

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Energy House Holding Company K.S.C.P. (the "Parent Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter identified below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE ENERGY HOUSE HOLDING COMPANY K.S.C.P. (continued)

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

Key audit matters (continued)

a) Impairment of financial assets available for sale

Financial assets available-for-sale include unquoted investments. These financial assets are measured at cost, subject to impairment testing. The recoverable amount of these investment is determined by the Group through application of valuation techniques which involved the exercise of significant judgment and use of assumptions and estimates. Due to the significance of financial assets available-for-sale, and the related estimation uncertainty; this is considered a key audit matter.

If there is objective evidence which indicates that a financial asset available for sale measured at cost had witnessed a decline in value, an impairment loss is recognised in the consolidated statement of income. Indications of impairment may include evidence that an investee company is experiencing significant financial difficulties, deteriorating cash flows and adverse changes to the business and the surrounding economic factors. Significant judgment and estimates are used by management to assess if any indications of impairment exist. Accordingly, there is a risk that financial assets available for sale measured at cost could be materially misstated.

Our audit procedures included, among others, the following:

- Evaluating management's assessment whether objective evidence of impairment exists for individual investments and the qualitative and quantitative factors used such as the investee's financial performance including dividends, financial condition and operations, and its market and economic environment.
- Assessing the adequacy of the disclosures in the consolidated financial statements relating to available-for-sale financial assets as shown in Note 7 of the consolidated financial statements.

b) Hyperinflation adjustments

One of the Group's subsidiaries, operating in Sudan, which is considered as a hyperinflation economy in accordance with International Accounting Standard ("IAS") 29 "Financial Reporting in Hyperinflationary Economies". As per IAS 29, the financial statements of an entity prepared in the currency of a hyperinflationary economy is to be restated in terms of a measuring unit current at the reporting date. The restatement of historical financial information to the current measuring unit and the determination of monetary gains or loss is complex and requires certain judgments by the management. In addition, the disclosures required in the consolidated financial statements to conform to the requirements of "IAS 29" are significant. Therefore, we have considered hyperinflation adjustments and required disclosures as a key audit matter. The accounting policy for the hyperinflation is disclosed in Note 2.3.

Our audit procedures included, matching the Consumer Price Index ("CPI") to the rates provided by the Central Bank of Sudan and testing the inflation rate based on the average quarterly changes in CPI comparing to the base year, review of hyperinflation adjustments relating to the historical financial information and the determination of net monetary gain or loss including the judgments applied by the management. Furthermore, we assessed the adequacy of disclosures relating to hyperinflation adjustment in Note 15 to the consolidated financial statements.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE ENERGY HOUSE HOLDING COMPANY K.S.C.P. (continued)

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

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by other auditors who expressed an unmodified opinion on those consolidated financial statements on 8 February 2017.

Other information included in the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 Groups 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.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE ENERGY HOUSE HOLDING COMPANY K.S.C.P. (continued)

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

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

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

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

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



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE ENERGY HOUSE HOLDING COMPANY K.S.C.P. (continued)

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI

LICENCE NO. 68 A

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AL AIBAN, AL OSAIMI & PARTNERS

13 March 2018

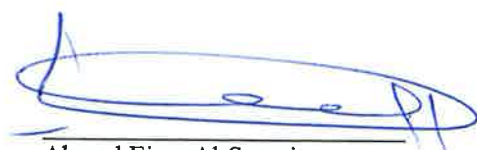
Kuwait

The Energy House Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 KD	2016 KD
ASSETS			
Non-current assets			
Property and equipment	4	7,860,767	7,065,417
Investment property	5	6,367,561	3,736,749
Investment in associates	6	594,266	1,762,855
Financial assets available-for-sale	7	14,343,269	14,346,212
Financial assets at fair value through profit or loss	8	6,617,679	7,964,538
Other assets		-	64,693
		35,783,542	34,940,464
Current assets			
Inventories		2,196,901	1,473,369
Account receivables and other debit balances	9	9,120,092	9,438,724
Cash and cash equivalents	10	1,347,763	5,316,618
		12,664,756	16,228,711
TOTAL ASSETS		48,448,298	51,169,175
EQUITY AND LIABILITIES			
Equity			
Share capital	11	75,000,000	75,000,000
Share premium		193,550	193,550
Statutory reserve	11	472,723	472,723
Voluntary reserve	11	314,957	314,957
Other reserves	11	(812,986)	(812,986)
Foreign currency translation reserve		(170,189)	(823,653)
Cumulative change in fair value reserves		52,873	46,112
Accumulated losses		(45,884,980)	(41,752,960)
Equity attributable to equity holders of the Company		29,165,948	32,637,743
Non-controlling interests		4,849,545	3,535,988
Total equity		34,015,493	36,173,731
Liabilities			
Non-current liability			
Employees' end of service benefits		524,455	660,870
Current liabilities			
Account payables and other liabilities	12	7,783,076	8,072,920
Murabaha payables	13	6,125,274	6,261,654
		13,908,350	14,334,574
Total liabilities		14,432,805	14,995,444
TOTAL EQUITY AND LIABILITIES		48,448,298	51,169,175



Ahmed Eissa Al-Sumait
Chairman



Yousef Khalid Al-Qabandi
Board Director

The attached notes 1 to 23 form part of these consolidated financial statements.

The Energy House Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
REVENUE			
Contract revenue		13,615,746	9,350,047
Services revenue		3,004,598	3,757,972
		<u>16,620,344</u>	<u>13,108,019</u>
COST OF REVENUE			
Contract costs		(14,578,392)	(15,234,551)
Services cost		(2,800,219)	(3,169,819)
		<u>(17,378,611)</u>	<u>(18,404,370)</u>
GROSS LOSS		<u>(758,267)</u>	<u>(5,296,351)</u>
Other income		568,156	435,124
Finance income		24,534	13,735
Rental income		254,000	94,376
Change in fair value of investment property	5	3,333,297	(461,053)
Net (loss) gain on financial assets at fair value through profit or loss		(1,268,651)	1,032,503
Impairment losses and provisions	14	(1,477,618)	(16,860,909)
Share of results from associates	6	27,117	(148,140)
Staff costs		(1,842,707)	(2,002,155)
General and administrative expenses		(2,088,659)	(1,816,649)
Finance costs		(236,847)	(122,867)
Foreign exchange differences		(1,716,260)	3,503,814
		<u>(5,181,905)</u>	<u>(21,628,572)</u>
OPERATING LOSS		<u>(5,181,905)</u>	<u>(21,628,572)</u>
Monetary gain from hyperinflation	15	845,079	753,852
		<u>(4,336,826)</u>	<u>(20,874,720)</u>
LOSS FOR THE YEAR BEFORE CONTRIBUTION TO TAX AND DIRECTORS' REMUNERATION		<u>(4,336,826)</u>	<u>(20,874,720)</u>
Taxation on foreign operations		(318,725)	(141,106)
Directors' remuneration	17	(25,000)	(25,000)
		<u>(4,680,551)</u>	<u>(21,040,826)</u>
LOSS FOR THE YEAR		<u>(4,680,551)</u>	<u>(21,040,826)</u>
Attributable to:			
Equity holders of the Company		(5,043,992)	(19,993,323)
Non-controlling interests		363,441	(1,047,503)
		<u>(4,680,551)</u>	<u>(21,040,826)</u>
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	16	<u>(6.73) fils</u>	<u>(26.66) fils</u>

The attached notes 1 to 23 form part of these consolidated financial statements.

The Energy House Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 KD	2016 KD
Loss for the year	(4,680,551)	(21,040,826)
Other comprehensive income (loss)		
<i>Items that are (or) may be reclassified subsequently to the consolidated statement of income</i>		
Net changes in fair value of financial assets available-for-sale	10,522	39,194
Share of associates' reserves	(15,490)	(15,309)
Net exchange differences on translation of foreign operations	1,107,870	(402,956)
Total other comprehensive income (loss) for the year	1,102,902	(379,071)
Total comprehensive loss for the year	(3,577,649)	(21,419,897)
Attributable to:		
Equity holders of the Company	(4,383,767)	(20,227,071)
Non-controlling interests	806,118	(1,192,826)
	(3,577,649)	(21,419,897)

The attached notes 1 to 23 form part of these consolidated financial statements.

The Energy House Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the Company										
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Other reserves KD	Foreign currency translation reserve KD	Cumulative change in fair value reserves KD	Accumulated losses KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2017	75,000,000	193,550	472,723	314,957	(812,986)	(823,653)	46,112	(41,752,960)	32,637,743	3,535,988	36,173,731
(Loss) profit for the year	-	-	-	-	-	-	-	(5,043,992)	(5,043,992)	363,441	(4,680,551)
Other comprehensive income for the year	-	-	-	-	-	653,464	6,761	-	660,225	442,677	1,102,902
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	-	-	-
Hyperinflation adjustment (Note 15)	-	-	-	-	-	653,464	6,761	(5,043,992)	(4,383,767)	806,118	(3,577,649)
As at 31 December 2017	75,000,000	193,550	472,723	314,957	(812,986)	(170,189)	52,873	(45,884,980)	29,165,948	4,849,545	34,015,493
As at 1 January 2016	75,000,000	193,550	472,723	314,957	(812,986)	(564,724)	20,931	(21,204,371)	53,420,080	5,336,181	58,756,261
Loss for the year	-	-	-	-	-	-	-	(19,993,323)	(19,993,323)	(1,047,503)	(21,040,826)
Other comprehensive (loss) income for the year	-	-	-	-	-	(258,929)	25,181	-	(233,748)	(145,323)	(379,071)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	-	-	-	-
Hyperinflation adjustment (Note 15)	-	-	-	-	-	(258,929)	25,181	(19,993,323)	(20,227,071)	(1,192,826)	(21,419,897)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(555,266)	(555,266)	(308,960)	(864,226)
	-	-	-	-	-	-	-	-	-	(298,407)	(298,407)
As at 31 December 2016	75,000,000	193,550	472,723	314,957	(812,986)	(823,653)	46,112	(41,752,960)	32,637,743	3,535,988	36,173,731

The attached notes 1 to 23 part of these consolidated financial statements.

The Energy House Holding Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
OPERATING ACTIVITIES			
Loss for the year before contribution to tax and Directors' remuneration		(4,336,826)	(20,874,720)
Adjustments to reconcile loss for the year before tax and Directors' remuneration to net cash flows:			
Gain on sale of property and equipment		(241,868)	(33,956)
Finance income		(24,534)	(13,735)
Rental income		(254,000)	(94,376)
Change in fair value on investment property	5	(3,333,297)	461,053
Net loss (gain) on financial assets at fair value through profit or loss		1,268,651	(1,032,503)
Impairment losses and provisions	14	1,477,618	16,860,909
Share of results of associates	6	(27,117)	148,140
Employees' end of service benefits provided		149,564	190,138
Depreciation	4	1,172,542	1,213,032
Finance costs		236,847	122,867
Foreign exchange differences		1,716,260	(3,503,814)
Monetary gain from hyperinflation	15	(845,079)	(753,852)
		(3,041,239)	(7,310,817)
Working capital adjustments:			
Inventories		(220,359)	(332,626)
Account receivables and other debit balances		(1,815,330)	4,462,156
Account payables and other liabilities		(471,712)	(758,971)
Cash flows used in operations		(5,548,640)	(3,940,258)
Employees' end of service benefits paid		(278,789)	(98,748)
Net cash flows used in operating activities		(5,827,429)	(4,039,006)
INVESTING ACTIVITIES			
Purchase of property and equipment	4	(966,306)	(1,143,050)
Proceeds from sale of property and equipment		713,444	122,442
Purchase of financial assets at fair value through profit or loss		(9,167)	(127,273)
Net movement in restricted bank balances and deposits		2,011,663	195,330
Rental income received		254,000	94,376
Dividend income received from an associate		-	9,605
Net cash flows from (used in) investing activities		2,003,634	(848,570)
FINANCING ACTIVITIES			
Finance costs paid		(34,416)	(66,094)
Finance income received		24,534	13,735
Net movement in murabaha payables		(338,811)	4,659,443
Dividend paid to non-controlling interests		-	(298,407)
Net cash flows (used in) from financing activities		(348,693)	4,308,677
Effect of foreign currency translation and hyperinflation adjustment		2,215,296	981,947
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,957,192)	403,048
Cash and cash equivalents as at the beginning of the year		3,066,044	2,662,996
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	1,108,852	3,066,044

The attached notes 1 to 23 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

1 CORPORATE INFORMATION

The Energy House Holding Company K.S.C.P. (the "Company") is a Kuwaiti shareholding company registered and incorporated in the State of Kuwait under commercial registration no. 68770 dated 30 July 1996. The Company's shares are listed on the Kuwait Stock Exchange on 23 May 2005.

The Company's registered office is located at Al Enmaa Tower, Mirqab, 14th floor, Kuwait City and the postal address is P.O. Box 21909, Safat 13080, State of Kuwait.

The Company is principally engaged in the followings:

- Ownership of shares of Kuwaiti or foreign shareholding companies or companies with limited liability, or establishing, managing, lending and sponsoring such companies;
- Financing and sponsoring entities in which the Company has an ownership interest of not less than 20%;
- Owning industrial rights such as patents, industrial trademarks, sponsoring foreign companies or any other related industrial rights and leasing such as rights for the benefit of the Company inside or outside the State of Kuwait;
- Owning portables and real-estates to promote its activities in permissible limits according to the law; and
- Utilizing available financial surplus of the Company by investing them in portfolios managed by specialized companies.

The Group carries out its activities as per Islamic shari'ah.

The Company is a subsidiary of Development Enterprise Holding Company K.S.C. (Closed) ("DEH") (the "Parent Company"), which in turn is a subsidiary of Kuwait Finance House K.S.C.P. (the "Ultimate Parent Company"), a company whose shares are listed on the Kuwait Stock Exchange.

The consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 were authorised for issuance in accordance with a resolution of the Board of Directors of the Company on 8 March 2018 and are subject to the approval of the Annual General Assembly of the shareholders. The Annual General Assembly of the shareholders of the Company has the power to amend these consolidated financial statements after their issuance.

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by the shareholders of the Company during the Annual General Assembly meeting held on 30 March 2017. There were no dividends declared for the year ended 31 December 2016.

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

The consolidated financial statements of the Group have been prepared under the historical cost convention as modified for the revaluation at fair value of investment property, financial assets available-for-sale and financial assets at fair value through profit or loss.

The comparative information for the previous year has been reclassified to conform to classification in the current year. This reclassification does not have any effect on profit or equity of the Group. Such reclassification has been made to improve the quality of information presented.

Functional and presentation currency

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its following subsidiaries, where the Company has direct investment:

<i>Subsidiaries</i>	<i>Country of Incorporation</i>	<i>Interest in equity</i>		<i>Principal activities</i>
		<i>2017</i>	<i>2016</i>	
		<i>%</i>	<i>%</i>	
Higleig Petroleum Services and Investment Company Ltd *	Sudan	64.25	64.25	Energy services and contracting
KDDB General Trading and Contracting Company W.L.L.	Kuwait	90.00	90.00	General Trading and contracting
Nordic Intervention Services L.L.C.	UAE	100.00	100.00	Energy services
Nordic Energy F.Z.C.	UAE	92.50	92.50	Energy services
AREF Energy International Ltd	Cayman Island	100.00	100.00	Financial Services

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

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;
- 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 of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies 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 interest represents the portion of profit and loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position separately from equity attributable to shareholders of the Company.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. 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:

2.2 BASIS OF CONSOLIDATION (continued)

- Derecognises the assets (including goodwill) and liabilities of the subsidiaries
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative foreign currency translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in, the consolidated statement of income within "administrative expenses".

When the Group acquires a business, it assesses the financial assets and 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.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

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 forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements since it is the primary obligor in all revenue arrangements, has pricing attitude and is also exposed to credit risk. The following specific recognition criteria must also be met before revenue is recognised:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Contract revenue

If the outcome of a contract can be reliably measured, revenue associated with the contract is recognised by reference to the stage of completion of the contracting activity as at the reporting date (the percentage of completion method). Provision is made in full for the amount of anticipated losses on uncompleted contracts in the year such losses are first projected.

The outcome of a construction contract can be estimated reliably when:

- i. the total contract revenue can be measured reliably;
- ii. it is probable that the economic benefits associated with the contract will flow to the Group;
- iii. the costs to complete the contract and the stage of completion can be measured reliably; and
- iv. the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of the construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of cost incurred that are expected to be recoverable. In applying the percentage of completion method, revenue recognized corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

Contract revenue – contract revenue corresponds to the initial amount of revenue agreed in the contract plus any variations in the contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured. Revenue from variation claims are recognised in the period such claims are approved.

Contract costs – contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to the specific contract comprise of cost of materials used in the construction, labour costs, depreciation of property, plant and equipment used on the contract, and other costs that are directly related to the contract.

Revenue and profit from cost plus contracts are recognised by reference to the recoverable costs incurred during the year plus the fee earned, measured by the proportion that costs incurred to date relate to the estimated total costs of the contract.

Service revenue

Service revenue is recognised when the outcome of the transaction can be estimated reliably by reference to the stage of completion of the transaction at the reporting date. Where the outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Rental income

Rental income on investment property from operating lease is recognised on straight line basis over the lease term.

Finance income

Finance income is recognised on accrual basis using effective interest method.

Finance costs

Finance costs are directly attributable to murabaha payables. All finance costs are expensed in the period they occur. Borrowing costs consist of cost on the Islamic facilities and other costs that an entity incurs in connection with the borrowing of funds.

Taxation and deductions

Taxation on foreign operations

Certain subsidiaries are subject to taxes on income in various foreign jurisdictions. Income tax expense represents the sum of the tax currently payable and deferred tax.

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation and deductions (continued)

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labor Support Tax (NLST)

The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year for listed companies. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with Law No 46 of 2006 and the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease income is recognised as part of rental income in the consolidated statement of income on a straight line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is recognised in the consolidated statement of income on a straight line basis over the estimated useful lives as follows:

• Leasehold properties	3 years
• Buildings	20 years
• Furniture, fixtures and office equipment	2-7 years
• Motor vehicles and equipment	4-10 years

Capital work in progress is stated at cost. Following completion, capital work in progress is transferred into the relevant classification of property and equipment.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the consolidated statement of income in the period in which they arise. Fair values are determined based on an annual evaluation performed by an accredited external independent, registered real estate valuers with relevant experience in the market in which the property is situated. The valuation reflects market conditions at the reporting date.

Investment property is derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the period of derecognition.

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

Investment in associates

An associate is an entity in which the Group has significant influence. The Group's investment in its associates is accounted for under the equity method of accounting.

Under the equity method, the investment in the associate is carried at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor separately tested for impairment.

The consolidated statement of income reflects the Group's share of the results of the associate after tax and non-controlling interests in the subsidiaries of the associates. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

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 cash-generating unit's (CGU) fair value less costs of disposal and its value in use. 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 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.

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 to the extent 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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

recognised for the asset in prior years. Such reversal is recognised in the statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes the purchase price, import duties, transportation, handling and other direct costs. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

The Group's financial assets include financial assets available-for-sale, financial assets at fair value through profit or loss, other assets, account receivables and other debit balances and cash and cash equivalents.

Subsequent measurement

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

Financial assets available-for-sale

Financial assets available-for-sale include equity and debt securities. Equity and debt investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised as cumulative changes in fair value reserve in other comprehensive income until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss is removed from the cumulative changes in fair value reserve and recognised in the consolidated statement of income. Financial assets whose fair value cannot be reliably measured are stated as cost less impairment losses, if any.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Gains or losses of investment held for trading are recognised in the consolidated statement of income. Financial assets are designated at fair value through profit or loss if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of income.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Subsequent measurement (continued)

Account receivables and other debit balances

Account receivables and other debit balances are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand, cash at banks and wakala deposits.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, bank balances and wakala deposits less restricted bank balances and restricted wakala deposits of more than three months.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive the cash flows from the asset have expired; or
- the Group has transferred its rights to receive the 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 of 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, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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 assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets available-for-sale

For financial assets available-for-sale, the Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets available-for-sale is impaired.

In the case of equity investments classified as financial assets available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets available-for-sale previously recognised in the consolidated statement of income, is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment is recognised directly in other comprehensive income.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities, are classified, at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transactions costs.

The Group's financial liabilities include account payables and other liabilities and murabaha payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Account Payables and other liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Group.

Murabaha payables

Murabaha payables represent financing taken under a murabaha arrangement. Murabaha payables are stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

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 income.

Offsetting of financial instruments

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 23.

Gross amount due from/ (to) customers for contract work

Gross amount due from/(to) customers for uncompleted contracts represents costs plus attributable profit to the extent that it is reasonably certain, less provision for any losses incurred or foreseen in bringing contracts to completion, and less amounts received or receivable as progress billings. For contracts where progress billings received and receivable exceed the costs plus attributable profit of work executed, the excess is included under liabilities.

Costs comprise direct materials, direct labour and an appropriate allocation of overheads, including depreciation provided on property and equipment.

Employees' end of service benefits

The Group is liable under Kuwait law to provide end of service benefits to all 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. The expected costs of these benefits are accrued over the period of employment.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 financial statements, but are disclosed when an inflow of economic benefits is probable.

Other reserves

Other reserve are used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

Foreign currencies

The consolidated financial statements are presented in Kuwaiti Dinars which is the functional and presentation currency of the Company. Each entity in the Group determines its own functional currency and items included in consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income.

Assets and liabilities, both monetary and non-monetary, of foreign operations are translated to Kuwaiti Dinars at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average rates of exchange for the foreign operation's period of operations. The resulting exchange differences are accumulated in a separate component of other comprehensive income (net exchange difference on translation of foreign operations) until the disposal of the foreign operation. On disposal of foreign operations, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Hyperinflationary economy

The financial statements of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with the procedures described in Note 15 prior to their translation to Kuwaiti Dinars. Once restated, all items of the financial statements are converted to Kuwaiti Dinars using the closing exchange rate. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial statements of the subsidiary has been recognised directly in the consolidated statement of changes in equity.

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, such as the trends in inflation rates over the previous three years.

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the reporting date and all income and expenses are restated quarterly by applying appropriate conversion factors as defined in Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following amended IASB Standards that is relevant to the Group:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 13.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards 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 those standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, and the impact will be disclosed in the interim consolidated financial statements of 31 March 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date and is currently evaluating its impact, which will be disclosed in the interim consolidated financial statements of 31 March 2018.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases (continued)

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in conformity with IFRSs 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 date of the consolidated financial statements. Actual results could differ from those estimates. The Group has used judgement and estimates principally in, but not limited to, the following:

Judgements

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

Classification of real estate

Management decides on acquisition of a real estate property, whether it should be classified as trading, property held for development, investment property or property and equipment.

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

The Group classifies property as property under development if it is acquired with the intention of development.

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

The Group classifies property as property and equipment when it is acquired for owner occupation.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as at fair value through profit or loss or available-for-sale.

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

All other financial assets are classified as available-for-sale.

Estimates and assumptions

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

Impairment of property and equipment

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

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

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

Useful lives of property and equipment

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

Valuation of investment property

Fair value of investment property is determined based on valuations by independent registered real estate assessors which have relevant experience in the local and international property market. Furthermore, the Group has applied illiquidity discount on the valuation of investment property arising from the subsidiary located in a hyperinflationary economy based on management estimate on its recoverable amounts (Note 23).

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.

Impairment of financial assets available-for-sale

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Valuation of unquoted investments

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

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- Other valuation models.

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

Impairment of inventories

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

Impairment of accounts receivable and gross amount due from customers for contract works

An estimate of the collectible amount of trade receivable and gross amount due from customer is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Accumulated costs and estimated earnings on uncompleted contracts

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

Profit on uncompleted contracts

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

The Energy House Holding Company K.S.C.P. and its Subsidiaries

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4 PROPERTY AND EQUIPMENT

	Leasehold land KD	Building and leasehold properties KD	Furniture, fixtures and office equipment KD	Motor vehicles and equipment KD	Work-in progress KD	Total KD
Cost:						
As at 1 January 2017	1,230,000	752,517	494,289	9,855,038	643,575	12,975,419
Additions	-	30,221	79,449	839,859	16,777	966,306
Disposals	-	(102,243)	(2,852)	(648,264)	-	(753,359)
Transferred from work in progress	-	218,788	5,857	7,000	(231,645)	-
Foreign currency translation adjustments	-	(21,563)	(2,952)	(159,399)	(1,936)	(185,850)
As at 31 December 2017	1,230,000	877,720	573,791	9,894,234	426,771	13,002,516
Accumulated depreciation:						
As at 1 January 2017	-	389,647	424,750	8,531,041	-	9,345,438
Charge during the year	-	48,249	25,123	1,099,170	-	1,172,542
Related to disposals	-	(18,763)	(2,082)	(554,982)	-	(575,827)
Foreign currency translation adjustments	-	(12,523)	(1,608)	(99,327)	-	(113,458)
As at 31 December 2017	-	406,610	446,183	8,975,902	-	9,828,695
Net carrying amount:						
As at 31 December 2017 (before adjustment)	1,230,000	471,110	127,608	918,332	426,771	3,173,821
Hyperinflation adjustments (Note 15)						
Opening hyperinflation as at 1 January 2017	-	814,319	58,482	2,413,329	149,306	3,435,436
Depreciation adjustments	-	(2,948)	(756)	(10,637)	-	(14,341)
Change in carrying value	-	74,262	22,342	1,109,630	59,617	1,265,851
Hyperinflation at 31 December 2017	-	885,633	80,068	3,512,322	208,923	4,686,946
Adjusted balance as at 31 December 2017	1,230,000	1,356,743	207,676	4,430,654	635,694	7,860,767

The Energy House Holding Company K.S.C.P. and its Subsidiaries

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As at 31 December 2017

4 PROPERTY AND EQUIPMENT (continued)

	Leasehold land KD	Building and leasehold properties KD	Furniture, fixtures and office equipment KD	Motor vehicles and equipment KD	Work-in progress KD	Total KD
Cost:						
As at 1 January 2016	1,230,000	744,123	461,577	10,955,344	53,711	13,444,755
Additions	-	35,454	35,585	479,006	593,005	1,143,050
Disposals	-	-	-	(702,848)	-	(702,848)
Foreign currency translation adjustments	-	(27,060)	(2,873)	(876,464)	(3,141)	(909,538)
As at 31 December 2016	1,230,000	752,517	494,289	9,855,038	643,575	12,975,419
Accumulated depreciation:						
As at 1 January 2016	-	319,966	346,203	5,746,803	-	6,412,972
Charge during the year	-	90,180	80,224	1,042,628	-	1,213,032
Related to disposals	-	-	-	(614,362)	-	(614,362)
Impairment (Note 14)	-	-	-	2,875,358	-	2,875,358
Foreign currency translation adjustments	-	(20,499)	(1,677)	(519,386)	-	(541,562)
As at 31 December 2016	-	389,647	424,750	8,531,041	-	9,345,438
Net carrying amount:						
As at 31 December 2016 (before adjustment)	1,230,000	362,870	69,539	1,323,997	643,575	3,629,981
Hyperinflation adjustments (Note 15)						
Opening hyperinflation as at 1 January 2016	-	626,433	50,526	2,386,720	124,009	3,187,688
Depreciation adjustments	-	1,209	311	(74,705)	-	(73,185)
Change in carrying value	-	186,677	7,645	101,314	25,297	320,933
Hyperinflation at 31 December 2016	-	814,319	58,482	2,413,329	149,306	3,435,436
Adjusted balance as at 31 December 2016	1,230,000	1,177,189	128,021	3,737,326	792,881	7,065,417

The Energy House Holding Company K.S.C.P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

4 PROPERTY AND EQUIPMENT (continued)

The leasehold property is leased from the Government of Kuwait for a period of 5 years ending on 19 October 2021. Notwithstanding the contractual term of the property lease, management considers that, based on market experience, the agreement of the leasehold land is renewable indefinitely, at similar nominal rate of ground rent, and with no premium payable for renewal of the lease and, consequently, as is common practice in Kuwait, since it is held for business activities, this lease has been accounted for as leasehold property with an indefinite useful life under property and equipment.

The depreciation charge for the year has been allocated in the consolidated statement of income as follows:

	2017 KD	2016 KD
Cost of revenue	1,022,587	1,143,625
General and administration expenses	164,296	142,592
	<u>1,186,883</u>	<u>1,286,217</u>

5 INVESTMENT PROPERTY

	2017 KD	2016 KD
Balance at the beginning of the year	3,736,749	5,652,030
Change in fair value of investment property	3,333,297	(461,053)
Foreign currency translation adjustments	(702,485)	(1,454,228)
Balance at the end of the year	<u>6,367,561</u>	<u>3,736,749</u>

The fair value of the investment property as at 31 December 2017 has been determined based on valuation conducted by two independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of investment property being valued. Management believes that this valuation represent a fair estimation of the fair value of this property.

For valuation purpose, the Group has selected the lower of these two valuations (2016: the lower of two valuations) as required by the Capital Markets Authority of Kuwait (CMA).

Investment property is considered under level 3 for the fair value hierarchy, and there were no transfers between the levels of fair value measurements.

6 INVESTMENT IN ASSOCIATES

		2017		2016	
County of incorporation		Percentage of ownership%	Amount KD	Percentage of ownership%	Amount KD
Al Dindir Petroleum					
International Company Limited	Sudan	50.00%	594,266	50.00%	590,285
Kitara OFIL Limited *	Mauritius	36.36%	-	36.36%	1,172,570
			<u>594,266</u>		<u>1,762,855</u>

The Energy House Holding Company K.S.C.P. and its Subsidiaries

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6 INVESTMENT IN ASSOCIATES (continued)

* During the year, the Group carried out an impairment test of its associate (Kitara OFIL Limited) and recorded an impairment loss of KD 1,157,080 in the consolidated statement of income due to uncertainty about the recoverability of its carrying amount.

The movement in the carrying value of investment in associates is as follows:

	2017 KD	2016 KD
Balance at the beginning of the year	1,762,855	2,489,024
Share of results	27,117	(148,140)
Impairment (Note 14)	(1,157,080)	(542,320)
Dividend income received	-	(9,605)
Foreign currencies translation adjustment	2,760	(60,841)
Hyperinflation adjustment (Note 15)	(41,386)	34,737
Balance at the end of the year	594,266	1,762,855

The following table illustrates summarised financial information of the Group's investment in its associates:

	2017 KD	2016 KD
Total assets	2,061,905	5,552,951
Total liabilities	(873,373)	(1,041,607)
Equity	1,188,532	4,511,344
Carrying value of the investment	594,266	1,762,855
<i>Share of associates' results for the year</i>		
Revenue	416,342	219,000
Profit (loss) for the year	54,234	(304,472)
Group's share of results from associates	27,117	(148,140)

7 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2017 KD	2016 KD
Local unquoted equity securities	14,000,000	14,000,000
Foreign quoted equity securities	343,269	346,212
	14,343,269	14,346,212

As at 31 December 2017, unquoted equity securities of KD 14,000,000 (2016: KD 14,000,000) are carried at cost, less impairment if any, due to the unpredictable nature of the future cash flow and the lack of other suitable methods for arriving at a reliable fair value of the financial assets. There is no active market of these financial assets and the Group intends to hold them for long term.

The Group's management has performed a detailed review of its unquoted equity securities based on the latest available financial information of these investments to assess whether impairment has occurred in the value of these investments and, as a result, no impairment was recorded in the consolidated statement of income of Nil (2016: KD 11,926,856) (Note 14).

The Energy House Holding Company K.S.C.P. and its Subsidiaries

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7 FINANCIAL ASSETS AVAILABLE-FOR-SALE (continued)

The hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 23.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Unquoted fund	<u>6,617,679</u>	<u>7,964,538</u>

The hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques are presented in Note 23.

9 ACCOUNTS RECEIVABLES AND OTHER DEBIT BALANCES

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Trade receivables, net	4,777,226	4,814,680
Gross amounts due from customers for contract works	1,283,410	1,932,538
Retention receivables	1,514,412	1,225,742
Advances and prepayments	695,543	762,723
Amounts due from related parties (Note 17)	9,442	9,409
Other receivables	840,059	693,632
	<u>9,120,092</u>	<u>9,438,724</u>

Movements in the allowance for impairment of receivables is as follows:

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Balance at the beginning of the year	536,981	1,691,259
Charge during the year	320,538	2,238,728
Reversal during the year	-	(1,259,706)
Foreign currencies translation adjustment	(22,839)	(2,133,300)
Balance at the end of the year	<u>834,680</u>	<u>536,981</u>

Trade receivables are non-interest bearing and are generally on terms of 30-180 days. As at 31 December 2017, certain trade receivables at nominal value of KD 834,680 (2016: KD 536,981) were individually impaired and fully provided for.

The Energy House Holding Company K.S.C.P. and its Subsidiaries

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As at 31 December 2017

9 ACCOUNTS RECEIVABLES AND OTHER DEBIT BALANCES (continued)

As at 31 December, the ageing analysis of unimpaired trade receivables is as follows:

	<i>Total</i> <i>KD</i>	<i>Neither past due nor impaired</i> <i>KD</i>	<i>Past due but not impaired</i>		
			<i>Less than 30 days</i> <i>KD</i>	<i>31 – 90 days</i> <i>KD</i>	<i>>90 days</i> <i>KD</i>
2017	4,777,226	1,834,403	234,416	764,963	1,943,444
2016	4,814,680	1,238,553	477,033	1,821,790	1,277,304

Unimpaired accounts receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables.

10 CASH AND CASH EQUIVALENTS

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise the following:-

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Bank balances and cash	1,247,763	3,423,940
Wakala deposits	100,000	1,892,678
Cash and cash equivalents as per the consolidated statement of financial position	1,347,763	5,316,618
Restricted bank balances	(138,911)	(357,896)
Restricted wakala deposits of more than three months	(100,000)	(1,892,678)
Cash and cash equivalents as per the consolidated statement of cash flows	1,108,852	3,066,044

Restricted bank balances of KD 138,911 (2016: KD 357,896) represent margin deposits secured against letters of guarantee (Note 18).

Wakala deposits with original maturity of more than three months of KD 100,000 (2016: KD 1,892,678) is held as a security against the letters of guarantee (Note 18).

11 SHARE CAPITAL, SHARE PREMIUM AND RESERVES

a) Share capital

	<i>Authorised, issued and fully paid</i>	
	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
750,000,000 shares (2016: 750,000,000) of 100 fils paid in cash	75,000,000	75,000,000

b) Statutory reserve

In accordance with the Companies Law and the Company's Memorandum of Incorporation, 10% of the profit for the year attributable to shareholders of the Company (before contributions to KFAS, NLST and Zakat) to be transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

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11 SHARE CAPITAL, SHARE PREMIUM AND RESERVES (continued)

b) Statutory reserve (continued)

No transfer has been made to statutory reserve, since the Group has incurred losses during the current year and previously incurred losses have not yet been fully recovered.

c) Voluntary reserve

The Company's Memorandum of Incorporation require that 10% of the profit for the year attributable to the shareholders of the Company (before contributions to KFAS, NLST and Zakat) to be transferred to voluntary reserve. There are no restrictions on distribution of voluntary reserve.

No transfer has been made to voluntary reserve, since the Group has incurred losses during the current year and previously incurred losses have not yet been fully recovered.

d) Other reserves

Other reserves comprises of amounts credited to equity on acquisitions of non-controlling interests which are accounted for as transactions with shareholders in their capacity as owners.

12 ACCOUNT PAYABLES AND OTHER LIABILITIES

	2017 KD	2016 KD
Trade payables	3,501,862	2,368,231
Retention payables	457,851	161,003
Advances from customers	536,709	846,013
Amounts due to related parties (Note 17)	506,565	12,216
Accrued expenses	2,278,608	3,575,857
Dividend payable	237,799	280,475
Other payables	263,682	829,125
	<u>7,783,076</u>	<u>8,072,920</u>

13 MURABAHA PAYABLES

	2017 KD	2016 KD
Gross amount	6,215,646	6,481,494
Less: deferred profit	(90,372)	(219,840)
	<u>6,125,274</u>	<u>6,261,654</u>

The fair value of murabaha payables approximates the carrying value as at 31 December 2017 and 31 December 2016. The average cost rate attributable to murabaha payables during the year was 3.5% per annum (31 December 2016: 3.5%).

Murabaha facilities are unsecured. Certain murabaha facilities amounting to KD 5,867,075 (31 December 2016: KD 6,037,429) are obtained from related parties (Note 17).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13 MURABAHA PAYABLES (continued)

Changes in liability arising from financing activities, are as follows:

	<i>1 January 2017 KD</i>	<i>Cash inflows KD</i>	<i>Cash outflows KD</i>	<i>Other KD</i>	<i>31 December 2017 KD</i>
Murabaha payables	<u>6,261,654</u>	<u>632,846</u>	<u>(971,657)</u>	<u>202,431</u>	<u>6,125,274</u>
	<i>1 January 2016 KD</i>	<i>Cash inflows KD</i>	<i>Cash Outflows KD</i>	<i>Other KD</i>	<i>31 December 2016 KD</i>
Murabaha payables	<u>1,558,317</u>	<u>4,659,443</u>	<u>-</u>	<u>43,894</u>	<u>6,261,654</u>

14 IMPAIRMENT LOSSES AND PROVISIONS

	<i>2017 KD</i>	<i>2016 KD</i>
Impairment of property and equipment (Note 4)	-	2,875,358
Impairment of goodwill	-	16,640
Impairment of investment in associates (Note 6)	1,157,080	542,320
Impairment of financial assets available-for-sale (Note 7)	-	11,926,856
Impairment of inventories	-	520,713
Net impairment of account receivables and other debit balances	320,538	979,022
	<u>1,477,618</u>	<u>16,860,909</u>

15 HYPERINFLATION ADJUSTMENT

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of a measuring unit current at the statement of financial position date and that corresponding figures for previous periods be stated in the same terms to the latest statement of financial position date. This has been applied in Hagleig, a subsidiary, and the restatement has been calculated by means of conversion factors derived from the Consumer Price Index (CPI) provided by The Central Bank of Sudan (CBOS) or International Monetary Fund (IMF). The conversion factors used to restate the financial statements of the subsidiary are as follows:

	Index	Conversion factor
31 December 2017	832.926	1.106
31 December 2016	617.400	1.101
31 December 2015	521.800	1.081
31 December 2014	428.300	1.151
31 December 2013	314.826	1.198
31 December 2012	262.793	1.444
31 December 2011	181.944	1.189
31 December 2010	153.043	1.000

The above mentioned restatement has been accounted for as follows:

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15 HYPERINFLATION ADJUSTMENT (continued)

- i. Financial statements prepared in the currency of a hyperinflationary economy are stated after applying the measuring unit current at the statement of financial position date and corresponding figures for the previous period are stated on the same basis. Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the statement of financial position date. Monetary items are money held and items to be recovered or paid in money;
- ii. Non-monetary assets and liabilities that are not carried at amounts current at the statement of financial position date and components of shareholders' equity are restated by applying the relevant conversion factors;
- iii. Comparative financial statements are restated using general inflation indices in terms of the measuring unit current at the statement of financial position date. Investment property and available-for-sale investments are indexed based on recent fair valuations.
- iv. All items in the income statement are restated by applying the relevant quarterly average or year-end conversion factors; and
- v. The effect on the net monetary position of the Group is included in the consolidated statement of income as a monetary gain or loss from hyperinflation.

The application of the IAS 29 restatement procedures has the effect of amending certain accounting policies at the subsidiary's level which are used in the preparation of the financial statements under the historical cost convention.

The hyperinflation adjustment of KD 1,419,411 (31 December 2016: KD 864,226) in the books of Higleig, up to 31 December 2017, has been adjusted directly in the consolidated statement of changes in equity.

The movement in assets and liabilities due to hyperinflation is as follows:

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Property and equipment (Note 4)	1,265,851	320,933
Investment in associate (Note 6)	(41,386)	34,737
Inventories	503,172	(81,342)
Other impact on the consolidated statement of income and changes in equity	536,853	(384,702)
	<u>2,264,490</u>	<u>(110,374)</u>

Consolidated statement of changes in equity:

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Attributable to:		
Equity holders of the Company	911,972	(555,266)
Non-controlling interests	507,439	(308,960)
	<u>1,419,411</u>	<u>(864,226)</u>

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15 HYPERINFLATION ADJUSTMENT (continued)

Consolidated statement of income:

	2017 KD	2016 KD
Attributable to:		
Equity holders of the Company	542,963	484,350
Non-controlling interests	302,116	269,502
	<u>845,079</u>	<u>753,852</u>
Total impact of hyperinflation	<u>2,264,490</u>	<u>(110,374)</u>

16 BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Basic and diluted loss per share attributable to equity holders of the Company is computed by dividing the loss for the year attributable to equity holders of the Company by the weighted average number of shares outstanding during the year.

	2017	2016
Loss for the year attributable to shareholders of the Company (KD)	<u>(5,043,992)</u>	<u>(19,993,323)</u>
Weighted average number of outstanding shares	<u>750,000,000</u>	<u>750,000,000</u>
Basic and diluted loss per share attributable to equity holders of the Company (fils)	<u>(6.73)</u>	<u>(26.66)</u>

17 RELATED PARTY TRANSACTIONS

Related parties represent the i.e. 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 Company's management.

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

	Ultimate Parent Company KD	Parent Company KD	31 December 2017 KD	31 December 2016 KD
Account receivables and other debit balances (Note 9)	9,442	-	9442	9,409
Cash and cash equivalents	502,324	-	502,324	2,865,658
Account payables and other liabilities (Note 12)	46,187	460,378	506,565	12,216
Murabaha payables (Note 13)	858,546	5,008,529	5,867,075	6,037,429

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17 RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties included in the consolidated statement of income are as follows:

	<i>Ultimate Parent Company KD</i>	<i>Parent Company KD</i>	<i>2017 KD</i>	<i>2016 KD</i>
Finance income	24,358	-	24,358	11,842
Finance costs	2,472	163,146	165,618	70,494

Contingent liabilities with related parties included in the consolidated financial information are as follows:-

	<i>Ultimate Parent Company KD</i>	<i>2017 KD</i>	<i>2016 KD</i>
Letters of guarantee	1,256,561	1,256,561	4,760,834
Letters of credit	56,000	56,000	1,063,297

Compensation of key management personnel

The remuneration of key management personnel of the Group during the year were as follows:

	<i>2017 KD</i>	<i>2016 KD</i>
Salaries and short term benefits	419,319	560,639
Termination benefits	12,564	27,169
	<u>431,883</u>	<u>587,808</u>

The Board of Directors of the Company proposed Directors' remuneration of KD 25,000 (2016: KD 25,000).

18 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

	<i>2017 KD</i>	<i>2016 KD</i>
Capital commitments:		
Commitment towards contribution of fund expenses	892,735	903,683
Financial assets available-for-sale	6,528,600	6,593,400
	<u>7,421,335</u>	<u>7,497,083</u>
	<i>2017 KD</i>	<i>2016 KD</i>
Contingent liabilities:		
Letters of guarantee (Note 17)	1,256,561	4,817,334
Letters of credit (Note 17)	56,000	1,063,297
	<u>1,312,561</u>	<u>5,880,631</u>

Restricted bank balances of KD 138,911 (31 December 2016: KD 357,896) represent margin deposits that are held as security against letters of guarantee (Note 10).

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18 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Wakala deposits with original maturity of more than three months of KD 100,000 (31 December 2016: KD 1,892,678) is held as a security against the letters of guarantee (Note 10).

19 SIGNIFICANT NON-CONTROLLING INTEREST

Financial information of the subsidiaries that have material non-controlling interest is provided below:

Proportion of equity interest held by non-controlling interests:

	<i>Country of incorporation</i>	<i>2017</i>	<i>2016</i>
Higleig Petroleum Services and Investment Company Ltd	Sudan	35.75%	35.75%
		<i>2017</i>	<i>2016</i>
		<i>KD</i>	<i>KD</i>
<i>Summarised consolidated statement of income and comprehensive income:</i>			
Revenue		5,447,629	2,076,821
Expenses		(3,435,234)	(3,244,521)
Profit (loss) for the year		2,012,395	(1,167,700)
Total profit (loss) attributable to non-controlling interests		719,431	(417,453)
Other comprehensive income (loss)		1,231,963	(392,972)
Total comprehensive income (loss)		3,244,358	(1,560,672)
Total comprehensive income (loss) attributable to non-controlling interests		1,159,858	(562,056)
		<i>2017</i>	<i>2016</i>
		<i>KD</i>	<i>KD</i>
<i>Summarised consolidated statement of financial position as at 31 December:</i>			
Current assets		6,020,417	6,017,942
Non-current assets		12,385,011	8,583,724
Current liabilities		(3,696,262)	(4,608,537)
Non-current liabilities		(228,054)	(175,775)
Total equity		(14,481,112)	(9,817,354)
Attributable to:			
Non-controlling interests		5,176,997	3,509,704

The Energy House Holding Company K.S.C.P. and its Subsidiaries

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20 SEGMENT INFORMATION

i) Primary segment information:

For management purposes, the Group is divided into three main geographical segments that are: a) State of Kuwait, b) Middle East and North Africa (MENA) and c) outside MENA where the group performs its main activities in the energy sector and contracting.

	2017				2016			
	<i>Kuwait KD</i>	<i>MENA KD</i>	<i>Outside MENA KD</i>	<i>Total KD</i>	<i>Kuwait KD</i>	<i>MENA KD</i>	<i>Outside MENA KD</i>	<i>Total KD</i>
Segment revenue	<u>8,568,532</u>	<u>8,051,812</u>	<u>-</u>	<u>16,620,344</u>	<u>8,058,848</u>	<u>5,049,171</u>	<u>-</u>	<u>13,108,019</u>
Segment results	<u>(4,905,302)</u>	<u>1,632,497</u>	<u>(1,407,746)</u>	<u>(4,680,551)</u>	<u>(18,821,706)</u>	<u>(3,161,836)</u>	<u>942,716</u>	<u>(21,040,826)</u>

ii) Secondary segment information:

For management purposes, the Group is organised into three operating segments based on business units as follows:

- Energy** : Exploration, drilling, development and production of oil and gas, alternate and renewable sources of energy, licensing and other activities related to the energy sector; and
- Contracting** : General Trading and contracting
- Others** : Investment and other related services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

The following table present revenue and profit (loss) information of the Group's operating segments for the years ended 31 December 2017 and 31 December 2016, respectively:

	<i>Energy KD</i>	<i>Contracting KD</i>	<i>Others KD</i>	<i>Total KD</i>
31 December 2017				
Total segment revenue	<u>2,604,183</u>	<u>14,016,161</u>	<u>-</u>	<u>16,620,344</u>
Loss for the year	<u>(2,057,065)</u>	<u>(1,215,740)</u>	<u>(1,407,746)</u>	<u>(4,680,551)</u>
Total segment assets	<u>19,310,496</u>	<u>22,506,469</u>	<u>6,631,333</u>	<u>48,448,298</u>
Total segment liabilities	<u>(2,882,879)</u>	<u>(11,491,015)</u>	<u>(58,911)</u>	<u>(14,432,805)</u>
31 December 2016				
Total segment revenue	<u>2,972,350</u>	<u>10,135,669</u>	<u>-</u>	<u>13,108,019</u>
(Loss) profit for the year	<u>(16,011,042)</u>	<u>(5,972,500)</u>	<u>942,716</u>	<u>(21,040,826)</u>
Total segment assets	<u>19,648,863</u>	<u>23,518,172</u>	<u>8,002,140</u>	<u>51,169,175</u>
Total segment liabilities	<u>(5,718,384)</u>	<u>(9,277,060)</u>	<u>-</u>	<u>(14,995,444)</u>

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21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into profit rate risk, foreign currency risk and equity price risk. It is also subject to prepayment risk and operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

21.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party and to monitor the collection of receivables on an ongoing basis. The Group's credit policy and exposure to credit risk is monitored on an ongoing basis by the Company's Board of Directors. The Group limits its credit risk with regard to bank balances by only dealing with reputable banks. In addition, receivable balances are monitored on an ongoing basis with a view to minimise the Group's exposure to bad debts. The maximum exposure is the carrying amount as presented in the consolidated statement of financial position.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, without taking account of any collateral and other credit enhancements.

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Cash and cash equivalents (excluding cash on hand)	1,296,438	5,189,669
Account receivables and other debit balances (excluding advances and prepayments)	8,424,549	8,676,001
	<u>9,720,987</u>	<u>13,865,670</u>

21.2 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 the finance department of the Company. To manage this risk, the Group invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by finance department to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December was as follows:

	<i>On demand</i> <i>KD</i>	<i>Less than 3</i> <i>months</i> <i>KD</i>	<i>3 to 12</i> <i>months</i> <i>KD</i>	<i>Total</i> <i>KD</i>
2017				
Liabilities				
Account payables and other liabilities (excluding advances from customers)	1,908,842	3,112,140	2,225,385	7,246,367
Murabaha payables	-	1,116,745	5,098,901	6,215,646
	<u>1,908,842</u>	<u>4,228,885</u>	<u>7,324,286</u>	<u>13,462,013</u>

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21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

21.2 Liquidity risk (continued)

	<i>On demand KD</i>	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>Total KD</i>
2016				
Liabilities				
Account payables and other liabilities (excluding advances from customers)	1,658,875	1,227,439	4,340,593	7,226,907
Murabaha payables	-	-	6,481,494	6,481,494
	<u>1,658,875</u>	<u>1,227,439</u>	<u>10,822,087</u>	<u>13,708,401</u>

21.3 Market risk

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

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

21.3.1 Profit rate risk

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

21.3.2 Foreign currency risk

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

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro, AED and Sudanese Pounds. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

	<i>2017 Equivalent in KD</i>	<i>2016 Equivalent in KD</i>
US Dollar	8,475,035	10,225,015
Euro	983,531	956,808
AED	774,924	699,806
Sudanese Pounds	(2,381,370)	(1,962,432)
	<u>7,852,120</u>	<u>9,919,197</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

21.3 Market risk (continued)

21.3.2 Foreign currency risk (continued)

The following table demonstrates the sensitivity of the Group's profit (due to changes in the fair value of financial assets and liabilities) to a 10% possible change in the exchange rates, with all other variables held constant.

Currency	2017			2016		
	Change in currency rate in %	Effect on consolidated statement of income KD	Effect on other comprehensive income KD	Change in currency rate in %	Effect on consolidated statement of income KD	Effect on other comprehensive income KD
US Dollar	+10	847,504	-	+10	1,022,502	-
Euro	+10	98,353	-	+10	95,681	-
AED	+10	77,492	-	+10	69,981	-
Sudanese Pounds	+10	(272,464)	34,327	+10	(230,864)	34,621

21.3.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group is exposed to equity price risk on its financial assets available-for-sale and financial assets at fair value through profit or loss. The Group manages this risk through diversification of investments in terms of industry concentration.

The sensitivity of the consolidated statement of income to reasonably possible changes in equity prices of quoted equity securities, with all other variables held constant are considered immaterial.

22 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividends payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is defined as net debt divided by total equity plus net debt. The Group includes within net debt, Account payables and other liabilities and murabaha payables less cash and cash equivalents. Capital includes, equity attributable to the shareholders of the Company.

	2017 KD	2016 KD
Account payables and other liabilities	7,783,076	8,072,920
Murabaha payables	6,125,274	6,261,654
Less: Cash and cash equivalents	(1,108,852)	(3,066,044)
Net debt	12,799,498	11,268,530
Equity attributable to shareholders of the Company	29,165,948	32,637,743
Capital and net debt	41,965,446	43,906,273
Gearing ratio (%)	30.50%	25.66%

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23 FAIR VALUES MEASUREMENT

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of financial assets available-for-sale, financial assets at fair value through profit or loss, other assets, account receivables and other debit balances and cash and cash equivalents.

Financial liabilities consist of Account payables and other liabilities and murabaha payables.

The fair values of financial assets and financial liabilities that are not carried at fair value are not materially different from their carrying amounts.

The methodologies and assumptions used to determine fair values of assets is described in fair value section of Note 2.3: Summary of Significant Accounting Policies.

Financial instruments

The Group held the following financial instruments available-for-sale that are fair valued at the reporting date in the consolidated statement of financial position:

	<i>Level 1 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
2017			
<i>Financial assets</i>			
<i>Financial assets available-for-sale</i>			
Quoted equity securities	343,269	-	343,269
<i>Financial assets at fair value through profit or loss</i>			
Unquoted fund	-	6,617,679	6,617,679
	343,269	6,617,679	6,960,948
	<i>Level 1 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
2016			
<i>Financial assets</i>			
<i>Financial assets available-for-sale</i>			
Quoted equity securities	346,212	-	346,212
<i>Financial assets at fair value through profit or loss</i>			
Unquoted fund	-	7,964,538	7,964,538
	346,212	7,964,538	8,310,750

Certain financial assets available-for-sale amounting to KD 14,000,000 as at 31 December 2017 (2016: KD 14,000,000) are carried at cost less impairment losses.

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23 FAIR VALUES MEASUREMENT (continued)

Financial instruments (continued)

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

	<i>As at 1 January 2017 KD</i>	<i>Loss recorded in the consolidated statement of income KD</i>	<i>Loss recorded in consolidated statement of comprehensive income KD</i>	<i>Net purchases, sales, transfers and settlements KD</i>	<i>As at 31 December 2017 KD</i>
Financial assets at fair value through profit or loss					
- Unquoted fund	7,964,538	(1,268,651)	(87,375)	9,167	6,617,679
	<i>As at 1 January 2016 KD</i>	<i>Gain recorded in the consolidated statement of income KD</i>	<i>Gain recorded in consolidated statement of comprehensive income KD</i>	<i>Net purchases, sales, transfers and settlements KD</i>	<i>As at 31 December 2016 KD</i>
Financial assets at fair value through profit or loss					
- Unquoted fund	6,783,834	1,036,138	20,928	123,638	7,964,538

Description of significant unobservable inputs to valuation of financial assets:

Investment in managed fund have been valued based on Net Asset Value (NAV) provided by the custodian of the fund. The information relating to valuation techniques and significant unobservable inputs to valuation to compute the sensitivity of the fair value measurement to changes in unobservable inputs is not available.

Non-financial assets

Investment properties were classified under level 3 fair value hierarchy as follows:

	<i>Level 3 KD</i>	<i>Total KD</i>
2017		
Investment property	6,367,561	6,367,561
2016		
Investment property	3,736,749	3,736,749

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

	<i>At 1 January 2017 KD</i>	<i>Gain recorded in the consolidated statement of income KD</i>	<i>Loss recorded in other comprehensive income KD</i>	<i>Net purchases, sales and settlements KD</i>	<i>At 31 December 2017 KD</i>
Investment property	3,736,749	3,333,297	(702,485)	-	6,367,561

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23 FAIR VALUES MEASUREMENT (continued)

Non-financial assets (continued)

	<i>At 1 January 2016 KD</i>	<i>Loss recorded in the consolidated statement of income KD</i>	<i>Loss recorded in other comprehensive income KD</i>	<i>Net purchases, sales and settlements KD</i>	<i>At 31 December 2016 KD</i>
Investment property	5,652,030	(461,053)	(1,454,228)	-	3,736,749

Fair value of investment properties were determined using income capitalization approach. The fair valuation conducted by valuers considering transaction prices of the property and similar properties in case of sales comparison approach and the significant unobservable valuation input used is the market price per square foot and varies from property to property. A reasonable change in this input would result in an equivalent amount of change in fair value. The investment property is arising from a subsidiary located in a hyperinflation economy. The management assesses the illiquidity discount annually based on the market conditions and improvements in the economy of the country where the investment property is situated and other conditions that affect the recoverable value. The Group has determined that market participants would take into account the illiquidity discount when pricing the investment property.