------------|--------------------------|
| Cost of sales and services rendered | 10,619 | 9,250 |
| Distribution costs | 35,208 | 60,956 |
| | <u>45,827</u> | <u>70,206</u> |

10 MEDIUM-TERM INSTALMENT CREDIT RECEIVABLES

| | <i>2021</i> <i>KD</i> | <i>2020</i> <i>KD</i> |
|-------------------------------------------------------------------|--------------------------|--------------------------|
| Instalments receivable after one year but not more than two years | 161,063 | 182,507 |
| Instalments receivable after two years | 180,262 | 145,775 |
| | <u>341,325</u> | <u>328,282</u> |

For details of expected credit losses on medium-term instalment credit receivables, refer to Note 13.

11 INVESTMENT IN AN ASSOCIATE

The Group has a 30% interest in Top Car Electronic Trading Company K.S.C. (Closed) ('associate'), which is involved in the providing services and business consultants in Kuwait. The associate is a private entity that is not listed on any public exchange. The Group's interest in the associate is accounted for using the equity method in the consolidated financial statements.

Reconciliation to carrying amounts:

| | <i>2021</i> <i>KD</i> | <i>2020</i> <i>KD</i> |
|-------------------------------|--------------------------|--------------------------|
| As at 1 January | 375,000 | - |
| Additions | - | 375,000 |
| Share of results for the year | (123,893) | - |
| As at 31 December | <u>251,107</u> | <u>375,000</u> |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

12 INVENTORIES

| | 2021 KD | 2020 KD |
|------------------------------------------------------------------------|--------------------------|--------------------------|
| Goods held for resale: | | |
| - Vehicles | 9,802,319 | 11,784,460 |
| - Spare parts | 7,333,485 | 6,470,575 |
| Goods in transit | 9,087,688 | 14,875,836 |
| Work in progress | 128,983 | 121,298 |
| | <u>26,352,475</u> | <u>33,252,169</u> |
| Less: provision for old and obsolete inventories | (2,265,658) | (3,162,775) |
| Total inventories at the lower of cost and net realisable value | <u><u>24,086,817</u></u> | <u><u>30,089,394</u></u> |

During the current year, net loss on cash flow hedges for purchases of inventory amounting to KD 479,913 (2020: KD 361,100) have been adjusted in the cost of inventory, as a basis adjustment.

Set out below is the movement in the allowance for old and obsolete inventories is as follows:

| | 2021 KD | 2020 KD |
|-----------------------------------|-------------------------|-------------------------|
| As at 1 January | 3,162,775 | 3,450,573 |
| Arising on business combinations* | - | 91,071 |
| Reversal of allowance | (891,932) | (288,894) |
| Utilised during the year | (4,727) | (89,975) |
| Exchange differences | (458) | - |
| As at 31 December | <u><u>2,265,658</u></u> | <u><u>3,162,775</u></u> |

*This includes amounts pertaining to business combination in the newly formed subsidiary Ali Alghanim International Company for General Trading S.P.C. which has acquired entities under common control effective from 1 January 2020.

The write-downs and reversals are included in administrative expenses and distribution costs.

13 ACCOUNTS RECEIVABLES AND PREPAYMENTS

| | 2021 KD | 2020 KD |
|-----------------------------------------------------------|-------------------------|-------------------------|
| Instalment credit receivables | 697,090 | 1,066,874 |
| Less: Allowance for expected credit losses | (90,739) | (270,940) |
| | <u>606,351</u> | <u>795,934</u> |
| Less: Medium-term instalment credit receivables (Note 10) | (341,325) | (328,282) |
| | <u>265,026</u> | <u>467,652</u> |
| Trade receivables | 9,363,388 | 9,103,036 |
| Less: Allowance for expected credit losses | (3,002,604) | (4,120,239) |
| | <u>6,360,784</u> | <u>4,982,797</u> |
| Other receivables | 668,370 | 1,182,294 |
| Advances to suppliers | 331,869 | 356,218 |
| Prepaid expenses | 458,014 | 534,142 |
| | <u><u>8,084,063</u></u> | <u><u>7,523,103</u></u> |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

13 ACCOUNTS RECEIVABLES AND PREPAYMENTS (continued)

The net carrying value of trade receivables is considered a reasonable approximation of fair value. Other classes within accounts receivables do not contain impaired assets.

As at 31 December 2021, trade receivables and instalment credit receivables at nominal value of KD 3,093,343 (2020: 4,391,179) were impaired and fully provided for.

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

| | 2021 KD | 2020 KD |
|----------------------------------|------------------|------------------|
| As at 1 January | 4,391,179 | 4,568,466 |
| Arising on business combination* | - | 405,336 |
| Charge for the year | (506,624) | (521,052) |
| Write off during the year | (790,508) | (61,571) |
| Exchange differences | (704) | - |
| | <u>3,093,343</u> | <u>4,391,179</u> |

*This includes amounts pertaining to business combination in the newly formed subsidiary Ali Alghanim International Company for General Trading S.P.C. which has acquired entities under common control effective from 1 January 2020.

Trade receivables of KD 790,508 (2020: KD 61,571) were written off as there is no reasonable expectation of recovering the contractual cash flows.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Information about the credit exposures are disclosed in Note 25.1.

14 CASH AND CASH EQUIVALENTS

| | 2021 KD | 2020 KD |
|----------------------------------|--------------------------|--------------------------|
| Cash at banks and on hand | 9,707,979 | 22,502,339 |
| Short-term deposits | 9,360,450 | - |
| Cash and cash equivalents | <u>19,068,429</u> | <u>22,502,339</u> |

Short-term deposits are denominated in US Dollars and are made for varying periods of less than three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

15 EQUITY

a) Share capital

As at 31 December 2021, the Parent Company's authorised, issued and paid-up share capital is KD 27,750,000 (2020: KD 17,750,000) comprising of 277,500,000 (2020: 177,500,000) shares with nominal value of 100 (2020: 100) fils each, of which are KD 17,750,000 is paid in cash and KD 10,000,000 is capitalised through retained earnings.

Further, the extra-ordinary general assembly meeting of the shareholders of the Parent Company held on 30 September 2021 approved to increase the share capital of the Parent Company from KD 17,750,000 to KD 27,750,000. The increase in share capital was authenticated in the commercial register on 28 October 2021 under registration number 399347.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

15 EQUITY (continued)

a) Share capital (continued)

In the prior year, the extra-ordinary general assembly meeting of the shareholders of the Parent Company held on 12 November 2019 approved to increase the paid-up share capital of the Parent Company from KD 1,000,000 to KD 17,750,000.

Further, in the prior year the extra-ordinary general assembly meeting of the shareholders of the Parent Company held on 23 September 2020 approved to decrease the authorised share capital of the Parent Company from KD 40,000,000 to KD 17,750,000. The decrease in authorised share capital was authenticated in the commercial register on 23 November 2020 under registration number 399347

b) Statutory reserve

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to KFAS and Zakat, shall be transferred to the 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.

c) 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 attributable to shareholders of the Parent Company before contribution to KFAS and Zakat 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. During the year, no transfer has been made to voluntary reserve since the shareholders of the Parent Company have passed a resolution to this effect.

16 LOANS AND BORROWINGS

| | 2021 KD | 2020 KD |
|----------------------------------------------------------------------------|-------------------|-------------------|
| Islamic finance payables | 21,649,135 | 36,909,311 |
| Term loans | 582,500 | 610,000 |
| | <u>22,231,635</u> | <u>37,519,311</u> |
| | 2021 KD | 2020 KD |
| Classified in the consolidated statement of financial position as follows: | | |
| - Non-current | 19,978,433 | 26,933,021 |
| - Current | 2,253,202 | 10,586,290 |
| | <u>22,231,635</u> | <u>37,519,311</u> |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

16 LOANS AND BORROWINGS (continued)

a) *Islamic finance payables*

| <i>2021</i> | <i>Murabaha KD</i> | <i>Tawarruq KD</i> | <i>Wakala KD</i> | <i>Total KD</i> |
|--------------------------------------|------------------------|------------------------|----------------------|---------------------|
| Gross amount | 838,463 | 19,959,665 | 911,129 | 21,709,257 |
| Less: deferred finance costs payable | (3,425) | (47,479) | (9,218) | (60,122) |
| | <u>835,038</u> | <u>19,912,186</u> | <u>901,911</u> | <u>21,649,135</u> |
| | <i>Murabaha KD</i> | <i>Tawarruq KD</i> | <i>Wakala KD</i> | <i>Total KD</i> |
| <i>2020</i> | | | | |
| Gross amount | 4,029,178 | 27,881,363 | 5,102,829 | 37,013,370 |
| Less: deferred finance costs payable | (10,479) | (80,875) | (12,705) | (104,059) |
| | <u>4,018,699</u> | <u>27,800,488</u> | <u>5,090,124</u> | <u>36,909,311</u> |

Islamic finance payables included tawarruq payables amounting to KD 12,898,481 (2020: KD 4,714,726) which bears finance costs at commercial rate and are secured by a corporate guarantee provided by an entity under the group (Note 19), the remaining Islamic finance payables are unsecured and bear finance costs at commercial rates.

b) *Term loans*

Term loans are denominated in KD and carry interest at commercial rates.

Loans are secured by corporate guarantee issued by a related party (Note 19). During the year, the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

17 EMPLOYEES' END OF SERVICE BENEFITS

Set out below is the movement in the provision for employees' end of service benefits:

| | <i>2021 KD</i> | <i>2020 KD</i> |
|-------------------------------------------|--------------------|--------------------|
| As at 1 January | 4,464,096 | 4,037,965 |
| Arising on business combinations (Note 3) | - | 2,168 |
| Charge for the year | 563,777 | 537,023 |
| Payments | (315,116) | (113,060) |
| As at 31 December | <u>4,712,757</u> | <u>4,464,096</u> |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

18 ACCOUNTS PAYABLES AND ACCRUALS

| | 31 December 2021 | | |
|-------------------------|-------------------|-------------------|-------------------|
| | Non-current KD | Current KD | Total KD |
| Trade payables | - | 17,476,367 | 17,476,367 |
| Advances from customers | - | 8,415,601 | 8,415,601 |
| Contract liabilities* | 5,898,013 | 3,817,353 | 9,715,366 |
| Lease liabilities | 2,715,398 | 1,369,239 | 4,084,637 |
| Accrued expenses | 138,800 | 6,896,920 | 7,035,720 |
| Other payables | - | 3,147,088 | 3,147,088 |
| Deferred revenues | 82,199 | 36,772 | 118,971 |
| | 8,834,410 | 41,159,340 | 49,993,750 |

| | 31 December 2020 | | |
|-------------------------|-------------------|-------------------|-------------------|
| | Non-current KD | Current KD | Total KD |
| Trade payables | - | 29,881,238 | 29,881,238 |
| Advances from customers | - | 5,799,319 | 5,799,319 |
| Contract liabilities* | 4,844,429 | 3,726,210 | 8,570,639 |
| Lease liabilities | 3,238,684 | 1,257,382 | 4,496,066 |
| Accrued expenses | 138,798 | 3,543,935 | 3,682,733 |
| Other payables | - | 1,888,298 | 1,888,298 |
| Deferred revenues | 24,579 | 12,106 | 36,685 |
| | 8,246,490 | 46,108,488 | 54,354,978 |

*Contract liabilities represent unsatisfied performance obligations at the reporting date towards vehicle maintenance services.

Set out below are the carrying amounts of lease liabilities (included accounts payables and accruals) and the movements during the year:

| | 2021 KD | 2020 KD |
|--------------------------------------|------------------|------------------|
| As at 1 January | 4,496,066 | 5,163,810 |
| Arising from combination | - | 496,398 |
| Additions | 3,271,812 | 366,537 |
| Accretion of interest | 353,774 | 210,682 |
| Payments | (1,915,776) | (1,161,148) |
| Derecognition of leases | (198,392) | (377,125) |
| Rent concession* | (68,000) | (188,381) |
| Assets held for sale (Note 29) | (1,904,459) | - |
| Remeasurement of lease liabilities** | - | (14,707) |
| Exchange differences | 49,612 | - |
| As at 31 December | 4,084,637 | 4,496,066 |

Accounting covid-19 related rent concessions*

As a response to the economic impact of the Covid-19 pandemic, the lessor agreed to waive certain part of the of lease payments during the current and prior year. There are no other substantive changes to the terms and conditions of the lease. Management accounted the same as other income.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

18 ACCOUNTS PAYABLES AND ACCRUALS (continued)

**Further, during the prior year another lessor had reduced the rent of property till the end of the contract. Management concluded that the reduction in the consideration for the lease which was not part of the original terms and conditions of the lease as a lease modification, and accordingly applied the lease modification accounting and remeasured the lease liability by discounting the revised lease payments using a revised discount rate. The Group accounted for the remeasurement of the lease liability by adjusting the carrying amount of the right-of-use asset assuming the revised discount rate of 4.75%. Depreciation of the revised right-of-use asset continues over the remaining lease term.

The maturity analysis of lease liabilities is disclosed in Note 25.2.

19 RELATED PARTY DISCLOSURES

Related parties represent major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

| | <i>Entities under common control</i> | |
|-------------------------------------------------|--------------------------------------|-------------|
| | <i>2021</i> | <i>2020</i> |
| | <i>KD</i> | <i>KD</i> |
| Consolidated statement of profit or loss | | |
| Sale of goods | 5,661 | 2,219 |
| Rendering of services | 14,102 | 14,133 |
| Purchase of goods | - | (140,290) |
| Administrative expenses | (1,625) | - |

Balances with related parties included in the consolidated statement of financial position are as follows:

| | <i>2021</i> | <i>2020</i> |
|-----------------------------------------------------|-------------|-------------|
| | <i>KD</i> | <i>KD</i> |
| Consolidated statement of financial position | | |
| <i>Receivables from related parties:</i> | | |
| Entities under common control/ownership | 326,751 | 2,515,897 |
| <i>Payables to related parties:</i> | | |
| Key management | 584,088 | 483,026 |
| Entities under common control/ownership | 243,113 | 18,193 |
| Other related party | 3,725,164 | - |
| | 4,552,365 | 501,219 |

Terms and conditions of transactions with related parties

Transactions with related parties are made on terms approved by the Group's management. Outstanding balances at the year-end are unsecured, interest free and have no fixed repayment schedule. For the year ended 31 December 2021, the Group has not recognised any provision for expected credit losses relating to amounts owed by related parties (2020: Nil).

Other related party transactions

- In 2020, the partners of a subsidiary approved an in-kind distribution of their 75% equity interest in Alghanim Group Motery General Trading Company W.L.L. ("subsidiary") and 40% equity interest in Rove Rental Cars Company W.L.L. ("subsidiary") to the shareholders of the Parent Company, proportionate to their shareholding at carrying value.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

19 RELATED PARTY DISCLOSURES

Other related party transactions (continued)

- ▶ In 2021, the partners of a subsidiary approved an in-kind distribution of the subsidiary's 51% equity interest in Dwaliya Technical Inspection Company (Ali Alghanim & Sons and Partners) W.L.L. ("subsidiary") to the Parent Company, proportionate to their shareholding at carrying value.
- ▶ In 2021, the Group transferred a previously revalued leasehold land amounting to KD 5,007,000 to the Ultimate Parent Company for no consideration and transferred the cost and asset revaluation surplus amounting to KD 840,681 and KD 4,166,319 respectively to retained earnings (Note 8).
- ▶ Term loans are secured by corporate guarantee issued by a related party (Note 16). Islamic finance payables included tawarruq payables amounting to KD 12,898,481 (2020: KD 4,714,726) bear finance costs at commercial rate and are secured by a corporate guarantee provided by an entity under the group (Note 16). Further, a related party has provided corporate guarantee amounting to KD 9,318,505 (2020: KD 9,478,823) to the Group arising in the ordinary course of business (Note 23).

Compensation of key management personnel

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

| | <i>Transaction values for the year ended 31 December</i> | | <i>Balance outstanding as at 31 December</i> | |
|----------------------------------|--------------------------------------------------------------|-------------|--------------------------------------------------|-------------|
| | <i>2021</i> | <i>2020</i> | <i>2021</i> | <i>2020</i> |
| | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> |
| Salaries and short-term benefits | 1,888,588 | 1,731,405 | 221,045 | 219,229 |
| End of service benefits | 73,202 | 70,856 | 632,896 | 581,658 |
| | 1,961,790 | 1,802,261 | 853,941 | 800,887 |

20 DIVIDENDS MADE AND PROPOSED

- ▶ The shareholders of the Parent Company at the AGM held on 29 April 2021 approved the payment of cash dividends of 19.8 fils per share amounting to KD 3,517,000 for the year ended 31 December 2020.
- ▶ The shareholders of the Parent Company at the ordinary general assembly meeting held on 28 November 2021 approved the payment of cash dividends of 39 fils per share amounting to KD 10,822,500 for the period ended 30 September 2021.
- ▶ The Board of Directors of the Parent Company in their meeting held on 9 March 2022 proposed cash dividends of 16 fils per share (2020: 19.8 fils per share) amounting to KD 4,440,000 (2020: KD 3,517,000) for the year ended 31 December 2021. This proposal is subject to the approval of the shareholders at the AGM.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

21 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations on forecast purchases and firm commitments relating to purchase of inventories from foreign suppliers.

The fair values of derivative financial instruments included in the consolidated financial statements, for derivatives classified as trading and those classified as hedging instruments, together with the notional amounts analysed by the term to maturity are summarised as follows:

| | <i>Notional amounts</i> | | | <i>Positive fair value</i> | <i>Negative fair value</i> |
|----------------------------------------------------------------|-------------------------|---------------------------|-------------------|----------------------------|----------------------------|
| | <i>Within 3 months</i> | <i>3 months to 1 year</i> | <i>Total</i> | | |
| <i>2021</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> |
| Gross unsettled derivatives classified as trading instruments: | | | | | |
| <i>Forward foreign exchange contracts</i> | | | | | |
| Euro | 443,036 | 240,648 | 683,684 | - | (13,231) |
| Gross unsettled derivatives classified as hedging instruments: | | | | | |
| <i>Forward foreign exchange contracts</i> | | | | | |
| Euro | 37,661,430 | 3,439,400 | 41,100,830 | - | (1,110,329) |
| | 38,104,466 | 3,680,048 | 41,784,514 | - | (1,123,560) |
| | | | | | |
| | <i>Notional amounts</i> | | | <i>Positive fair value</i> | <i>Negative fair value</i> |
| | <i>Within 3 months</i> | <i>3 months to 1 year</i> | <i>Total</i> | | |
| <i>2020</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> |
| Gross unsettled derivatives classified as trading instruments: | | | | | |
| <i>Forward foreign exchange contracts</i> | | | | | |
| Euro | 333,460 | - | 333,460 | 15,723 | - |
| Gross unsettled derivatives classified as hedging instruments: | | | | | |
| <i>Forward foreign exchange contracts</i> | | | | | |
| Euro | 4,724,019 | 5,557,669 | 10,281,688 | 268,694 | - |
| | 5,057,479 | 5,557,669 | 10,615,148 | 284,417 | - |

Derivatives classified as trading are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected purchases.

The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market inputs.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

22 COMMITMENTS

Operating lease commitments – Group as a lessor

The Group has entered into commercial leases for certain motor vehicles in the normal course of business. Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

| | 2021 | 2020 |
|----------------------------------------------|------------------|-------------|
| | KD | KD |
| Within one year | 1,080,067 | 1,385,910 |
| After one year but not more than three years | 213,531 | 254,531 |
| | 1,293,598 | 1,640,441 |

Operating lease commitments – Group as a lessee

| | 2021 | 2020 |
|------------------------------------------------------------------------|--------------|-------------|
| | KD | KD |
| Future minimum lease payments: | | |
| Within one year | 4,690 | 4,690 |
| Total operating lease expenditure contracted for at the reporting date | 4,690 | 4,690 |

Operating lease commitments as at 31 December 2021 represent commitments for short-term leases, on which the Group has elected to use the recognition exemption under IFRS 16.

23 CONTINGENCIES

The Group had contingent liabilities in respect of bank guarantees and letters of credit arising in the ordinary courses of business amounting to KD 35,351,955 (2020: KD 25,297,183) from which it is anticipated that no material liabilities will arise. Further, a related party has provided corporate guarantee amounting to KD 9,318,505 (2020: KD 9,478,823) to the Group arising in the ordinary course of business (Note 19).

24 SEGMENT INFORMATION

For management purposes, the Group is divided into four main geographical segments that are: a) State of Kuwait, b) Iraq c) Egypt and d) United Arab Emirates where the Group performs its main activities in the sales of vehicles, spare parts and rendering of services related to vehicle inspection, repair and maintenance services.

a) Segment revenue and results

The following tables present revenue and profit information of the Group's operating segments for the year ended 31 December 2021 and 2020, respectively:

| | 2021 | 2020 | 2021 | 2020 |
|----------------------|--------------------|-------------|--------------------|-------------|
| | KD | KD | KD | KD |
| | <i>Revenue</i> | | <i>Results</i> | |
| Kuwait | 153,397,729 | 108,389,584 | 15,099,324 | 6,674,531 |
| Iraq | 11,203,020 | 9,529,735 | 1,212,785 | 809,521 |
| Egypt | - | - | (1,430,103) | (242,088) |
| United Arab Emirates | - | - | (290,196) | (15,161) |
| | 164,600,749 | 117,919,319 | 14,591,810 | 7,226,803 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

24 SEGMENT INFORMATION (continued)

b) Segment assets and liabilities

The following tables present assets and liabilities information for the Group's operating segments as at 31 December 2021 and 31 December 2020, respectively:

| | <i>31 December 2021 KD</i> | <i>31 December 2020 KD</i> |
|-----------------------------------------------|------------------------------------|------------------------------------|
| Segment assets | | |
| Kuwait | 127,520,983 | 156,129,503 |
| Iraq | 7,557,205 | 5,937,937 |
| Egypt | 2,982,992 | 2,738,357 |
| United Arab Emirates | 9,390,557 | 2,124,973 |
| Total consolidated segment assets | <u>147,451,737</u> | <u>166,930,770</u> |
| | | |
| | <i>31 December 2021 KD</i> | <i>31 December 2020 KD</i> |
| Segment liabilities | | |
| Kuwait | 74,682,446 | 94,238,959 |
| Iraq | 3,095,617 | 2,276,855 |
| Egypt | 1,992,021 | 302,552 |
| United Arab Emirates | 3,712,444 | 21238 |
| Total consolidated segment liabilities | <u>83,482,528</u> | <u>96,839,604</u> |

25 FINANCIAL INSTRUMENTS 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.

Risk is monitored through the Group's strategic planning process. No changes were made in the risk management objectives and policies during the year ended 31 December 2021 and 2020.

The Group is mainly exposed to credit risk, liquidity risk and exposure to market risk is limited to foreign currency risk and interest rate risk.

The management of the Group reviews and agrees policies for managing each of these risks which are summarised below:

25.1 Credit risk

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

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

25 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

25.1 Credit risk (continued)

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

| | 2021 KD | 2020 KD |
|----------------------------------------------------------|-------------------|-------------------|
| Accounts receivable (excluding prepayments and advances) | 7,294,180 | 6,632,743 |
| Receivables from related parties | 326,751 | 2,515,897 |
| Cash and cash equivalents (excluding cash in hand) | 18,522,920 | 22,502,339 |
| | <u>26,143,851</u> | <u>31,650,979</u> |

Instalment credit receivables and trade receivables

The Group'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 Group limits its exposure to credit risk from instalment credit receivables and trade receivables by establishing appropriate maximum payment period. More than 90% of the Group's customers have no history of default, and none of these customers' balances have been written off or are credit-impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, trading history with the Group and existence of previous financial difficulties.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on shared credit risk characteristics and the days past due. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, instalment credit receivables and trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The Group does not hold collateral as security.

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

| | <i>Instalment credit receivables and trade receivables</i> | | | | | <i>Total</i> KD |
|--------------------------------------------------|------------------------------------------------------------|--------------------------|---------------------------|---------------------------|----------------------------|--------------------|
| | <i>Days past due</i> | | | | | |
| 2021 | <i>< 90 days</i> KD | <i>91-180 days</i> KD | <i>181-270 days</i> KD | <i>271-365 days</i> KD | <i>> 365 days</i> KD | |
| Estimated total gross carrying amount at default | 6,588,716 | 388,973 | 70,780 | 40,080 | 2,971,929 | 10,060,478 |
| Estimated credit loss | 75,605 | 21,284 | 16,612 | 26,311 | 2,953,531 | 3,093,343 |
| Expected credit loss rate | 1% | 5% | 23% | 66% | 99% | 31% |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

25 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

25.1 Credit risk (continued)

Instalment credit receivables and trade receivables (continued)

| 2020 | <i>Instalment credit receivables and trade receivables</i> | | | | | <i>Total</i> KD |
|--------------------------------------------------|------------------------------------------------------------|--------------------------|---------------------------|---------------------------|----------------------------|--------------------|
| | <i>Days past due</i> | | | | | |
| | <i>< 90 days</i> KD | <i>91-180 days</i> KD | <i>181-270 days</i> KD | <i>271-365 days</i> KD | <i>> 365 days</i> KD | |
| Estimated total gross carrying amount at default | 5,491,844 | 289,767 | 104,750 | 49,162 | 4,234,387 | 10,169,910 |
| Estimated credit loss | 65,818 | 24,001 | 32,656 | 34,317 | 4,234,387 | 4,391,179 |
| Expected credit loss rate | 1% | 8% | 31% | 70% | 100% | 43% |

Cash and short term deposits

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

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

Other receivables (including receivables from related parties)

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

25.2 Liquidity risk

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

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet future commitment. The Group's terms of sales require amounts to be paid within 30 days of the date of sales. Payables are normally settled within 90 days of the date of purchase. The maturity profile is monitored by the Group's management to ensure adequate liquidity is maintained.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

| 2021 | <i>On demand</i> KD | <i>Within 1 year</i> KD | <i>1 to 5 Years</i> KD | <i>Total</i> KD |
|--------------------------------|------------------------|----------------------------|---------------------------|--------------------|
| Loans and borrowings | - | 2,327,198 | 20,002,271 | 22,329,469 |
| Accounts payable and accruals* | 9,160 | 28,997,528 | 3,105,710 | 32,112,398 |
| Payables to related parties | 4,552,365 | - | - | 4,552,365 |
| | 4,561,525 | 31,324,726 | 23,107,981 | 58,994,232 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

25 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

25.2 Liquidity risk (continued)

| 2020 | On demand KD | Within 1 year KD | 1 to 5 Years KD | Total KD |
|--------------------------------|-----------------|---------------------|--------------------|-------------------|
| Loans and borrowings | - | 10,631,385 | 26,999,658 | 37,631,043 |
| Accounts payable and accruals* | - | 36,684,217 | 3,563,793 | 40,248,010 |
| Payables to related parties | 501,219 | - | - | 501,219 |
| | <u>501,219</u> | <u>47,315,602</u> | <u>30,563,451</u> | <u>78,380,272</u> |

*excluding advances from customers, deferred revenues and contract liabilities

25.3 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.

25.3.1 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group 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.

The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date. These contracts are generally designated as cash flow hedges.

Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows.

| | 2021 KD Long (short) | 2020 KD Long (short) |
|------------|----------------------------|----------------------------|
| Euro | (3,900,244) | (17,798,207) |
| US Dollars | (8,317,731) | (5,532,837) |
| GBP | (701,570) | (831,019) |
| AED | - | (51,593) |

Sensitivity analysis

A reasonably possible strengthening (weakening) of KD against the above currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

| | Effect on profit for the year | |
|------------|-------------------------------|------------|
| | 2021 KD | 2020 KD |
| Euro | (195,012) | (889,910) |
| US Dollars | (415,887) | (276,642) |
| GBP | (35,079) | (41,551) |
| AED | - | (2,580) |

An equal change in the opposite direction against the KD would have resulted in an equivalent but opposite impact.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

25 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

25.3 Market risk (continued)

25.3.2 Interest rate risk

Interest rate risk arises from the possibility that changes in floating interest rates will affect future profitability or the fair values of financial instruments.

The Group is exposed to interest rate risk on its floating interest rate bearing assets and liabilities (term loans and bank overdrafts). Short-term deposits (Note 14) and Islamic finance payables (Note 16) mature or reprice in the short-term, no longer than twelve months. As a result, the Group is subject to limited exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates on such instruments.

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

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

| | Increase/decrease in basis points (+/-) | Effect on profit for the year | |
|---------------|-----------------------------------------------|-------------------------------|------------|
| | | 2021 KD | 2020 KD |
| Kuwaiti Dinar | 100 | 5,825 | 6,100 |

25.4 Hedging activities and derivatives

The primary risk managed using derivative instruments is foreign currency risk.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting payable that is denominated in the foreign currency.

Spot element of foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast purchases in Euro. These forecast transactions are highly probable. The foreign exchange forward contract balances vary with the level of expected foreign currency purchases and changes in foreign exchange forward rates.

The foreign exchange forward contract balances vary with the level of expected foreign currency purchases and changes in foreign exchange forward rates.

| | (Liabilities)/Assets | |
|---------------------------------------------------------------------------------------------|----------------------|------------|
| | 2021 KD | 2020 KD |
| Spot element of foreign currency forward contracts designated as hedging instruments | | |
| Fair value | (1,110,329) | 268,694 |

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast purchases. As a result, there is no hedge ineffectiveness to be recognised in the consolidated statement of profit or loss.

Notional amounts are as provided in Note 21.

Derivatives not designated as hedging instruments

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

25 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

25.4 Hedging activities and derivatives (continued)

The Group uses foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions.

26 CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes share capital and all other equity reserves attributable to the equity holders of the Parent Company. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

The Group's policy is to keep the gearing ratio at acceptable levels. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables (including payables to related parties), less cash and short-term deposits.

| | 2021 KD | 2020 KD |
|-----------------------------------------------------------------|-------------------|--------------------|
| Loans and borrowings | 22,231,635 | 37,519,311 |
| Accounts payable and accruals* | 31,862,783 | 39,810,496 |
| Payables to related parties | 4,552,365 | 501,219 |
| Less: Cash and cash equivalents | (19,068,429) | (22,502,339) |
| Net debt | 39,578,354 | 55,328,687 |
| Equity attributable to the equity holders of the Parent Company | 57,341,908 | 63,137,900 |
| Total capital and net debt | 96,920,262 | 118,466,587 |
| Gearing ratio | 40.84% | 46.70% |

*excluding advances from customers and contract liabilities

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

27 FAIR VALUE MEASUREMENT

27.1 Financial instruments

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

| | Fair value measurement using | | |
|------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------|-------------|
| | Significant observable inputs (Level 2) KD | Significant unobservable inputs (Level 3) KD | Total KD |
| 2021 | | | |
| Financial instruments measured at fair value: | | | |
| <i>Derivative financial liabilities</i> | | | |
| Foreign exchange forward contracts | (1,123,559) | - | (1,123,559) |
| 2020 | | | |
| Financial instruments measured at fair value: | | | |
| <i>Financial assets at FVOCI</i> | | | |
| Unquoted equity securities | - | 47,059 | 47,059 |
| <i>Derivative financial assets</i> | | | |
| Foreign exchange forward contracts | 284,416 | - | 284,416 |

During the year, there were no transfers between the levels of fair value hierarchy.

Valuation methods and assumptions

The following methods and assumptions were used to estimate the fair values:

Unlisted equity investments

The Group invests in private equity companies that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Group uses an adjusted net asset based valuation technique for the majority of these positions. The NAV is then discounted for considerations such as illiquidity based on company-specific facts and circumstances. The Group classifies the fair value of these investments as Level 3.

Other financial assets and liabilities

Fair value of other financial instruments carried at amortised cost is not materially different from their carrying values, at the reporting date, as most of these instruments are of short-term maturity or re-priced immediately based on market movement in interest rates. The fair value of financial assets and financial liabilities with a demand feature is not less than its face value.

Reconciliation of Level 3 fair values

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

| | Non-listed equity shares | |
|------------------------------------------|--------------------------|---------------|
| | 2021 KD | 2020 KD |
| As at 1 January | 47,059 | 47,059 |
| Total gains and losses recognised in OCI | (47,059) | - |
| At 31 December | - | 47,059 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

27 FAIR VALUE MEASUREMENT (continued)

27.2 Non-financial assets

Lands (included in property, plant and equipment) are carried at revalued amounts. Fair value measurement disclosures for the revalued properties are provided in Note 8.

28 MATERIAL PARTLY- OWNED SUBSIDIARIES

The management of the Parent Company has concluded Al Uroush for Automotive Trading Company Limited, German Automotive Holding Limited and Al Ahlia Heavy Vehicle Selling and Import Company K.S.C. (Closed) are material partly owned subsidiaries. Summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Proportion of equity interest held by non-controlling interests:

| | <i>Country of incorporation</i> | <u>2021</u> | <u>2020</u> |
|--------------------------------------------------------------------------------|-------------------------------------|-------------|-------------|
| Indirectly held subsidiaries | | | |
| Al Uroush for Automotive Trading Company Limited ("Al-Uroush")* | Iraq | 50% | 50% |
| German Automotive Holding Limited ("German Automotive")* | Dubai | 49% | 49% |
| | <i>Country of incorporation</i> | <u>2021</u> | <u>2020</u> |
| Directly held subsidiary | | | |
| Al Ahlia Heavy Vehicle Selling and Import Company K.S.C. (Closed) ("Al Ahlia") | State of Kuwait | 45% | 45% |

*These are indirectly held by the Group through a fully owned subsidiary Ali Alghanim International Company for General Trading S.P.C.

Accumulated balances of material non-controlling interest:

| | <i>2021</i> | <i>2020</i> |
|-------------------|-------------|-------------|
| | <i>KD</i> | <i>KD</i> |
| AI-Uroush | 2,219,660 | 1,816,738 |
| German Automotive | 330,405 | 811,936 |
| Al Ahlia | 2,586,535 | 2,399,720 |

Total comprehensive income (loss) allocated to material non-controlling interest:

| | <i>2021</i> | <i>2020</i> |
|-------------------|-------------|-------------|
| | <i>KD</i> | <i>KD</i> |
| AI-Uroush | 412,734 | 415,645 |
| German Automotive | (481,533) | (96,164) |
| Al Ahlia | 186,815 | (76,460) |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

28 MATERIAL PARTLY- OWNED SUBSIDIARIES (continued)

The summarised financial information of these subsidiaries is provided below. The information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss and other comprehensive income for the year ended 31 December 2021:

| | <i>Al Uroush</i> | | <i>German Automotive</i> | | <i>Al Ahlia</i> | | <i>Total</i> | |
|-----------------------------------|------------------|-------------|--------------------------|------------|-----------------|-------------|--------------|--------------|
| | 2021 KD | 2020 KD | 2021 KD | 2020 KD | 2021 KD | 2020 KD | 2021 KD | 2020 KD |
| Revenue | 9,868,782 | 9,529,735 | 12,190 | - | 7,847,737 | 4,634,437 | 17,728,709 | 14,164,172 |
| Expenses | (9,104,787) | (8,702,990) | (1,732,493) | (257,249) | (7,432,592) | (4,804,347) | (18,269,872) | (13,764,586) |
| Net profit (loss) | 763,995 | 826,745 | (1,720,303) | (257,249) | 415,145 | (169,910) | (541,163) | 399,586 |
| Other comprehensive income (loss) | 61,474 | 4,546 | (70,065) | (46,411) | - | - | (8,591) | (41,865) |
| Total comprehensive income (loss) | 825,469 | 831,291 | (1,790,368) | (303,660) | 415,145 | (169,910) | (549,754) | 357,721 |
| Attributable to: | | | | | | | | |
| Equity holders of Parent Company | 412,735 | 415,646 | (1,308,835) | (207,496) | 228,330 | (93,450) | (667,770) | 114,700 |
| Non-controlling interest | 412,734 | 415,645 | (481,533) | (96,164) | 186,815 | (76,460) | 118,016 | 243,021 |
| | 825,469 | 831,291 | (1,790,368) | (303,660) | 415,145 | (169,910) | (549,754) | 357,721 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

28 MATERIAL PARTLY- OWNED SUBSIDIARIES (continued)

Summarised statement of financial position as at 31 December 2021:

| | Al Uroush | | German Automotive | | Al Ahlia | | Total | |
|----------------------------------|-----------|-------------|-------------------|-----------|------------|-------------|------------|--------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| | KD | KD | KD | KD | KD | KD | KD | KD |
| Current assets | 6,245,188 | 4,555,187 | 12,370,588 | 4,661,660 | 5,261,437 | 4,891,418 | 23,877,213 | 14,108,265 |
| Non-current assets | 1,249,948 | 1,315,520 | - | 201,670 | 7,732,608 | 7,966,027 | 8,982,556 | 9,483,217 |
| Total assets | 7,495,136 | 5,870,707 | 12,370,588 | 4,863,330 | 12,994,045 | 12,857,445 | 32,859,769 | 23,591,482 |
| Current liabilities | 2,796,164 | (2,237,231) | 9,617,558 | (323,790) | 3,648,179 | (4,954,115) | 16,061,901 | (7,515,136) |
| Non-current liabilities | 259,653 | - | - | - | 3,598,010 | (2,570,619) | 3,857,663 | (2,570,619) |
| Total liabilities | 3,055,817 | (2,237,231) | 9,617,558 | (323,790) | 7,246,189 | (7,524,734) | 19,919,564 | (10,085,755) |
| Total equity | 4,439,319 | 3,633,476 | 2,753,030 | 4,539,540 | 5,747,856 | 5,332,711 | 12,940,205 | 13,505,727 |
| Attributable to: | | | | | | | | |
| Equity holders of Parent Company | 2,219,659 | 1,816,738 | 2,422,625 | 3,727,604 | 3,161,321 | 2,932,991 | 7,803,605 | 8,477,333 |
| Non-controlling interest | 2,219,660 | 1,816,738 | 330,405 | 811,936 | 2,586,535 | 2,399,720 | 5,136,600 | 5,028,394 |
| | 4,439,319 | 3,633,476 | 2,753,030 | 4,539,540 | 5,747,856 | 5,332,711 | 12,940,205 | 13,505,727 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

28 MATERIAL PARTLY- OWNED SUBSIDIARIES (continued)

Summarised cash flow information for period ended 31 December 2021:

| | Al Uroush | | German Automotive | | Al Ahlia | | Total | |
|-------------------------------------------------------------|----------------|----------------|-------------------|------------------|-----------------|----------------|------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| | KD | KD | KD | KD | KD | KD | KD | KD |
| Operating activities | 1,512,308 | 926,867 | 6,002,648 | 25,937 | (781,314) | 1,071,636 | 6,733,642 | 2,024,440 |
| Investing activities | (180,892) | (133,530) | 88,390 | (203,082) | (10,812) | (23,814) | (103,314) | (360,426) |
| Financing activities | (543,427) | (380,807) | (462,691) | 4,843,200 | 743,122 | (1,053,997) | (262,996) | 3,408,396 |
| Net increase (decrease) in cash and cash equivalents | 787,989 | 412,530 | 5,628,347 | 4,666,055 | (49,004) | (6,175) | 6,367,332 | 5,072,410 |

Ali Al-Ghanim Sons Automotive Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

29 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets held for sale

In 2021, the Group has commenced the process to partially sell a portion of its investment in Global Auto S.A.E., an indirect subsidiary held through German Automotive Holding Ltd, to a third-party investor. As a result, the subsidiary meets all the criteria for classifying the assets and liabilities as held for sale regardless of whether the Group will retain a non-controlling interest in the former indirect subsidiary after the sale.

At 31 December 2021, Global Auto S.A.E. was classified as a disposal group held for sale and as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The results of Global Auto S.A.E for the year are presented below:

| | <i>KD</i> |
|-------------------------------------------------------|--------------------|
| Administrative expenses | (1,231,301) |
| Distribution costs | (16,302) |
| Finance costs | (182,500) |
| Loss for the year from discontinued operations | (1,430,103) |
| Attributable to: | |
| Equity holders of the Parent Company | (486,259) |
| Non-controlling interests | (943,844) |
| Loss for the year from discontinued operations | (1,430,103) |

The major classes of assets and liabilities of Global Auto S.A.E. classified as held for sale as at 31 December 2021 are, as follows:

| | <i>KD</i> |
|------------------------------------------------------------------|--------------------|
| Assets | |
| Property, plant and equipment | 1,699,800 |
| Accounts receivable and prepayments | 397,509 |
| Bank balances and cash | 885,683 |
| Assets held for sale | 2,982,992 |
| Liabilities | |
| Lease liabilities | (1,904,459) |
| Accounts payable and accruals | (87,562) |
| Liabilities directly associated with assets held for sale | (1,992,021) |
| Net assets directly associated with the disposal group | 990,971 |

The net cash flow incurred by Global Auto S.A.E. classified as held for sale are, as follows:

| | <i>KD</i> |
|----------------------|-------------|
| Operating activities | 897,726 |
| Investing activities | (2,694,984) |
| Financing activities | 2,682,941 |
| | 885,683 |

30 IMPACT OF COVID-19 OUTBREAK

During March 2020, the World Health Organisation (“WHO”) declared the Coronavirus (“COVID-19”) outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the State of Kuwait. Governments across the globe have taken steps to contain the spread of the virus, which included closure of borders, released social distancing guidelines and enforced country-wide lockdowns and curfews.

At this stage, the impact on the Group’s business and results has not been significant and management expects this to remain the case. The Group will continue to follow the various government policies and advice and, in parallel, will do its utmost to continue in operation in the best and safest way possible.