

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

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

Report on the Audit of 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 (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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 (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International' Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 19 to the consolidated financial statements, which indicates that a subsidiary of the Company has an ongoing dispute with their joint operations partner for breach of the terms and conditions of the profit-sharing agreement and ownership of the equipment involved in the joint operations. The case is presently under arbitration with the London Court of International Arbitration (LCIA). The outcome of the arbitration cannot be ascertained with reasonable certainty. Our opinion is not modified in respect of this matter.

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 the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. 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 matter 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 Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Hyperinflation adjustments

One of the subsidiaries of the Parent Company, operates in Sudan, which has been considered as a hyperinflationary economy in accordance with International Accounting Standard 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). 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 the required disclosures as a key audit matter. The accounting policy for the hyperinflation is disclosed in Note 3 to the consolidated financial statements.

Our audit procedures included, amongst others, the following:

- We agreed the Consumer Price Index ("CPI") to the rates provided by the International Monetary Fund and tested the inflation rate based on the average quarterly changes in CPI comparing to the base year.
- We reviewed the hyperinflation adjustments relating to the historical financial information and the determination of net monetary gain or loss including the judgments applied by the management.
- We assessed the adequacy and the appropriateness of the Group's disclosures concerning hyperinflation adjustment in Note 16 to the consolidated financial statements.

Other information included in the Group's 2019 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 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.

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

Report on the Audit of Consolidated Financial Statements (continued)

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.

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.

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

Report on the Audit of Consolidated Financial Statements (continued)

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

- 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.

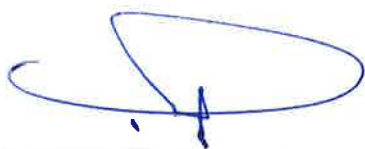
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2019 that might have had a material effect on the business of the Parent Company or on its financial position.



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

30 March 2020
Kuwait

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 KD	2018 KD
ASSETS			
Non-current assets			
Property and equipment	5	2,130,975	1,375,494
Right-of-use assets	6	573,392	-
Investment property	7	2,881,083	3,600,301
Investment in associate	8	254,154	156,187
Financial assets at fair value through other comprehensive income	9	153,208	14,723,870
Financial assets at fair value through profit or loss	10	3,400,782	6,364,385
		<u>9,393,594</u>	<u>26,220,237</u>
Current assets			
Inventories		1,389,210	871,784
Account receivables and other debit balances	11	5,667,619	4,636,242
Cash and cash equivalents	12	15,625,265	1,989,382
		<u>22,682,094</u>	<u>7,497,408</u>
TOTAL ASSETS		<u>32,075,688</u>	<u>33,717,645</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	13	75,000,000	75,000,000
Share premium		193,550	193,550
Statutory reserve	13	472,723	472,723
Voluntary reserve	13	314,957	314,957
Other reserves	13	(700,997)	(700,997)
Foreign currency translation reserve		(7,721,343)	(7,882,376)
Fair value reserve		139,871	744,876
Accumulated losses		(43,405,601)	(44,631,230)
Equity attributable to equity holders of the Company		<u>24,293,160</u>	<u>23,511,503</u>
Non-controlling interests		<u>2,873,315</u>	<u>2,556,858</u>
Total equity		<u>27,166,475</u>	<u>26,068,361</u>
Liabilities			
Non-current liabilities			
Employees' end of service benefits		120,464	147,123
Murabaha payables	15	-	2,589,180
Lease liabilities	6	264,682	-
		<u>385,146</u>	<u>2,736,303</u>
Current liabilities			
Account payables and other liabilities	14	4,359,058	2,313,971
Murabaha payables	15	28,116	2,599,010
Lease liabilities	6	136,893	-
		<u>4,524,067</u>	<u>4,912,981</u>
Total liabilities		<u>4,909,213</u>	<u>7,649,284</u>
TOTAL EQUITY AND LIABILITIES		<u>32,075,688</u>	<u>33,717,645</u>

Ahmed Eissa Al-Sumait
Chairman

Hamad A. Al-Qahtani
Chief Executive Officer

The attached notes from 1 to 26 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 2019

	Notes	2019 KD	2018 KD
CONTINUING OPERATIONS			
REVENUE			
Contracts revenue		2,348,885	2,963,445
Services revenue		3,586,144	3,608,838
		<u>5,935,029</u>	<u>6,572,283</u>
COST OF REVENUE			
Contracts costs		(886,356)	(2,202,154)
Services costs		(4,089,035)	(2,943,121)
		<u>(4,975,391)</u>	<u>(5,145,275)</u>
GROSS PROFIT		959,638	1,427,008
Other income		12,686	3,219
Finance income		246,400	164
Change in fair value of investment property	7	(872,078)	34,756
Unrealised loss on financial assets at fair value through profit or loss		(3,218,677)	(287,306)
Share of results from associate	8	89,022	224,010
Loss on sale of a subsidiary	25	-	(115,634)
Allowance for expected credit loss of receivables		(584,255)	(3,645)
Staff costs		(924,304)	(983,882)
General and administrative expenses		(1,176,018)	(1,186,837)
Finance costs		(133,789)	(152,048)
Foreign exchange differences		482,661	2,354,741
OPERATING (LOSS) INCOME		(5,118,714)	1,314,546
Monetary (loss) gain from hyperinflation	16	(27,826)	294,638
(LOSS) PROFIT FOR THE YEAR BEFORE CONTRIBUTION TO TAX AND DIRECTORS' REMUNERATION		(5,146,540)	1,609,184
Taxation on foreign operations		(315,551)	(299,357)
Directors' remuneration	18	(25,000)	(25,000)
(LOSS) PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS BEFORE CONTRIBUTION TO NATIONAL LABOUR SUPPORT TAX (NLST) AND ZAKAT		(5,487,091)	1,284,827
NLST		(48,312)	(34,490)
Zakat		(19,325)	(13,796)
(LOSS) PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		(5,554,728)	1,236,541
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	25	-	(359,367)
(LOSS) PROFIT FOR THE YEAR		(5,554,728)	877,174
Attributable to:			
Equity holders of the Company		(5,468,791)	80,174
Non-controlling interests		(85,937)	797,000
		<u>(5,554,728)</u>	<u>877,174</u>
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
	17	<u>(7.29) fils</u>	<u>0.11 fils</u>

The attached notes from 1 to 26 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 2019

	2019 KD	2018 KD
(Loss) profit for the year	(5,554,728)	877,174
Other comprehensive (loss) income:		
<i>Items that are or may be reclassified subsequently to the consolidated statement of income</i>		
Net exchange differences on translation of foreign operations	262,338	(11,991,377)
	262,338	(11,991,377)
<i>Items that will not be reclassified subsequently to the consolidated statement of income:</i>		
Fair value gain on financial assets at fair value through other comprehensive income	5,467,057	710,650
Total other comprehensive income (loss) for the year	5,729,395	(11,280,727)
Total comprehensive income (loss) for the year	174,667	(10,403,553)
Attributable to:		
Equity holders of the Company	129,539	(6,940,010)
Non-controlling interests	45,128	(3,463,543)
	174,667	(10,403,553)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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	Fair value reserve KD	Accumulated losses KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2019	75,000,000	193,550	472,723	314,957	(700,997)	(7,882,376)	744,876	(44,631,230)	23,511,503	2,556,858	26,068,361
Loss for the year	-	-	-	-	-	-	-	(5,468,791)	(5,468,791)	(85,937)	(5,554,728)
Other comprehensive income for the year	-	-	-	-	-	161,033	5,437,297	-	5,598,330	131,065	5,729,395
Total comprehensive income (loss) for the year	-	-	-	-	-	161,033	5,437,297	(5,468,791)	129,539	45,128	174,667
Realised gain on sale of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(6,042,302)	6,042,302	-	-	-
Dividends distributed	-	-	-	-	-	-	-	-	-	(91,523)	(91,523)
Hyperinflation adjustment (Note 16)	-	-	-	-	-	-	-	652,118	652,118	362,852	1,014,970
As at 31 December 2019	75,000,000	193,550	472,723	314,957	(700,997)	(7,721,343)	139,871	(43,405,601)	24,293,160	2,873,315	27,166,475
As at 1 January 2018	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
Adjustment on adoption of IFRS 9	-	-	-	-	-	-	-	(181,717)	(181,717)	(101,111)	(282,828)
As at 1 January 2018 (Adjusted)	75,000,000	193,550	472,723	314,957	(812,986)	(170,189)	52,873	(46,066,697)	28,984,231	4,748,434	33,732,665
Profit for the year	-	-	-	-	-	-	-	80,174	80,174	797,000	877,174
Other comprehensive (loss) income for the year	-	-	-	-	-	(7,712,187)	692,003	-	(7,020,184)	(4,260,543)	(11,280,727)
Total comprehensive (loss) income for the year	-	-	-	-	-	(7,712,187)	692,003	80,174	(6,940,010)	(3,463,543)	(10,403,553)
Hyperinflation adjustment (Note 16)	-	-	-	-	-	-	-	1,467,282	1,467,282	816,426	2,283,708
Discontinued operations (Note 25)	-	-	-	-	111,989	-	-	(111,989)	-	455,541	455,541
As at 31 December 2018	75,000,000	193,550	472,723	314,957	(700,997)	(7,882,376)	744,876	(44,631,230)	23,511,503	2,556,858	26,068,361

The attached notes from 1 to 26 form 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 2019

	Notes	2019 KD	2018 KD
OPERATING ACTIVITIES			
(Loss) profit for the year before contribution for tax and director's remuneration from continuing operations		(5,146,540)	1,609,184
Loss for the year from discontinued operations	25	-	(359,367)
(Loss) profit for the year before contribution for tax and directors' remuneration		(5,146,540)	1,249,817
Adjustments to reconcile (loss) profit for the year before contribution for tax and directors' remuneration to net cash flows:			
Loss from sale of property and equipment		5,317	30,637
Finance income		(246,400)	(164)
Loss on sale of a subsidiary	25	-	115,634
Change in fair value of investment property	7	872,078	(34,756)
Unrealised loss on financial assets at fair value through profit or loss		3,218,677	287,306
Allowance for expected credit loss of receivables		584,255	3,645
Share of results from associate	8	(89,022)	(224,010)
Employees' end of service benefits provided		29,038	48,924
Depreciation	5	921,981	772,426
Depreciation of right-of-use assets	6	82,229	-
Finance costs		133,789	152,048
Foreign exchange differences		(482,661)	(2,354,741)
Monetary gain (loss) from hyperinflation	16	27,826	(294,638)
		(89,433)	(247,872)
Working capital adjustments:			
Inventories		(439,252)	1,560,040
Account receivables and other debit balances		(996,851)	2,430,456
Account payables and other liabilities		1,618,034	(2,507,901)
Cash flows from operations		92,498	1,234,723
Employees' end of service benefits paid		(716)	-
NLST paid		(38,942)	-
Zakat paid		(15,577)	-
Net cash flows from operating activities		37,263	1,234,723
INVESTING ACTIVITIES			
Net cash inflows from disposal of a subsidiary	25	-	2,353,426
Purchase of property and equipment	5	(1,006,815)	(201,740)
Proceeds from sale of property and equipment		98,357	322,802
Proceeds from sale of financial assets at fair value through other comprehensive income		20,042,302	-
Purchase of financial assets at fair value through profit or loss		(260,000)	-
Net movement in restricted bank balances and deposits		(1,480)	212,936
Net cash flows from investing activities		18,872,364	2,687,424
FINANCING ACTIVITIES			
Finance costs paid		(95,604)	(24,184)
Finance income received		110,280	164
Net movement in murabaha payables		(5,161,732)	13,847
Dividend paid to non-controlling interest		(91,523)	-
Payment of lease liabilities		(220,631)	-
Net cash flows used in financing activities		(5,459,210)	(10,173)
Effect of foreign currency translation and hyperinflation adjustment		183,986	(3,057,419)
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,634,403	854,555
Cash and cash equivalents as at the beginning of the year		1,963,407	1,108,852
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	15,597,810	1,963,407

The attached notes from 1 to 26 form part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

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 Boursa Kuwait 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’s principal activities are, as follows:

- 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;
- Owing 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 Boursa Kuwait.

The consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2019 were authorised for issuance in accordance with a resolution of the Board of Directors of the Company on 30 March 2020 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 2018 were approved by the shareholders of the Company during the Annual General Assembly meeting held on 3 April 2019. There were no dividends declared for the year ended 31 December 2018.

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 at fair value through other comprehensive income and financial assets at fair value through profit or loss.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

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>2019</i>	<i>2018</i>	
		<i>%</i>	<i>%</i>	
Higleig Petroleum Services and Investment Company Ltd	Sudan	64.25	64.25	Energy services 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 arrangements 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

The financial statements of the subsidiaries are prepared to a date not earlier than three months of the Company's reporting date using consistent accounting policies. Adjustments are made to the subsidiaries financial statements for the effect of any significant event or transactions occurring up to 31 December.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2.2 BASIS OF CONSOLIDATION (continued)

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:

- ▶ 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 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the consolidated statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 as at 1 January 2019 on the consolidated statement of financial position is as follows:

	KD
ASSETS	
Right-of-use assets	656,468
LIABILITIES	
Lease liabilities	583,656

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

a) Nature of the effect of adoption of IFRS 16

Prior to the adoption of IFRS 16, the Group classified its leases (as lessee) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right-of-use assets of KD 656,468 were recognised and presented separately in the consolidated statement of financial position.
- Additional lease liabilities of KD 583,656 were recognised and presented separately in the consolidated statement of financial position.

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Group as a lessee

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

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

b) Summary of new accounting policies (continued)

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

Significant judgement in determining the lease term of contracts with renewal options

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

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Additional disclosures will be made in the consolidated financial statements when these standards, revisions and amendments become effective. The Group, however, expects no material impact from the adoption of the amendments on its financial position or performance.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling 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 IFRS 9 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 IFRS 9, 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group 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:

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.

Finance income

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

3.3 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 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.

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.

3.5 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.

3.6 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 and 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property and equipment (continued)

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.

3.7 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.

3.8 Investment in associate

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 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 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.

3.10 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.

3.11 Cash and cash equivalents

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

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

3.12 Contract assets

Contract assets 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

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

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

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

Subsequent measurement

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

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

a) *Financial assets at amortised cost (debt instruments)*

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

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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial instruments (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

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

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

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

d) Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

ii) 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, lease liabilities and murabaha payables.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial instruments (continued)

ii) Financial liabilities (continued)

Subsequent measurement

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

- ▀ Financial liabilities at fair value through profit or loss
- ▀ Financial liabilities at amortised cost

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

iii) 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.

3.14 Impairment of financial assets

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

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 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.

3.16 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.

3.17 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.

3.18 Other reserves

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

3.19 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 16 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 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Segment information

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

3.21 Fair value measurement

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

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

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

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

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

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

All assets and liabilities for which 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 24.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

4.1 Judgements

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

Classification of financial assets

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

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.

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

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

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operations if a replacement is not readily available.

4.2 Estimates and assumptions

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

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.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

4.2 Estimates and assumptions (continued)

Impairment of property and equipment and right-of-use assets

A decline in the value of property and equipment and right-of-use assets could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of property and equipment and right-of-use assets 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.

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 7).

Impairment of investment in associate

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

4.2 Estimates and assumptions (continued)

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.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

5 PROPERTY AND EQUIPMENT

	<i>Building and leasehold properties KD</i>	<i>Furniture, fixtures and office equipment KD</i>	<i>Motor vehicles and equipment KD</i>	<i>Capital work-in progress KD</i>	<i>Total KD</i>
Cost:					
As at 1 January 2019	101,889	209,716	7,238,671	6,886	7,557,162
Additions	-	44,652	962,163	-	1,006,815
Disposals	-	-	(51,480)	-	(51,480)
Write-off	-	(2,000)	-	-	(2,000)
Foreign currency translation adjustments	3,509	483	2,909	323	7,224
As at 31 December 2019	105,398	252,851	8,152,263	7,209	8,517,721
Accumulated depreciation:					
As at 1 January 2019	73,197	141,326	7,134,059	-	7,348,582
Charge during the year	4,237	71,940	845,804	-	921,981
Related to disposals	-	-	(43,991)	-	(43,991)
Relating to write-off	-	(2,000)	-	-	(2,000)
Foreign currency translation adjustments	2,242	77	(5,051)	-	(2,732)
As at 31 December 2019	79,676	211,343	7,930,821	-	8,221,840
Net carrying amount:					
As at 31 December 2019 (before hyperinflation adjustments)	25,722	41,508	221,442	7,209	295,881
<i>Hyperinflation adjustments (Note 16)</i>					
Opening hyperinflation as at 1 January 2019	207,297	29,157	875,361	55,099	1,166,914
Depreciation adjustments	116	303	237	-	656
Change in carrying value	46,439	129,001	395,072	33,500	604,012
Foreign currency translation adjustments	36,450	9,264	14,606	3,192	63,512
Hyperinflation as at 31 December 2019	290,302	167,725	1,285,276	91,791	1,835,094
Adjusted net carrying amount as at 31 December 2019	316,024	209,233	1,506,718	99,000	2,130,975

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

5 PROPERTY AND EQUIPMENT (continued)

Cost:	Leasehold land KD	Building and leasehold properties KD	Furniture, fixtures and office equipment KD	Motor vehicles and equipment KD	Capital work-in progress KD	Total KD
As at 1 January 2018	1,230,000	877,720	573,791	9,894,234	426,771	13,002,516
Additions	-	-	17,836	183,904	-	201,740
Disposals	-	-	-	(314,765)	-	(314,765)
Write-off	-	-	(105,338)	-	-	(105,338)
Effect of disposal of a subsidiary	(1,230,000)	(318,019)	(231,425)	(1,027,757)	(378,137)	(3,185,338)
Foreign currency translation adjustments	-	(457,812)	(45,148)	(1,496,945)	(41,748)	(2,041,653)
As at 31 December 2018	-	101,889	209,716	7,238,671	6,886	7,557,162
Accumulated depreciation:						
As at 1 January 2018	-	406,610	446,183	8,975,902	-	9,828,695
Charge during the year	-	24,762	28,421	719,243	-	772,426
Relating to write-off	-	-	(105,338)	-	-	(105,338)
Related to disposals	-	-	-	(214,554)	-	(214,554)
Effect of disposal of a subsidiary	(87,885)	(87,885)	(207,794)	(889,675)	-	(1,185,354)
Foreign currency translation adjustments	(270,290)	(270,290)	(20,146)	(1,456,857)	-	(1,747,293)
As at 31 December 2018	-	73,197	141,326	7,134,059	-	7,348,582
Net carrying amount:						
As at 31 December 2018 (before hyperinflation adjustments)	-	28,692	68,390	104,612	6,886	208,580
Hyperinflation adjustments (Note 16)						
Opening hyperinflation as at 1 January 2018	-	885,633	80,068	3,512,322	208,923	4,686,946
Depreciation adjustments	-	(2,323)	(728)	(8,094)	-	(11,145)
Change in carrying value	-	266,285	58,305	1,702,869	79,338	2,106,797
Foreign currency translation adjustments	-	(942,298)	(108,488)	(4,331,736)	(233,162)	(5,615,684)
Hyperinflation as at 31 December 2018	-	207,297	29,157	875,361	55,099	1,166,914
Adjusted net carrying amount as at 31 December 2018	-	235,989	97,547	979,973	61,985	1,375,494

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

5 PROPERTY AND EQUIPMENT (continued)

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

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Cost of revenue	830,896	761,284
General and administration expenses	90,429	22,287
	<u>921,325</u>	<u>783,571</u>

6 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Right-of-use assets				
	Leasehold land KD	Furniture, fittings and equipment KD	Motor vehicles and equipment KD	Total KD	Lease liabilities KD
At 1 January 2019	-	-	-	-	-
Additions	262,901	154,359	239,208	656,468	583,656
Depreciation	(8,242)	(46,950)	(27,037)	(82,229)	-
Finance cost	-	-	-	-	39,122
Payments	-	-	-	-	(220,631)
Foreign currency translation adjustments	(403)	(109)	(335)	(847)	(572)
At 31 December 2019	254,256	107,300	211,836	573,392	401,575
Current portion					136,893
Non-current portion					264,682
					401,575

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

	<i>2019</i> <i>KD</i>
Depreciation expense of right-of-use assets	82,229
Interest expense on lease liabilities	39,122
At 31 December 2019	<u>121,351</u>

The maturity analysis of lease liabilities is disclosed in Note 22.2.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

7 INVESTMENT PROPERTY

	2019	2018
	KD	KD
Balance at the beginning of the year	3,600,301	6,367,561
Change in fair value	(872,078)	34,756
Foreign currency translation adjustments	152,860	(2,802,016)
Balance at the end of the year	<u>2,881,083</u>	<u>3,600,301</u>

The fair value of the investment property as at 31 December 2019 has been determined based on valuation conducted by an independent appraiser 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 represents a fair estimation of the fair value of this property.

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

Fair value hierarchy for determining the fair value of the investment property and the valuation technique is detailed in Note 24.

8 INVESTMENT IN ASSOCIATE

	<i>County of incorporation</i>	2019		2018	
		Percentage of ownership%	Amount KD	Percentage of ownership%	Amount KD
Al Dindir Petroleum International Company Limited	Sudan	50.00%	<u>254,154</u>	50.00%	<u>156,187</u>

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

	2019	2018
	KD	KD
Balance at the beginning of the year	156,187	594,266
Share of results	89,022	224,010
Foreign currencies translation adjustment	(8,900)	(707,538)
Hyperinflation adjustment (Note 16)	17,845	45,449
Balance at the end of the year	<u>254,154</u>	<u>156,187</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

8 INVESTMENT IN ASSOCIATE (continued)

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

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Total assets	542,824	477,518
Total liabilities	34,516	165,144
Equity	508,308	312,374
Carrying value of the investment	254,154	156,187
<i>Share of associate results for the year</i>		
Revenue	-	14,044
Profit for the year	178,044	448,020
Group's share of results from associate	89,022	224,010

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Unquoted equity security	-	14,658,490
Quoted equity securities	153,208	65,380
	153,208	14,723,870

Fair value hierarchy for determining the fair value of the financial instruments and the valuation techniques are detailed in Note 24.

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Unquoted fund	3,139,284	6,364,385
Quoted fund	261,498	-
	3,400,782	6,364,385

Fair value hierarchy for determining the fair value of the financial instruments and the valuation techniques are detailed in Note 24.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

11 ACCOUNTS RECEIVABLES AND OTHER DEBIT BALANCES

	2019 KD	2018 KD
Trade receivables, net	2,509,012	1,780,276
Amounts due from related parties (Note 18)	863,568	1,226,106
Contract assets	785,809	638,269
Retention receivables	507,999	278,157
Advances and prepayments	128,828	177,900
Accrued profit	136,120	-
Other receivables	736,283	535,534
	5,667,619	4,636,242

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

	2019 KD	2018 KD
Balance at the beginning of the year	746,195	834,680
Adjustment on adoption of IFRS 9	-	282,828
Balance at the beginning of the year (adjusted)	746,195	1,117,508
Provision for expected credit losses	-	3,645
Movement relating to disposal of a subsidiary	-	(128,278)
Foreign currencies translation adjustments	531,439	(246,680)
Balance at the end of the year	1,277,634	746,195

Trade receivables are non-interest bearing and are generally on credit terms of 30-180 days.

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

	Past due but not impaired				
	Total KD	Neither past due nor impaired KD	Less than 30 days KD	31 - 90 days KD	>90 days KD
2019	2,509,012	-	341,870	318,758	1,848,384
2018	1,780,276	176,926	661,587	330,116	611,647

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.

As at 31 December 2019, the Company has provided allowance for impairment of amount due from related parties amounting to KD 584,255 (2018: KD Nil)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

12 CASH AND CASH EQUIVALENTS

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

	2019 KD	2018 KD
Bank balances and cash	1,867,515	1,989,382
Wakala deposits	13,757,750	-
Cash and cash equivalents as per the consolidated statement of financial position	15,625,265	1,989,382
Restricted bank balances	(27,455)	(25,975)
Cash and cash equivalents as per the consolidated statement of cash flows	15,597,810	1,963,407

Restricted bank balances of KD 27,455 (2018: KD 25,975) are secured against bank facilities.

13 SHARE CAPITAL, SHARE PREMIUM AND RESERVES

a) Share capital

	<i>Authorised, issued and fully paid</i>	
	2019 KD	2018 KD
750,000,000 shares (2018: 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 and Articles of Association, a minimum of 10% of the profit for the year before contributions to KFAS, NLST, Zakat and board of directors' remuneration shall be transferred to the statutory reserve. The annual general assembly of the Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital.

The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital

No transfer has been made to statutory reserve, since the Group incurred losses during the year.

c) Voluntary reserve

In accordance with the Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before contributions to KFAS, NLST, Zakat and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

No transfer has been made to voluntary reserve, since the Group incurred losses during the year.

d) Other reserves

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

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14 ACCOUNT PAYABLES AND OTHER LIABILITIES

	2019 KD	2018 KD
Trade payables	2,004,015	1,129,982
Accrued expenses	1,769,845	893,140
Advances from customers	347,444	31,403
Amounts due to related parties (Note 18)	34,330	212,705
Retention payables	6,729	1,338
Other payables	196,695	45,403
	<u>4,359,058</u>	<u>2,313,971</u>

15 MURABAHA PAYABLES

	2019 KD	2018 KD
Gross amount	30,318	5,318,708
Less: deferred profit	(2,202)	(130,518)
	<u>28,116</u>	<u>5,188,190</u>
Non-current	-	2,589,180
Current	28,116	2,599,010
	<u>28,116</u>	<u>5,188,190</u>

The fair value of murabaha payables approximates the carrying value as at 31 December 2019 and 31 December 2018. The average cost rate attributable to murabaha payables during the year was 4.56% per annum (2018: 3%).

Murabaha facilities are unsecured. Certain murabaha facilities amounting to KD Nil as at 31 December 2019 (2018: KD 5,147,178) are obtained from related parties (Note 18).

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

	1 January 2019 KD	Cash inflows KD	Cash Outflows KD	Other KD	31 December 2019 KD
Murabaha payables	<u>5,188,190</u>	<u>66,204</u>	<u>(5,303,807)</u>	<u>77,529</u>	<u>28,116</u>
	1 January 2018 KD	Cash inflows KD	Cash Outflows KD	Other KD	31 December 2018 KD
Murabaha payables	<u>6,125,274</u>	<u>175,356</u>	<u>(161,509)</u>	<u>(950,931)</u>	<u>5,188,190</u>

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

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16 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 Higleig, 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 2019	2,159.900	1.103
31 December 2018	1,415.705	1.224
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:

- 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;
- 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;
- 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.
- All items in the income statement are restated by applying the relevant quarterly average or year-end conversion factors; and
- 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 1,014,970 (2018: KD 2,283,708) in the books of Higleig, up to 31 December 2019, has been adjusted directly in the consolidated statement of changes in equity.

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

	2019 KD	2018 KD
Property and equipment (Note 5)	604,012	2,106,797
Investment in associate (Note 8)	17,845	45,449
Inventories	70,963	572,586
Other impact on the consolidated statement of income and consolidated statement of changes in equity	294,324	(146,486)
	987,144	2,578,346

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16 HYPERINFLATION ADJUSTMENT (continued)

Consolidated statement of changes in equity:

	2019 KD	2018 KD
Attributable to:		
Equity holders of the Company	652,118	1,467,282
Non-controlling interests	362,852	816,426
	<u>1,014,970</u>	<u>2,283,708</u>

Consolidated statement of income:

	2019 KD	2018 KD
Attributable to:		
Equity holders of the Company	(17,878)	189,305
Non-controlling interests	(9,948)	105,333
	<u>(27,826)</u>	<u>294,638</u>
Total impact of hyperinflation	<u>987,144</u>	<u>2,578,346</u>

17 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

	2019	2018
(Loss) profit for the year attributable to shareholders of the Company (KD)	<u>(5,468,791)</u>	<u>80,174</u>
Weighted average number of outstanding shares	<u>750,000,000</u>	<u>750,000,000</u>
Basic and diluted (loss) earnings per share attributable to equity holders of the Company (fils)	<u>(7.29)</u>	<u>0.11</u>

18 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the 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	Entities under common control KD	31 December 2019 KD	31 December 2018 KD
Account receivables and other debit balances (Note 11)	-	109,450	754,118	863,568	1,226,106
Cash and cash equivalents	1,121,811	-	-	1,121,811	192,470
Account payables and other liabilities (Note 14)	-	-	34,330	34,330	212,705
Murabaha payables (Note 15)	-	-	-	-	5,147,178

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18 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>2019 KD</i>	<i>2018 KD</i>
Finance income	64,420	-	64,420	164
Finance costs	-	75,872	75,872	127,864

Compensation of key management personnel

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

	<i>2019 KD</i>	<i>2018 KD</i>
Salaries and short-term benefits	263,224	218,055
Termination benefits	11,413	11,733
	<u>274,637</u>	<u>229,788</u>

The Board of Directors of the Company proposed Directors' remuneration of KD 25,000 for the year ended 31 December 2019 (2018: KD 25,000) which is subject to the approval of the shareholders at the Annual General Meeting.

19 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

A subsidiary of the Company is currently in an ongoing dispute with their joint operations partner for breach of the terms and conditions of the profit sharing agreement. Further, the joint operations partner has also filed a notice of breach against the subsidiary relating to the ownership of the equipment involved in the joint operations.

These cases are presently under arbitration with the London Court of International Arbitration (LCIA). The external legal counsel of the Group believes that this dispute is at a preliminary stage and therefore, the outcome of the case cannot be predicted with reasonable certainty. However, management believes that the final result of the arbitration proceedings is not likely to have a material impact on the consolidated financial statements of the Group.

Capital commitments:

	<i>2019 KD</i>	<i>2018 KD</i>
Commitment towards contribution of fund (held as financial assets through profit or loss)	<u>477,592</u>	<u>559,971</u>

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20 SIGNIFICANT NON-CONTROLLING INTEREST

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

Proportion of equity interest held by non-controlling interests:

	<i>Country of incorporation</i>	<i>2019</i>	<i>2018</i>
Higleig Petroleum Services and Investment Company Ltd	Sudan	35.75%	35.75%

	<i>2019 KD</i>	<i>2018 KD</i>
<i>Summarised consolidated statement of income and comprehensive income:</i>		
Revenue	2,348,885	2,963,445
Expenses	(2,187,213)	(627,170)
Profit for the year	161,672	2,336,275
Total profit attributable to non-controlling interests	57,798	835,218
Other comprehensive income (loss)	370,465	(11,997,454)
Total comprehensive income (loss)	532,137	(9,661,179)
Total comprehensive income (loss) attributable to non-controlling interests	190,239	(3,426,570)

	<i>2019 KD</i>	<i>2018 KD</i>
<i>Summarised consolidated statement of financial position as at 31 December:</i>		
Current assets	4,781,268	2,716,288
Non-current assets	5,170,431	5,032,244
Current liabilities	1,763,415	796,463
Non-current liabilities	-	54,884
Total equity	8,188,284	6,897,185
Attributable to:		
Non-controlling interests	2,927,312	2,465,744

21 SEGMENT INFORMATION

i) Primary 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.

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21 SEGMENT INFORMATION (continued)

The following table present revenue and (loss) profit information of the Group's operating segments for the years ended 31 December 2019 and 31 December 2018, respectively:

	<i>Energy KD</i>	<i>Contracting KD</i>	<i>Others KD</i>	<i>Total KD</i>
31 December 2019				
Total segment revenue	<u>3,586,144</u>	<u>2,348,885</u>	<u>-</u>	<u>5,935,029</u>
Share of results from associate	<u>-</u>	<u>89,022</u>	<u>-</u>	<u>89,022</u>
Unrealised loss on financial assets at fair value through profit or loss	<u>-</u>	<u>-</u>	<u>(3,218,677)</u>	<u>(3,218,677)</u>
(Loss) profit for the year	<u>(2,383,201)</u>	<u>161,672</u>	<u>(3,333,199)</u>	<u>(5,554,728)</u>
Total segment assets	<u>18,907,675</u>	<u>9,951,699</u>	<u>3,216,314</u>	<u>32,075,688</u>
Total segment liabilities	<u>3,137,815</u>	<u>1,750,585</u>	<u>20,813</u>	<u>4,909,213</u>
31 December 2018				
Total segment revenue	<u>3,608,838</u>	<u>2,963,445</u>	<u>-</u>	<u>6,572,283</u>
Share of results from associate	<u>-</u>	<u>224,010</u>	<u>-</u>	<u>224,010</u>
Unrealised loss on financial assets at fair value through profit or loss	<u>-</u>	<u>-</u>	<u>(287,306)</u>	<u>(287,306)</u>
(Loss) profit for the year	<u>(640,275)</u>	<u>1,941,623</u>	<u>(424,174)</u>	<u>877,174</u>
Total segment assets	<u>19,535,582</u>	<u>7,748,532</u>	<u>6,433,531</u>	<u>33,717,645</u>
Total segment liabilities	<u>6,800,756</u>	<u>845,175</u>	<u>3,353</u>	<u>7,649,284</u>

ii) Secondary 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.

	2019				2018			
	<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>-</u>	<u>5,935,029</u>	<u>-</u>	<u>5,935,029</u>	<u>-</u>	<u>6,572,283</u>	<u>-</u>	<u>6,572,283</u>
Segment results	<u>(467,222)</u>	<u>(1,754,307)</u>	<u>(3,333,199)</u>	<u>(5,554,728)</u>	<u>(1,018,017)</u>	<u>2,319,365</u>	<u>(424,174)</u>	<u>877,174</u>

22 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.

22.1 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.

	2019 KD	2018 KD
Cash and cash equivalents (excluding cash on hand)	15,602,747	1,976,623
Account receivables and other debit balances (excluding advances and prepayments)	5,538,791	4,458,342
	<u>21,141,538</u>	<u>6,434,965</u>

22.2 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:

	On demand KD	Less than 3 months KD	3 to 12 months KD	More than 12 months KD	Total KD
2019					
Lease liabilities	-	41,349	100,504	486,765	628,618
Account payables and other liabilities (excluding advances from customers)	3,278,768	234,003	498,843	-	4,011,614
Murabaha payables	17,180	10,559	2,579	-	30,318
	<u>3,295,948</u>	<u>285,911</u>	<u>601,926</u>	<u>486,765</u>	<u>4,670,550</u>

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22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

22.2 Liquidity risk (continued)

	<i>On demand KD</i>	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>More than 12 months KD</i>	<i>Total KD</i>
2018					
Account payables and other liabilities (excluding advances from customers)	1,367,403	615,166	299,999	-	2,282,568
Murabaha payables	2,019	19,597	2,625,371	2,671,721	5,318,708
	<u>1,369,422</u>	<u>634,763</u>	<u>2,925,370</u>	<u>2,671,721</u>	<u>7,601,276</u>

22.3 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.

22.3.1 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.

22.3.2 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, Arab Emirates Dinar (AED), Omani Riyal, Saudi Riyal and Sudanese Pounds. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

	<i>2019 Equivalent in KD</i>	<i>2018 Equivalent in KD</i>
US Dollar	6,037,479	7,690,821
Euro	1,014,250	570,928
AED	(328,408)	116,007
Omani Riyal	(314,811)	-
Saudi Riyal	(35,081)	-
Sudanese Pounds	(718,900)	(181,279)
	<u>5,654,529</u>	<u>8,196,477</u>

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22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

22.3 Market risk (continued)

22.3.2 Foreign currency risk (continued)

The following table demonstrates the sensitivity of the Group's (loss) 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	2019			2018		
	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	666,010	-	+10	769,082	-
Euro	+10	101,425	-	+10	57,093	-
AED	+10	(32,841)	-	+10	11,601	-
Omani Riyal	+10	(31,481)	-	+10	-	-
Saudi Riyal	+10	(3,508)	-	+10	-	-
Sudanese Pounds	+10	(87,211)	15,321	+10	(24,666)	6,538

22.3.3 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.

23 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 2019 and 2018.

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.

	2019 KD	2018 KD
Account payables and other liabilities	4,359,058	2,313,971
Murabaha payables	28,116	5,188,190
Less: Cash and cash equivalents	(15,597,810)	(1,963,407)
Net debt	(11,210,636)	5,538,754
Equity attributable to shareholders of the Company	24,293,160	23,511,503
Capital and net debt	13,082,524	29,050,257
Gearing ratio (%)	(85.69)%	19.07%

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24 FAIR VALUES MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, account receivables and other debit balances and cash and cash equivalents.

Financial liabilities consist of account payables and other liabilities, lease 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 3 Summary of Significant Accounting Policies.

Financial instruments

The Group held the following financial instruments measured at fair value at the reporting date in the consolidated statement of financial position:

	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
2019				
<i>Financial assets measured fair value</i>				
<i>Financial assets at fair value through other comprehensive income</i>				
Equity securities	153,208	-	-	153,208
<i>Financial assets at fair value through profit or loss</i>				
Quoted fund	-	261,498	-	261,498
Unquoted fund	-	-	3,139,284	3,139,284
	-	261,498	3,139,284	3,400,782
	153,208	261,498	3,139,284	3,553,990
2018		<i>Level 1 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
<i>Financial assets measured fair value</i>				
<i>Financial assets at fair value through other comprehensive income</i>				
Equity securities		65,380	14,658,490	14,723,870
<i>Financial assets at fair value through profit or loss</i>				
Unquoted fund		-	6,364,385	6,364,385
		65,380	21,022,875	21,088,255

The management assessed that the fair values of cash and cash equivalents, accounts receivables, accounts payable and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

There were no transfers between levels within the fair value hierarchy during the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

24 FAIR VALUES MEASUREMENT OF FINANCIAL INSTRUMENTS (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 2019 KD</i>	<i>Loss 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 2019 KD</i>
<i>Financial assets at fair value through other comprehensive income</i>					
Equity security	14,658,490	-	5,383,812	(20,042,302)	-
<i>Financial assets at fair value through profit or loss</i>					
Unquoted fund	6,364,385	(3,220,175)	-	(4,926)	3,139,284
	<i>As at 1 January 2018 KD</i>	<i>Loss 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 2018 KD</i>
<i>Financial assets at fair value through other comprehensive income</i>					
Equity security	14,000,000	-	658,490	-	14,658,490
<i>Financial assets at fair value through profit or loss</i>					
Unquoted fund	6,617,679	(287,306)	34,012	-	6,364,385

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>
2019		
Investment property	2,881,083	2,881,083
2018		
Investment property	3,600,301	3,600,301

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24 FAIR VALUES MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

Non-financial assets (continued)

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 2019 KD</i>	<i>Loss recorded in the consolidated statement of income KD</i>	<i>Gain recorded in other comprehensive income KD</i>	<i>At 31 December 2019 KD</i>
Investment property	3,600,301	(872,078)	152,860	2,881,083
	<i>At 1 January 2018 KD</i>	<i>Gain recorded in the consolidated statement of income KD</i>	<i>Loss recorded in other comprehensive income KD</i>	<i>At 31 December 2018 KD</i>
Investment property	6,367,561	34,756	(2,802,016)	3,600,301

Fair value hierarchy disclosures have been given below:

<i>Type of investment property</i>	<i>Fair value</i>		<i>Level of hierarchy</i>	<i>Valuation technique used and key inputs</i>	<i>Significant observable inputs</i>
	<i>2019 KD</i>	<i>2018 KD</i>			
Land and buildings	<u>2,881,083</u>	<u>3,600,301</u>	Level 3	Sales comparison approach for the land and cost approach for the building constructed on the land	Current market rates and rate per square meter

The investment property is valued using a combination of the sales comparison approach for the land and cost approach for the building constructed on the land. Sales comparison approach is based on a comparison of active market prices for similar properties and recent arm's length market transactions, adjusted for difference in the nature, location or condition of the specific property. The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

The methods and valuation techniques used for the purpose of measuring fair value have not changed compared to the previous reporting period.

Sensitivity of significant unobservable inputs to fair value:

As at 31 December 2019, the market price for the investment property (per square meter) used by the valuer is KD 755 (2018: KD 944). 5% increase (decrease) in price per square meter in isolation would result in increase (decrease) in fair value of investment property by KD 144,054 (2018: KD 180,015).

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25 DISCONTINUED OPERATIONS

During the prior year ended 31 December 2018, the Company sold its 90% equity interest in KDDB General Trading & Contracting Company W.L.L ("KDDB") on 27 February 2018 for a total consideration of KD 2,610,000 which resulted in a loss of KD 115,634 recognised in the consolidated statement of income concluding the sale agreement.

KDDB was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statements of income and other comprehensive income have been represented to show discontinued operations separately from continuing operations.

The results of KDDB for the period upto 27 February 2018 are presented below:

	<i>27 February 2018 KD</i>
Revenue	1,308,603
Cost of revenue	(1,470,918)
	(162,315)
Other income	4,956
General and administrative expenses	(174,678)
Finance cost	(27,330)
Loss for the year from discontinued operations	(359,367)

The details of the consideration paid and the fair values of the assets and liabilities as on the date of sale are presented below:

	<i>2018 KD</i>
ASSETS	
Property and equipment	1,999,984
Inventories	337,662
Accounts receivable and other debit balances	3,860,662
Cash and cash equivalents	256,574
Total assets transferred	6,454,882
LIABILITIES	
Employees' end of service benefits	(253,396)
Accounts payable and other liabilities	(3,072,847)
Murabaha payables	(858,546)
Total liabilities transferred	(4,184,789)
Net assets transferred	2,270,093
Cash consideration received	2,610,000
Non-controlling interests	455,541
Loss on disposal of a subsidiary	(115,634)
Net cash inflow arising on disposal:	
	<i>2018 KD</i>
Cash consideration received	2,610,000
Cash and bank balances sold as part of discontinued operations	(256,574)
	2,353,426

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26 SUBSEQUENT EVENT

The outbreak of Novel Coronavirus (COVID 19, the “event”) continues to progress and evolve. The extent and duration of its business and economic impact remain uncertain as it is dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these consolidated financial statements. These developments could impact our future financial results, cash flows and financial condition.