

**Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait**

**Consolidated Financial Statements and Independent Auditor's Report
For the financial year ended 31 December 2021**

**Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait**

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For the financial year ended 31 December 2021**

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INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Arabi Group Holding Company K.S.C. (Public)
State of Kuwait**

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

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

In our opinion, except for the possible effects of the matter described in the "Basis of Qualified Opinion" paragraph below, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As disclosed in (Note 7), the financial assets at fair value through other comprehensive income include an amount of KD 95,811,000 (31 December 2020: KD 90,778,513), which represents 26% ownership by Arabi Group Holding Company K.S.C. (Public) in Health Assurance Hospitals Company K.S.C. (Public) ("Dhaman"). The Group's management believes that they had lost its significant influence on Dhaman, that was previously recorded as investment in associate during the year ended 31 December 2020. Accordingly, the Group's management decided to transfer this investment to be an investment at fair value through other comprehensive income. The Group used an external expert to make the valuation of this investment, which resulted in an unrealised gain amounting to KD 5,032,487 that was recognised in the consolidated statement of comprehensive income (31 December 2020: KD 24,354,954, unrealised gain that was recognised in the consolidated statement of income at the date of losing its significant influence). There are lawsuits filed by and against the Group regarding this investment, which is still being deliberated in the court (Note 37). Further, this may affect the Group's ownership percentage in the investment and the accounting treatment of the investment's other related adjustments on the consolidated statement of financial position and consolidated statement of income. Accordingly, we were unable to determine whether there are any obligations and adjustments to the investment in Dhaman and any other related adjustments. Consequently, our audit opinion is qualified in this regard since 31 December 2020.

Except for the possible effects of the matter described in the "Basis of Qualified Opinion" paragraph 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' Code of Ethics for Professional Accountants ("IESBA Code") together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the Shareholders of Arabi Group Holding Company K.S.C. (Public)
State of Kuwait**

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

Emphasis of Matters

- Without qualifying our opinion, we draw attention to (Note 1.3) and (Note 19), to the consolidated financial statements, with respect to the rescheduling of the Group's defaulted borrowings in the amount of KD 43,416,505 as at 31 December 2021 (31 December 2020: KD 25,934,609). The Group's management stated that they are in the process of rescheduling these amounts with the banks. As a result, the current portion of the borrowings exceeds the non-current portion, which leads to the increase in the current liabilities over the current assets as at 31 December 2021.
- Without qualifying our opinion we draw attention to (Note 37), to the consolidated financial statements, with respect to the Group's legal cases and its consequential impact on the consolidated financial statements for the year ended 31 December 2021.

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. In addition to the matter described in the "Basis of Qualified Opinion" paragraph above, we determined the below matters as key audit matters being reported in our report.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of Arabi Group Holding Company K.S.C. (Public)
State of Kuwait

Report on the Audit of Consolidated Financial Statements (Continued)

Key Audit Matters (Continued)

Valuation of investment in unquoted securities

The Group's investment in unquoted securities amounting to KD 101,657,723 (31 December 2020: KD 97,230,531) which represents 35% of the total assets as at 31 December 2021 are measured at fair value and classified as financial assets at fair value through other comprehensive income the Group uses an internal and external expert to assist it in determining the fair value of these investments.

As disclosed in (Note 4) "Significant accounting judgments, estimation uncertainty and assumptions" the valuation of investments in unquoted securities uses inputs other than observable market data and therefore are inherently subjective. It also requires significant judgment by management, especially due to COVID 19 pandemic, in determining the appropriate valuation methodology and uses of various assumptions such as cash flows, discount rates, market information and market risk adjustments. These investments are categorised within level 3 of the fair value hierarchy.

Given the inherent subjectivity and judgment required in the valuation of these unquoted investment securities, and the importance of disclosures relating to the assumptions used in the valuation, we addressed this as a key audit matter.

Refer to (Note 4) and (Note 35) on the consolidated financial statements for the related disclosures.

How our audit addressed the matter

Audit procedures performed by us included carrying out the following procedures and other matters:

- We evaluated the competence, capabilities, qualifications and other objectivity of the management experts engaged by the Group.
- Valuations which used significant unobservable inputs, we have tested on a sample basis the source data used in valuations, to the extent possible, to independent sources and externally available market data to evaluate the data's relevance, completeness and accuracy. We have also involved our internal valuation specialists in assessing the appropriateness of the valuation methodology applied to the valuation model, including discounts for lack of marketability.
- We evaluated the adequacy and the appropriateness of the Group's disclosures concerning the fair value measurement of investment securities and the sensitivity to changes in unobservable inputs in (Note 4) and (Note 35) on the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of Arabi Group Holding Company K.S.C. (Public)
State of Kuwait

Report on the Audit of Consolidated Financial Statements (Continued)

Key Audit Matters (Continued)

Receivables and Expected Credit Losses ("ECL")

As at 31 December 2021, the Group had reported for gross carrying amounts of contract receivables and trade receivables of KD 78,243,006 and KD 12,716,491 (31 December 2020: KD 80,956,703 and KD 4,261,904), respectively, and the related reported provision for ECL amounted of KD 12,779,359 and KD 4,622,728 (31 December 2020: KD 8,744,359 and KD 4,261,904) (Note 10) and (Note 11). The collectability of receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by its management. Given the magnitude and judgment involved in the provision assessment of receivables, we addressed this as a key audit matter.

Recognition of ECL under IFRS 9 is complex accounting policy, which requires considerable judgment in its implementation. ECL is dependent on management's judgment in assessing significant increase in credit risk and classification of receivables into various buckets and stages determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures. Moreover as disclosed in (Note 34). The COVID 19 pandemic significantly impacted the management's judgment applied in their determination of the ECL. As a result the ECL has a higher than usual degree of uncertainty and the used inputs are inherently subject to change.

Refer to (Note 4), (Note 34) and (Note 38) to the consolidated financial statements for its related disclosures.

How our audit addressed the matter

Audit procedures performed by us included carrying out the following procedures and other matters:

- Assessed the design and implementation of controls over inputs and assumptions used by the Group in developing the model, its governance and reviews controls performed by the management in determining the adequacy of the credit losses. Moreover our procedures were updated to incorporate consideration of the economic disruption caused by COVID 19 pandemic.
- We selected a sample from the outstanding receivables as at 31 December 2021 and we checked the management's determination of significant increase in credit risk and classification in appropriate bucket and stages, exposure at default, probability of default and loss given default.
- Assessed the appropriateness of various inputs and assumptions used by the Group's management to determine ECL.
- We also tested the arithmetical accuracy of the model on a sample basis.
- We evaluated the adequacy and the appropriateness of the Group's disclosures in relation to impairment model ("ECL") requirements of IFRS 9 made in the consolidated financial statements (Note 4), (Note 34) and (Note 38) on the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the Shareholders of Arabi Group Holding Company K.S.C. (Public)
State of Kuwait**

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

Other Information included in the Group's annual report for the year 2021

Management is responsible for the other information. The "Other information" section consists of the information included in the annual report of the Group for the year 2021, other than the consolidated financial statements and the auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of auditor's report. We expect to obtain the remaining sections of the annual report after the date of 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 mentioned above and 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 obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact in our report. 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 IFRSs, 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 Group 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the Shareholders of Arabi Group Holding Company K.S.C. (Public)
State of Kuwait**

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

Auditor's Responsibilities for the Audit of 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 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 Group's 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 auditor's 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 auditor's 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 companies 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the Shareholders of Arabi Group Holding Company K.S.C. (Public)
State of Kuwait**

Report on Other Legal and Regulatory Requirement

Furthermore, in our opinion except for the possible effects of the matter described in "Basis of Qualified Opinion" paragraph above, proper books of accounts 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 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies' Law No. 1 of 2016, and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2021 that might have had a material effect on the business of the Parent Company or its financial position.

Furthermore, in our opinion, except for the possible effects of the matter described in the "Basis of Qualified Opinion" section above, we report that nothing has come to our attention indicating any material violations during the financial year ended 31 December 2021 of the Law No. 7 of 2010 regarding Establishment of Capital Markets Authority and its Related Regulations, as amended, that might have had a material effect on the business of the Parent Company or its financial position.

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

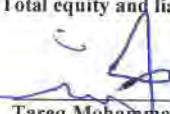
Kuwait: 31 March 2022

**Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait**

**Consolidated Statement of Financial Position
As at 31 December 2021**

	Notes	2021 KD	2020 KD
ASSETS			
Non-current assets			
Property, plant and equipment	5	28,142,302	28,496,870
Investment in an associate	6	1	1
Financial assets at fair value through other comprehensive income	7	101,657,723	97,230,531
Contract retentions		703,243	2,239,429
		<u>130,503,269</u>	<u>127,966,831</u>
Current assets			
Inventories	8	45,288,172	51,013,404
Contract assets	9	6,256,775	3,185,371
Contract receivables	10	65,463,647	72,212,344
Trade receivables and other debit balances	11	28,698,484	32,421,331
Due from related parties	12	8,876,529	3,760,144
Financial assets at fair value through profit or loss		4,289	3,889
Cash and cash equivalents	13	7,282,063	2,041,175
		<u>161,869,959</u>	<u>164,637,658</u>
Total assets		<u>292,373,228</u>	<u>292,604,489</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14	17,296,224	17,296,224
Share premium	15	7,877,292	7,877,292
Treasury shares	16	(1,480,519)	(1,480,519)
Treasury shares reserve		17,230	17,230
Statutory reserve	17	554,248	554,248
Voluntary reserve	18	324,297	324,297
Revaluation surplus		9,890,616	8,739,001
Foreign currencies translation reserve		117,867	124,625
Fair value reserve from financial assets at fair value through other comprehensive income		5,302,528	875,336
Accumulated losses		(5,710,547)	(354,036)
Equity attributable to Shareholders of the Parent Company		<u>34,189,236</u>	<u>33,973,698</u>
Non-controlling interests		5,030,362	6,829,106
Total equity		<u>39,219,598</u>	<u>40,802,804</u>
LIABILITIES			
Non-current liabilities			
Provision for end of service indemnity		5,071,913	5,380,487
Borrowings	19	31,017,828	39,483,993
Lease liabilities	20	325,189	345,833
		<u>36,414,930</u>	<u>45,210,313</u>
Current liabilities			
Borrowings	19	120,386,421	114,728,418
Lease liabilities	20	39,156	39,312
Due to banks	21	7,634,597	7,974,627
Notes payable	22	11,549,471	11,946,907
Finance lease obligations	23	-	50,605
Contract liabilities	9	-	324,746
Trade payables and other payables	24	56,047,817	53,085,148
Due to related parties	12	21,081,238	18,441,609
		<u>216,738,700</u>	<u>206,591,372</u>
Total liabilities		<u>253,153,630</u>	<u>251,801,685</u>
Total equity and liabilities		<u>292,373,228</u>	<u>292,604,489</u>

The accompanying notes on pages 13 to 76 form an integral part of these consolidated financial statements.


Tareq Mohammad Al Maousherji
Chairman

Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait

Consolidated Statement of Income

For the financial year ended 31 December 2021

		2021	2020
	Notes	KD	KD
Revenue from contracts with customers	25	70,139,974	78,535,212
Cost of revenue	26	<u>(57,342,456)</u>	<u>(58,105,856)</u>
Gross profit		12,797,518	20,429,356
Other operating income		3,094,520	909,207
General and administrative expenses	27	(11,263,669)	(11,865,730)
Provision for expected credit losses	28	(4,565,407)	(11,627,181)
Provision for obsolete and slow moving inventories	8	(750,342)	(631,320)
Loss on liquidation letter of guarantees	33	-	<u>(4,887,255)</u>
Loss from operations		<u>(687,380)</u>	<u>(7,672,923)</u>
Gain on sale of property, plant and equipment		1,032,983	19,183
Impairment losses	5	(43,520)	(50,964)
Share of results from associate	6	-	(1,145,954)
Effect of reclassification of an associate to financial assets at fair value through other comprehensive income	6	-	24,354,954
Unrealised gain / (loss) from financial assets at fair value through profit or loss		400	(1,054)
Other income		326,431	534,135
Provisions	24	-	(7,565,171)
Compensation income from legal claims	36	1,770,150	1,124,614
Finance costs		<u>(9,684,465)</u>	<u>(9,473,529)</u>
Net (loss) / profit for the year		<u>(7,285,401)</u>	<u>123,291</u>
Attributable to:			
Shareholders of the Parent Company		(5,456,511)	1,763,185
Non-controlling interests		<u>(1,828,890)</u>	<u>(1,639,894)</u>
		<u>(7,285,401)</u>	<u>123,291</u>
Basic and diluted (loss) / earnings per share attributable to the Shareholders of the Parent Company (fils)	29	<u>(33.07)</u>	<u>10.69</u>

The accompanying notes on pages 13 to 76 form an integral part of these consolidated financial statements.

**Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait**

Consolidated Statement of Comprehensive Income
For the financial year ended 31 December 2021

	Note	<u>2021</u> KD	<u>2020</u> KD
Net (loss) / profit for the year		(7,285,401)	123,291
Other comprehensive income items			
<i>Items that may be reclassified subsequently to the consolidated statement of income:</i>			
Foreign currencies translation adjustments		(3,528)	16,986
<i>Items that will not be reclassified subsequently to the consolidated statement of income:</i>			
Revaluation of freehold and leasehold land included in property, plant and equipment	5	1,278,531	992,171
Changes in fair value of financial assets at fair value through other comprehensive income		<u>4,427,192</u>	<u>614,665</u>
Other comprehensive income for the year		<u>5,702,195</u>	<u>1,623,822</u>
Total comprehensive (loss) / income for the year		<u>(1,583,206)</u>	<u>1,747,113</u>
Attributable to:			
Shareholders of the Parent Company		215,538	3,403,747
Non-controlling interests		<u>(1,798,744)</u>	<u>(1,656,634)</u>
		<u>(1,583,206)</u>	<u>1,747,113</u>

The accompanying notes on pages 13 to 76 form an integral part of these consolidated financial statements.

Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait

Consolidated Statement of Changes in Equity
For the financial year ended 31 December 2021

	Equity attributable to Shareholders of the Parent Company													
	Share capital	Share premium	Treasury shares	Treasury shares	Treasury shares reserve	Statutory reserve	Voluntary reserve	Revaluation surplus	Foreign currencies translation reserve	Fair value reserve from financial assets at fair value through other comprehensive income	Accumulated losses	Total	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance as at 1 January 2020	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	8,873,775	108,446	313,105	(3,314,147)	30,569,951	8,485,740	39,055,691	
Net profit / (loss) for the year	-	-	-	-	-	-	-	-	-	-	1,763,185	(1,639,894)	123,291	
Other comprehensive income / (loss) for the year	-	-	-	-	-	-	1,062,152	16,179	562,231	-	1,640,562	(16,740)	1,623,822	
Total comprehensive income / (loss) for the year	-	-	-	-	-	-	1,062,152	16,179	562,231	1,763,185	3,403,747	(1,656,634)	1,747,113	
Effect of disposal of right of use	-	-	-	-	-	-	(1,196,926)	-	-	1,196,926	-	-	-	
Balance as at 31 December 2020	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	8,739,001	124,625	875,336	(354,036)	33,973,698	6,829,106	40,802,804	
Balance as at 1 January 2021	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	8,739,001	124,625	875,336	(354,036)	33,973,698	6,829,106	40,802,804	
Net loss for the year	-	-	-	-	-	-	-	-	-	(5,456,511)	(5,456,511)	(1,828,890)	(7,285,401)	
Other comprehensive income / (loss) for the year	-	-	-	-	-	-	1,251,615	(6,758)	4,427,192	-	5,672,049	30,146	5,702,195	
Total comprehensive income / (loss) for the year	-	-	-	-	-	-	1,251,615	(6,758)	4,427,192	(5,456,511)	215,538	(1,798,744)	(1,583,206)	
Effect of disposal of property, plant and equipment	-	-	-	-	-	-	(100,000)	-	-	100,000	-	-	-	
Balance as at 31 December 2021	17,296,224	7,877,292	(1,480,519)	17,230	554,248	324,297	9,890,616	117,867	5,302,528	(5,710,547)	34,189,236	5,030,362	39,219,598	

The accompanying notes on pages 13 to 76 form an integral part of these consolidated financial statements.

**Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait**

Consolidated Statement of Cash Flows
For the financial year ended 31 December 2021

	Notes	2021 KD	2020 KD
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) / profit for the year		(7,285,401)	123,291
<i>Adjustments:</i>			
Depreciation	5	2,217,922	2,243,480
Impairment losses	5	43,520	50,964
Gain on sale of property, plant and equipment		(1,032,983)	(19,183)
Provision for expected credit losses	28	4,565,407	11,627,181
Provision for obsolete and slow moving inventories	8	750,342	631,320
Loss on liquidation letter of guarantees	33	-	4,887,255
Share of results of investment in associate	6	-	1,145,954
Effect of reclassification of an associate to financial assets at FVOCI	6	-	(24,354,954)
Unrealised (gain) / loss from financial assets at fair value through profit or loss		(400)	1,054
Provisions	24	-	7,565,171
Finance costs		9,684,465	9,473,529
Provision for end of service indemnity		781,748	923,230
		<u>9,724,620</u>	<u>14,298,292</u>
Changes in operating assets and liabilities:			
Contract retentions		1,536,186	98,779
Inventories		4,972,175	1,648,744
Contract assets		(3,071,404)	1,097,792
Contract receivables		2,713,697	(13,554,959)
Trade receivables and other debit balances		3,192,440	1,513,626
Due from related parties		(5,116,385)	(1,103,481)
Contract liabilities		(324,746)	(1,134,285)
Trade payables and other payables		2,289,892	1,683,409
Due to related parties		2,639,629	2,470,208
<i>Cash generated from operations</i>		<u>18,556,104</u>	<u>7,018,125</u>
Employees' end of service indemnity paid		(417,545)	(212,828)
Net cash flows generated from operating activities		<u>18,138,559</u>	<u>6,805,297</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Paid to purchase property, plant and equipment	5	(3,420,556)	(894,852)
Proceeds from sale of property, plant and equipment		3,811,868	1,620,942
Net cash flows generated from investing activities		<u>391,312</u>	<u>726,090</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	32	7,947,049	12,125,024
Repayment of borrowings	32	(11,786,997)	(6,331,056)
Net movement of lease liabilities	32	(20,800)	(89,509)
Net movement of due to banks	32	691,756	(1,999,727)
Net movement of notes payable	32	(397,436)	(1,019,399)
Net movement of finance lease obligations	32	(50,605)	(212,149)
Finance costs paid	32	(9,684,465)	(9,473,529)
Net cash flows used in financing activities		<u>(13,301,498)</u>	<u>(7,000,345)</u>
Net increase in cash and cash equivalents		<u>5,228,373</u>	<u>531,042</u>
Foreign currencies translation adjustments		12,515	39,387
Cash and cash equivalents at the beginning of the year		2,041,175	1,470,746
Cash and cash equivalents at the end of the year	13	<u>7,282,063</u>	<u>2,041,175</u>
Non-cash transactions:			
Provision for end of service indemnity transferred to payables		(672,777)	1,220,988
Restructure of notes payable to borrowings	32	-	17,950,381
Restructure of due to banks to borrowings	32	1,031,786	228,553
Effect of reclassification of an associate to financial assets at FVOCI	6	-	24,354,954

The accompanying notes on pages 13 to 76 form an integral part of these consolidated financial statements.

**Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait**

Notes to the Consolidated Financial Statements
For the financial year ended 31 December 2021

1. INCORPORATION AND ACTIVITIES

Arabi Group Holding Company K.S.C. (Public) (the "Parent Company") is a Kuwaiti Shareholding Company incorporated on 5 December 1982 and is listed on the Boursa Kuwait. The registered office of the Parent Company is P.O. Box 4090, Safat, 13041, Kuwait.

The principal activities of the Parent Company are as follows:

- Acquisition of shares of Kuwaiti or foreign shareholding and limited liability companies as well as participation in those companies' incorporation, administration, lending and providing third party guarantees for these companies.
- Granting loans to the companies in which the Parent Company holds shares, guarantee them before third parties and in this case the contribution ratio of the holding company in the capital of the borrowing company shall not be less than 20% at minimum.
- Acquisition of industrial rights and related intellectual properties or any other industrial trademarks or drawings and any other rights thereto, and renting thereof to other companies whether inside or outside State of Kuwait.
- Owning movables and real estate required to achieve its activities pursuant to the limits prescribed by law.

The Parent Company may have an interest to participate in any way with entities that carry on similar business activities or that may help the Parent Company achieve its objectives in the State of Kuwait or abroad. The Parent Company may also incorporate, purchase, manage or participate in incorporation of such entities or affiliate them.

The consolidated financial statements of the Parent Company and its subsidiaries (together referred to as "the Group") (Note 3.1).

The consolidated financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors' on 31 March 2022 and are subject to the approval of the General Assembly of Shareholders. The Ordinary General Assembly of the Shareholders of the Parent Company has the power to amend these consolidated financial statements after their issuance.

1.1 Basis of preparation

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

The consolidated financial statements of the Group are prepared under the historical cost convention. Except for freehold and leasehold land, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, that are measured at fair value.

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

1. INCORPORATION AND ACTIVITIES (CONTINUED)

1.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”), IFRIC interpretations as issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and Companies’ Law No.1 of 2016, and Executive Regulations, as amended.

1.3 Fundamental accounting concept

As at 31 December 2021, the Group’s current liabilities exceeded the current assets by KD 54,868,741 (31 December 2020: KD 41,953,714).

An amount of KD 43,416,505 is defaulted borrowing as at 31 December 2021 (31 December 2020: KD 25,934,609). The Group is in the process of rescheduling these amounts with the banks. As a result the current portion of the borrowings exceeds the non-current portion, which leads to the increase in the current liabilities over the current assets.

The Group’s management believes that the financial institutions will continue to provide and renew credit facilities.

The Group’s management has taken steps to ensure adequate liquidity to settle its obligations on its due dates.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

a) New standards, interpretations and amendments effective from 1 January 2021

The accounting policies used in preparation of the consolidated financial statements are consistent with those used in the previous year ended 31 December 2020 except for the changes due to implementation some of the new and amended International Financial Reporting Standards as at 1 January 2021, which did not result in a material impact on the Group’s consolidated financial statements.

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

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

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

a) New standards, interpretations and amendments effective from 1 January 2021 (Continued)

Interest Rate Benchmark Reform – IBOR ‘phase 2’ (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

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

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

b) Standards and interpretations issued but not yet effective

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

IFRS 17 – Insurance Contracts

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

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

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

This standard is not expected to have any impact to the Group’s consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

On 23 January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Amendments to IFRS 3: Reference to the Conceptual Framework

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

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the framework for the preparation and presentation of consolidated financial statements.

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

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

Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

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

Amendments to IAS 37: Onerous Contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Annual Improvements to IFRS Standards 2018-2020 cycles

The following is the summary of the amendments from the 2018-2020 annual improvements cycle:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16 (a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

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

IFRS 9 Financial Instruments – Fees in the ‘10 percent’ test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

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

Annual Improvements to IFRS Standards 2018-2020 cycles (Continued)

IAS 41 Agriculture: Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have impact on the Group.

IFRS 16 Leases: Lease incentives

The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

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

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides 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 to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group’s accounting policies disclosures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2021 (See below). All subsidiaries have a reporting date of 31 December. 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.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) 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 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 OCI are attributed to the equity holders of the Parent Company 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 in 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 the consolidated statement of income. Any investment retained is recognised at fair value.

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, which is 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 administrative expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

Business combinations and goodwill (Continued)

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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the consolidated statement of income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the consolidated statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

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

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

**Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait**

Notes to the Consolidated Financial Statements
For the financial year ended 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

The consolidated financial statements include the financial statements of Arabi Group Holding Company K.S.C. (Public) and its subsidiaries as follows:

<u>Name of the subsidiary</u>	<u>Ownership (%)</u>		<u>Country of incorporation</u>	<u>Principal activities</u>
	<u>2021</u>	<u>2020</u>		
	%	%		
Arabi Company W.L.L. *	100	100	State of Kuwait	General trading and contracting
Arabi Engineering and Mechanical Works Company W.L.L.	100	100	State of Kuwait	General trading and contracting
Arabi Enertech Company K.S.C. (Closed) **	73.08	73.08	State of Kuwait	General trading and contracting
Daleel International Company W.L.L. ***	100	100	State of Kuwait	IT services
Key BS JLT W.L.L. ***	100	100	United Arab Emirates	IT services

* The consolidated financial statements include the financial statements of Arabi Company W.L.L. and its subsidiaries as follows:

<u>Name of the subsidiary</u>	<u>Ownership (%)</u>		<u>Country of incorporation</u>	<u>Principal activities</u>
	<u>2021</u>	<u>2020</u>		
	%	%		
Gulf Services and Industrial Supplies Company	100	100	Oman	General Trading and Contracting
Arabi Company W.L.L.	100	100	Qatar	General Trading and Contracting
Altec Corporation Limited	90.03	90.03	India	General Trading and Contracting
Warba Mechanical Equipments L.L.C.	70	70	United Arab Emirates	General Trading and Contracting

** The consolidated financial statements include the financial statement of Arabi Enertech Company K.S.C. (Closed) and its subsidiary as follows:

<u>Name of the subsidiary</u>	<u>Ownership (%)</u>		<u>Country of incorporation</u>	<u>Principal activities</u>
	<u>2021</u>	<u>2020</u>		
	%	%		
Medical Engineering Company W.L.L.*	98	98	State of Kuwait	General trading and contracting

*** The Group has not consolidated these subsidiaries since they are not material to the consolidated financial statement of the Group.

**Arabi Group Holding Company K.S.C. (Public) and its subsidiaries
State of Kuwait**

Notes to the Consolidated Financial Statements
For the financial year ended 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

Summarised financial information of material non-controlling interest

The total non-controlling interests as at 31 December 2021 is KD 5,030,362 (31 December 2020: KD 6,829,106) mainly related to Arabi Enertech Company K.S.C. (Closed) amounting to KD 5,589,456 (31 December 2020: KD 7,363,833).

Financial information of a subsidiary that has a material non-controlling interest:

Proportion of equity interest held by non-controlling interest:

Name of subsidiary	Country of incorporation and operation	2021	2020
Arabi Enertech Company K.S.C. (Closed)	Kuwait	26.92%	26.92%

Accumulated balance of material non-controlling interest:

Name of subsidiary	2021	2020
	KD	KD
Arabi Enertech Company K.S.C. (Closed)	5,589,456	7,363,833

Summarised financial information of the subsidiary:

This information is based on amounts before inter-company eliminations.

Summarised statement of financial position for Arabi Enertech Company K.S.C. (Closed):

	2021	2020
	KD	KD
Non-current assets	16,531,768	19,558,019
Current assets	134,176,015	147,807,310
Non-current liabilities	(5,648,909)	(18,637,827)
Current liabilities	(124,292,499)	(121,368,827)
Total equity	20,766,375	27,358,675
<i>Attributable to:</i>		
Shareholders of the Parent Company	15,176,919	19,994,842
Non-controlling interest	5,589,456	7,363,833
	20,766,375	27,358,675

Summary of the statement of comprehensive income:

	2021	2020
	KD	KD
For the financial year ended 31 December		
Revenues	32,290,610	41,519,895
Expenses	(38,982,910)	(47,553,329)
Loss	(6,692,300)	(6,033,434)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred or assumed by the Group to the former stakeholders of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. Acquisition-related costs are generally recognised in consolidated statement of income as incurred. At the acquisition date, the assets and liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9, or IAS 37, provisions, contingent liabilities and assets, as appropriate, with the corresponding gain or loss being recognised in the consolidated statement of income.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated statement of income as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

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Notes to the Consolidated Financial Statements
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Business combinations (Continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in the consolidated statement of comprehensive income are reclassified to consolidated statement of income where such treatment would be appropriate if that interest was disposed of.

3.3 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of income as incurred.

Freehold and leasehold land is measured initially at fair value. After initial recognition, Freehold and leasehold land is measured at fair value at the date of the revaluation less any subsequent accumulated impairment losses.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the consolidated statement of income, the increase is recognised in the consolidated statement of income. A revaluation deficit is recognised in the consolidated statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of property, plant and equipment as follows:

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

	<u>Years</u>
Buildings constructed on freehold and leasehold land	20
Machinery and heavy equipment	5 - 20
Vehicles	5
Furniture and office equipment	4 - 5

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group's investment in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of result from associate' in the consolidated statement of income.

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

3.5 Inventories

Inventories are valued at the lower of cost and net realisable value after providing allowances for any obsolete or slow-moving items. Costs comprise direct materials, direct labor costs and those overheads that have been incurred in bringing the inventory to their present location and condition. Cost is determined on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Write-down is made for obsolete and slow-moving items based on their expected future use and net realisable value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually. Whenever there is an indication that the asset may be impaired, its recoverable amount is estimated.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

For a non-financial asset, other than goodwill, in which impairment subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of consolidated statement of income.

3.7 Financial instruments

3.7.1 Financial assets

i. Classification and measurement of financial assets

Equity investment at fair value through other comprehensive income

Upon initial recognition of a non-trading equity investment, the Group can irrevocably decide to present subsequent changes in the fair value of the investment in other comprehensive income. This decision is made on the basis of each investment alone.

Subsequent Measurement

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in consolidated statement of comprehensive income. Other net profits and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial instruments (Continued)

3.7.1 Financial assets (Continued)

i. Classification and measurement of financial assets (Continued)

Financial assets at amortised cost

Financial assets are measured at amortised cost when both of the following conditions are met and are not classified as at fair value through profit or loss:

- Held under a business model whose objective is to retain the asset for the collection of contractual cash flows,
- Contractual terms, on certain dates, result in cash flows that are only payments of principal and interest on the principal of the outstanding debt.

Subsequent Measurement

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of income.

The financial assets at amortised cost consist of “contract retentions”, “contract assets”, “contract receivables”, “trade receivables and other debit balances”, “due from related parties”, and “cash and cash equivalents”.

Contract assets

A contract asset is the right to consideration in exchange for 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 payment is due, a contract asset is recognised for the earned consideration that is conditional.

Receivables

Receivables are amounts due from customers for products sold or services performed in the ordinary course of business and are recognised initially at fair value and subsequently measured at amortised cost, less provision for expected credit losses.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank balances, and deposits held at call with banks, they are short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Effective interest rate method

The effective interest rate is a method of calculating the amortised cost of a financial asset and of allocating interest over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial instruments (Continued)

3.7.1 Financial assets (Continued)

i. Classification and measurement of financial assets (Continued)

Equity investment at fair value through profit or loss

All financial assets that are not classified as financial assets measured at amortised cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. The Group may at initial recognition make an irrevocable determination of a financial asset that does not meet the measurement requirements at amortised cost or fair value through other comprehensive income as a financial asset at fair value through profit or loss if that would exclude or significantly limits any accounting differences that may arise.

A financial asset (unless it is included in a contract receivables without a material financing element initially measured at the transaction price) is initially measured at fair value plus, for an item not carried at fair value through profit or loss, transaction costs directly attributable to its acquisition.

Subsequent Measurement

These assets are subsequently measured at fair value. Net gains and losses, including any interests or dividends income, are recognised in consolidated statement of income.

ii. Impairment of financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial instruments (Continued)

3.7.1 Financial assets (Continued)

ii. Impairment of financial assets (Continued)

The Group has chosen to measure the provision for expected credit losses of contract receivables and trade receivables in an amount equivalent to the expected credit losses over the life of the instrument using the simplified method (Note 34).

The maximum period to be taken into account when estimating expected credit losses is the maximum contractual period during which the Group is exposed to credit risk.

Measurement of expected credit losses

The expected credit loss is the estimated probability of credit losses. Credit losses are measured at the present value of all cash deficits (i.e., the difference between the cash flows due to the enterprise in accordance with the contract and the cash flows that the Group expects to receive). The expected credit losses are discounted at the effective interest rate of the financial asset.

Financial assets with low credit value

At the reporting date, the Group assesses whether the financial assets carried at amortised cost have been impaired. A financial asset is impaired when one or more events have a material adverse effect on the future cash flows of the financial asset.

Impairment presentation

Provision for losses on financial assets measured at amortised cost is deducted from the total carrying amount of the asset.

Expected credit losses on contract receivables and trade receivables are presented separately in the consolidated statement of income.

Contract assets

Contract assets are reported for a carrying amount of KD 6,256,775 as at 31 December 2021 (31 December 2020: KD 3,185,371) (Note 9). The Group's impairment model "ECL" as at 31 December 2021 has not had any material impact on contract assets balance.

Contract receivables and trade receivables

(Note 34) provides further details on the calculation of expected credit losses relating to contract receivables and trade receivables. The Group takes into consideration the model and some assumptions used to calculate credit losses expected as key sources of uncertainty.

Expected credit losses are calculated based on experience from actual credit losses over the past 3-5 years. The Group has calculated expected credit loss rates for its customers.

The ECLs on contract receivables and trade receivables are estimated using a credit matrix based on the customer's past experience and an analysis of the current consolidated financial position. These are adjusted based on the specific factors of the customers type, the general economic conditions of the industry in which the customer exercises his operating activity, at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial instruments (Continued)

3.7.1 Financial assets (Continued)

ii. Impairment of financial assets (Continued)

Contract receivables and trade receivables (continued)

The Group recognised a total expected credit losses loss as at 31 December 2021 amounted to KD 12,779,359 and KD 4,622,728 (31 December 2020: KD 8,744,359 and KD 4,261,904) (Note 10 and 11, respectively) against all amounts due to past experience indicating that these contract receivables and trade receivables, may not be fully recoverable. The risk analysis of expected customer default rate by age category of debt is shown in (Note 34).

Due from related parties

Due from related parties are reported for a gross amount of KD 12,805,039 as at 31 December 2021 (31 December 2020: KD 7,688,654) (Note 12).

The Group recognised a total expected credit losses as at 31 December 2021 amounted to KD 3,928,510 (31 December 2020: KD 3,928,510) (Note 12) against all amounts due to past experience indicating that these due from related parties may not be fully recoverable.

Cash and cash equivalents

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, where cash is placed with financial institutions with a high credit rating the identified impairment loss was immaterial.

Derecognition of financial assets

A financial asset is derecognised by the Group only when the contractual rights to the cash flows recognised from the asset expire or when the Group transfers the financial asset and all the risks and rewards of ownership of the financial asset to another party. If the Group does not transfer or retain all the risks and rewards of ownership and continues to exercise control of the transferred asset, it recognises its asset held in the asset and any associated liability for the amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of the transferred financial asset, the Group continues to recognise the financial asset.

3.7.2 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or loans. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value. Borrowings are recognised initially at fair value, net of transaction costs incurred. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In that case, fees shall be posted until the withdrawal is carried out.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial instruments (Continued)

3.7.2 Financial liabilities (Continued)

Classification and subsequent measurement

The financial liabilities include “borrowings”, “lease liabilities”, “due to banks”, “notes payable”, “finance lease obligations”, “trade payables and other payables” and “due to related parties”.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates using the effective yield method.

Trade payables and other payables

Trade payables and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non - current liabilities.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation is discharged, cancelled or enforced. When an existing obligation is replaced by another obligation from the same borrower on substantially different terms or the terms of the financial liability are changed substantially, such replacement or modification is treated as a derecognition of the original liability and recognition of a new obligation. The difference between the related carrying amounts is recognised in the consolidated statement of income.

3.7.3 Offsetting

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Contract liabilities

A contract liability arises if a customer pays consideration or if the Group has a right to consideration that is unconditional before the goods or services is transferred to the customer. Contract liability is recognised as revenue when the Group performs under the contract.

3.9 Provision for end of service indemnity

The Group provides end of services benefits to its Non-Kuwaiti employees in accordance with the employment contracts and the Kuwaiti Labour Law. The entitlement to those benefits is based upon the employees' final salary and length of services, subject to completion of a minimum service period, and are payable to the employees on termination of their employment with the Group. The expected costs of these benefits are accrued over the period of employment.

Concerning the Kuwaiti national employees, the Group makes subscriptions to the Public Institution for Social Security being calculated as a percentage of monthly salaries of the employees. The Group's commitment is limited to such amounts of commitments which are recognised as an expense upon satisfaction of the vesting conditions by related staff. The cost is considered as part of staff costs.

The Group has no expectation of settling its employees' end of service benefits obligation within 12 months from the consolidated financial position date and, therefore, it has classified the obligation within non-current liabilities in the consolidated statement of financial position. The provision is not discounted to present value as the effect of the time value of money is not expected to be significant.

3.10 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured at the present value of the consideration expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3.11 Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in Shareholders' equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves, and then share premium.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Treasury shares (Continued)

Gains realised subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of share premium, reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Where any the Parent Company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity attributable to the Parent Company's Shareholders.

3.12 Foreign currency

Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Kuwaiti Dinars ("KD").

Transactions and balances

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the consolidated financial statements date.

Foreign exchange profits and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

3.13 Revenue recognition

Revenue from contracts with customers for sales of goods or services in the ordinary course of the Group's activities is recognised in accordance with the following 5-step model:

1. Identify contracts with customers: A contract is an agreement which creates enforceable rights and obligations and sets out criteria that must be met;
2. Identify performance obligations within the contract: A performance obligation is a promise to deliver a good or a service to a customer;
3. Determine the transaction price: The transaction price is the amount to which the Group expects to be entitled in exchange for delivering the promised goods or services to a customer;
4. Allocate the transaction price to the performance obligations, if more than one;
5. Recognise revenue as and when the performance obligation(s) is/are satisfied.

Revenue is measured on the basis of the consideration that the Group expects to accrue through the contract with the customer, excluding amounts collected on behalf of the other parties. Revenue is recognised for the transfer of control over the goods or service to the customer.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Revenue recognition (Continued)

Control shall be transferred at a specified time if none of the criteria necessary for the carriage of the goods or service is met over a period of time. The Group takes the following factors into consideration whether or not control is transferred:

- The Group has an existing right to make payments against the asset.
- The customer has a legal right in the original.
- The Group transfers the physical possession of the asset.
- The customer has significant risks and rewards to the ownership of the asset.
- The customer has accepted the asset.

The Group's revenue sources are as follows:

Rendering of services

Revenue from rendering of services is recognised over time, the Group is involved in providing services related to installation and maintenance of pipelines. Revenue from such services is recognised upon completion of services as the duration of services is generally is long in nature. The Group becomes entitled to invoice customers based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work signed by a customer internal technical assessor and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to contract receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the Group recognises a contract liability for the difference.

Contracting service

Revenue from construction is recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The Group considers that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

Manpower supply

Revenue from manpower supply is satisfied over time, as such, the Group uses input method to measure the progress of satisfaction of the performance obligation based on labour hours expended relative to the total expected inputs required in order to satisfy the performance obligation.

Sale of goods

Sales represent total invoiced amount of goods sold during the year. Revenue from sale of goods is recognised when the control over the goods is transferred to the customer. For standalone sales, that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods. Delivery occurs when the goods have been shipped to the specific location, have been purchased at store by the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are expensed in the consolidated statement of income in the year in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.15 Leases

The Group as a lessor

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

Finance lease

The amounts due from lessees under the finance lease are stated as accounts receivable at the amount of the Group's net investment in the lease. Finance lease income is allocated to financial periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating lease

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

The Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. The Group recognises right-of use assets and the lease liabilities regarding all lease arrangements when it acts as the lessee.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery 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 considered of low value. 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labor Support Tax (NLST)

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

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance resolution No. 58/2007.

3.17 Related parties' transactions

Related parties consist of major Shareholders, directors, executive officers, their close family members and companies of which they are principal owners. All related parties transactions are conducted on an arm's length basis and are approved by management.

3.18 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Contingent assets and liabilities

Contingent assets

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

Contingent liabilities

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.

3.20 Segment reporting

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATION UNCERTAINTY AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and 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.

Estimates and assumptions are reviewed periodically. The effect of an adjustment on estimates is recognised in the period in which the adjustment is made and in the future period if the adjustment affects future periods. The following estimates are for the future and may result in significant risk of material changes to the assets and liabilities over the next financial years.

Significant accounting judgments

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

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 several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. 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 or to terminate.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATION UNCERTAINTY AND ASSUMPTIONS (CONTINUED)

Significant accounting judgments (Continued)

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

The Group included the renewal period as part of the lease term for leases of leasehold land with shorter non-cancellable period (i.e., five years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on operations if the leased asset is not readily available. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Classification of financial instruments

On acquisition of a financial asset, the Group decides whether it should be classified as “investments at fair value through profit or loss”, “investments at fair value through other comprehensive income” or “investments at amortised cost”. IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group’s business model for managing the assets of the instrument’s contractual cash flow characteristics. The Group follows the guidance of IFRS 9 on classifying its financial assets which is described in the accounting policy (Note 3.7).

Revenue recognition

The Group reviews periodically the timing of meeting performance obligations in contracts with customers, including significant payment terms and related revenue recognition policies (Note 3.13 and Note 25).

Estimation uncertainty 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 that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of freehold and leasehold land

The Group carries its freehold and leasehold land at revalued amounts, with changes in fair value being recognised in OCI. The freehold and leasehold land were valued by reference to transactions involving properties of a similar nature, location and condition. The Group engaged independent valuation specialists to assess fair values as at 31 December 2021 for the freehold and leasehold land (Note 5).

The key assumptions used to determine the fair value of the freehold and leasehold land and sensitivity analyses are provided in (Note 35).

Useful lives of property, plant and equipment

As described in the accounting policies, the Group reviews the estimated useful lives over which its property, plant and equipment are depreciated. The Group’s management is satisfied that the estimates of useful lives are appropriate.

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4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATION UNCERTAINTY AND ASSUMPTIONS (CONTINUED)

Estimation uncertainty and assumptions (Continued)

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Estimating the incremental borrowing rate for leases

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 or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Fair value measurements and valuation techniques of unquoted investments

The Group's management determines the main appropriate techniques and inputs required for measuring the fair value. In determining the fair value, management uses observable market data as appropriate, in case no observable market data is available the Group uses external valuer qualified to do the valuation.

Valuation of unquoted equity securities 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;
- Earnings multiples;
- Price to book multiples;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- Underlying net asset base of the investment; or
- Other valuation models

The Group has updated the fair value studies relating to investments in unquoted shares as a result of the negative impacts on the fair value of unquoted financial investments due the spread of COVID-19.

The determination of the cash flows, earnings multiples, price to book multiples and discount factors for unquoted equity securities requires significant estimation.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATION UNCERTAINTY AND ASSUMPTIONS (CONTINUED)

Estimation uncertainty and assumptions (Continued)

Provision for obsolete and slow moving inventories

The determination of the marketability of the inventory and the factors determining the impairment of the inventory involve significant judgment.

Inventories are held at cost and net realisable value whichever is lower. When inventories become old or obsolete, an estimate is made of the required impairment. 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.

Provision for expected credit losses for contract receivables and trade receivables

The Group uses a dedicated matrix to calculate provision for expected credit losses for contract receivables and trade receivables. Provision rates are based on previous days due to the aggregation of different segments of customers with similar loss patterns (ie, by geographical location, type of product, type and valuation of the customer, coverage of letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The Group has reassessed its significant judgments and estimates in respect of expected credit losses including probability of default, loss rate on default and incorporation of forward looking information because of the negative economic impacts due to COVID-19 outbreak.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The information relating to the provision of expected credit losses for contract and trade receivables is disclosed in (Note 34).

Impairment of associate

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is 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 loss as "impairment loss of investment in associate" in the consolidated statement of income.

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4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATION UNCERTAINTY AND ASSUMPTIONS (CONTINUED)

Estimation uncertainty and assumptions (Continued)

Contingent liabilities

Contingent liabilities arise as a result of past events confirmed only by the occurrence or non-occurrence of one or more of uncertain future events that are not included in full within control of the Group. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment.

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5. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings constructed on freehold and leasehold land	Machinery and heavy equipment	Vehicles	Furniture and office equipment	Projects under construction	Total
	KD	KD	KD	KD	KD	KD	KD
Cost or valuation							
Balance as at 1 January 2020	3,767,843	20,133,682	11,634,763	5,562,898	3,970,252	1,205,377	46,274,815
Additions	-	590,745	151,737	29,481	85,315	37,574	894,852
Transfer	-	335,264	-	-	-	(335,264)	-
Disposals	-	(1,750,710)	(51,945)	(135,574)	(303,788)	-	(2,242,017)
Revaluation adjustment	124,171	868,000	-	-	-	-	992,171
Foreign currency translation adjustments	3,629	(4,470)	(13,913)	2,035	5,675	-	(7,044)
Balance as at 31 December 2020	3,895,643	20,172,511	11,720,642	5,458,840	3,757,454	907,687	45,912,777
Additions	-	2,180,413	45,575	1,058,090	136,478	-	3,420,556
Disposals	(2,300,000)	(120,000)	(1,009,287)	(1,269,117)	(173,957)	-	(4,872,361)
Revaluation adjustment	89,944	1,188,587	-	-	-	-	1,278,531
Foreign currency translation adjustments	(5,450)	(5,918)	(16,650)	(1,757)	(2,980)	-	(32,755)
Balance as at 31 December 2021	1,680,137	23,415,593	10,740,280	5,246,056	3,716,995	907,687	45,706,748
Accumulated depreciation and impairment							
Balance as at 1 January 2020	216,683	2,985,196	5,222,146	4,382,988	2,959,067	-	15,766,080
Charge for the year	-	414,618	1,002,583	465,241	361,038	-	2,243,480
Impairment losses	50,964	-	-	-	-	-	50,964
Related to disposals	-	(152,005)	(51,945)	(132,825)	(303,483)	-	(640,258)
Foreign currency translation adjustments	-	(474)	(11,033)	1,648	5,500	-	(4,359)
Balance as at 31 December 2020	267,647	3,247,335	6,161,751	4,717,052	3,022,122	-	17,415,907
Charge for the year	43,520	442,088	1,008,920	510,209	256,705	-	2,217,922
Impairment losses	-	-	-	-	-	-	43,520
Related to disposals	-	(47,013)	(657,605)	(1,255,681)	(133,177)	-	(2,093,476)
Foreign currency translation adjustments	-	(1,587)	(14,155)	(1,702)	(1,983)	-	(19,427)
Balance as at 31 December 2021	311,167	3,640,823	6,498,911	3,969,878	3,143,667	-	17,564,446
Net book value							
Balance as at 31 December 2020	3,627,996	16,925,176	5,558,891	741,788	735,332	907,687	28,496,870
Balance as at 31 December 2021	1,368,970	19,774,770	4,241,369	1,276,178	573,328	907,687	28,142,302

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5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The depreciation charged for the year is allocated as follows:

	<u>2021</u>	<u>2020</u>
	KD	KD
Cost of revenue (Note 26)	1,564,450	1,534,454
General and administrative expenses (Note 27)	653,472	709,026
	<u>2,217,922</u>	<u>2,243,480</u>

- Buildings are constructed on leasehold land under renewal lease agreement from the Public Authority for Industry, State of Kuwait.
- The Group has mortgaged revalued leasehold land amounted to KD 10,925,000 and buildings constructed with carrying amount of KD 1,316,289 (31 December 2020: revalued leasehold land amounted to KD 9,050,000 and buildings constructed with carrying amount of KD 213,568) to a local bank against borrowings (Note 19).
- The Group has mortgaged revalued freehold land amounted KD Nil and buildings constructed with carrying amount of KD Nil (31 December 2020: revalued freehold land amounted KD 2,300,000 and buildings constructed with carrying amount of KD 83,967) are mortgaged to a local banks against borrowings (Note 19).
- The Group has mortgaged revalued freehold land amounted to KD 942,159 and buildings constructed with carrying amount of KD 824,200 (31 December 2020: revalued freehold land amounted to KD 959,234 and buildings constructed with carrying amount of KD 856,529) are mortgaged to a foreign banks against borrowings (Note 19).

Fair value of the freehold and leasehold land was determined using the market comparable method. The valuations have been performed by the valuers and are based on proprietary databases of prices of transactions for freehold and leasehold land of similar nature, location and condition. As at the dates of revaluation on 31 December 2021, the freehold and leasehold lands' fair values are based on valuations performed by independent valuers who has valuation experience for similar freehold and leasehold land. Since this valuation was performed using a significant unobservable input, the fair value was classified as a Level 2 measurement. Fair value measurement disclosures for the revalued freehold and leasehold land are provided in (Note 35).

6. INVESTMENT IN AN ASSOCIATE

The Group has the following investment in an associate:

<u>Name of the associate</u>	<u>Country of incorporation</u>	<u>Ownership (%)</u>		<u>2021</u>	<u>2020</u>
		<u>2021</u>	<u>2020</u>	KD	KD
Agricultural Environmental Projects Company W.L.L.	State of Kuwait	40%	40%	1	1
				<u>1</u>	<u>1</u>

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6. INVESTMENT IN AN ASSOCIATE (CONTINUED)

The following table shows the movement in the investment in an associate:

	<u>2021</u>	<u>2020</u>
	KD	KD
Balance at the beginning of the year	1	67,569,514
Share of results	-	(1,145,954)
Effect of reclassification of an associate to financial assets at fair value through other comprehensive income *	-	24,354,954
Transferred to financial assets at fair value through other comprehensive income (Note 7)	-	(90,778,513)
Balance at the end of the year	<u>1</u>	<u>1</u>

* During the previous year ended 31 December 2020, the Group transferred its investment in Health Assurance Hospital Company K.S.C. (Public) (Dhaman) (the "associate") to financial assets at FVTOCI (Note 7), as the Group's Management believes that they had lost its significant influence for this investment accordingly, the Group had valued this investment, which resulted in a gain amounting to KD 24,354,954 that was recognised in the consolidated statement of income.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2021</u>	<u>2020</u>
	KD	KD
Local unquoted securities	<u>101,657,723</u>	<u>97,230,531</u>

During the previous year ended 31 December 2020, the Group transferred its investment in Health Assurance Hospital Company K.S.C. (Public) (Dhaman) (previously recognised as "investment in associate") to financial assets at fair value through other comprehensive income (FVOCI) which was recognised at its fair value on the transfer date (Note 6).

Financial assets at fair value through other comprehensive income amounted to KD 100,583,546 (31 December 2020: KD 95,479,459) are pledged against borrowings (Note 19).

As at 31 December 2021, the Group has commitment amounting to KD 29,900,000 as a capital subscription towards the remaining 50% of Dhaman unpaid capital. This amount was paid subsequently on 20 January 2022, there is a legal case filled by the Group against Dhaman relating to the establishment procedures (Note 37) and (Note 39).

There is assignment right in favor of Mashfa for Medical Services W.L.L. ("Mashfa") (one of Group's creditors for Dhaman) for 190,513,274 shares of Dhaman shares owned by the Group against the lending amount of KD 21,528,000 (Note 24). There is a legal case relating to the assignment right (Note 37).

Fair value measurement disclosures for financial assets at fair value through other comprehensive income are disclosed in (Note 35).

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8. INVENTORIES

	<u>2021</u>	<u>2020</u>
	KD	KD
Finished goods	44,911,352	49,813,070
Provision for obsolete and slow moving inventories *	<u>(3,829,429)</u>	<u>(3,265,904)</u>
	41,081,923	46,547,166
Work in process	4,206,249	4,466,238
	<u>45,288,172</u>	<u>51,013,404</u>

* Movement in the provision for obsolete and slow moving inventories is as follows:

	<u>2021</u>	<u>2020</u>
	KD	KD
Balance at the beginning of the year	3,265,904	2,617,785
Charge during the year	750,342	631,320
Written off during the year	(184,102)	(2,917)
Foreign currencies translation adjustments	<u>(2,715)</u>	<u>19,716</u>
Balance at the end of the year	<u>3,829,429</u>	<u>3,265,904</u>

9. CONTRACT ASSETS / LIABILITES

	<u>2021</u>	<u>2020</u>
	KD	KD
Contract assets	<u>6,256,775</u>	<u>3,185,371</u>
Contract liabilities	<u>-</u>	<u>324,746</u>

Contract assets represents the revenue earned from construction as receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to contract receivables.

Contract liabilities include advances received to render construction services. The outstanding balances of these accounts decreased in 2021 due to the continuous movement in the Group's customer base.

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10. CONTRACT RECEIVABLES

	<u>2021</u>	<u>2020</u>
	KD	KD
Contract receivables	78,243,006	80,956,703
Provision for expected credit losses *	<u>(12,779,359)</u>	<u>(8,744,359)</u>
	<u>65,463,647</u>	<u>72,212,344</u>

Contract receivables are non-interest bearing and are generally due within 30 to 90 days.

The risk analysis of the expected customer default rate by age category of debt is shown in (Note 34).

* The movement in the provision for expected credit losses is as follows:

	<u>2021</u>	<u>2020</u>
	KD	KD
Balance at the beginning of the year	8,744,359	9,840,440
Charge during the year (Note 28)	4,035,000	8,750,367
Write off during the year	-	<u>(9,846,448)</u>
Balance at the end of the year	<u>12,779,359</u>	<u>8,744,359</u>

11. TRADE RECEIVABLES AND OTHER DEBIT BALANCES

	<u>2021</u>	<u>2020</u>
	KD	KD
Trade receivables	12,716,491	15,263,202
Less: provision for expect credit losses *	<u>(4,622,728)</u>	<u>(4,261,904)</u>
	8,093,763	11,001,298
Retentions	2,685,736	1,772,544
Advance payment to suppliers	12,323,320	14,630,184
Refundable deposits	528,316	815,926
Prepaid expenses	2,811,707	1,969,587
Staff receivables	918,650	1,147,286
Others	1,673,125	1,420,639
Provision for expect credit losses *	<u>(336,133)</u>	<u>(336,133)</u>
	<u>28,698,484</u>	<u>32,421,331</u>

* The movement in the provision for expected credit losses is as follows:

	<u>2021</u>	<u>2020</u>
	KD	KD
Balance at the beginning of the year	4,598,037	3,665,522
Charge during the year (Note 28)	530,407	950,028
Written off during the year	(164,972)	(19,257)
Foreign currencies translation adjustments	(4,611)	1,744
Balance at the end of the year	<u>4,958,861</u>	<u>4,598,037</u>

The risk analysis of the expected customer default rate by age category of debt is shown in (Note 34).

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12. RELATED PARTIES' DISCLOSURES

Related parties represent major Shareholders, directors and senior management personnel of the Parent company, and companies controlled, or significantly influenced by such parties. The pricing policies and conditions for these transactions are approved by the Parent Company's management. The significant related parties' balances and transactions are as follows:

Balances included in the consolidated statement of financial position:

	<u>Shareholders</u>	<u>Other related parties</u>	<u>2021</u>	<u>2020</u>
	KD	KD	KD	KD
Due from related parties	-	12,805,039	12,805,039	7,688,654
Less: Provision for expected credit losses *	-	(3,928,510)	(3,928,510)	(3,928,510)
	-	8,876,529	8,876,529	3,760,144
Due to related parties	7,007,816	14,073,422	21,081,238	18,441,609

* The movement in the provision for expected credit losses is as follows:

	<u>2021</u>	<u>2020</u>
	KD	KD
Balance at the beginning of the year	3,928,510	2,001,724
Charge during the year (Note 28)	-	1,926,786
Balance at the end of the year	3,928,510	3,928,510

Transactions included in the consolidated statement of income:

	<u>Shareholders</u>	<u>2021</u>	<u>2020</u>
	KD	KD	KD
Finance costs	422,500	422,500	423,657
		<u>2021</u>	<u>2020</u>
		KD	KD
Key management compensation:			
Salaries and short term benefits		228,000	235,000
End of service benefits		22,440	22,440

The amounts due from related parties are non-interest bearing and are receivable on demand.

The amounts due to related parties are non-interest bearing and are payable on demand except for amounts due to Shareholders which carries an interest rate of 6.5% (31 December 2020: 6.5%) per annum.

The related parties' transactions was made on terms equivalent to those that prevail in an arm's-length transactions. These terms are substantiated by similar transactions with unrelated parties.

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13. CASH AND CASH EQUIVALENTS

	<u>2021</u>	<u>2020</u>
	KD	KD
Cash on hand	104,074	123,133
Bank balances	4,359,387	1,799,440
Cheques under collections	2,700,000	-
Short term deposit	118,602	118,602
	<u>7,282,063</u>	<u>2,041,175</u>

The average effective interest rate on short term deposit as at 31 December 2021 was 2% (31 December 2020: 2%) per annum which is pledged against borrowings (Note 19).

14. SHARE CAPITAL

	<u>2021</u>	<u>2020</u>
	KD	KD
Authorised and issued shares: 172,962,242 shares (31 December 2020: 172,962,242 shares) of 100 fils each. All shares are paid in cash.	<u>17,296,224</u>	<u>17,296,224</u>

15. SHARE PREMIUM

This represents cash received in excess of the par value of the shares issued. Share premium is not available for distribution except in cases stipulated by law.

16. TREASURY SHARES

	<u>2021</u>	<u>2020</u>
Number of shares (share)	7,966,743	7,966,743
Percentage to paid up shares (%)	4.61%	4.61%
Market value (KD)	2,318,322	1,577,415
Cost (KD)	1,480,519	1,480,519

Based on the decision of the Capital Markets Authority, the Parent Company's management has locked off an amount equal to treasury shares balance from share premium as the date of consolidated financial statements. Such amount will not be available for distribution over the period in which the Parent Company holds treasury shares. Treasury shares are not pledged.

17. STATUTORY RESERVE

As required by the Companies' Law and the Parent Company's Articles of Association, 10% of the net profit for the year attributable to Shareholders of the Parent Company before calculation of the contribution to NLST, KFAS, Zakat and Board of Directors' remuneration is transferred to the statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the statutory reserve exceeds 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

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17. STATUTORY RESERVE (CONTINUED)

It is not allowed to distribute statutory reserve to Shareholders; it is only allowed to use it to distribute profits to Shareholders up to 5% of paid-up share capital in the years when retained earnings are not sufficient for the payment of a dividend of that amount.

Since there is accumulated losses as of the end of the year, there was no transfer to statutory reserve during the current year.

18. VOLUNTARY RESERVE

As required by the Parent Company's Article of Association, a percentage of the net profit for the year attributable to Shareholders of the Parent Company before calculation of the contribution to NLST, KFAS, Zakat and Board of Directors' remuneration. Voluntary reserve should be transferred based on the Board of Directors' recommendation that is subject to approval of the General Assembly of the Parent Company's Shareholders. Such annual transfers may be discontinued by the Parent Company based on a resolution of the Shareholders' General Assembly upon recommendation by the Board of Directors.

Since there is accumulated losses as of the end of the year, there was no transfer to voluntary reserve during the current year.

19. BORROWINGS

Borrowings represent terms loans and Murabaha payables granted by local and foreign banks at an interest / profit rate ranging from 2% to 4% (31 December 2020: from 2% to 4%) per annum over the Central Bank of Kuwait discount rate.

Collaterals

Borrowings are secured against the followings collaterals:

- Shareholders personal guarantees,
- Assignment of some contract revenues,
- 43,982,797 of capital shares which is related to major Shareholders,
- Guarantees from related parties and subsidiaries companies,
- Mortgage of the Group's properties (Note 5),
- Financial assets at fair value through other comprehensive income (Note 7),
- Short term deposit (Note 13).

Presented below maturity profile of borrowings as follows:

	Non-current		Current	
	2021	2020	2021	2020
	KD	KD	KD	KD
Term loans	30,313,339	33,867,031	83,428,284	81,684,577
Murabaha payables	724,558	5,879,882	38,104,423	34,002,824
Less: deferred profit	(20,069)	(262,920)	(1,146,286)	(958,983)
	<u>31,017,828</u>	<u>39,483,993</u>	<u>120,386,421</u>	<u>114,728,418</u>

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19. BORROWINGS (CONTINUED)

As at 31 December 2021, the Group has default term loans with principal amounts of KD 42,214,347 and its interest payable of KD 1,208,158 (31 December 2020: default term loans with principal amounts of KD 23,952,039 and its interest payables of KD 1,888,187). In addition, the Group has default Murabaha payables of KD Nil (31 December 2020: default Murabaha payables of KD 94,383) which represent the principal and its profit payable. The Group is in the process of rescheduling these installments.

20. LEASE LIABILITIES

Set out below, are the carrying amounts of the Group's lease liabilities and the movements during the year:

	<u>2021</u>	<u>2020</u>
	KD	KD
Balance as at the beginning of the year	385,145	474,654
Lease payments	(41,213)	(46,070)
Additions	20,413	-
Reversal on disposal	-	(43,439)
Balance as at the end of the year	<u>364,345</u>	<u>385,145</u>

Set out below is the maturity profile of lease liabilities as follows:

	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
	KD	KD	KD
2021			
Lease liabilities	<u>39,156</u>	<u>325,189</u>	<u>364,345</u>
2020			
Lease liabilities	<u>39,312</u>	<u>345,833</u>	<u>385,145</u>

The following are the amounts recognised in the consolidated statement of income:

	<u>2021</u>	<u>2020</u>
	KD	KD
Interest expense on lease liabilities	6,622	1,316
Expense relating to short-term leases	2,078,779	2,402,856
Total amount recognised in the consolidated statement of income	<u>2,085,401</u>	<u>2,404,172</u>

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business.

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20. LEASE LIABILITIES (CONTINUED)

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease term:

	Within 5 years	More than 5 years	Total
<u>2021</u>	KD	KD	KD
Extension options exercised	239,171	338,840	578,011
	<u>239,171</u>	<u>338,840</u>	<u>578,011</u>
	Within 5 years	More than 5 years	Total
<u>2020</u>	KD	KD	KD
Extension options exercised	229,171	412,508	641,679
	<u>229,171</u>	<u>412,508</u>	<u>641,679</u>

21. DUE TO BANKS

Due to banks represent facilities granted by local banks carrying interest rates ranging from 2.5% to 4% (31 December 2020: from 2.5% to 4%) over the Central Bank of Kuwait discount rate.

Due to banks includes a balance amounted to KD 1,240,860 (31 December 2020: KD 1,346,055) which is granted to the Group by local bank, carrying interest rates 5.5% (31 December 2020: 5.5%) per annum.

Due to banks are secured against collaterals described in (Note 19).

22. NOTES PAYABLE

This item represents notes payable resulted from commercial transactions carrying interest rates ranging from 1.75% to 4% (31 December 2020: 2.5% to 4%) over the Central Bank of Kuwait discount rate.

Notes payable are secured against collaterals described in (Note 19).

23. FINANCE LEASE OBLIGATIONS

This item represents the balance of finance lease obligations which is granted to the Group by local financial institutions, carrying an interest rates ranging from 6.5% to 8% (31 December 2020: from 6.5% to 8%) per annum. These obligations were granted to the Group against personal guarantee of the Shareholders.

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24. TRADE PAYABLES AND OTHER PAYABLES

	<u>2021</u>	<u>2020</u>
	KD	KD
Trade payables	7,143,925	9,943,122
Leave provision	3,442,516	3,295,627
Advance from customers	2,266,933	1,769,228
Retention	113,368	111,970
Staff payables	2,310,958	1,638,181
Accrued expenses	11,676,946	7,233,849
Other provision	477,606	477,606
Provisions for legal case (Note 37)	7,087,565	7,087,565
Others *	<u>21,528,000</u>	<u>21,528,000</u>
	<u>56,047,817</u>	<u>53,085,148</u>

* This represents a non-interest bearing fund granted by Mashfa for Medical Services W.L.L. ("Mashfa") for financing portion of the investment of the Group (Health Assurance Hospital Company K.S.C. (Public) ("Dhaman") which is recognised as investment at fair value through other comprehensive income. There is a legal case resulted from the dispute between the parties relating to the assignment right provided to Mashfa (Note 37). On 22 December 2021, both parties have signed an agreement in order to resolve the dispute and the respective legal cases.

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25. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by type of revenue, type of customer, primary geographical market and timing of revenue recognition.

Segments	For the financial year ended 31 December 2021		
	Oil and gas	Commercial	Total
	KD	KD	KD
<i>Type of revenue</i>			
Services and maintenance	24,785,214	-	24,785,214
Construction	1,165,084	-	1,165,084
Manpower supply	2,486,190	-	2,486,190
Sale of goods	-	40,655,786	40,655,786
Others	-	1,047,700	1,047,700
Total revenue from contracts with customers	28,436,488	41,703,486	70,139,974
<i>Type of customer</i>			
Government	28,436,488	-	28,436,488
Non-government	-	41,703,486	41,703,486
Total revenue from contracts with customers	28,436,488	41,703,486	70,139,974
<i>Primary geographical markets</i>			
State of Kuwait	28,436,488	33,914,818	62,351,306
GCCs	-	7,788,668	7,788,668
Total revenue from contracts with customers	28,436,488	41,703,486	70,139,974
<i>Timing of revenue recognition</i>			
Services / goods transferred at a point in time	-	38,897,064	38,897,064
Services transferred over time	28,436,488	2,806,422	31,242,910
Total revenue from contracts with customers	28,436,488	41,703,486	70,139,974

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25. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Disaggregation of revenue from contracts with customers (Continued)

Segments	For the financial year ended 31 December 2020		
	Oil and gas	Commercial	Total
	KD	KD	KD
<i>Type of revenue</i>			
Services and maintenance	20,286,099	-	20,286,099
Construction	11,676,983	-	11,676,983
Manpower supply	3,219,243	-	3,219,243
Sale of goods	-	40,416,947	40,416,947
Others	-	2,935,940	2,935,940
Total revenue from contracts with customers	35,182,325	43,352,887	78,535,212
<i>Type of customer</i>			
Government	34,956,434	925,750	35,882,184
Non-government	225,891	42,427,137	42,653,028
Total revenue from contracts with customers	35,182,325	43,352,887	78,535,212
<i>Primary geographical markets</i>			
State of Kuwait	35,182,325	35,484,195	70,666,520
GCCs	-	7,868,692	7,868,692
Total revenue from contracts with customers	35,182,325	43,352,887	78,535,212
<i>Timing of revenue recognition</i>			
Services / goods transferred at a point in time	-	40,865,328	40,865,328
Services transferred over time	35,182,325	2,487,559	37,669,884
Total revenue from contracts with customers	35,182,325	43,352,887	78,535,212

25. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Satisfaction of performance obligations in contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

<u>Type of service/product</u>	<u>Nature and timing of satisfaction of performance obligations, including significant payment terms</u>
Services and maintenance	Invoices for services are issued on a monthly basis and are usually payable within 30 days.
Construction	The Group recognise revenue from construction contracts overtime on a cost to cost method (input method) i.e. based on the proportion of the contract costs incurred for the work performed to date relative to the estimated cost.
Manpower supply	Invoices for manpower supply are issued on a monthly basis and are usually payable within 30 days.
Sale of goods	Customers obtain control of products when the goods are dispatched from the Group's warehouse. Invoices are generated and revenue is recognised at that point in time. Invoices are usually payable within 30 to 90 days. No discounts, loyalty points or returns are offered for the products.

26. COST OF REVENUE

	<u>2021</u>	<u>2020</u>
	KD	KD
Staff costs	15,531,719	16,344,709
Materials usage	32,458,076	31,421,161
Subcontractors costs	4,048,187	4,858,306
Technical services fees	303,827	246,256
Rent	1,017,700	1,289,437
Depreciation (Note 5)	1,564,450	1,534,454
Rental equipment	184,211	120,868
Bank charges	1,094,101	1,309,724
Fuel expenses	299,988	288,467
Maintenance and insurance	598,954	339,932
Travel expenses	131,199	205,186
Others	110,044	147,356
	<u>57,342,456</u>	<u>58,105,856</u>

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27. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2021</u>	<u>2020</u>
	KD	KD
Staff costs	7,346,717	7,358,862
Rent	876,868	992,551
Legal and professional fees	563,023	432,787
Sales commissions	677,716	563,797
Depreciation (Note 5)	653,472	709,026
Bank charges	45,907	30,275
Travel expenses	1,480	2,802
Subscriptions fees	2,525	8,306
Communications	12,164	20,919
Maintenance and insurance	12,829	18,273
Printing and stationary	5,010	8,951
Others	1,065,958	1,719,181
	<u>11,263,669</u>	<u>11,865,730</u>

28. PROVISION FOR EXPECTED CREDIT LOSSES

	<u>2021</u>	<u>2020</u>
	KD	KD
Contract receivables (Note 10)	4,035,000	8,750,367
Trade receivables and other debit balances (Note 11)	530,407	950,028
Due from related parties (Note 12)	-	1,926,786
	<u>4,565,407</u>	<u>11,627,181</u>

29. BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

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

	<u>2021</u>	<u>2020</u>
Net (loss) / profit for the year attributable to Shareholders of the Parent Company (KD)	<u>(5,456,511)</u>	<u>1,763,185</u>
Number of the Parent Company's outstanding shares (share)	172,962,242	172,962,242
Less: weighted average number of the Parent Company's treasury shares (share)	<u>(7,966,743)</u>	<u>(7,966,743)</u>
Weighted average number of the Parent Company's outstanding shares (share)	<u>164,995,499</u>	<u>164,995,499</u>
Basic and diluted (loss) / earnings per share attributable to the Shareholders of the Parent Company (fils)	<u>(33.07)</u>	<u>10.69</u>

The Parent Company had no outstanding dilutive shares.

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30. ANNUAL GENERAL ASSEMBLY MEETING

The Board of Directors meeting held on 31 March 2022 proposed not to distribute cash or share dividends and not to pay Board of Directors' Remuneration for the financial year ended 31 December 2021, and it is subject to the approval of the Shareholders' Annual General Assembly.

The Annual General Assembly Meeting of the Parent Company Shareholders held on 13 June 2021 approved the consolidated financial statements for the financial year ended 31 December 2020 and approved no distribution of dividends for the financial year ended 31 December 2020.

31. SEGMENT INFORMATION

For management purposes the Group is organised into four major business segments. The principal activities and services under these segments are as follows:

- Oil and gas
- Retails
- Investments
- Constructions

There are no inter-segmental transactions. The following segments are reported in a manner that is more consistent with internal reporting provided to the chief operating decision maker:

	Oil and gas		Retails		Investments		Constructions		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Segment revenue	35,773,742	41,519,895	38,690,739	38,256,850	126,000	24,563,702	1,773,977	1,136,858	76,364,458	105,477,305
Segment (loss)/profit	(6,692,300)	(6,033,434)	2,434,859	1,185,589	(4,564,816)	5,022,988	1,536,856	(51,852)	(7,285,401)	123,291
Assets	141,898,627	147,831,243	42,090,183	41,189,778	95,670,758	90,341,132	12,713,660	13,242,336	292,373,228	292,604,489
Liabilities	129,595,721	139,600,605	32,274,916	24,697,154	90,462,973	86,389,884	820,020	1,114,042	253,153,630	251,801,685

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32. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Reconciliation of movements of liabilities to cash flows arising from financing activities:

The changes in liabilities arising from financing activities can be reconciled with their opening balances separately from changes in those other liabilities as follows:

	Borrowings	Lease liabilities	Due to banks	Notes payable	Finance lease obligations	Total
	KD	KD	KD	KD	KD	KD
Balance as at 1 January 2020	125,352,254	474,654	10,202,907	30,916,687	262,754	167,209,256
Proceeds	12,125,024	-	-	400,000	-	12,525,024
Repayments of principle	(6,331,056)	(46,070)	(948,124)	-	-	(7,325,250)
Liquidation of letter of guarantees	4,887,255	-	-	-	-	4,887,255
Net movement	-	(43,439)	(1,051,603)	(1,419,399)	(212,149)	(2,726,590)
Re-structured	18,178,934	-	(228,553)	(17,950,381)	-	-
Finance costs	8,924,270	1,912	271,409	244,017	31,921	9,473,529
Finance costs paid	(8,924,270)	(1,912)	(271,409)	(244,017)	(31,921)	(9,473,529)
Balance as at 31 December 2020	154,212,411	385,145	7,974,627	11,946,907	50,605	174,569,695
Balance as at 1 January 2021	154,212,411	385,145	7,974,627	11,946,907	50,605	174,569,695
Proceeds	7,947,049	-	-	-	-	7,947,049
Repayments of principle	(11,786,997)	(41,213)	-	-	-	(11,828,210)
Net movement	-	20,413	691,756	(397,436)	(50,605)	264,128
Re-structured	1,031,786	-	(1,031,786)	-	-	-
Finance costs	9,415,313	6,622	57,021	205,509	-	9,684,465
Finance costs paid	(9,415,313)	(6,622)	(57,021)	(205,509)	-	(9,684,465)
Balance as at 31 December 2021	151,404,249	364,345	7,634,597	11,549,471	-	170,952,662

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33. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At the consolidated statement of financial position date, the Parent Company is contingently liable in respect of capital commitments and contingent liabilities are as follow:

	<u>2021</u>	<u>2020</u>
	KD	KD
<i>Capital commitments</i>		
Financial assets at FVOCI *	29,900,000	29,900,000
	<u>29,900,000</u>	<u>29,900,000</u>
<i>Contingent liabilities</i>		
Letter of credits	2,110,726	3,103,814
Letters of guarantees	78,335,043	79,606,729
Letters of acceptance	725,571	709,604
Certified cheques	-	387,301
	<u>81,171,340</u>	<u>83,807,448</u>

* There is a legal case relating to the unpaid capital of the investment (Note 37). Subsequent to the date of consolidated financial statements, the Parent Company has paid the due amount of KD 29,900,000 (Note 39).

During the previous year, letters of guarantee of KD 4,887,255 issued by the Group related to existing contracts for supply of goods and rendering of services to projects were liquidated resulting in losses recognised in the consolidated statement of income.

34. CAPITAL MANAGEMENT AND FINANCIAL RISK

Capital management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to Shareholders, return paid up capital, issue new shares, sell some assets to reduce debt, repay loans or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

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34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Capital management (Continued)

For the purpose of capital risk management, the total capital resources consist of the following components:

	<u>2021</u>	<u>2020</u>
	KD	KD
<i>Gearing ratio</i>		
Borrowings	151,404,249	154,212,411
Lease liabilities	364,345	385,145
Due to banks	7,634,597	7,974,627
Notes payable	11,549,471	11,946,907
Finance lease obligations	-	50,605
Total borrowings	<u>170,952,662</u>	<u>174,569,695</u>
Less: cash and cash equivalents	<u>(7,282,063)</u>	<u>(2,041,175)</u>
Net debt	163,670,599	172,528,520
Equity attributable to Shareholders of the Parent Company	<u>34,189,236</u>	<u>33,973,698</u>
Total capital invested	<u>197,859,835</u>	<u>206,502,218</u>
Gearing ratio	<u>82.72%</u>	<u>83.55%</u>

Financial risk

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 main risks arising from the Group's financial instruments are market risk, credit risk, and liquidity risk. Market risk is divided into interest risk, equity price risk, and foreign currency risk. No changes were made in the risk management objectives and policies during the years ended 31 December 2021 and 31 December 2020.

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34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Financial risk (Continued)

The Parent Company's Board of Directors is ultimately responsible to set out policies and strategies for management of risks.

Categories of financial instruments

	<u>2021</u>	<u>2020</u>
	KD	KD
<i>Financial assets</i>		
Financial assets at fair value through other comprehensive income	101,657,723	97,230,531
Contract retentions	703,243	2,239,429
Contract assets	6,256,775	3,185,371
Contract receivables	65,463,647	72,212,344
Trade receivables and other debit balances (excluding prepayments)	13,563,457	15,821,560
Due from related parties	8,876,529	3,760,144
Financial assets at fair value through profit or loss	4,289	3,889
Cash and cash equivalents	7,282,063	2,041,175
	<u>203,807,726</u>	<u>196,494,443</u>
<i>Financial liabilities</i>		
Borrowings	151,404,249	154,212,411
Lease liabilities	364,345	385,145
Due to banks	7,634,597	7,974,627
Notes payable	11,549,471	11,946,907
Finance lease obligations	-	50,605
Contract liabilities	-	324,746
Trade payables and other payables (excluding advances from customers)	53,780,884	51,315,920
Due to related parties	21,081,238	18,441,609
	<u>245,814,784</u>	<u>244,651,970</u>

Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, equity prices and foreign currencies. Whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

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

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34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Financial risk (Continued)

Market risk (Continued)

i. Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the level of interest for its financial assets and financial liabilities carrying floating interest rates. The effective interest rates and the years in which interest bearing financial assets and liabilities are re-priced or mature are indicated in the respective notes.

The Group is not exposed on interest rate risk on a portion of due to banks amounted of KD 1,240,860 (31 December 2020: KD 1,346,055) (Note 21) and on finance lease obligations amounted of KD Nil (31 December 2020: KD 50,605) (Note 23), since it carries a non-floating interest rate.

The following table shows the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's (loss) / profit through the impact of changing the interest rate. The effect of decrease in interest rate is expected to be equal and opposite to the effect of the increases shown below:

			31 December 2021	
	Increase against interest rate	Balance	Effect on consolidated statement of income and equity	
	%	KD	KD	
Borrowings	0.5%	113,741,623	(568,708)	
Lease liabilities	0.5%	364,345	(1,822)	
Due to banks	0.5%	6,393,737	(31,969)	
Notes payable	0.5%	11,549,471	(57,747)	
31 December 2020				
	Increase against interest rate	Balance	Effect on consolidated statement of income and equity	
	%	KD	KD	
Borrowings	0.5%	115,556,608	(577,783)	
Lease liabilities	0.5%	385,145	(1,926)	
Due to banks	0.5%	6,288,542	(31,443)	
Notes payable	0.5%	11,946,907	(59,735)	

ii. Equity price risk

Equity price risk is the risk that the fair value of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share price. Equity price risk arises from the changes in fair values of equity investments.

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34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Financial risk (Continued)

Market risk (Continued)

ii. Equity price risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in equity indices as a result of change in the fair value of these equity instruments, to which the Group had significant exposure as at the date of the consolidated financial statements: The effect of decreases in market prices is expected to be equal and opposite to the effect of the increases shown:

	2021		2020	
	Increase against equity price %	Effect on consolidated statement of income and equity KD	Increase against equity price %	Effect on consolidated statement of income and equity KD
Quoted securities	5%	214	5%	194

iii. Foreign currency risk

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The Group has transactional currency exposure on account of purchases in currencies other than functional currency.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates used by the Group against the Kuwaiti Dinar. The effect of decrease in currency is expected to be equal and opposite to the effect of the increases shown below:

Currency	2021		2020	
	Increase against Kuwaiti Dinar %	Effect on consolidated statement of income and equity KD	Increase against Kuwaiti Dinar %	Effect on consolidated statement of income and equity KD
US Dollar	5%	108,843	5%	14,927
British pound	5%	-	5%	462
Euro	5%	30,452	5%	2,229
UAE Dirhams	5%	1,018	5%	1,035
Indian Rupee	5%	803	5%	808

34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Financial risk (Continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of participation in contract assets, contract receivables, trade receivables and other debit balances (excluding prepayments), due from related parties and bank balances and short-term deposit. The Group's cash are placed with high credit rating financial institutions. The Group's contract receivables, trade receivables and due from related parties are presented net of allowance for expected credit losses.

The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposures are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Maximum exposure to credit risk

The Group's exposure to credit risk from bank balances, short-term term deposit and receivable arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The maximum exposure is the carrying amount as described in the consolidated statement of financial position.

Risk of impairment of financial assets

Financial assets at risk of impairment include "contract retentions", "contract assets", "contract receivables", "trade receivables and other debit balances (excluding prepayments)", "due from related parties" and "cash and cash equivalents".

Contract receivables

The Group applies the simplified method in accordance with IFRS 9 to measure expected credit losses using an expected loss provision based on the expected credit loss period for all contract receivables.

To measure expected credit losses, contract receivables were collected based on the characteristics of the combined credit risk and the maturity dates. Therefore, the Group's management considers that the expected credit losses for contract receivables are a reasonable approximation of actual customer failure results in subsequent periods.

More than 75% of the Group's customers are governmental customers have been transacting with the Group for over four years. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, their geographic location, industry, trading history with the Group and existence of previous financial difficulties.

The Group does not require collateral in respect of contract receivables. The Group does not have contract receivables for which no loss allowance is recognised because of collateral.

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34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Financial risk (Continued)

Credit risk (Continued)

Risk of impairment of financial assets (Continued)

Contract receivables (Continued)

On this basis, the provision for expected credit losses was determined as at 31 December 2021 and 31 December 2020 as follows:

31 December 2021:

Contract receivables	From 0 to 30	From 31 to	From 91 to	from 181 to	Above 365	Total
	days	90 days	180 days	365 days	days	
	KD	KD	KD	KD	KD	KD
<i>Governmental receivables</i>						
Contract receivables balance	4,323,972	8,311,619	20,082,217	7,721,755	27,383,239	67,822,802
Weighted average loss rate	1.08%	2.77%	5.41%	7.38%	30.68%	-
Provision for expected credit losses	45,402	229,933	1,086,448	569,866	8,402,298	10,333,947
<i>Non-Governmental receivables</i>						
Contract receivables balance	322,662	347,564	2,921,476	5,076,579	1,751,923	10,420,204
Weighted average loss rate	1.62%	5.02%	7.06%	9.15%	100%	-
Provision for expected credit losses	5,227	17,448	206,256	464,558	1,751,923	2,445,412
Total contract receivables	4,646,634	8,659,183	23,003,693	12,798,334	29,135,162	78,243,006
Provision for expected credit losses	(50,629)	(247,381)	(1,292,704)	(1,034,424)	(10,154,221)	(12,779,359)
	4,596,005	8,411,802	21,710,989	11,763,910	18,980,941	65,463,647

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34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Financial risk (Continued)

Credit risk (Continued)

Risk of impairment of financial assets (Continued)

Contract receivables (Continued)

31 December 2020:

Contract receivables	From 0 to 30 days	From 31 to 90 days	From 91 to 180 days	from 181 to 365 days	Above 365 days	Total
	KD	KD	KD	KD	KD	KD
<i>Governmental receivables</i>						
Contract receivables balance	4,891,071	8,802,265	12,825,809	23,843,168	14,968,738	65,331,051
Weighted average loss rate	1.08%	2.43%	4.07%	4.76%	13.37%	-
Provision for expected credit losses	52,824	213,823	522,134	1,135,249	2,001,479	3,925,509
<i>Non-Governmental receivables</i>						
Contract receivables balance	169,489	1,889,574	1,214,952	5,267,054	7,084,583	15,625,652
Weighted average loss rate	7.62%	13.12%	15.76%	40.82%	31.28%	-
Provision for expected credit losses	12,915	247,912	191,476	2,150,011	2,216,536	4,818,850
Total contract receivables	5,060,560	10,691,839	14,040,761	29,110,222	22,053,321	80,956,703
Provision for expected credit losses	(65,739)	(461,735)	(713,610)	(3,285,260)	(4,218,015)	(8,744,359)
	4,994,821	10,230,104	13,327,151	25,824,962	17,835,306	72,212,344

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34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Financial risk (Continued)

Credit risk (Continued)

Risk of impairment of financial assets (Continued)

Contract receivables (Continued)

Contract receivables are written off when there is no reasonable expectation of recovery. Indicators include lack of a reasonable expectation of recovery, among other matters, e.g. the failure of the customer to subscribe to a payment plan with the Group and lack to make contractual payments for more than 365 days except for the contractual retentions. During the current year the Group has written off an amount KD Nil (31 December 2020: KD 9,846,448 as a result of COVID 19 pandemic effect).

Trade receivables

The Group applies the simplified method in accordance with IFRS 9 to measure expected credit losses using an expected loss provision based on the expected credit loss period for all trade receivables.

To measure expected credit losses, trade receivables were collected based on the characteristics of the combined credit risk and the maturity dates. Therefore, the Group's management considers that the expected credit losses for trade receivables are a reasonable approximation of actual customer failure results in subsequent periods.

On this basis, the provision for expected credit losses was determined as at 31 December 2021 and 31 December 2020 as follows:

31 December 2021:

Aging	Trade receivables	Percentage of the expected default	Provision for excepted credit losses
	KD		KD
From 0 to 60 days	4,825,179	6.91%	333,420
From 61 to 90 days	913,696	11.40%	104,161
From 91 to 180 days	1,780,044	9.40%	167,324
From 181 to 365 days	917,741	45.40%	416,654
Above 365 days	4,279,831	84.14%	3,601,169
	12,716,491		4,622,728

31 December 2020:

Aging	Trade receivables	Percentage of the expected default	Provision for excepted credit losses
	KD		KD
From 0 to 60 days	5,678,130	4.91%	278,796
From 61 to 90 days	1,294,810	9.40%	121,712
From 91 to 180 days	2,161,702	18.40%	397,753
From 181 to 365 days	1,575,184	25.40%	400,097
Above 365 days	4,553,376	67.28%	3,063,546
	15,263,202		4,261,904

34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Financial risk (Continued)

Credit risk (Continued)

Risk of impairment of financial assets (Continued)

Trade receivables (Continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators include lack of a reasonable expectation of recovery, among other matters, e.g. the failure of the customer to subscribe to a payment plan with the Group and lack to make contractual payments for more than 365 days except for the contractual retentions.

Contract retentions, contract assets and other debit balances

While contract retentions, contract assets and other debit balances are also subject to the requirements of impairment losses in IFRS 9, the impairment loss is insignificant.

Due from related parties

Due from related parties are reported for a gross amount of KD 12,805,039 as at 31 December 2021 (31 December 2020: KD 7,688,654) (Note 12).

The Group recognised a total expected credit losses as at 31 December 2021 amounted to KD 3,928,510 (31 December 2020: KD 3,928,510) (Note 12) against all amounts due to past experience indicating that these due from related parties may not be fully recoverable.

Cash and cash equivalents

Cash and cash equivalents are also subject to the requirements of ECLs in IFRS 9. Cash is placed with high credit rating financial institutions. Therefore, the Group's management believes that the impairment loss of cash equivalents is insignificant.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages liquidity risk by monitoring on a regular basis that sufficient funds are available to meet liabilities as they fall due.

The management has built an appropriate liquidity risk management framework for the management of the Group's short and medium funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash and cash equivalents and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets.

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34. CAPITAL MANAGEMENT AND FINANCIAL RISK (CONTINUED)

Financial risk (Continued)

Liquidity risk (Continued)

The table below summarises the maturity profile of the Group's undiscounted financial liabilities at the date of consolidated statement of financial position based on contractual undiscounted repayment obligations. The undiscounted cash flows of the balances due within 12 months equal its carrying value in the consolidated statement of financial position.

	2021				
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
	KD	KD	KD	KD	KD
Borrowings	55,156,984	6,506,163	58,825,283	37,299,097	157,787,527
Lease liabilities	3,263	9,789	26,104	325,189	364,345
Due to banks	-	-	7,634,597	-	7,634,597
Notes payable	-	-	11,549,471	-	11,549,471
Trade payables and other payables (excluding advances from customers)	-	-	53,780,884	-	53,780,884
Due to related parties	-	-	21,081,238	-	21,081,238
	<u>55,160,247</u>	<u>6,515,952</u>	<u>152,897,577</u>	<u>37,624,286</u>	<u>252,198,062</u>
	2020				
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
	KD	KD	KD	KD	KD
Borrowings	16,345,702	20,392,108	79,872,786	44,746,160	161,356,756
Lease liabilities	3,276	9,828	26,208	345,833	385,145
Due to banks	-	-	7,974,627	-	7,974,627
Notes payable	-	-	11,946,907	-	11,946,907
Finance lease obligations	-	-	50,605	-	50,605
Trade payables and other payables (excluding advances from customers)	-	-	51,315,920	-	51,315,920
Due to related parties	-	-	18,441,609	-	18,441,609
	<u>16,348,978</u>	<u>20,401,936</u>	<u>169,628,662</u>	<u>45,091,993</u>	<u>251,471,569</u>

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35. 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.
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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.

As at 31 December 2021, the fair values of financial instruments approximate their carrying amounts. The management of the Group has assessed that fair value of financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these financial instruments.

The level within which the financial assets are classified is determined based on the lowest level of significant input to the fair value measurement.

The following table provides the fair value measurement hierarchy of the Group's assets:

2021	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
Financial assets				
<i>Financial assets at fair value through other comprehensive income</i>				
Local unquoted securities	-	-	101,657,723	101,657,723
<i>Financial assets at fair value through profit or loss</i>				
Local quoted securities	4,289	-	-	4,289
Non-financial assets				
<i>Revalued property, plant and equipment</i>				
Freehold land	-	1,368,970	-	1,368,970
Leasehold land	-	12,960,000	-	12,960,000

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35. FAIR VALUE MEASUREMENT (CONTINUED)

The following table provides the fair value measurement hierarchy of the Group's assets (Continued):

2020	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Financial assets				
<i>Financial assets at fair value through other comprehensive income</i>				
Local unquoted securities	-	-	97,230,531	97,230,531
<i>Financial assets at fair value through profit or loss</i>				
Local quoted securities	3,889	-	-	3,889
Non-financial assets				
<i>Revalued property, plant and equipment</i>				
Freehold land	-	3,627,996	-	3,627,996
Leasehold land	-	10,763,000	-	10,763,000

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are unobservable, the instrument is included in level 3.

Freehold and leasehold lands' fair value was determined using the market comparable method. Valuations performed are based on prices of transactions involving properties of a similar nature, location and condition. Since this valuation was performed using a significant non-observable input, the fair value was classified as a Level 2 measurement.

Changes in level 3 fair values are analysed at the end of each reporting period during the half-yearly valuation discussion between the Group's management and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

During the year, there were no transfers between level 1, level 2 and level 3.

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35. FAIR VALUE MEASUREMENT (CONTINUED)

The following are the unobservable inputs and sensitivity analysis for the assets measure under level 3:

	Fair value at		Valuation technique	Unobservable inputs	Relationship of unobservable inputs to fair value
	2021 KD	2020 KD			
Financial assets measured at fair value:					
<i>Financial assets at fair value through other comprehensive income</i>					
Local unquoted securities	101,657,723	97,230,531	Discontinued cash Flow approach	Discount rate and growth rate	The higher the discount rate, the lower the fair value The higher Illiquidity discount, the lower the fair value
			Price Multiples	Illiquidity discount from 20% to 25%	

Reconciliation of level 3 fair value measurements:

	2021 KD
<i>Financial assets at fair value through other comprehensive income</i>	
Balance as at 1 January	97,230,531
Changes in fair value	4,427,192
Balance as at 31 December	<u>101,657,723</u>
	2020 KD
<i>Financial assets at fair value through other comprehensive income</i>	
Balance as at 1 January	5,837,353
Transferred from investment in an associate	90,778,513
Changes in fair value	614,665
Balance as at 31 December	<u>97,230,531</u>

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36. COMPENSATION INCOME FROM LEGAL CLAIMS

On 24 January 2017, Arabi Engineering & Mechanical Works Company W.L.L. (the "Plaintiff" or the "Subsidiary") filed a legal claim before "the Court of First Instance" against Al-Essa Medical and Scientific Equipment Company W.L.L. ("the Defendant") under No. 2017/504 to cancel the plot (50) sale contract (the "Plot") dated 11 September 1999 due to failure of the Defendant to pay the agreed upon price and to appoint experts committee for estimating the losses incurred by the Plaintiff during the period equal to the previous rent value since 11 September 1999.

On 16 July 2020, the Court of Cassation rendered a judgment upholding the appeal judgment issued on 6 February 2019 cancelling the sale contract executed between the Plaintiff and Defendant, and it ordered the Defendant to evict and handover the plot to the Plaintiff free of any occupations. The court ordered the Defendant to pay the Plaintiff an amount of KD 906,166 for using the plot and an amount of KD 7,000 monthly as a rent value as of March 2018 until the evacuation date. Further, it ordered the Defendant to pay the expenses of KD 20 as attorney's fee and confiscating the bail.

This resulted in an income of KD 1,770,150 (31 December 2020: KD 1,124,614) which was received during the year.

37. LEGAL CLAIMS

There are certain claims filed by / against the Group, which directly relate to the investment in Health Assurance Hospitals Company K.S.C. (Public) ("Dhaman") and one of the Group's creditors, as mentioned below. Results of such claim cannot be assessed unless a final judgment is rendered by the Court. A provision for legal claims at an amount of KD 7,087,565 was recognised and recorded in the consolidated statement of income for the financial year ended 31 December 2020. Based on the legal advisor's opinion, the Group's management is of the opinion that there will be no need to make additional provisions.

Health Assurance Hospitals Company K.S.C. (Public) ("Dhaman"):

There is a legal claim filed against Dhaman and other parties, which is deliberated before the Capital Markets Authority's Court - commercial, civil, regarding the subscription to share capital of the Company and for appealing against the incorporation procedures of Dhaman. A judgment dismissing the claim has been rendered on 13 September 2021, and an appeal was filed against it, and it was adjourned until the hearing dated 12 May 2022 for investigation. In addition, there is another legal claim against Dhaman, requesting the cancellation and compensation against the dismissal of the members of Arabi Group Holding Company K.S.C. (Public) (the "Parent Company") from the Board of Directors of Dhaman. On 24 February 2021, the Court decided to dismiss the claim, and an appeal was filed against the judgment, and it was adjourned until the hearing 14 April 2022 was set for judgment.

There is a legal claim filed against Dhaman requesting the deletion of commercial register of Dhaman Company. A judgment to the effect of lack of jurisdiction and referral to the Capital Markets Authority's Court – administrative, the hearing was adjourned until 3 April 2022 for pursual.

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37. LEGAL CLAIMS (CONTINUED)

Health Assurance Hospitals Company K.S.C. (Public) (“Dhaman”) (Continued):

A claim filed by Arabi Group Holding Company K.S.C. (Public) against Dhaman and other parties for a cancellation of Capital Markets Authority’s decision issued on 18 March 2021 related to the shares of Dhaman, which includes a summary part for stay of execution and a request for the delegation of an expert to investigate allegations of forgery of Shareholders’ register of Dhaman, which states that the Kuwait Investment Authority had subscribed on behalf of the nationals. The claim was dismissed on 26 September 2021 and Arabi Group Holding Company K.S.C. (Public) filed an appeal against the judgment. No hearing was set till date.

Furthermore, there is a claim filed by Arabi Group Holding Company K.S.C. (Public) against Capital Markets Authority and Boursa Kuwait, requesting the delegation of an expert and, on a summary basis, to suspend the decision of CMA Board of Commissioners issued on 15 March 2021 delisting Arabi Group Holding Company’s share from trading and, in merits, requesting cancellation of decision. On 26 September 2021, the claim was dismissed. Arabi Group Holding Company K.S.C. (Public) filed an appeal against the judgment. No hearing was set till date.

In the opinion of the Group’s external legal advisor, these cases and the related judgments are likely to be in favor of the Group.

Mashfa for Medical Services W.L.L. (“Mashfa”) (one of Group’s creditors for finance of Dhaman (previously the “Associate”)):

A legal claim filed by the Parent Company against Mashfa requesting a temporary compensation of KD 5,001 and invalidation of the assignment of right for using assignment of right that had been issued in favor of Mashfa, on the basis of issuance of final judgment in favor of the Parent Company which legally invalidates giving a loan of KD 21,528,000, which is included in trade and other payables in the consolidated financial position. The Court of First Instance has issued a judgment in favor of Mashfa, and the judgment was appealed. On 19 May 2021, the judgment was dismissed by the Court of Appeal and brought back to the Court of First Instance. On 13 December 2021, the claim was dismissed. Arabi Group Holding Company K.S.C. (Public) filed an appeal against the judgment, for which the hearing dated 12 May 2022 was scheduled. There is ongoing claim filed by the Parent Company against Mashfa for delegating an expert and terminating the memorandum of understanding. On 13 December 2021, a judgement referring it to commercial, civil, and first instance circuit for consideration was issued.

Furthermore, there is an ongoing claim filed by Mashfa against Arabi Group Holding Company K.S.C. (Public) in which it requests for dissolution and liquidation of Arabi Group Holding Company K.S.C. (Public). This claim was adjourned until 20 April 2022. Also, there is a claim filed by Arabi Group Holding Company K.S.C. (Public) against Mashfa for delegating an expert to determine the damages incurred by Arabi Group Holding Company K.S.C. (Public) as a result of the attachment made by Mashfa on shares and funds of Arabi Group Holding Company K.S.C. (Public) due to a cheque that does not represent a debt owed by Arabi Group Holding Company K.S.C. (Public), in which a judgment holding the proceedings in abeyance pending a final judgment to be rendered in the claim No. 4019/2020 was rendered. This is the claim that has been filed by Mashfa against Arabi Group Holding Company K.S.C. (Public) for obliging it to repay an amount of eight million Kuwaiti Dinars. In the hearing dated 23 June 2021, a judgment was rendered for cancelling and bringing it back to the Court of First Instance. On 24 October 2021, a judgment holding the claim in abeyance was rendered.

37. LEGAL CLAIMS (CONTINUED)

Mashfa for Medical Services W.L.L. ("Mashfa") (one of Group's creditors for finance of Dhaman (previously the "Associate")) (Continued):

On 22 December 2021, an agreement contract was signed with Mashfa, under which Mashfa waived the claim No. 4019/2020 and all the claims filed against Arabi Group Holding Company K.S.C. (Public). Accordingly, all legal procedures resulted from these claims will be resolved.

In addition, there are legal cases filed by Arabi Eneritech Company K.S.C. (Closed) ("the subsidiary") claiming for a compensation against the financial impact incurred by the subsidiary as a result of terminating certain revenue contracts by main customers.

In the opinion of the subsidiary's external legal advisor, these cases and the related judgments are likely to be in favor of the subsidiary.

38. THE IMPACT OF COVID-19 PANDEMIC ON THE GROUP'S ACTIVITY

In relation to the recent COVID-19 outbreak, The Group has assessed the principal risks and uncertainties, including the COVID-19 pandemic and the impact it is having on economic activity. The Group actively monitors the impact of COVID-19 and adopting cost control measures to mitigate against the potential impact of weaker stock trading. These measures have included:

- The reduction of appropriate variable costs;
- Tight control of discretionary expenditure;
- a recruitment freeze;
- And reduction in working hours and employees.

Going Concern

The Group has performed an assessment of whether there is a going concern in light of current economic conditions and all available information about risks and future uncertainties. The projections have been prepared covering the Group's future performance, capital and liquidity using the estimates of cash. Despite of the ever-growing impact of COVID-19, the current expectations indicate that the Group has sufficient resources to continue in its operational existence and its going concern position remains largely unaffected and unchanged since 31 December 2021. As a result, the consolidated financial statements have been appropriately prepared on a going concern basis.

Property, plant and equipment

The Group carries its freehold and leasehold land at revalued amounts, which were valued during the year, due to market volatility arising from economic conditions due to global pandemic, and based on results of the valuation, the revalued amount were lower than the carrying amount, therefore the Group has recognised a loss on revaluation amounted to KD 43,520 in the consolidated statement of income (Note 5).

Provision for obsolete and slow moving inventories

The inventories provision has been reviewed for post-period changes in expected net realisable value, driven by changes in customer buying behavior as a result of COVID-19. All inventory provision requires judgment, and is based on a number of factors including current and expected sales performance, stock over current trends and changes in technology.

Following the review, the Group recognised obsolete and slow moving inventories provision amounted to KD 750,342 in the consolidated statement of income (Note 8).

38. THE IMPACT OF COVID-19 PANDEMIC ON THE GROUP'S ACTIVITY (CONTINUED)

Provision for expected credit losses for receivables

IFRS 9 requires the estimation of expected credit loss ("ECL") based on current and forecasted economic conditions. In order to assess ECL under forecast economic conditions, the Group concluded that such situation is likely to lead to an increase in the ECL from receivables. This is mainly due to the increase of the counterparty risk (risk of default) from customers.

The uncertainties caused by COVID-19, have required the Group recognised an additional provision for expected credit losses for contract receivables, trade receivables, and due from related parties amounting to KD 4,035,000 (Note 10), KD 530,407 (Note 11), respectively, recognised in the consolidated statement of income.

Borrowings

As at 31 December 2021, the Group has default term loans with principal amounts of KD 42,214,347 and its interest payable of KD 1,208,158 (31 December 2020: default term loans with principal amounts of KD 23,952,039 and its interest payables of KD 1,888,187) in addition, the Group has default Murabaha payables of KD Nil (31 December 2020: default Murabaha payables of KD 94,383) which represent the principal and its profit payable. The Group is in the process of rescheduling these installments.

39. SUBSEQUENT EVENTS

Subsequent to the consolidated financial statements date, on 20 January 2022, Arabi Group Holding Company K.S.C. (Public) "the Parent Company" settled the remaining balance of its share in the issued and paid up capital of Health Assurance Hospitals Company K.S.C. (Public) amount of KD 29,900,000. Accordingly, the ownership of Arabi Group Holding Company K.S.C. (Public) in the issued and paid-up share capital of Health Assurance Hospitals Company K.S.C. (Public) is 26%. The settlement was made through a finance from an external party against a pledge of 195 million share held by Arabi Group Holding Company K.S.C. (Public) in Health Assurance Hospitals Company K.S.C. (Public). This represents a guarantee until the full repayment of the debt that has been obtained to settle the balance of its share in share capital.

The Parent Company's Board of Director proposed in its meeting held on 17 March 2022, the increase of the Parent Company's share capital from KD 17,296,204 to KD 34,592,448 with an increase of KD 17,296,204. This proposal is subject to the approval of the Parent Company's Shareholders' General Assembly, provided that the increase shall be executed as follows:

- 50% of the share capital increase representing 86,481,121 shares of 175 fils each shall be through public subscription for Shareholders registered in the register of the Parent Company's Shareholders. The priority subscription rights are given in proportion to their shares.
- The other 50% of the share capital increase is through transferring a portion of the balances due on the Group in favor of some related parties amount of KD 15,134,196 to the share capital increase, which represents 50% of the share capital increase.