

**KFH Capital REIT Fund**  
**State of Kuwait**

**Financial Statements and Independent Auditor's Report**  
For the period from 29 October 2019 (Date of registration in the  
investment Funds' register at CMA) to 31 December 2020

**KFH Capital REIT Fund**  
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## **Independent Auditor's Report**

**To the Unit Holders  
KFH Capital REIT Fund  
State of Kuwait**

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

#### **Opinion**

We have audited the accompanying financial statements of KFH Capital REIT Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2020, and related statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period from 29 October 2019 (date of registration in the investment Funds' register at CMA) to 31 December 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2020, and its financial performance and its cash flows for the period from 29 October 2019 (date of registration in the investment Funds' register at CMA) to 31 December 2020 in accordance with International Financial Reporting Standards ("IFRSs").

#### **Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are independent of the Fund in accordance with ethical requirements that are relevant to our audit of the financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidences we have obtained are sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of Fund Manager for the financial statements**

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund'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 the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Fund Manager is responsible for overseeing the Fund's financial reporting process.

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

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

## **Independent Auditor's Report (Continued)**

### **Auditor's Responsibilities for Audit of the Financial Statements (Continued)**


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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of the Fund Manager'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 Fund'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 notes in the financial statements or, if such notes 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 Fund to fail to meet the going concern basis.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Fund Manager 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**

Also in our opinion, the financial statements include the disclosures required by Law No. 7 of 2010 concerning Establishment of Capital Markets Authority and Organization of Security Activity, as amended, and its Executive Regulations and the Fund's Articles of Association, and we had obtained the information we required to perform our audit. According to the information available to us, there were no violations during the period from 29 October 2019 (date of registration in the investment Funds' register at CMA) to 31 December 2020 of either Law No. 7 of 2010 concerning Establishment of Capital Markets Authority and Organization of Security Activity, as amended, and its Executive Regulations, or of the Fund's Articles of Association which might have materially affected the Fund's activity or its financial position.



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**Qais M. Al Nisf**  
**License No. 38 "A"**  
**BDO Al Nisf & Partners**

**Kuwait: 9 February 2021**


**KFH Capital REIT Fund**  
**State of Kuwait**

**Statement of Financial Position**  
As at 31 December 2020

	Note	31 December 2020 KD
<b>Assets</b>		
<b>Current assets:</b>		
Cash at bank		743,560
Accounts receivable and other debit balances	5	79,144
<b>Total current assets</b>		822,704
<b>Non-current assets:</b>		
Investment properties	6	25,403,000
<b>Total non-current assets</b>		25,403,000
<b>Total assets</b>		26,225,704
<b>Liabilities and equity</b>		
<b>Current liabilities:</b>		
Accounts payable and other credit balances	7	433,831
<b>Total current liabilities</b>		433,831
<b>Total liabilities</b>		433,831
<b>Equity:</b>		
Capital	8	23,600,000
Retained earnings		2,191,873
<b>Total equity</b>		25,791,873
<b>Total liabilities and equity</b>		26,225,704
<b>Net assets value per unit</b>	9	1.093

The accompanying notes on pages 7 to 22 form an integral part of these financial statements.

  
**Kuwait Clearing Company - K.S.C. (Closed)**  
Fund Custodian and Investment Controller

  
**KFH Capital Investment Company - K.S.C. (Closed)**  
Fund Manager

**KFH Capital REIT Fund**  
**State of Kuwait**

**Statement of Profit or Loss and Other Comprehensive Income**

For the period from 29 October 2019 (date of registration in the investment Funds' register at CMA) to 31 December 2020

	Note	For the period from 29 October 2019 (date of registration in the investment Funds' register at CMA) to 31 December 2020 KD
<b>Revenue:</b>		
Rental income		2,153,454
Change in fair value of investment properties	6	1,976,905
Profit income		56,122
Other income		3,236
		<u>4,189,717</u>
<b>Expenses:</b>		
Fund Manager fees	10	341,837
Fund Custodian and Investment Controller fees	11,12	30,330
Operating expense		357,087
General and administrative expenses		48,702
Provision for expected credit losses	5	148,055
		<u>926,011</u>
<b>Profit for the period</b>		3,263,706
Other comprehensive income for the period		-
<b>Total comprehensive income for the period</b>		<u>3,263,706</u>

The accompanying notes on pages 7 to 22 form an integral part of these financial statements.

**KFH Capital REIT Fund**  
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**Statement of Changes in Equity**

For the period from 29 October 2019 (date of registration in the investment Funds' register at CMA) to 31 December 2020

	<b>Capital</b>	<b>Retained</b>	<b>Total</b>
	<b>KD</b>	<b>earnings</b>	<b>KD</b>
		<b>KD</b>	<b>KD</b>
Subscriptions during the period	23,600,000	-	23,600,000
Total comprehensive income for the period	-	3,263,706	3,263,706
Cash dividends (Note 14)	-	(1,071,833)	(1,071,833)
<b>Balance as at 31 December 2020</b>	<b>23,600,000</b>	<b>2,191,873</b>	<b>25,791,873</b>

The accompanying notes on pages 7 to 22 form an integral part of these financial statements.

**KFH Capital REIT Fund**  
**State of Kuwait**

**Statement of Cash Flows**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

	<b>For the period from 29 October 2019 (date of registration in the investment Funds' register at CMA) to 31 December 2020</b>
	<b>KD</b>
<b>Cash flows from operating activities:</b>	
Profit for the period	3,263,706
Adjustments:	
Change in fair value of investment properties	(1,976,905)
Profit income	(56,122)
Provision for expected credit losses	148,055
	<u>1,378,734</u>
<i>Changes in operating assets and liabilities:</i>	
Accounts receivable and other debit balances	(227,199)
Accounts payable and other credit balances	348,486
Net cash generated from operating activities	<u>1,500,021</u>
<b>Cash flows from investing activities:</b>	
Purchase of investment properties	(23,368,905)
Profit income received	56,122
Net cash used in investing activities	<u>(23,312,783)</u>
<b>Cash flows from financing activities:</b>	
Proceed from subscriptions	23,600,000
Cash dividend paid	(1,043,678)
Net cash generated from financing activities	<u>22,556,322</u>
Net increase in cash at bank	743,560
Cash at bank at end of the period	<u>743,560</u>

The accompanying notes on pages 7 to 22 form an integral part of these financial statements.

**KFH Capital REIT Fund**  
**State of Kuwait**

**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**1. Incorporation and activities**

KFH Capital REIT ("the Fund") - was incorporated as an income-generating Real Estate fund (Traded) on 29 October 2019 in accordance with Law No. 7 of 2010 regarding Establishment of the Capital Markets Authority and Organization of the Securities Activity and its Executive Regulations. The Fund commenced its operation on 29 October 2019.

The Fund has been listed in Boursa Kuwait on 1 September 2020.

The Fund is subject to the supervision of Capital Markets Authority as per Law No. 7 of 2010 concerning Capital Markets Authority and Organization of Security Activity and its amendments and Executive Regulations. The Fund was registered with the Funds register at CMA on 29 October 2019.

The Fund aims to provide attractive Real Estate opportunities for those interested to invest in the Real Estate sector by investing in all types of Real Estates (investment, commercial, industrial, craft) developed and income-generating in the State of Kuwait, in addition to the distribution of at least 90% of the operating income (revenue collected after deducting expenses) of the Real Estate to the unit holders on a monthly basis, as well as using the cash surpluses in deposits with Islamic banks or participation in money market funds or income-generating real estate funds (Traded).

The Fund conducts all its activities in compliance with Islamic Shari'a principles.

The Fund's financial year commences from 1 January and ends on 31 December of each year, excluding the Fund's first financial year, which will commence from the date of Fund's registration in investment Funds' register at CMA and ends when the subsequent financial year ends. Accordingly, the first financial year of the fund will commence for the period from 29 October 2019 (the date of registration in investment Funds' register at CMA) to 31 December 2020.

The term of the Fund is 30 years commencing from the date of registration in investment Funds' register at CMA and will be renewed for another similar periods based on the Fund Manger decision after obtaining the CMA's approval.

The Fund Manager is KFH Capital Investment Company - K.S.C. (Closed) and it's a subsidiary of Kuwait Finance House (Ultimate Parent Company).

The Fund Custodian and Investment Controller and Unit holders' registrar is Kuwait Clearing Company K.S.C. (Closed).

The registered address of the Fund Manager is, P. O. Box: 3946, Al Safat 13040, Safat Square, Baitak Tower, Floor 32, State of Kuwait.

The accompanying financial statements were authorised for issue by the Fund Manager on 9 February 2021.

**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**2. Adoption of new and revised International Financial Reporting Standards ("IFRSs")**

The Fund has adopted the previously issued, new and amended IFRSs as follows:

**a) New standards, interpretations and amendments effective from 1 January 2019**

Although the following standards and amendments are effective for the financial periods starting from 1 January 2019; they were applied by the Fund to the financial statements for the year ended 31 December 2020, as the Fund's first financial year is for the period from 29 October 2019 (date of Fund's registration in the investment Funds' register at CMA) to 31 December 2020.

IFRS 16: Leases

This standard becomes effective for annual periods beginning on or after 1 January 2019. This standard will be replacing IAS 17 "Leases" and will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of the lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The new standard does not significantly change the lease accounting approach for the lessors.

This standard is not have any material impact on the Fund.

Amendments to IFRS 9: Prepayment features with negative compensation

Amendments to IAS (28): Long-term Investments in Associates and Joint Ventures.

Annual Improvements to IFRSs 2015-2017 Cycle (issued on December 2017):

- IFRS 3 - Business combinations.
- IFRS 11 - Joint arrangements
- IAS 23 - Borrowing Costs.

The application of these amendments and improvements did not have any material impact on the Fund.

**b) Standards and interpretations issued but not effective**

The following new and amended IASB Standards have been issued but are not yet effective, and have not been early applied by the Fund:

IFRS 17: Insurance Contracts

This standard will be effective for annual periods beginning on or after 1 January 2023 and replaces IFRS 4 - Insurance Contracts. The new standard applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of IFRS 17 is the general model, supplemented by:

- A specific adoption for contracts with direct participation features (Variable fee approach).
- A simplified approach (premium allocation approach) mainly for short duration contracts.

Early application is permitted provided that the Fund also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

This standard is not expected to have any material impact on the Fund's financial statements.

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**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

**2. Adoption of new and revised International Financial Reporting Standards ("IFRSs") (Continued)**

**b) Standards and interpretations issued but not effective (Continued)**

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.

A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. The amendments are not expected to have a material impact on the Fund.

Amendments to IFRS 3: Definition of a Business

Amendments to IFRS 3 were mandatorily effective for reporting periods beginning on or after 1 January 2020. The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

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

Amendments to IFRS 7, IFRS 9, IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. The amendments are not expected to have a material impact on the Fund.

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.

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**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

**2. Adoption of new and revised International Financial Reporting Standards ("IFRSs") (Continued)**

**b) Standards and interpretations issued but not effective (Continued)**

Amendments to IFRS 3: Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

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

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

Annual Improvements to IFRS Standards 2018-2020 cycles

Amendments of the 2018-2020 annual improvements cycle are as follows:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture: Taxation in fair value measurements
- IFRS 16 Leases: Lease incentives

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

**3. Significant accounting policies**

**3.1 Statement of compliance**

The financial statements of the Fund have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"), IFRIC interpretations, Fund's Articles of Association and the guidelines of CMA.

**3.2 Basis of preparation**

The financial statements are prepared on the historical cost except for investment properties that are stated at fair value.

These financial statements have been presented in Kuwaiti Dinar (KD) which is the functional and presentation currency of the Fund in preparation of the financial statements.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the Fund's management to exercise judgment in applying the Fund's accounting policies. The areas of significant judgments and estimation uncertainty made in preparing the financial statements and their effect are disclosed in Note 4.

The principal accounting policies used in preparing these financial statements are set out below:

**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**3. Significant accounting policies (Continued)**

**3.3 Classification of assets and liabilities to current and non-current**

The Fund presents assets and liabilities in the statement of financial position based on current / non-current classification. Assets are considered as current if:

- 1) Expected to be recognized, intended to be sold, or depreciated within the normal operational cycle.
- 2) Principally held for trading.
- 3) Expected to be established within twelve months following the reporting date, or
- 4) Cash at bank, unless they were for trading or for settlement of the liability for a period of at least twelve months after the reporting date.

Except for assets classified based on above bases. All other assets should be classified as non-current assets.

Liabilities are considered as current if:

- 1) It is expected to be settled in the normal operating cycle;
- 2) Principally held for trading.
- 3) Expected to be settled within twelve months following the reporting date, or
- 4) There is no conditional right for postponing settlement of the liability for a period of at least twelve months after the reporting date.

Except for liabilities classified based on above bases. All other liabilities should be classified as non-current liabilities.

**3.4 Financial instruments**

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

The financial assets and liabilities carried at the statement of financial position include cash on hands and at bank, accounts receivable and other debits balances and accounts payable and other credit balances.

**Financial assets:**

**Classification and initial recognition**

To determine the classification and measurement category of financial assets, IFRS 9 requires assessment of all financial assets, except for equity instruments and derivatives, based on the Fund's business model for managing the Fund's assets and the contractual cash flows characteristics of these instruments.

Financial assets classified in the financial statements within the scope of IFRS 9 are as follows:

- Debt instruments at amortized cost.
- Debt instruments at fair value through other comprehensive income.
- Equity instruments at fair value through other comprehensive income.
- Equity instruments at Fair value through profit or loss.

Investments are recognized or derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the concerned market. The financial assets are initially recognized at fair value plus transaction costs for all financial assets that are not carried at fair value through profit or loss.

**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**3. Significant accounting policies (Continued)**

**3.4 Financial instruments (Continued)**

**Derecognition**

The financial assets are derecognised (wholly or partially) when the contractual rights to receive the cash flows from the financial assets expire or when the fund transfers its right to receive cash flows from the financial assets in either of the following circumstances: (a) when the Fund transfers all risks and rewards of the financial assets ownership, or (b) when all risks and rewards of the financial assets are not transferred or retained, but the control over the financial assets is transferred. When the Fund retains control, it must continue to recognize the financial assets to the extent of its participation therein.

**Subsequent Measurement**

The subsequent measurement of financial assets depends on their classification as follows:

*Debt instruments at amortized cost*

A financial asset is measured at amortised cost if both of the following conditions are met and is not designated at fair value through profit or loss:

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

Debt instruments at amortized cost are subsequently measured at amortized cost using the effective yield method adjusted for impairment losses, if any. Profits and losses are recognized in the statement of other comprehensive income when the asset is derecognised, adjusted or impaired.

The financial assets carried at amortised cost consist of cash at bank and accounts receivable and other debit balances.

**Impairment of Financial Assets**

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

In terms of trade receivables and other receivables, the Fund applied the standard's simplified approach and calculated ECL on the basis of ECL period. The Fund has established a provision based on the historical experience of credit losses, adjusted for the future factors of debtors and the economic environment.

**Financial liabilities**

All financial liabilities are initially recognized at fair value and in case of loans, borrowings and creditors directly attributable transactions costs are discounted. All financial liabilities are subsequently measured at fair value through profit or loss or at amortised cost using the effective interest rate method.

**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**3. Significant accounting policies (Continued)**

**3.4 Financial instruments (Continued)**

**Financial liabilities (Continued)**

**Accounts payable**

Accounts payable item represents a commitment to repay the amount of services that have been purchased in the ordinary course of business. Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective rate of return method. Accounts payable are classified as current liabilities if the payment is due within one year or less (or within the natural operational cycle of the activity, whichever is longer), otherwise they shall be classified as non-current liabilities.

**3.5 Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are initially recognized at cost, which contains purchase price and its related transaction costs. Subsequent to initial recognition, investment properties are recognized at fair value at the financial period end date. Profits or losses arising from changes in the fair value of investment properties are included in the statement of profit or loss and other comprehensive income for the period in which they arise.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Fund. The cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment properties are derecognized when they have been disposed of (i.e. at the date of transfer of control to the purchaser) or when they are definitively withdrawn from use and no future economic benefit is expected from its disposal. Profits or losses arising on disposal or termination of an investment property are recognized in statement of profit or loss and other comprehensive income.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of its development for selling purposes.

If a property being used by the owner is transferred to investment property, the Fund will account for such property as per the applicable accounting policy for property, plant and equipment up to date of the usage change and transfer.

**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**3. Significant accounting policies (Continued)**

**3.6 Leases**

*The Fund as a lessor*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Other lease contracts are classified as financing leases. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**- Operating lease**

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

**3.7 Capital**

The Fund issues units, which are not redeemable, and are classified as equity under the amendment to IAS 32.

**3.8 Provisions**

Provisions are recognized where the Fund has a present obligation (legal or probable) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured. At the end of each financial period, provisions are reviewed and adjusted to reflect the best current estimate. When the time value of money has material effect, the amount recognized as a provision must be the present value of the expected expenses required to settle the obligation. Provisions for operating losses are not recognized.

**3.9 Revenue recognition**

IFRS 15 establishes a single comprehensive framework to determine how much and when revenue is recognised. Revenue recognition requires recording the amount that reflects the consideration that the Fund expects to be entitled in exchange for sale of goods or performance of services to the customers. IFRS 15 requires considering the opinions, taking into account all relevant facts and circumstances in the process of applying each step of the model to contracts with its customers. The Standard also specifies method of accounting for the additional costs to obtain the contract and the costs that are directly attributable to the contract execution. The standard also requires comprehensive disclosures.

Revenue is recognized either at a specific time or over a period of time, when the Fund meets the performance commitments by selling the goods or performing the agreed upon services to its customers. The Fund shall transfer control of goods or services over a period of time and not at a specific time upon fulfillment of any of the following criteria:

- The customer receives and consumes the benefits provided through the Fund performance at the same time when the Fund provided the performance, or
- The Fund performance establishes or improves the asset that is controlled by the customer when the asset is constructed or improved, or
- Fund performance does not establish an asset that has an alternative usage to the Fund. The Fund has enforceable right in payments against the completed performance to date.

**KFH Capital REIT Fund**  
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**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**3. Significant accounting policies (Continued)**

**3.9 Revenue recognition (Continued)**

Control shall be transferred at a specific time if any of the criteria required for transferring goods or service is not met over a period of time. The following items should be considered by the Fund whether or not control is transferred:

- The Fund shall have immediate right in payments against the asset.
- The customer shall have a legal right in the asset.
- The Fund shall transfer the material acquisition of the asset.
- The customer shall have the significant risks and benefits of ownership of the asset.
- The customer shall accept the asset.

Since the Fund's income is mainly represented in net rental income that falls outside the scope of IFRS 15, the following represents the Fund's income:

Rental income

Rental income is recognized when earned on a time proportion basis.

Income from sale of properties

Income from sale of properties is recognised on an accrual basis, when all the following conditions are met:

- On completion of sale transaction and signing the contracts.
- When investment of the buyer (sale value) is sufficient to indicate his commitment to pay value of the real estate as at the reporting date.
- Receivables category of the Fund shall not be less than the sale in the future.
- The Fund should transfer control to the purchaser.
- If the works required for completing the building can be measured and recorded on an accrual basis easily, or if such works are not significant as for the total value of the contract.

Profit income

Profit income is recognized on time proportion basis using the effective yield method.

**3.10 Foreign currency**

Foreign currency transactions are recorded in Kuwaiti Dinar at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinar at the rate of exchange prevailing on the reporting date. Profits or losses resulted from exchange rate differences are taken to the statement of profit or loss and other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinar at the foreign exchange rates ruling at the dates that the value were determined.

**3.11 Dividends**

Fund recognizes cash dividends to the Unit Holders when they are approved by the Fund Manager. Value of such dividends is recognized in equity.

**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**4. Critical accounting estimates, judgments and assumptions**

The preparation of the Fund's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities at the reporting date. Actual results could differ from estimates.

**Accounting judgements**

In the process of applying the Fund's accounting policies, management has used judgements and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Classification of properties

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

1- Properties under development

When the purpose of the Fund is to develop lands and properties for sale in the future, both lands and construction costs are classified as properties under development.

2- Properties held for trading

When the intention of the Fund is to sell properties in the ordinary course of business of the Fund, the properties are classified as properties held for trading.

3- Investment properties

When the intention of the Fund is to lease or hold properties for capital appreciation or if the intention is not determined, the properties are classified as investment properties.

The Fund's Status as a Principal

The Fund regularly conducts a revision and assessment to determine whether its current status as a principal or an agent in its commercial transactions has changed. Such revision and assessment cover any change in the overall relationship between the Fund and other parties dealing with the Fund, which may mean that its current status as a principal or an agent has changed. Such as if changes occurred to rights of the Fund or other parties, the Fund would reconsider its current status as a principal or an agent. Initial assessment considers market conditions that originally led the Fund to consider itself as principal working as a main principal or an agent in arrangements of revenues contracts. The Fund concluded that it works as a main principal in all contracts and arrangements leading to revenues to the Fund.

Contingent liabilities

Contingent liabilities are possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of future events, not wholly within the control of the Fund's management. The Fund recognizes provisions for contingent liabilities when the loss therefrom is considered possible and can be reliably measured. In determining whether or not such provisions shall be recognized as well as the related amounts requires the exercise of significant management judgment. The Fund uses the principles and criteria established within International Financial Reporting Standards and best practices prevailing within the industry in which it operates in making such judgments.

**Notes to the Financial Statements**

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**4. Critical accounting estimates, judgments and assumptions (Continued)**

**Accounting judgments (Continued)**

Leases

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

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

**Estimation uncertainty**

Provision for expected credit losses for receivables and other debit balances

The Fund uses a specified table for calculating the expected credit losses of accounts receivable and other debit balances. The provision rates are based on days past due. The provision matrix is initially based on the Fund's historical observed default rates.

The Fund calibrates the matrix to adjust the historical credit loss experience with forward-looking information.

The assessment of the correlation between historical observed default rates and ECLs is a significant estimate. The Fund's historical credit loss experience may also not be representative of customer's actual default in the future.

Valuation of investment properties

The Fund records its investment properties at fair value where changes in the fair value are recognized in the statement of profit or loss, and two basic methods are used for determining the fair value of the investment properties:

1. Income approach, where the property's value is estimated based on the its income produced, and is computed by dividing the property's net operating income by the expected rate of return on the property in the market, known as 'Capitalization Rate'.
2. Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

Leases

The main items of estimation uncertainty for application of IFRS 16 include the following:

- Assessment of the lease term.
- Determination of the proper discount rate for the lease payments.
- Assessment whether right-of use assets have impaired.

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**5. Accounts receivable and other debit balances**

	<b>31 December 2020</b>
	<u>KD</u>
Accrued rental income	219,314
Provision for expected credit losses	<u>(148,055)</u>
	71,259
Prepaid expenses	<u>7,885</u>
	<u>79,144</u>

**6. Investment properties**

	<b>31 December 2020</b>
	<u>KD</u>
Additions (a)	23,426,095
Change in fair value	<u>1,976,905</u>
Balance at end of the period	<u>25,403,000</u>

- (a) During the period ended 31 December 2020, the Fund purchased investment properties in the State of Kuwait from related parties after obtaining approval of the regulatory authorities of total amount KD 23,075,500 and commission for purchasing assets of KD 230,755 and registration fees of KD 119,840. Procedures for ownership transfer of investment properties with carrying value of KD 12,708,000 were not completed. Accordingly, they were stated in the financial statements pursuant to contracts for sale of properties, as risks and benefits were transferred to the Fund.

The investment properties include properties with carrying value of KD 3,812,000, which is constructed on lands leased from the Public Authority for Industry.

Fair value of investment properties was concluded using the lower valuation by independent and approved valuers who has relevant experience and competent professionalism using generally accepted valuation bases and models.

For purposes of estimating the fair value of investment properties, the valuers used the below valuation techniques, taking into consideration nature and usage the investment properties:

	<b>31 December 2020</b>		
	<b>Valuation techniques</b>	<b>Level 3 KD</b>	<b>Total KD</b>
	Income approach		
Investment properties		25,403,000	25,403,000
		<u>25,403,000</u>	<u>25,403,000</u>

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

	<b>31 December 2020</b>
	<b>KD</b>
Accrued Fund Manager fees	98,912
Accrued Custodian and Investment Controller fees	6,484
Accrued commission for purchase and registration of investment properties	57,190
Refundable deposits	86,633
Accrued expenses	32,810
Dividends payable	28,155
Rent received in advance	3,290
Other credit balances	120,357
	<u>433,831</u>

**8. Capital**

In accordance with Article (12) of the Fund's Articles of Association, the Fund is a closed and has fixed capital of KD 23,600,000 divided into 23,600,000 units with a nominal value of KD 1. The Fund's capital is divided into equal amounts. The Fund's Unit Holders responsibility is limited to the amount of their participation in the capital. In all cases, fund's capital should be equivalent to KD 5 million at least.

**9. Net assets value per unit**

	<b>31 December 2020</b>
Total assets (KD)	26,225,704
Total liabilities (KD)	(433,831)
Net assets (KD)	25,791,873
Number of the outstanding units (units)	23,600,000
Net asset value per unit (KD)	<u>1.093</u>

**10. Fund Manager fees**

In accordance to article No. (24) of the Fund's Articles of Association, the Fund manager is paid a subscription fee equals to 2% of the total amount paid and is deducted from the subscriber upon subscription. The Fund manager may waive part of the subscription fee. Furthermore, the Fund manager is paid a one time acquisition fee equals to 1% of the purchase value of any of the Fund's assets and will be deducted upon purchase. Also, the Fund Manager is paid management fees of 1.5% of the total assets of the Fund and its calculated on a monthly basis and paid quarterly, the fund manager has the right to decrease the monthly fees. The Fund manager also receives incentive fees equivalent to 20% for an IRR performance exceeding 7%, for every property individually.

**11. Fund Custodian fees**

In accordance with article No. (24) of the Fund's Articles of Association, the Custodian fees are calculated and paid on a quarterly basis at 0.05% per annum of the Fund net asset value.

**12. Investment Controller fees**

In accordance with article No. (24) of the Fund's Articles of Association, the Investment Controller fees are calculated and paid on a quarterly basis at 0.05% per annum of the Fund net asset value.

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**13. Related party disclosures**

These transactions represent the transactions carried out with Units' holders, Fund Manager, custodian, the investment controller, Ultimate Parent Company and other related parties. Prices and terms of such transactions are governed by the Fund's Articles of Association. As for the matters which are not governed by the Articles of Association, they shall be approved by the Fund Manager. Significant related party balances and transactions are as follows:

	<b>31 December 2020</b>
	<b>KD</b>
<b><u>Balances included in the statement of financial position:</u></b>	
Accrued Fund Manager fees	98,912
Accrued Fund Custodian and Investment Controller fees	6,484
	<b>For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020</b>
	<b>KD</b>
<b><u>Transactions included in the statement of profit or loss and other comprehensive income:</u></b>	
Profit income	56,122
Fund Manager fees	341,837
Fund Custodian and Investment Controller fees	30,330

In accordance with article No. (14) of the Fund's Articles of Association, The Fund Manager subscription units should not be less than KD 250,000 and should not exceed 75% of the Fund's capital. As at 31 December 2020, the number of units subscribed by the Fund manager is 250,000 units with nominal value of KD 250,000.

**14. Cash dividends to unit holders**

During the year ended 31 December 2020, the Fund has distributed cash dividends in total amount of KD 1,071,833.

**15. Financial risk management**

**Capital risk management**

The Fund's financial resources represent total equity. The equity value available to the unit holders may be significantly changed due to the subscriptions and redemptions that are implemented by the unit holders. The Fund's objective, when managing the financial resources, is to safeguard the Fund's ability to continue in order to provide returns for the unit holders and benefits for other stakeholders and to maintain financial resources that support the investment activities of the Fund.

The Fund Manager monitors its financial resources based on the Fund's net asset value available to the unit holders that are recoverable.

**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**15. Financial risk management (Continued)**

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Fund to credit risk, consist principally of cash at banks and accounts receivable and other debit balances. Cash at banks are placed with high credit rating financial institutions.

The Fund's maximum exposure arising from default of the counterparty is limited to the nominal value of cash at bank and accounts receivable and other debit balances.

**Equity price risk**

Equity price risk is the risk that fair values of equity instruments decrease as the result of changes in level of equity indices and the value of individual stocks. Currently, the Fund is not significantly exposed to this risk.

**Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will be affected as a result of changes in foreign currency exchange rates. The Fund is exposed to foreign currency risk arising from transactions denominated in currencies other than Kuwaiti Dinars. The Fund can reduce its exposure to fluctuations in foreign exchange rates through its usage of derivative financial instruments. The Fund ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar. Currently, the Fund is not significantly exposed to this risk.

**Liquidity risk**

Liquidity risk is the risk that the Fund will encounter the difficulty in raising the funds required to meet its commitments associated with the financial instruments. To manage this risk, the Fund invests in other investments that are readily realizable, along with planning and managing the Fund's forecasted cash flows by maintaining adequate cash reserves, and matching the maturity profiles of financial assets and liabilities.

All financial liabilities are maturing within a period not exceeding 12 months from the reporting period.

**16. Fair value measurement**

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

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

**Notes to the Financial Statements**

For the period from 29 October 2019 (date of registration in the Investment Funds' Register at CMA) to 31 December 2020

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**16. Fair value measurement (Continued)**

All assets and liabilities, for which fair value is measured or disclosed in the financial statements are categorized 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 and liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At 31 December the fair values of financial instruments approximate their carrying amounts. The Fund Manager has assessed that fair value of its financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these financial instruments.

**17. The economic situation due to Coronavirus**

Due to the current significant events resulted in outbreak of Coronavirus (COVID-19) that affected the global economic situation and exposed the Fund to various risks, including a decrease in the rental value, collection of rental amounts due and increase in the expected credit losses for clients.

Based on the decisions of the executive committee of the Fund during the period ended 31 December 2020, it was approved to apply discounts; with different percentages, on the rental amounts for some tenants whose business was affected as a result of the current events, starting from March 2020 until December 2020. Therefore, total discount of rental amounts during the period ended 31 December 2020 was KD 136,331.

During the period ended 31 December 2020, the Fund Manager has recorded provision for expected credit losses with an amount of KD 148,055.

The Fund Manager considers that the time period for this event is not specified and it is difficult to anticipate any future results that might arise therefrom including any decline in the future rental value or decline in the market value of the investment properties. Therefore, the financial impact cannot be reasonably determined on the Fund's future business results until the reporting date.