

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2023



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 2023, 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 material accounting policy information.

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 2023, 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 this matter is provided in that context.

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

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

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

Key Audit Matters (continued)

Unrealised loss on financial assets at fair value through profit or loss (FVTPL)

The Group's financial assets at fair value through profit or loss (FVTPL) represent 27% of the Group's total assets. Financial assets at FVTPL include investment in an unquoted fund, classified within Level 3 of the fair value hierarchy, which do not have a quoted price in an active market and is fair valued using other valuation techniques. Based on the valuation performed by management with the help of an external licensed valuer, the Group recorded an unrealised loss of KD 1,740,817 in the consolidated statement of income.

The valuation of this investment involves the exercise of judgment by the management and the use of assumptions and estimates. The key judgments applied by management included the valuation methodology applied and the application of illiquidity discounts. Given the size and complexity of the valuation of financial assets at FVTPL, we addressed this as a key audit matter.

Our audit procedures included, amongst others, the following:

- ▶ For the valuations which used significant unobservable inputs, we evaluated the models and the assumptions used by the management and tested the source data used in the valuations, to the extent possible, to independent sources and externally available market data to evaluate the data's relevance, completeness and accuracy.
- ▶ We assessed the competence, capabilities, and objectivity of the external licensed valuer. This involved reviewing their qualifications and track record to ascertain their eligibility to conduct the valuation.
- ▶ We also evaluated the reasonableness of the methodologies and the appropriateness of the valuation models and inputs used to value this investment.
- ▶ We further assessed the adequacy and appropriateness of Group's presentation and disclosures in Note 5 and Note 19 to the 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)

Other information included in the Group's 2023 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2023 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Groups or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

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

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

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

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.

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 2023 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 establishment of Capital Markets Authority “CMA” and organization of security activity and its executive regulations, as amended, during the year ended 31 December 2023 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

23 March 2024
Kuwait

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 KD	2022 KD
ASSETS			
Non-current assets			
Property and equipment		91	836
Right-of-use assets	4	14,227	259,252
Financial assets at fair value through profit or loss	5	1,307,295	3,054,430
		<u>1,321,613</u>	<u>3,314,518</u>
Current assets			
Accounts receivables and other debit balances	6	274,546	3,278,055
Cash and cash equivalents	7	3,136,413	17,066,169
		<u>3,410,959</u>	<u>20,344,224</u>
TOTAL ASSETS		<u><u>4,732,572</u></u>	<u><u>23,658,742</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	8	4,533,293	4,533,293
Other reserves	8	(700,997)	(700,997)
Foreign currency translation reserve		611,638	687,567
(Accumulated losses) retained earnings		(1,369,621)	145,018
		<u>3,074,313</u>	<u>4,664,881</u>
Equity attributable to equity holders of the Parent Company		<u>3,074,313</u>	<u>4,664,881</u>
Non-controlling interests		(158,369)	(196,991)
		<u>2,915,944</u>	<u>4,467,890</u>
Total equity		<u><u>2,915,944</u></u>	<u><u>4,467,890</u></u>
Liabilities			
Non-current liabilities			
Employees' end of service benefits		82,178	84,443
Lease liabilities	4	13,345	251,640
		<u>95,523</u>	<u>336,083</u>
Current liabilities			
Account payables and other liabilities	9	1,634,524	2,808,104
Due to shareholders	12	84,631	16,000,000
Lease liabilities	4	1,950	46,665
		<u>1,721,105</u>	<u>18,854,769</u>
Total liabilities		<u>1,816,628</u>	<u>19,190,852</u>
TOTAL EQUITY AND LIABILITIES		<u><u>4,732,572</u></u>	<u><u>23,658,742</u></u>


 Abdulrazzaq Ahmad Alroomi
 Chairman


 Hamad A. Al-Qahtani
 Chief Executive Officer

The attached notes from 1 to 19 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	<i>Notes</i>	2023 KD	2022 KD
CONTINUING OPERATIONS			
Services revenue		497	350,696
Services costs		(118,927)	(286,137)
		<hr/>	<hr/>
GROSS (LOSS) PROFIT		(118,430)	64,559
Other income	14	908,725	148,711
Finance income		139,564	340,495
Unrealised (loss) gain on financial assets at fair value through profit or loss	5	(1,729,678)	226,747
Staff costs		(321,161)	(364,704)
General and administrative expenses		(338,938)	(461,540)
Finance costs		(6,826)	(21,072)
Net foreign exchange differences		(1,839)	65,618
		<hr/>	<hr/>
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS BEFORE TAX		(1,468,583)	(1,186)
Zakat		(1,209)	-
		<hr/>	<hr/>
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(1,469,792)	(1,186)
DISCONTINUED OPERATIONS			
LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS	10	-	(10,983,367)
		<hr/>	<hr/>
LOSS FOR THE YEAR		(1,469,792)	(10,984,553)
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Parent Company		(1,514,639)	(11,074,681)
Non-controlling interests		44,847	90,128
		<hr/>	<hr/>
		(1,469,792)	(10,984,553)
		<hr/>	<hr/>
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	11	(33.41) fils	(55.84) fils
		<hr/>	<hr/>
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE FROM CONTINUING OPERATIONS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	11	(33.41) fils	0.06 fils
		<hr/>	<hr/>

The attached notes from 1 to 19 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023 KD	2022 KD
LOSS FOR THE YEAR	(1,469,792)	(10,984,553)
Other comprehensive (loss) income:		
<i>Items that are or may be reclassified subsequently to the consolidated statement of profit or loss</i>		
Net exchange differences on translation of foreign operations	(82,154)	(44,041)
Net exchange differences reclassified to consolidated statement of profit or loss on disposal of subsidiary	-	11,759,446
	(82,154)	11,715,405
<i>Items that will not be reclassified subsequently to the consolidated statement of profit or loss:</i>		
Fair value gain on financial assets at fair value through other comprehensive income	-	8,921
Total other comprehensive (loss) income for the year	(82,154)	11,724,326
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	(1,551,946)	739,773
Attributable to:		
Equity holders of the Parent Company	(1,590,568)	659,848
Non-controlling interests	38,622	79,925
	(1,551,946)	739,773

The attached notes from 1 to 19 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	<i>Attributable to equity holders of the Parent Company</i>										
	<i>Share capital KD</i>	<i>Share premium KD</i>	<i>Statutory reserve KD</i>	<i>Voluntary reserve KD</i>	<i>Other reserves KD</i>	<i>Foreign currency translation reserve KD</i>	<i>Reserves of a disposal group held for sale KD</i>	<i>Retained earnings (accumulated losses) KD</i>	<i>Sub-total KD</i>	<i>Non-controlling interests KD</i>	<i>Total equity KD</i>
As at 1 January 2023	4,533,293	-	-	-	(700,997)	687,567	-	145,018	4,664,881	(196,991)	4,467,890
(Loss) profit for the year	-	-	-	-	-	-	-	(1,514,639)	(1,514,639)	44,847	(1,469,792)
Other comprehensive loss for the year	-	-	-	-	-	(75,929)	-	-	(75,929)	(6,225)	(82,154)
Total comprehensive (loss) income for the year	-	-	-	-	-	(75,929)	-	(1,514,639)	(1,590,568)	38,622	(1,551,946)
As at 31 December 2023	4,533,293	-	-	-	(700,997)	611,638	-	(1,369,621)	3,074,313	(158,369)	2,915,944
As at 1 January 2022	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
(Loss) profit for the year	-	-	-	-	-	-	-	(11,074,681)	(11,074,681)	90,128	(10,984,553)
Other comprehensive (loss) income for the year	-	-	-	-	-	(24,917)	11,759,446	-	11,734,529	(10,203)	11,724,326
Total comprehensive (loss) income for the year	-	-	-	-	-	(24,917)	11,759,446	(11,074,681)	659,848	79,925	739,773
Reduction of share capital through amortisation (Note 8)	(54,466,707)	(193,550)	(472,723)	(314,957)	-	-	-	55,447,937	-	-	-
Repayment of share capital (Note 8)	(16,000,000)	-	-	-	-	-	-	-	(16,000,000)	-	(16,000,000)
Net movement in non-controlling- interests on disposal of a subsidiary (Note 10)	-	-	-	-	-	-	-	-	-	(1,675,199)	(1,675,199)
As at 31 December 2022	4,533,293	-	-	-	(700,997)	687,567	-	145,018	4,664,881	(196,991)	4,467,890

The attached notes from 1 to 19 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 KD	2022 KD
OPERATING ACTIVITIES			
Loss for the year before tax from continuing operations		(1,468,583)	(1,186)
Loss before tax for the year from discontinuing operations		-	(10,845,146)
<i>Adjustments to reconcile loss for the year before tax to net cash flows:</i>			
Loss on disposal of a subsidiary	10	-	11,270,406
Profit from term deposits and other assets		(139,564)	(340,495)
Unrealised loss (gain) on financial assets at fair value through profit or loss		1,729,678	(226,747)
Employees' end of service benefits provided		20,219	74,084
Depreciation of property and equipment		745	6,659
Amortization of right-of-use assets	4	24,526	32,392
Reversal of accounts payable no longer required (included under other income)	14	(861,242)	(121,410)
Dividend income (included under other income)		(11,997)	-
Gain on derecognition of lease liabilities (included under other income)		(33,026)	-
Finance costs		6,826	21,072
Foreign exchange differences		1,839	(1,163,876)
Monetary loss from hyperinflation	10	-	33,226
		(730,579)	(1,261,021)
<i>Working capital adjustments:</i>			
Inventories		-	(61,678)
Account receivables and other debit balances		2,989,671	(1,236,712)
Account payables and other liabilities		(311,129)	133,120
Cash flows from operations		1,947,963	(2,426,291)
Employees' end of service benefits paid		(20,658)	-
NLST paid		-	(16,151)
Zakat paid		(1,209)	(6,408)
Net cash flows from (used in) operating activities		1,926,096	(2,448,850)
INVESTING ACTIVITIES			
Proceeds from sale of a subsidiary	10	-	3,489,896
Profit received from wakala deposits and other assets		151,563	379,944
Dividend received		11,997	-
Net movement in restricted bank balances and deposits		(7)	(51)
Net cash flows from investing activities		163,553	3,869,789
FINANCING ACTIVITIES			
Distribution paid to equity holders on reduction of capital		(15,915,369)	-
Payment of lease liabilities	4	(32,270)	(23,400)
Net cash flows used in financing activities		(15,947,639)	(23,400)
Effect of foreign currency translation and hyperinflation adjustment		(71,773)	277,934
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(13,929,763)	1,675,473
Cash and cash equivalents as at the beginning of the year		17,061,999	16,401,537
Cash and cash equivalents related to disposal of a subsidiary	10	-	(1,015,011)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	3,132,236	17,061,999
NON-CASH ITEMS			
Due to shareholders on reduction of share capital	8	-	16,000,000
Decrease in equity on reduction of share capital	8	-	(16,000,000)
Derecognition of right-of-use assets	4	225,256	-
Derecognition of lease liabilities	4	(258,282)	-
Reversal of accounts payable no longer required	4	(861,242)	(121,410)

The attached notes from 1 to 19 form part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

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.

At the ordinary general assembly meeting of the shareholders of the Parent Company held on 15 December 2023, the shareholders approved the resolution of the Parent Company to be delisted from Boursa Kuwait. The approval from the Capital Markets Authority (“CMA”) for delisting of the Parent Company’s shares is still under process as at the reporting date.

The shareholders of the Parent Company at ordinary general assembly meeting held on 15 December 2022 approved the resolution for the voluntary delisting of the Parent Company from Boursa Kuwait. However, on 20 April 2023, the Board of Commissioners of the Capital Markets Authority rejected the Parent Company’s request to delist from Boursa Kuwait.

Subsequently, the shareholders of the Parent Company at the ordinary general assembly meeting held on 2 October 2023, approved for the second time, the resolution for the voluntary delisting of the Parent Company from Boursa Kuwait. However, the regulatory approvals from the Capital Markets Authority to proceed with the delisting is still pending as at the date of authorization of these consolidated financial statements.

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 and Bourse Bahrain.

The consolidated financial statements of the Parent Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2023 were authorised for issuance in accordance with a resolution of the Board of Directors of the Parent Company on 21 March 2024 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 2022 were approved by the shareholders of the Parent Company during the Annual General Assembly meeting held on 25 May 2023. There were no dividends declared for the year ended 31 December 2022.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

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 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re- insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The amendments had no impact on the Group's consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Group's consolidated financial statements.

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

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

The amendments had no impact on the Group's consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrows the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

The amendments had no impact on the Group's consolidated financial statements.

International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- ▶ A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- ▶ Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The amendments had no impact on the Group's consolidated financial statements as the Group is not in scope of the Pillar Two model rules as its revenue is less than EUR 750 million/year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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 MATERIAL 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:

<i>Subsidiaries</i>	<i>Country of incorporation</i>	<i>Interest in equity</i>		<i>Principal activities</i>
		<i>2023</i>	<i>2022</i>	
		<i>%</i>	<i>%</i>	
Nordic Intervention Services L.L.C.	UAE	100.00	100.00	Energy services
Nordic Energy F.Z.C.	UAE	92.50	92.50	Energy services
AREF Energy International Ltd	Cayman Island	100.00	100.00	Financial Services

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

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangements with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

The Group re-assesses at each reporting date whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

2.4.1 Basis of consolidation (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

2.4.3 Revenue recognition (continued)

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 contribution to KFAS is calculated at 1% of the profit for the year attributable to the Parent Company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, and transfer to statutory reserve until the reserve reaches 50% of share capital should be excluded from the profit base when determining the contribution. The contribution to KFAS is payable in full before the AGM is held in accordance with the Ministerial Resolution (184/2022).

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.

2.4.6 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

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.

2.4.8 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

2.4.9 Leases (continued)

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.

▶ *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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

2.4.10 Investment in associate (continued)

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.

2.4.12 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

2.4.14 Financial instruments (continued)

i) Financial assets (continued)

Initial recognition and measurement (continued)

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 marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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

Subsequent measurement

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

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

a) Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

2.4.14 Financial instruments (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

d) Financial assets at fair value through profit or loss

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

Derecognition of financial assets

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

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include account payables and other liabilities, due to shareholders and lease liabilities.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

2.4.14 Financial instruments (continued)

ii) Financial liabilities (continued)

Lease liabilities

For accounting policy relating to measurement of lease liabilities, refer to 'Leases' accounting policy.

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

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.

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 10 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 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

2.4.21 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.

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.

2.4.22 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.

2.4.23 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

**2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION
(continued)**

2.4 MATERIAL ACCOUNTING POLICIES (continued)

2.4.23 Fair value measurement (continued)

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

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 19.

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 interest 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimates and assumptions (continued)

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.

Profit on uncompleted contracts

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

Leases - Estimating the incremental borrowing rate

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

4 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

<i>2023</i>	<i>Leasehold land KD</i>	<i>Furniture, fittings and equipment KD</i>	<i>Total KD</i>	<i>Lease liabilities KD</i>
At 1 January 2023	223,674	35,578	259,252	298,305
Depreciation	(3,175)	(21,351)	(24,526)	-
Finance cost	-	-	-	6,826
Payments	-	-	-	(32,270)
Related to disposals	(225,256)	-	(225,256)	(258,282)
Foreign currency translation adjustments	4,757	-	4,757	716
At 31 December 2023	-	14,227	14,227	15,295
Current portion				1,950
Non-current portion				13,345
				15,295
<i>2022</i>	<i>Leasehold land KD</i>	<i>Furniture, fittings and equipment KD</i>	<i>Total KD</i>	<i>Lease liabilities KD</i>
At 1 January 2022	231,819	56,924	288,743	297,601
Depreciation	(11,046)	(21,346)	(32,392)	-
Finance cost	-	-	-	21,072
Payments	-	-	-	(23,400)
Foreign currency translation adjustments	2,901	-	2,901	3,032
At 31 December 2022	223,674	35,578	259,252	298,305
Current portion				46,665
Non-current portion				251,640
				298,305

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

	<i>2023 KD</i>	<i>2022 KD</i>
Depreciation expense of right-of-use assets	24,523	32,392
Interest expense on lease liabilities	6,826	21,072
As at 31 December	31,349	53,464

The maturity analysis of lease liabilities is disclosed in Note 17.2.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023	2022
	KD	KD
Unquoted fund	1,021,330	2,779,603
Quoted fund	285,965	274,827
	1,307,295	3,054,430

During the year, the Group sought the expertise of a licensed valuator to evaluate its investment in the unquoted fund 'Al Taqa Fund LP' held through its subsidiary, 'AREF Energy International Ltd.'. Consequently, based on the expert's assessment, these investments have been valued at KD 1,021,330, and the Group recorded an unrealised loss of KD 1,740,817 in the consolidated statement of profit or loss.

Fair value hierarchy for determining the fair value of the financial instruments and the valuation techniques are detailed in Note 19.

6 ACCOUNTS RECEIVABLES AND OTHER DEBIT BALANCES

	2023	2022
	KD	KD
Trade receivables	232,063	492,436
Less: Provision for expected credit losses	(167,865)	(193,617)
Trade receivables, net	64,198	298,819
Amounts due from related parties (Note 12)	-	2,746,683
Contract assets	24,794	14,906
Advances and prepayments	114,521	135,486
Other receivables	71,033	82,161
	274,546	3,278,055

Contract assets are initially recognised for revenue earned from the rendering of services, as receipt of consideration is conditional on successful completion of the contract services. Upon completion and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The performance obligation for service revenue is satisfied over-time and payment is generally due upon completion of the services and acceptance of the customers.

Movements in the allowance for expected credit losses of the trade receivables is as follows:

	2023	2022
	KD	KD
Balance at the beginning of the year	193,617	214,482
Write off during the year	(25,588)	(23,545)
Foreign currencies translation adjustments	(164)	2,680
Balance at the end of the year	167,865	193,617

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

	<i>Total</i>	<i>Neither past</i>	<i>Past due but not impaired</i>		
			<i>due nor impaired</i>	<i>Less than</i>	<i>31 - 90 days</i>
	<i>KD</i>	<i>KD</i>	<i>30 days</i>	<i>KD</i>	<i>KD</i>
2023	64,198	-	-	-	64,198
2022	298,819	-	-	-	298,819

Trade receivables are non-interest bearing and are generally on credit terms of 30-180 days. It is not the practice of the Group to obtain collateral over receivables.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

7 CASH AND CASH EQUIVALENTS

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

	2023	2022
	KD	KD
Bank balances and cash	402,913	1,751,394
Wakala deposits	2,733,500	15,314,775
Cash and cash equivalents as per the consolidated statement of financial position	3,136,413	17,066,169
Restricted bank balances	(4,177)	(4,170)
Cash and cash equivalents as per the consolidated statement of cash flows	3,132,236	17,061,999

Restricted bank balances of KD 4,177 (2022: KD 4,170) represent margin deposits secured against bank facilities and are not available for day to day use by the Group.

8 SHARE CAPITAL, SHARE PREMIUM AND RESERVES

a) Share capital

	<i>Authorised, issued and fully paid</i>	
	2023	2022
	KD	KD
45,332,930 shares (2022: 45,332,930 shares) of 100 fils paid in cash	4,533,293	4,533,293

During the prior year, the Parent Company reduced the authorized, issued and paid-up share capital of the Parent Company from KD 75,000,000 (750,000,000 shares of 100 fils each) to KD 4,533,293 (45,332,930 shares of 100 fils each), through the cancellation of 704,667,070 shares of 100 fils each, as below:

- Cancellation of 160,000,000 shares and distributing the reduction amount of KD 16,000,000 in cash to the shareholders, pro-rated to their shareholding in the Parent Company. As at the reporting date KD 90,604 (31 December 2022: KD 16,000,000) is payable to the shareholders.
- Offsetting 544,667,070 shares of 100 fils each amounting to KD 54,466,707, along with the statutory reserve of KD 472,723, voluntary reserve of KD 314,957 and share premium of KD 193,550, against accumulated losses of the Group as at 30 September 2022 amounting to KD 55,447,937.

The above transaction was affected after obtaining the approval of the Capital Markets Authority (CMA) on 7 November 2022 and approval of the shareholders of the Parent Company at the extra-ordinary general meeting (EGM) of the Parent Company held on 15 December 2022. The share capital reduction was authenticated in the commercial register on 26 December 2022 under registration number 68770.

b) Statutory reserve

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before contributions to KFAS, NLST, Zakat and board of directors' remuneration shall be transferred to the statutory reserve. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

8 SHARE CAPITAL, SHARE PREMIUM AND RESERVES (continued)

c) Voluntary reserve

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

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

d) Other reserves

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

9 ACCOUNT PAYABLES AND OTHER LIABILITIES

	<i>2023</i> <i>KD</i>	<i>2022</i> <i>KD</i>
Trade payables	1,006,266	1,303,633
Accrued expenses	588,290	1,435,497
Other payables	39,968	68,974
	<u>1,634,524</u>	<u>2,808,104</u>

KFAS payable as at 31 December 2023 amounts to KD Nil (2022 – KD Nil).

10 DISPOSAL OF A SUBSIDIARY AND DISCONTINUED OPERATIONS

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, Higlieig Petroleum Services and Investment Company Ltd, for a consideration of USD 11.5 million (KD 3,489,896). The sale of subsidiary was expected to be completed within a year from the date of classification. Accordingly, the subsidiary was classified as a disposal group held for sale and as a discontinued operation.

Further to the SPA, the Parent Company signed a contract with the buyer on 20 April 2022, assigning the subsidiary's shares to the buyer, including all the related rights and benefits associated with these shares, and also removed their representatives from the Board of Directors of Higlieig, thereby evidencing loss of control of the subsidiary by the Parent Company. On 21 July 2022, the legal ownership of the shares was transferred to the buyer, after obtaining regulatory approvals.

During the prior year, the Group received the entire sales consideration from the buyer and recorded a net loss of KD 11,270,406 in the consolidated statement of profit or loss, on disposal of the subsidiary.

Loss on disposal of subsidiary included in the consolidated statement of profit or loss for the year ended 31 December 2022 is as follows:

	<i>KD</i>
Cash consideration received	3,489,896
Less: Carrying amount of net assets disposed	(3,010,677)
Less: Recycling of reserves of a disposal group held for sale	(11,749,625)
Loss on disposal of a subsidiary	<u><u>(11,270,406)</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

10 DISPOSAL OF A SUBSIDIARY AND DISCONTINUED OPERATIONS (continued)

The results of the subsidiary included in the consolidated statement of profit or loss are presented as below:

	<i>Year ended</i>	
	<i>31 December</i>	
	2023	2022
	KD	KD
Contract revenue	-	1,608,653
Contract costs	-	(1,167,831)
	-	440,822
Other income	-	2,624
General and administration expenses	-	(138,628)
Staff costs	-	(568,997)
Finance costs	-	(467)
Net foreign exchange differences	-	723,132
Monetary loss from hyperinflation**	-	(33,226)
PROFIT FOR THE YEAR BEFORE TAX FROM DISCONTINUED OPERATIONS	-	425,260
Taxation on foreign operations	-	(138,221)
PROFIT FOR THE YEAR AFTER TAX FROM DISCONTINUED OPERATIONS	-	287,039
Loss on disposal of the subsidiary	-	(11,270,406)
LOSS FROM DISCONTINUED OPERATIONS	-	(10,983,367)
Attributable to:		
Equity holders of the Parent Company	-	(11,085,983)
Non-controlling interests	-	102,616
	-	(10,983,367)
BASIC AND DILUTED LOSS PER SHARE FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	-	(55.90) fils

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 DISPOSAL OF A SUBSIDIARY AND DISCONTINUED OPERATIONS (continued)

The net cashflows incurred by the subsidiary during the year are as follows:

	2023	2022
	KD	KD
Operating	-	(7,970,687)
Investing	-	(3,579)
Financing	-	(2,230)
	<hr/>	<hr/>
Net cash outflow	<u>-</u>	<u>(7,976,496)</u>

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

	Index	Conversion Factor
30 June 2022	36,131.063	1.553
31 December 2021	18,973.514	1.158
31 December 2020	6,745.800	1.706
31 December 2019	2,159.900	1.103
31 December 2018	1,415.705	1.224
31 December 2017	832.926	1.106
31 December 2016	617.400	1.101
31 December 2015	521.800	1.081
31 December 2014	428.300	1.151
31 December 2013	314.826	1.198
31 December 2012	262.793	1.444
31 December 2011	181.944	1.189
31 December 2010	153.043	1.000

The above-mentioned restatement has been accounted for as follows:

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 DISPOSAL OF A SUBSIDIARY AND DISCONTINUED OPERATIONS (continued)

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

The movement in disposed subsidiary's assets and liabilities due to hyperinflation is, as follows:

	2023 KD	2022 KD
Other impact on the consolidated statement of profit or loss and consolidated statement of changes in equity	-	(33,226)
	<u>-</u>	<u>(33,226)</u>
	<u>-</u>	<u>(33,226)</u>
Consolidated statement of profit or loss:		
	2023 KD	2022 KD
Attributable to:		
Equity holders of the Parent Company	-	(21,348)
Non-controlling interests	-	(11,878)
	<u>-</u>	<u>(33,226)</u>
Total impact of hyperinflation	<u>-</u>	<u>(33,226)</u>

11 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

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

	2023	2022
(Loss) profit for the year attributable to:		
Continuing operations	(1,514,639)	11,302
Discontinued operations	-	(11,085,983)
	<u>(1,514,639)</u>	<u>(11,074,681)</u>
Loss for the year attributable to shareholders of the Parent Company (KD)	<u>(1,514,639)</u>	<u>(11,074,681)</u>
Weighted average number of outstanding shares*	<u>45,332,930</u>	<u>198,319,231</u>
Basic and diluted loss per share attributable to equity holders of the Parent Company (fils)	<u>(33.41)</u>	<u>(55.84)</u>
Basic and diluted (loss) earnings per share from continuing operations attributable to equity holders of the Parent Company (fils)	<u>(33.41)</u>	<u>0.06</u>

* The weighted average number of outstanding shares takes into account the weighted average effect of reduction of 544,667,070 shares from the beginning of the prior year and 160,000,000 shares from 15 December 2022 on account of reduction of share capital (Note 8).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

12 RELATED PARTY DISCLOSURES

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

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

	<i>Ultimate Parent Company KD</i>	<i>Intermediate Parent Company KD</i>	<i>Other related parties KD</i>	2023 KD	2022 KD
Account receivables and other debit balances (Note 6)	-	-	-	-	2,746,683
Cash and cash equivalents	686,173	-	-	686,173	2,396,564
Due to shareholders*	-	-	84,631	84,631	16,000,000

*Due to shareholders represents amount payable to shareholders in cash on account of capital reduction (Note 8)

Transactions with related parties included in the consolidated statement of profit or loss are as follows:

	<i>Ultimate Parent Company KD</i>	2023 KD	2022 KD
Finance income	1,246	1,246	6,733

Compensation of key management personnel

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

	2023 KD	2022 KD
Salaries and short-term benefits	122,971	145,134
Termination benefits	9,632	6,348
	132,603	151,482

13 CAPITAL COMMITMENTS

Capital commitments:

	2023 KD	2022 KD
Commitment towards contribution of fund (held as financial assets through profit or loss)	438,899	438,184

14 OTHER INCOME

During the year, the Group reversed payables to the extent of KD 546,879 related to its joint operations with Energy Exploration and Development Ltd (ENEXD), based on a confirmation received from external lawyers stating that the Group is no longer liable towards the creditors. Further, other income also includes an amount of KD 314,363 with respect to the reversal of payables based on final settlement agreements signed between a subsidiary and their suppliers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

15 LEGAL DISPUTE

A subsidiary of the Group was on an ongoing dispute with their joint operations partner for breach of the terms and conditions of the profit-sharing agreement. Further, the joint operations partner had also filed a notice of breach against the subsidiary relating to the ownership of the equipment involved in the joint operations. These cases were under arbitration with the London Court of International Arbitration (LCIA).

On 1 September 2021, the LCIA issued a final verdict whereby it ordered the joint operations partner to pay the subsidiary an amount of USD 1,004,418 along with simple interest at the rate of 2.24% p.a. from the date of the verdict. Further, it ordered the subsidiary to pay USD 188,336 along with simple interest at the rate of 2.24% p.a. to the joint operations partner and also confirmed that the ownership of the equipment involved in the joint operations resides with the joint operations partner. The Group in consultation with its legal counsel is currently considering various options of final settlement with the joint operations partner, based on the above verdict issued by the LCIA.

16 SEGMENT INFORMATION

i) Primary segment information:

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

Energy : Exploration, drilling, development and production of oil and gas, alternate and renewable sources of energy, licensing and other activities related to the energy sector; and

Others : Investment and other related services.

The business of the subsidiary, Hagleig Petroleum Services and Investment Company Ltd. represented the Group's 'Contracting' operating segment. With Hagleig, being disposed off during the year, the 'Contracting' segment is no longer presented in the segment note.

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

The following table present revenue and results information of the Group's operating segments for the years ended 31 December 2023 and 31 December 2022, respectively:

	<i>Energy KD</i>	<i>Others KD</i>	<i>Total KD</i>
31 December 2023			
Segment revenue	497	-	497
Profit (loss) for the year from continuing operations	<u>108,807</u>	<u>(1,578,599)</u>	<u>(1,469,792)</u>
Other disclosures:			
Finance costs	(5,109)	(1,717)	(6,826)
Unrealized gain on financial assets at fair value through profit or loss	-	(404,850)	(404,850)
Impairment loss on investments	-	(1,324,828)	(1,324,828)
31 December 2022			
Segment revenue	350,696	-	350,696
(Loss) profit for the year from continuing operations	<u>(217,402)</u>	<u>216,216</u>	<u>(1,186)</u>
Other disclosures:			
Finance costs	(17,933)	(3,139)	(21,072)
Unrealized gain on financial assets at fair value through profit or loss	-	226,747	226,747

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

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As at and for the year ended 31 December 2023

16 SEGMENT INFORMATION (continued)

The following table presents assets and liabilities information for the Group's operating segments as at 31 December 2023 and 31 December 2022 respectively:

	<i>Energy KD</i>	<i>Others KD</i>	<i>Total KD</i>
<i>As at 31 December 2023</i>			
Segment assets	<u>854,520</u>	<u>3,878,052</u>	<u>4,732,572</u>
Segment liabilities	<u>1,243,276</u>	<u>573,352</u>	<u>1,816,628</u>
<i>As at 31 December 2022</i>			
Segment assets	<u>6,085,292</u>	<u>17,573,450</u>	<u>23,658,742</u>
Segment liabilities	<u>2,602,685</u>	<u>16,588,167</u>	<u>19,190,852</u>

ii) Secondary segment information:

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

	<u>2023</u>				<u>2022</u>			
	<i>Kuwait KD</i>	<i>MENA KD</i>	<i>Outside MENA KD</i>	<i>Total KD</i>	<i>Kuwait KD</i>	<i>MENA KD</i>	<i>Outside MENA KD</i>	<i>Total KD</i>
Segment revenue	<u>-</u>	<u>497</u>	<u>-</u>	<u>497</u>	<u>-</u>	<u>350,696</u>	<u>-</u>	<u>350,696</u>
Segment results	<u>(327,389)</u>	<u>598,429</u>	<u>(1,740,832)</u>	<u>(1,469,792)</u>	<u>(49,505)</u>	<u>(165,573)</u>	<u>213,892</u>	<u>(1,186)</u>

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

17.1 Credit risk

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

17.1 Credit risk (continued)

Maximum exposure to credit risk

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

	2023 KD	2022 KD
Cash and cash equivalents (excluding cash on hand)	3,133,317	17,062,748
Account receivables and other debit balances (excluding advances and prepayments)	160,025	3,142,569
	<u>3,293,342</u>	<u>20,205,317</u>

17.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by the finance department of the Group. To manage this risk, the Group invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by finance department to ensure adequate liquidity is maintained.

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

	<i>Less than 3 months</i> KD	<i>3 to 12 months</i> KD	<i>More than 12 months</i> KD	<i>Total</i> KD
2023				
Lease liabilities	5,850	17,550	81,900	105,300
Account payables and other liabilities	54,551	1,201,146	378,827	1,634,524
Due to shareholders	84,631	-	-	84,631
	<u>145,032</u>	<u>1,218,696</u>	<u>460,727</u>	<u>1,824,455</u>
2022				
Lease liabilities	5,850	43,365	438,269	487,484
Account payables and other liabilities	74,885	1,521,419	1,211,800	2,808,104
Due to shareholders	16,000,000	-	-	16,000,000
	<u>16,080,735</u>	<u>1,564,784</u>	<u>1,650,069</u>	<u>19,295,588</u>

17.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise of interest rate risk, foreign currency risk, and equity price risk.

17.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

17.3 Market risk (continued)

17.3.1 Interest rate risk (continued)

Financial instruments, which potentially subject the Group to interest rate risk, consist principally of cash and short-term deposits. The Group's terms deposits are short-term in nature and yield interest at commercial rates. Therefore, the Group believes there is minimal risk of significant losses due to interest rate fluctuations.

As at the reporting date, the Group does not hold interest bearing liabilities.

17.3.2 Foreign currency risk

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

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

	2023 Equivalent in KD	2022 Equivalent in KD
US Dollar	1,174,135	5,021,842
Euro	22	547
AED	(87,216)	2,605
Omani Riyal	(328,799)	(326,484)
Saudi Riyal	-	(172,131)
	<u>758,142</u>	<u>4,526,379</u>

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

Currency	2023			2022		
	Change in currency rate in %	Effect on consolidated statement of profit or loss KD	Effect on other comprehensive income KD	Change in currency rate in %	Effect on consolidated statement of profit or loss KD	Effect on other comprehensive income KD
US Dollar	±10	117,413	-	±10	502,184	-
Euro	±10	2	-	±10	55	-
AED	±10	(8,722)	-	±10	261	-
Omani Riyal	±10	(32,880)	-	±10	(32,648)	-
Saudi Riyal	±10	-	-	±10	(17,213)	-

17.3.3 Equity price risk

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividends payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2023 and 2022.

19 FAIR VALUES MEASUREMENT

Financial instruments comprise of financial assets and financial liabilities.

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

Financial liabilities consist of account payables and other liabilities, due to shareholders and lease liabilities.

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

The methodologies and assumptions used to determine fair values of assets is described in fair value section of Note 2.4 Summary of Significant Accounting Policies.

Financial instruments

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

	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
2023				
<i>Financial assets at fair value through profit or loss</i>				
Quoted fund	-	285,965	-	285,965
Unquoted fund	-	-	1,021,330	1,021,330
	<u>-</u>	<u>285,965</u>	<u>1,021,330</u>	<u>1,307,295</u>
2022				
<i>Financial assets at fair value through profit or loss</i>				
Quoted fund	-	274,827	-	274,827
Unquoted fund	-	-	2,779,603	2,779,603
	<u>-</u>	<u>274,827</u>	<u>2,779,603</u>	<u>3,054,430</u>

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

There were no transfers between levels within the fair value hierarchy during the year ended 31 December 2023.

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19 FAIR VALUES MEASUREMENT (continued)

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

	<i>As at 1 January 2023 KD</i>	<i>Loss recorded in the consolidated statement of profit or loss KD</i>	<i>Loss recorded in consolidated statement of comprehensive income KD</i>	<i>Foreign currency translation adjustment KD</i>	<i>As at 31 December 2023 KD</i>
<i>Financial assets at fair value through profit or loss</i>					
Unquoted fund	2,779,603	(1,740,817)	-	(17,456)	1,021,330
	<i>As at 1 January 2022 KD</i>	<i>Gain recorded in the consolidated statement of profit or loss KD</i>	<i>Gain recorded in consolidated statement of comprehensive income KD</i>	<i>Net purchases, sales, transfers and settlements KD</i>	<i>As at 31 December 2022 KD</i>
<i>Financial assets at fair value through profit or loss</i>					
Unquoted fund	2,526,436	221,284	-	31,883	2,779,603

Description of significant unobservable inputs to valuation of financial assets:

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data.

The management assessed that the impact on Group's loss would be immaterial if the relevant risk variable used to fair value the financial instruments classified as Level 3 were altered by 5 per cent.

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