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

## CONSOLIDATED FINANCIAL STATEMENTS

## 31 DECEMBER 2021

Building a better working world

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

## Report on the Audit of the Consolidated Financial Statements

### *Opinion*

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("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 Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *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 these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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

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

***Key Audit Matters (continued)***

*Discontinued operations and classification and measurement of 'Disposal group held for sale'*
On 30 September 2021, the Group publicly announced that the Parent Company had signed a sale and purchase agreement (SPA) to sell its entire equity interest of 64.25% in its subsidiary based in Sudan, Higleig Petroleum Services and Investment Company Ltd. ("Higleig") The sale of the subsidiary has been assessed by management as 'highly probable' and is expected to be completed within a year from the reporting date, subject to obtaining the approval from government agencies in the Republic of Sudan. Accordingly, the subsidiary's operations are classified as discontinued operations in the consolidated statement of profit or loss and the associated assets and liabilities of the subsidiary are classified as disposal group held for sale which is measured at the lower of their carrying amount and fair value less costs to sell, in the consolidated statement of financial position.

We considered this as a key audit matter as Higleig is a material subsidiary and there is a risk of inappropriately consolidating the results and the financial position of Higleig, and that the presentation and measurement of 'disposal group held for sale' and 'discontinued operations' and related disclosure requirements are not in line with the relevant requirements of IFRS 5: *Non Current Assets Held for Sale and Discontinued Operations.*

Our audit procedures included, amongst others, the following:
- We assessed whether the proposed treatment was consistent with the requirements of IFRS, and agreed key assumptions or facts to the underlying documentation including the SPA.
- Further, we considered whether the pending sales negotiations met the 'highly probable' threshold of IFRS 5 as at 31 December 2021, to assess whether or not Higleig is correctly presented as 'held for sale'. For this purpose we inquired into the status of transaction and corroborated with the SPA entered by the Parent Company for its planned disposal of Higleig.
- We assessed that the measurement criteria of the ' disposal group held for sale' assets and liabilities recognised in the consolidated statement of financial position is in line with the requirements of IFRS 5, by verifying the agreed consideration and the related terms and conditions of sale, with the underlying SPA. We further compared the net carrying value of the disposal group to the fair value less costs to sell amount as per SPA.
- We circulated group audit instructions to the Higleig auditors to obtain their clearance on the Higleig figures considered in the consolidated financial statements and evaluated the responses received from them. Further, we have also performed direct audit procedures on certain significant account balances and transactions.
- We further assessed the adequacy and appropriateness of Group's presentation and disclosures in Note 15 to the consolidated financial statements in line with IFRS 5.

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

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

***Key Audit Matters (continued)***

*Hyperinflation adjustments related to discontinued operations*
Higleig, whose operations are classified as discontinued operations in the consolidated financial statements, 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 to be applied 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 application of IAS 29 and the required disclosures as a key audit matter. The accounting policy for the hyperinflation is disclosed in Note 15 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 Central Bank of Sudan and tested the inflation rate based on the average quarterly changes in CPI compared 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 15 to the consolidated financial statements.

***Other information included in the Group's 2021 Annual Report***
Management is responsible for the other information. Other information consists of the information included in the Group's 2021 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 the 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 scepticism throughout the audit. We also:

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

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

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

**Report on the Audit of the 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, actions taken to eliminate threats or safeguards applied.

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.**

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2021 that might have had a material effect on the business of the Parent Company or on its financial position.

ABDULKARIM ALSAMDAN
LICENCE NO. 208 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

29 March 2022
Kuwait

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

| | Notes | *2021* *KD* | *2020* *KD* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 4 | **7,495** | 1,518,503 |
| Right-of-use assets | 5 | **288,743** | 437,236 |
| Investment property | 6 | **-** | 2,365,399 |
| Investment in associate | 7 | **-** | 200,333 |
| Financial assets at fair value through other comprehensive income | 8 | **-** | 156,175 |
| Financial assets at fair value through profit or loss | 9 | **2,795,800** | 2,655,117 |
| | | **3,092,038** | 7,332,763 |
| **Current assets** | | | |
| Inventories | | **-** | 121,395 |
| Accounts receivables and other debit balances | 10 | **1,956,909** | 3,451,543 |
| Cash and cash equivalents | 11 | **15,289,850** | 17,136,317 |
| | | **17,246,759** | 20,709,255 |
| Assets held for sale | 15 | **6,470,178** | - |
| | | **23,716,937** | 20,709,255 |
| **TOTAL ASSETS** | | **26,808,975** | 28,042,018 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 12 | **75,000,000** | 75,000,000 |
| Share premium | | **193,550** | 193,550 |
| Statutory reserve | 12 | **472,723** | 472,723 |
| Voluntary reserve | 12 | **314,957** | 314,957 |
| Other reserves | 12 | **(700,997)** | (700,997) |
| Foreign currency translation reserve | | **712,484** | (8,385,121) |
| Fair value reserve | | **-** | 160,473 |
| Accumulated losses | | **(44,228,238)** | (45,926,178) |
| Reserves of a disposal group held for sale | 15 | **(11,759,446)** | - |
| **Equity attributable to equity holders of the Parent Company** | | **20,005,033** | 21,129,407 |
| Non-controlling interests | | **1,398,283** | 1,905,646 |
| **Total equity** | | **21,403,316** | 23,035,053 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Employees' end of service benefits | | **71,743** | 104,959 |
| Lease liabilities | 5 | **253,989** | 240,974 |
| | | **325,732** | 345,933 |
| **Current liabilities** | | | |
| Account payables and other liabilities | 13 | **2,949,687** | 4,623,535 |
| Murabaha payables | 14 | **-** | 13,629 |
| Lease liabilities | 5 | **43,612** | 23,868 |
| | | **2,993,299** | 4,661,032 |
| Liabilities directly associated with the assets held for sale | 15 | **2,086,628** | - |
| | | **5,079,927** | 4,661,032 |
| **Total liabilities** | | **5,405,659** | 5,006,965 |
| **TOTAL EQUITY AND LIABILITIES** | | **26,808,975** | 28,042,018 |

**Abdulrazzaq Ahmad Alroomi**
Chairman

**Hamad A. Al-Qahtani**
Chief Executive Officer

The attached notes from 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

| | Notes | *2021* *KD* | *2020* *KD* |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Services revenue | | **1,065,105** | 1,391,550 |
| Services costs | | **(786,776)** | (1,340,831) |
| **GROSS PROFIT** | | **278,329** | 50,719 |
| Other income | | **8,400** | 658,756 |
| Finance income | | **255,002** | 300,571 |
| Unrealised gain (loss) on financial assets at fair value through profit or loss | | **146,646** | (751,982) |
| Allowance for expected credit loss on account receivables and other debit balances | | - | (1,223,105) |
| Provision for slow moving inventory | | - | (295,536) |
| Staff costs | | **(226,862)** | (362,340) |
| General and administrative expenses | | **(703,515)** | (801,783) |
| Finance costs | | **(21,389)** | (26,968) |
| Net foreign exchange differences | | **(9,553)** | (8,408) |
| **LOSS FOR THE YEAR FROM CONTINUING OPERATIONS BEFORE TAX AND DIRECTORS' REMUNERATION** | | **(272,942)** | (2,460,076) |
| Taxation on foreign operations | | **(3,036)** | 7,511 |
| NLST | | **(43,396)** | (1,457) |
| Zakat | | **(17,358)** | (583) |
| Directors' remuneration | 17 | - | - |
| **LOSS FOR THE YEAR FROM CONTINUING OPERATIONS** | | **(336,732)** | (2,454,605) |
| **DISCONTINUED OPERATIONS** | | | |
| **PROFIT FOR THE YEAR FROM DISCOUNTINUED OPERATIONS** | 15 | **2,906,115** | 693,134 |
| **PROFIT (LOSS) FOR THE YEAR** | | **2,569,383** | (1,761,471) |
| **Attributable to:** | | | |
| Equity holders of the Parent Company | | **1,531,688** | (1,891,127) |
| Non-controlling interests | | **1,037,695** | 129,656 |
| | | **2,569,383** | (1,761,471) |
| **BASIC AND DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | 16 | **2.04 fils** | (2.52) fils |
| **BASIC AND DILUTED LOSS PER SHARE FROM CONTINUING OPERATIONS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | 16 | **(0.45) fils** | (3.12) fils |

The attached notes from 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | ***2021*** | *2020* |
|---|---|---|
| | ***KD*** | *KD* |
| **Profit (loss) for the year** | **2,569,383** | (1,761,471) |
| **Other comprehensive loss:** | | |
| *Items that are or may be reclassified subsequently to the consolidated statement of profit or loss* | | |
| Net exchange differences on translation of foreign operations | **(4,451,099)** | (1,061,704) |
| | **(4,451,099)** | (1,061,704) |
| *Items that will not be reclassified subsequently to the consolidated statement of profit or loss:* | | |
| Fair value gain on financial assets at fair value through other comprehensive income | **45,074** | 32,065 |
| **Total other comprehensive loss for the year** | **(4,406,025)** | (1,029,639) |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | **(1,836,642)** | (2,791,110) |
| **Attributable to:** | | |
| Equity holders of the Parent Company | **(1,290,626)** | (2,534,303) |
| Non-controlling interests | **(546,016)** | (256,807) |
| | **(1,836,642)** | (2,791,110) |

The attached notes from 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| | *Attributable to equity holders of the Parent 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*** | ***Reserves of a disposal group held for sale KD*** | ***Accumulated losses KD*** | ***Sub-total KD*** | ***Non-controlling interests KD*** | ***Total equity KD*** |
| As at 1 January 2021 | 75,000,000 | 193,550 | 472,723 | 314,957 | (700,997) | (8,385,121) | 160,473 | - | (45,926,178) | 21,129,407 | 1,905,646 | 23,035,053 |
| Profit for the year | - | - | - | - | - | - | - | - | 1,531,688 | 1,531,688 | 1,037,695 | 2,569,383 |
| Other comprehensive (loss) income for the year | - | - | - | - | - | (2,851,274) | 28,960 | - | - | (2,822,314) | (1,583,711) | (4,406,025) |
| Total comprehensive (loss) income for the year | - | - | - | - | - | (2,851,274) | 28,960 | - | 1,531,688 | (1,290,626) | (546,016) | (1,836,642) |
| Dividends distributed | - | - | - | - | - | - | - | - | - | - | (53,853) | (53,853) |
| Hyperinflation adjustment (Note 15) | - | - | - | - | - | - | - | - | 166,252 | 166,252 | 92,506 | 258,758 |
| Discontinued operations (Note 15) | | | | | | 11,948,879 | (189,433) | (11,759,446) | - | - | - | - |
| **As at 31 December 2021** | **75,000,000** | **193,550** | **472,723** | **314,957** | **(700,997)** | **712,484** | **-** | **(11,759,446)** | **(44,228,238)** | **20,005,033** | **1,398,283** | **21,403,316** |
| | | | | | | | | | | | | |
| As at 1 January 2020 | 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 |
| Loss for the year | - | - | - | - | - | - | - | - | (1,891,127) | (1,891,127) | 129,656 | (1,761,471) |
| Other comprehensive (loss) income for the year | - | - | - | - | - | (663,778) | 20,602 | - | - | (643,176) | (386,463) | (1,029,639) |
| Total comprehensive (loss) income for the year | - | - | - | - | - | (663,778) | 20,602 | - | (1,891,127) | (2,534,303) | (256,807) | (2,791,110) |
| Dividends distributed | - | - | - | - | - | - | - | - | - | - | (360,623) | (360,623) |
| Hyperinflation adjustment (Note 15) | - | - | - | - | - | - | - | - | (629,450) | (629,450) | (350,239) | (979,689) |
| As at 31 December 2020 | 75,000,000 | 193,550 | 472,723 | 314,957 | (700,997) | (8,385,121) | 160,473 | - | (45,926,178) | 21,129,407 | 1,905,646 | 23,035,053 |

The attached notes from 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | *Notes* | ***2021*** ***KD*** | *2020* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss for the year before tax from continuing operations | | **(272,942)** | (2,460,076) |
| Profit before tax for the year from discontinuing operations | | **4,820,946** | 1,389,419 |
| *Adjustments to reconcile profit (loss) for the year before before tax to net cash flows:* | | | |
| Profit from sale of property and equipment and reversal of impairment taken earlier, included in other income | | - | (620,203) |
| Finance income | | **(255,002)** | (300,571) |
| Change in fair value of investment property | 6 | - | (349) |
| Unrealised (gain) loss on financial assets at fair value through profit or loss | | **(146,646)** | 751,982 |
| Allowance for expected credit loss of receivables | | - | 1,223,105 |
| Provision for slow moving inventory | | - | 644,074 |
| Share of results from associate | 7 | - | 8,753 |
| Employees' end of service benefits provided | | **12,298** | 33,498 |
| Provision no longer required | | - | (2,618) |
| Depreciation of property and equipment | 4 | **16,134** | 301,325 |
| Depreciation of right-of-use assets | 5 | **207,430** | 85,887 |
| Finance costs | | **34,701** | 36,323 |
| Foreign exchange differences | | **(2,509,049)** | (1,831,226) |
| Monetary loss (gain) from hyperinflation | 15 | **485,055** | (529,276) |
| | | **2,392,925** | (1,269,953) |
| *Working capital adjustments:* | | | |
| Inventories | | **89,787** | 623,741 |
| Account receivables and other debit balances | | **1,369,375** | 2,784,411 |
| Account payables and other liabilities | | **(1,565,841)** | (336,725) |
| Cash flows from operations | | **2,286,246** | 1,801,474 |
| Employees' end of service benefits paid | | **(45,454)** | (46,704) |
| Net cash flows from operating activities | | **2,240,792** | 1,754,770 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | 4 | **(71,703)** | (59,524) |
| Proceeds from sale of property and equipment | | **444** | 264,051 |
| Net movement in restricted bank balances and deposits | | **723** | 22,613 |
| Net cash flows (used in) from investing activities | | **(70,536)** | 227,140 |
| **FINANCING ACTIVITIES** | | | |
| Finance costs paid | | **(13,312)** | (9,355) |
| Finance income received | | **307,422** | 340,356 |
| Net movement in murabaha payables | | **(3,621)** | (10,095) |
| Dividend paid to non-controlling interest | | **(53,853)** | (360,623) |
| Payment of lease liabilities | 5 | **(48,454)** | (129,397) |
| Net cash flows from (used in) financing activities | | **188,182** | (169,114) |
| Effect of foreign currency translation and hyperinflation adjustment | | **(3,088,376)** | (279,131) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | | **(729,938)** | 1,533,665 |
| Cash and cash equivalents as at the beginning of the year | | **17,131,475** | 15,597,810 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 11 | **16,401,537** | 17,131,475 |
| **NON-CASH ITEMS** | | | |
| Addition to right-of-use assets | 5 | **(60,484)** | - |
| Addition to lease liabilities | 5 | **60,484** | **-** |

The attached notes from 1 to 25 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

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

The Parent 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 Parent Company is a subsidiary of Development Enterprise Holding Company K.S.C. (Closed) ("DEH") (the "Intermediate 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 Parent Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 were authorised for issuance in accordance with a resolution of the Board of Directors of the Parent Company on 29 March 2022 and are subject to the approval of the Annual General Assembly of the shareholders. The Annual General Assembly of the shareholders of the Parent Company has the power to amend these consolidated financial statements after their issuance.

The Parent 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 Parent 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 Parent 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
- Utilising available financial surplus of the Parent Company by investing them in portfolios managed by specialised companies.

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

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by the shareholders of the Parent Company during the Annual General Assembly meeting held on 4 May 2021. There were no dividends declared for the year ended 31 December 2020.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

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").

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

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

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

#### 2.2.1 New and amended standards and interpretations

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**2.2.1 New and amended standards and interpretations (continued)**

***Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

***Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16***
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.

The Group has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2021 did not have any material impact on the accounting policies, financial position or performance of the Parent Company.

**2.2.2 Summary of accounting policies for new transactions and events**

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

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

Property and equipment and right of use assets are not depreciated and amortised once classified as held for sale.

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**2.2.2 Summary of accounting policies for new transactions and events (continued)**

***Non-current assets held for sale and discontinued operations (continued)***
A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale

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

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

A number of 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. None of these are expected to have a significant impact on the Group's consolidated financial statements. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.4.1 Basis of consolidation**
The consolidated financial statements comprise the financial statements of the Parent Company and its following subsidiaries, where the Parent Company has direct investment:

| *Subsidiaries* | *Country of incorporation* | *Interest in equity* | | *Principal activities* |
|---|---|---|---|---|
| | | ***2021*** *%* | *2020* *%* | |
| 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.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4.1 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent 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 Parent 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.

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

#### 2.4.2 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 profit or loss 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 profit or loss.

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 profit or loss 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.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.2 Business combinations and goodwill (continued)**
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 profit or loss.

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

Where goodwill 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.

**2.4.3 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.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.3 Revenue recognition (continued)**
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.

*Contract assets* **-** a contract asset is the right to consideration in exchange of goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before the payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract assets are subject to expected credit losses assessment. Refer to accounting policies on impairment of financial assets under *Financial instruments – impairment of financial assets.*

*Contract liabilities* **-** a contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under 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.

**2.4.4 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.

**2.4.5 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.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.6 Current versus non-current classification (continued)**
The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

**2.4.7 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 profit or loss 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.

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 profit or loss 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 profit or loss 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.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4.8 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 profit or loss 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 profit or loss 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.

### 2.4.9 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**Group as a lessee**

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

- *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.

- *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.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.9 Leases (continued)**
**Group as a lessee (continued)**

- *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.

**2.4.10 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 profit or loss 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 profit or loss.

**2.4.11 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 profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.12 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.

**2.4.13 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.

**2.4.14 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.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.14 Financial instruments (continued)**

**i) Financial assets (continued)**

***Subsequent measurement (continued)***

***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.

***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.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4.14 Financial instruments (continued)

### 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.

***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 profit or loss.

### 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.

### 2.4.15 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).

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.15 Impairment of financial assets (continued)**
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.

**2.4.16 Employees' end of service benefits**
The Group is liable under Kuwait law to provide end of service benefits to all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

**2.4.17 Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

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

**2.4.20 Foreign currencies**
The consolidated financial statements are presented in Kuwaiti Dinars which is the functional and presentation currency of the Parent 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 profit or loss.

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 profit or loss.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4.20 Foreign currencies (continued)

*Hyperinflationary economy*

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

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

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

### 2.4.21 Segment information

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

### 2.4.22 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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.22 Fair value measurement (continued)**
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.

**3 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.

**3.1 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.

***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.

**3.2 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.

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**3.2 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 of its recoverable amounts (Note 6).

***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 profit or loss.

***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.

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**3.2 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).