



His Highness
Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah
The Amir of Kuwait



His Highness
Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah
The Crown Prince



شركة التخصيص القابضة
PRIVATIZATION
HOLDING COMPANY

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Board of Directors

Riyadh S. A. Edrees

Chairman

Mohammad A. Al-Asfor

Vice Chairman

Dr. Mithqal M. Sartawi

Board Member - Managing Director

Dr. Meshal Mohamad Al-Samhan

Board Member

Dr. Fahad S. Al-Khaled

Board Member



شركة التخصيص القابضة
PRIVATIZATION
HOLDING COMPANY

Chairman's Message For the Fiscal Year Ended on 31st December 2011 Honorable Shareholders



It gives me great pleasure to welcome you to the Ordinary General Assembly of Privatization Holding Company K.S.C (Closed), and to present the company's Annual Report for the fiscal year ended on 31st December 2011.

Privatization Holding Company realized Net Profits of KWD 4.2 Million for the year end 2011 at 5.7 fils/share; compared with KWD 2 million for the year end 2010 at 2.7 fils/share; an increase of KWD 2.2 million. Pursuant to its strategic plan for direct investments, the Company continued its focus on maintaining its investments in companies active in the sectors of interest (infrastructure, power, water, and renewable energy), and in investment opportunities in brownfield and operating projects in the GCC and MENA regions, with an emphasis on the State of Kuwait to mitigate regional risks.

At the end of 2011, the breakdown of the company's direct investments were as follows:

- 54% : Kuwait
- 30% in the rest of MENA

Such direct investments predominantly covered the following sectors: Services, Power & Utilities and Renewable Energy.

In conformity with its strategy, during 2011 the company enhanced its stakes in some of its current investments by paying most of its outstanding commitments, namely:

- Final commitment payment of USD 6.6 Million to Arcapita GCC District Cooling Company (a company based in Bahrain developing district cooling projects in major developments in Bahrain, Qatar, UAE and Saudi Arabia)
- Most of the outstanding commitment, Euro 4.3 Million, to Zouk Solar Opportunities (a Jersey incorporated company)
- Euro 1.5 Million to the CleanTech Fund for renewable energy

The last two above investments are involved in developing solar energy projects throughout Europe taking advantage of the EC renewable regulatory incentives in tariffs and mandates.

Additionally, the company in its focus of investing in Kuwait, acquired 15% of Noor Capital Markets (a Kuwaiti company active in the financial services sector), for KD 1.04 Million. Furthermore, the company participated in the expression of Interest for the privatization of the New Rehabilitation Hospital in Kuwait, in association with Swiss groups who are involved in the development, construction, operation and maintenance of healthcare facilities and with a regional contractor specialized in electro-mechanical-plumbing work.

The Company initiated and forged alliances with international companies specialized in the development, construction, operation and maintenance of water & waste water facilities; in order to finalize teaming agreements to participate in the BOT expansion project of Umm Al-Hayman waste treatment plant in Kuwait from 27,000 cbm/day to 560,000 cbm/day.

In addition, the Company participated with international and regional companies in planned efforts to develop the Jordanian renewable energy sector through a planned 20 MW solar (PV) power plant.

Looking forward, the Company recognizes its obligations and reaffirms that it shall exert continued efforts to enhance the Company's position in local and international markets, through varied and optimal investment instruments.

In conclusion, I would like to extend my thanks and appreciation to all those who contributed towards enhancing the Company's future path; and also extend thanks to all the board of directors and company's staff for their diligent and continuous efforts for the progress and success of the Company.

May God almighty always guide our way towards serving our country and crown our efforts with success.

Chairman

**Privatization Holding Company K.S.C. (Closed)
and its Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PRIVATIZATION HOLDING COMPANY K.S.C. (CLOSED)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Privatization Holding Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

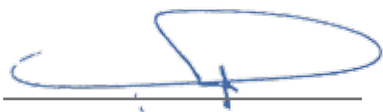
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.


**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
PRIVATIZATION HOLDING COMPANY K.S.C. (CLOSED) (continued)**

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's 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 Commercial Companies Law of 1960, as amended, nor of the Parent Company's Articles of Association, as amended, have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Parent Company or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68-A
OF ERNST & YOUNG



ABDULLATIF M. AL-AIBAN (CPA)
LICENCE NO. 94-A
OF GRANT THORNTON
AL-QATAMI, AL-AIBAN & PARTNERS

19 March 2012
Kuwait

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 KD	2010 KD
CONTINUING OPERATIONS			
INCOME			
Realised gain on financial assets at fair value through income statement		948,695	599,550
Unrealised loss on financial assets at fair value through income statement		(2,044,059)	(599,224)
Gain on sale of financial assets available-for-sale		7,025,949	2,969,009
Dividend income		2,520,967	1,037,598
Interest income	4	122,175	278,782
Share of results of associates	12	520,726	2,673,140
Loss on sale of investment in associates		(163,639)	(29,571)
Profit from murabaha receivable		-	82,968
Foreign exchange gain		242,309	627,220
Revenue from services		6,308,152	3,954,969
Other income		39,238	520,332
		<u>15,520,513</u>	<u>12,114,773</u>
EXPENSES			
Cost of services rendered		(4,920,646)	(2,809,462)
Administrative expenses	5	(2,001,885)	(1,772,855)
Portfolio management fees		(127,308)	(179,409)
Finance costs		(1,908,867)	(1,584,928)
Impairment loss on financial assets available-for-sale	14 (e)	(2,009,269)	(3,131,258)
Amortisation of intangibles	11	(279,663)	(468,344)
		<u>(11,247,638)</u>	<u>(9,946,256)</u>
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS BEFORE TAXATION		4,272,875	2,168,517
Taxation	6	(103,547)	(67,682)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		4,169,328	2,100,835
DISCONTINUED OPERATIONS			
Gain on sale of a subsidiary	7	394,485	-
Loss for the year from discontinued operations	7	-	(94,485)
PROFIT FOR THE YEAR		4,563,813	2,006,350
Attributable to:			
Equity holders of the Parent Company		4,170,109	1,996,012
Non-controlling interests		393,704	10,338
		<u>4,563,813</u>	<u>2,006,350</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	8	5.7 fils	2.7 fils
BASIC AND DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	8	5.1 fils	2.8 fils

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011 KD	2010 KD
Profit for the year	4,563,813	2,006,350
Other comprehensive income		
Change in fair values of financial assets available-for-sale	(15,517,619)	5,021,130
Share of cumulative changes in fair values of associate (Note 12)	(539,128)	-
Realised gain on sale of financial assets available-for-sale reclassified to consolidated income statement on sale	(7,025,949)	(2,969,009)
Impairment loss on financial assets available-for-sale transferred to the consolidated income statement (Note 14 (e))	2,009,269	3,131,258
Adjustment due to restatement of an associate's result (Note 12)	-	367,762
Share of foreign currency translation reserve of associates (Note 12)	(134,888)	(307,081)
Other comprehensive (loss) income for the year	(21,208,315)	5,244,060
Total comprehensive (loss) income for the year	(16,644,502)	7,250,410
Attributable to:		
Equity holders of the Parent Company	(17,033,199)	7,242,797
Non-controlling interests	388,697	7,613
	(16,644,502)	7,250,410

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 KD	2010 KD
ASSETS			
Non-current assets			
Property, plant and equipment	9	11,352,100	5,832,504
Intangible assets	11	2,816,144	3,795,116
Investment in associates	12	14,865,658	11,953,337
Held-to-maturity investment	13	2,700,000	-
Financial assets available-for-sale	14	70,496,564	99,988,726
Investment property	15	3,131,114	-
		<u>105,361,580</u>	<u>121,569,683</u>
Current assets			
Due from sale of investment in subsidiaries	16	74,722,640	72,672,640
Accounts receivable and prepayments	17	12,488,073	11,706,055
Financial assets at fair value through income statement	18	16,182,161	21,416,733
Bank balances and cash	19	19,169,536	6,226,445
		<u>122,562,410</u>	<u>112,021,873</u>
TOTAL ASSETS		<u>227,923,990</u>	<u>233,591,556</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	20	73,828,000	79,380,000
Share premium		24,761,544	24,761,544
Statutory reserve	21	633,735	206,369
General reserve	21	633,735	206,369
Treasury shares	22	(456,873)	(5,547,736)
Treasury shares reserve	22	1,316,339	1,298,027
Cumulative changes in fair values reserve		(3,211,426)	17,856,994
Foreign currency translation reserve		(83,340)	51,548
Retained earnings		5,266,413	1,951,036
		<u>102,688,127</u>	<u>120,164,151</u>
Equity attributable to equity holders of the Parent Company		<u>102,688,127</u>	<u>120,164,151</u>
Non-controlling interests		902,793	138,370
Total equity		<u>103,590,920</u>	<u>120,302,521</u>
Non-current liabilities			
Employees' end of service benefits		382,305	328,297
		<u>382,305</u>	<u>328,297</u>
Current liabilities			
Accounts payable and accruals	23	3,405,882	2,706,913
Bank overdraft	19	7,960,436	4,336,568
Term loans	24	112,584,447	105,917,257
		<u>123,950,765</u>	<u>112,960,738</u>
Total liabilities		<u>124,333,070</u>	<u>113,289,035</u>
TOTAL EQUITY AND LIABILITIES		<u>227,923,990</u>	<u>233,591,556</u>



Riyadh S. A. Adrees
Chairman



Dr. Mithqal Sartawi
Managing Director

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2011

	Attributable to equity holders of the Parent Company											
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Treasury shares KD	Treasury shares reserve KD	Cumulative changes in fair values reserve KD	Foreign currency translation reserve KD	Retained earnings/ (accumulated losses) KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2011	79,380,000	24,761,544	206,369	206,369	(5,547,736)	1,298,027	17,856,994	51,548	1,951,036	120,164,151	138,370	120,302,521
Profit for the year	-	-	-	-	-	-	-	-	4,170,109	4,170,109	393,704	4,563,813
Other comprehensive loss	-	-	-	-	-	-	(21,068,420)	(134,888)	-	(21,203,308)	(5,007)	(21,208,315)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(21,068,420)	(134,888)	4,170,109	(17,033,199)	388,697	(16,644,502)
Transfer to reserves	-	-	427,366	427,366	-	-	-	-	(854,732)	-	-	-
Purchase of treasury shares	-	-	-	-	(557,106)	-	-	-	-	(557,106)	-	(557,106)
Sale of treasury shares	-	-	-	-	100,233	14,048	-	-	-	114,281	-	114,281
Cancellation of treasury shares (Note 22)	(5,552,000)	-	-	-	5,547,736	4,264	-	-	-	-	-	-
Non-controlling interest arising on acquisition of indirectly held subsidiary (Note 10 (a))	-	-	-	-	-	-	-	-	-	-	363,726	363,726
Non-controlling interest arising on part disposal of indirectly held subsidiary (Note 10 (b))	-	-	-	-	-	-	-	-	-	-	160,000	160,000
Capital contribution by non-controlling interest	-	-	-	-	-	-	-	-	-	-	32,000	32,000
Dividend paid	-	-	-	-	-	-	-	-	-	-	(180,000)	(180,000)
At 31 December 2011	73,828,000	24,761,544	633,735	633,735	(456,873)	1,316,339	(3,211,426)	(83,340)	5,266,413	102,688,127	902,793	103,590,920
As at 1 January 2010	79,380,000	33,681,514	1,754,725	868,090	(5,644,777)	1,318,958	12,670,890	358,629	(11,542,785)	112,845,244	113,257	112,958,501
Profit for the year	-	-	-	-	-	-	-	-	1,996,012	1,996,012	10,338	2,006,350
Other comprehensive income (loss)	-	-	-	-	-	-	5,186,104	(307,081)	367,762	5,246,785	(2,725)	5,244,060
Total comprehensive income (loss) for the year	-	-	-	-	-	-	5,186,104	(307,081)	2,363,774	7,242,797	7,613	7,250,410
Write off of accumulated losses	-	(8,919,970)	(1,754,725)	(868,090)	-	-	-	-	11,542,785	-	-	-
Transfer to reserves	-	-	206,369	206,369	(33,485)	-	-	-	(412,738)	-	-	-
Purchase of treasury shares	-	-	-	-	130,526	(20,931)	-	-	-	(33,485)	-	(33,485)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	109,595	-	109,595
Arising on acquisition and disposal of	-	-	-	-	-	-	-	-	-	-	17,500	17,500
At 31 December 2010	79,380,000	24,761,544	206,369	206,369	(5,547,736)	1,298,027	17,856,994	51,548	1,951,036	120,164,151	138,370	120,302,521

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 KD	2010 KD
OPERATING ACTIVITIES			
Profit for the year from continuing operations		4,169,328	2,100,835
Profit (loss) for the year from discontinued operations		394,485	(94,485)
Adjustments for:			
Depreciation	9	705,028	503,011
Amortisation of intangibles	11	279,663	468,344
Provision for employees' end of service benefits		104,288	90,139
Impairment loss on financial assets available-for-sale	14 (e)	2,009,269	3,131,258
Gain on sale of financial assets available-for-sale		(7,025,949)	(2,969,009)
Realised gain on financial assets at fair value through income statement		(948,695)	(599,550)
Unrealised loss on financial assets at fair value through income statement		2,044,059	599,224
Dividend income		(2,520,967)	(1,037,598)
Profit from murabaha receivable		-	(82,968)
Interest income	4	(122,175)	(278,782)
Finance costs		1,908,867	1,584,928
Foreign exchange gain		(242,309)	(627,220)
Loss on sale of investment in associates		163,639	29,571
Share of results of associates	12	(520,726)	(2,673,140)
Gain on sale of a subsidiary	7	(394,485)	-
		<u>3,320</u>	<u>144,558</u>
Working capital changes:			
Accounts receivable and prepayments		(890,305)	(10,219,319)
Due from sale of investment in subsidiaries	16 (b)	250,000	6,000,000
Financial assets at fair value through income statement		4,013,488	7,951,537
Accounts payable and accruals		334,245	131,888
		<u>3,710,748</u>	<u>4,008,664</u>
Taxation paid		(68,860)	(59,536)
Employees' end of service benefits paid		(15,739)	(28,712)
		<u>3,626,149</u>	<u>3,920,416</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(4,927,491)	(1,452,784)
Proceeds from sale of property, plant and equipment		13,671	3,281
Purchase of investment property	15	(1,420,705)	-
Purchase of held-to-maturity investment		(2,700,000)	-
Purchase of investment in associates		(4,963,214)	(1,139,349)
Dividends received from associates	12	275,594	198,075
Proceeds from sale of investment in associates		2,804,928	2,180,182
Purchase of financial assets available-for-sale		(22,633,434)	(31,290,244)
Proceeds from sale of financial assets available-for-sale		33,308,623	17,632,676
Fixed deposits matured		-	7,500,000
Receipt of murabaha receivable		-	5,091,370
Profit received on murabaha receivable		-	82,968
Interest income received		122,175	278,782
Dividend income received		2,520,967	1,037,598
Disposal of a subsidiary - cash disposed	7	(157,056)	-
Acquisition of a subsidiary, net of cash acquired	10 (a)	(403,018)	223,682
		<u>1,841,040</u>	<u>346,237</u>
FINANCING ACTIVITIES			
Purchase of treasury shares		(557,106)	(33,485)
Proceeds from sale of treasury shares		114,281	109,595
Term loans obtained		6,850,000	-
Repayment of term loans		(698,251)	(6,000,000)
Dividend paid		(180,000)	-
Finance costs paid		(1,868,890)	(1,545,280)
Movement in non-controlling interests		192,000	17,500
		<u>3,852,034</u>	<u>(7,451,670)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		<u>9,319,223</u>	<u>(3,185,017)</u>
Cash and cash equivalents at 1 January		<u>1,889,877</u>	<u>5,074,894</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	19	<u><u>11,209,100</u></u>	<u><u>1,889,877</u></u>

The attached notes 1 to 30 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

1 CORPORATE INFORMATION

The consolidated financial statements of Privatization Holding Company K.S.C. (Closed) (the “Parent Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Parent Company’s Board of Directors on 19 March 2012. The General Assembly of the Parent Company’s shareholders has the power to amend these consolidated financial statements after issuance.

The Parent Company is a Kuwaiti shareholding company registered on 10 October 1994 and is listed on the Kuwait Stock Exchange. It is licensed to invest in Kuwaiti and foreign shareholding companies and limited liability companies and to participate in the establishment and management of such entities. The Parent Company is also licensed to lend to such entities and act as their guarantor. The Parent Company may also invest in real estate, hold patents and copy rights, and advance loans to associates.

The Parent Company’s registered office is located at Sharq, Ahmad Al-Jaber Street, Dar Al-Awadi Tower, 23 Floor, P.O. Box 4323, Safat 13104, Kuwait.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets available-for-sale and financial assets at fair value through income statement that have been measured at fair value.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any NCI
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in the consolidated income statement
- Reclassifies the Parent Company’s share of components previously recognised in other comprehensive income to consolidated income statement or retained earnings, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

2.2 BASIS OF CONSOLIDATION (continued)

The subsidiaries of the Group are as follows:

Name of the company	Country of incorporation	Principal activity	Equity interest	
			2011	2010
Global Projects Holding Company K.S.C. (Closed) ("GPHC") ^{1 and 2}	Kuwait	Investment	100%	100%
Specialized Environmental Services Company W.L.L. ("SES") ¹	Kuwait	Investment	100%	100%
Global Commercial Privatization Company W.L.L. ¹	Kuwait	Import and export	100%	100%
Global Professional General Trading Company W.L.L.	Kuwait	General trading	62%	62%
Combined Trust Real Estate Company W.L.L. Privatisation Agriculture Contracting Company W.L.L. ¹	Kuwait	Investment and real estate General trading and contracting	51%	51%
Loloah Privatization for Gen. Trad. & Cont. Co. ("Loloah") (Note 7)	Kuwait	General trading and contracting	-	100%
Gas and Oils Field Services Company K.S.C. (Closed) ("GOFSCO") ³	Kuwait	Oil and gas well related installations	-	99.70%

Held through GPHC

GOFSCO ³	Kuwait	Oil and gas well related installations	99.70%	-
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Held through GOFSCO

Abyar Gulf Company for General Trading and Contracting W.L.L. ("Abyar") (Note 10 (b)) ⁵	Kuwait	General trading and contracting	82%	98%
Eastern United Petroleum Services Company W.L.L. ("EUPS")	Kuwait	Oil and gas activities and maintenance	61%	-
Leader Plus General Trading Company W.L.L. ⁴	Kuwait	General trading and contracting	99%	-
Amal Ebstam General Trading & Contracting Company W.L.L. ⁴	Kuwait	General trading and contracting	99%	-
Grand Oil for Business Company K.S.C. (Closed) ⁴	Kuwait	Oil and gas sludge cleaning activities	99%	-

1. An insignificant holding of shares are held by nominees who have confirmed in writing that the Parent Company has the beneficial ownership interest in the subsidiary through a letter of assignment.

2. The Parent Company holds 54% and the subsidiary SES holds 46%.

3. In September 2011, the Parent Company sold 99.7% equity interest in GOFSCO to GPHC at its carrying value.

4. These companies have not yet commenced their operations.

5. In accordance with an agreement, the non-controlling interest of indirectly held subsidiary Abyar Gulf Company for General Trading & Contracting Company W.L.L. receives 60% of the profit for the year commencing from 1 January 2010 to 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether it measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the consolidated income statement.

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated income statement.

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 (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Investment in associates

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

Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associates. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The Group's share of results of associates is shown on the face of the consolidated income statement. This is the profit attributable to equity holders of the associates and, therefore, is profit after tax and NCI in the subsidiaries of the associates.

The financial statements of the associates 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

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 associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

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

Foreign currency translation

The Group's consolidated financial statements are presented in Kuwaiti Dinar (KD), which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognised:

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Interest income

Interest income is recognised using the effective interest rate (EIR) method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rendering of services

Revenue from services is recognised as and when services are provided or rendered.

Discontinued operations

In the consolidated income statement, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the consolidated income statement.

Taxation

National Labour Support Tax (NLST)

The Parent Company calculates 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 law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Zakat

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

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- Office building 20 to 30 years
- Machinery and equipment 10 to 20 years
- Rental equipment 3 to 10 years
- Furniture and equipment 4 to 7 years

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

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

Investment property

Investment property is measured initially at cost, including transaction costs. Land is not depreciated. Depreciation is calculated on straight line basis over the estimated useful lives of the assets as follows:

- Building 30 years
- Furniture 5 years

The carrying amount is reviewed at each reporting date to assess whether it is recorded in excess of its recoverable amount, and where carrying amount exceeds the recoverable amount, the investment property is written down to its recoverable amount.

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

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

A summary of the policies applied to the Group's intangible assets is as follows:

	Goodwill	Other intangible assets
Useful lives	Indefinite	Finite
Amortisation method used	No amortisation	Amortised on a straight-line basis over a period of 1 to 4 years

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

Impairment losses are recognised in the consolidated income statement.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Financial instruments – initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through income statement, loans and receivables, held-to-maturity investments and financial assets available-for-sale, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through income statement.

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

The Group's financial assets include bank balances and cash, accounts receivable, financial assets at fair value through income statement, financial assets available-for-sale and held-to-maturity investment.

Subsequent measurement

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

Financial assets at fair value through income statement

Financial assets at fair value through income statement includes financial assets held for trading and financial assets designated upon initial recognition at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets designated at fair value through income statement are designated if they are managed, and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy.

Financial assets at fair value through income statement are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in consolidated income statement.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group does not have any loans receivable. Receivables include accounts receivable and murabaha receivables.

Accounts receivable are stated at original amount less a provision for any uncollectible amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

Loans and receivables (continued)

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. When the credit risk of the transaction is attributable to a financial institution, the amount due under murabaha contracts is classified as a murabaha investment. Whereas, when the credit risk of transaction is attributable to counterparties other than banks and financial institutions, the amount due is classified as murabaha receivable. Murabaha receivables which arise from the Group's financing on an Islamic basis are classified as murabaha receivables originated by the Group and are carried at the principal amount less provision for credit risks to meet any decline in value. Third party expenses such as legal fees, incurred in granting a murabaha are treated as part of the cost of the transaction and are charged to the consolidated income statement. All murabaha receivables are recognised when the legal right to control the use of the underlying asset is transferred to the customer.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement. The Group did not have any held-to-maturity investments during the year ended 31 December 2010.

Financial assets available-for-sale

Financial assets classified as available-for-sale are those investments that are neither classified as held for trading nor designated at fair value through income statement.

After initial measurement, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the cumulative changes in fair values reserve until the investment is derecognised at which time the cumulative gain or loss is recognised in the consolidated income statement, or the investment is determined to be impaired when the cumulative loss is reclassified from the cumulative changes in fair values reserve to the consolidated income statement.

Financial assets whose fair value cannot be reliably measured are stated as cost less impairment losses, if any.

Reclassification from financial assets available-for-sale to investment in associates is made upon acquisition of significant influence over the investment. Such transfer is made at original cost and any gain or loss previously classified in cumulative changes in fair value reserve is reversed to bring the carrying value to its original cost.

Derecognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets available-for-sale

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

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

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through income statement or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include term loans, accounts payable and bank overdrafts. At 31 December 2011, the Group did not have any financial liabilities at fair value through income statement.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Accounts payable

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

(iii) Offsetting of financial instruments

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

(iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices (bid price), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include; using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 30.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in treasury share reserve to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to the general reserve and statutory reserve. 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.

Provisions

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

Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees under the Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For its national employees, the Group provides end of service benefits under the Kuwait Labour Law after deducting Group's contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in consolidated statement of comprehensive income.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (OCI). Items that could be reclassified (or 'recycled') to consolidated income statement at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES 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 disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

Classification of investments

Management decides on acquisition of financial assets whether it should be classified as financial assets at fair value through income statement, financial assets available-for-sale or held-to-maturity investment.

The Group classifies financial assets as fair value through income statement if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets at fair value through income statement depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of consolidated income statement in the management accounts, they are classified as designated upon initial recognition.

The management classifies investments as held-to-maturity if they are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the management has the positive intention and ability to hold to maturity.

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

Valuation of unquoted equity investments

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

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple or industry specific earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. For the investments where this estimation cannot be reliably determined, they are carried at cost less impairment.

Impairment of financial assets available-for-sale

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis.

Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Fair value of financial instruments

When the fair value of financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow 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 asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Useful lives of property, plant and equipment

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

4 INTEREST INCOME

	2011 KD	2010 KD
Fixed deposits	46,398	198,492
Advances to related parties	25,105	13,280
Other cash balances	50,672	67,010
	<u>122,175</u>	<u>278,782</u>

5 ADMINISTRATIVE EXPENSES

	2011 KD	2010 KD
Staff costs	1,430,798	1,132,915
Others	571,087	639,940
	<u>2,001,885</u>	<u>1,772,855</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

6 TAXATION

	2011 KD	2010 KD
NLST	56,369	30,190
Zakat	15,759	124
KFAS	31,419	37,368
	<u>103,547</u>	<u>67,682</u>

7 DISCONTINUED OPERATIONS

In March 2011, the Parent Company sold its wholly owned subsidiary Loloah for a total consideration of KD 2,300,000. The results for the year of Loloah are presented below:

	2011 KD	2010 KD
Income	-	3,499,963
Expenses	-	(3,594,448)
Loss for the year from discontinued operations	<u>-</u>	<u>(94,485)</u>

The net assets of Loloah on the date of disposal were as follows:

	KD
Assets	
Property, plant and equipment (Note 9)	456,776
Intangible assets (Note 11)	945,787
Accounts receivable and prepayments	536,532
Financial assets at fair value through income statement	125,720
Bank balances and cash	157,056
Assets directly associated with the discontinued operation	<u>2,221,871</u>
Liabilities	
Employees' end of service benefits	(59,079)
Accounts payable and accruals	(257,277)
Liabilities directly associated with the discontinued operation	<u>(316,356)</u>
Net assets directly associated with the discontinued operation	<u>1,905,515</u>
Sale consideration	2,300,000
Net assets directly associated with the discontinued operation	<u>(1,905,515)</u>
Gain on sale of subsidiary	<u>394,485</u>

Net cash outflow as a result of disposal is KD 157,056. Consideration of KD 2,300,000 is to be settled as described in Note 16 (b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

7 DISCONTINUED OPERATIONS (continued)

The net cash flows incurred by Loloah are as follows:

	2011 KD	2010 KD
Operating	-	(51,557)
Investing	-	208,613
Financing	-	-
Net cash inflow	<u>-</u>	<u>157,056</u>

Basic and diluted earnings per share

Basic and diluted loss per share from discontinued operations (fils)	<u>0.5</u>	<u>(0.1)</u>
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8 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year less treasury shares as follows:

	2011	2010
Profit for the year attributable to the equity holders of the Parent Company (KD)	<u>4,170,109</u>	<u>1,996,012</u>
Weighted average number of shares outstanding during the year	<u>734,697,973</u>	<u>738,442,411</u>
Basic and diluted earnings per share (fils)	<u>5.7</u>	<u>2.7</u>

Basic and diluted loss per share from continuing operations

Profit for the year from continuing operations attributable to the equity holders of the Parent Company (KD)	<u>3,775,624</u>	<u>2,090,497</u>
Weighted average number of shares outstanding during the year	<u>734,697,973</u>	<u>738,442,411</u>
Basic and diluted earnings per share from continuing operations (fils)	<u>5.1</u>	<u>2.8</u>

The weighted average number of shares outstanding during the year is calculated after adjusting for treasury shares as follows

Weighted average number of issued and paid up shares	773,569,425	793,800,000
Less: Weighted average number of treasury shares	(38,871,452)	(55,357,589)
Weighted average number of shares for basic and diluted earnings per share	<u>734,697,973</u>	<u>738,442,411</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

9 PROPERTY, PLANT AND EQUIPMENT

	Office building KD	Machinery and equipment KD	Rental equipment KD	Furniture and equipment KD	Capital work in progress KD	2011 Total KD	2010 Total KD
Cost:							
At 1 January	488,939	3,209,119	675,615	236,446	1,957,897	6,568,016	4,568,383
Arising on acquisition of subsidiary (Note 10)	-	1,760,893	-	6,687	-	1,767,580	551,576
Discontinued operations (Note 7)	(263,567)	(224,571)	(9,705)	(68,106)	-	(565,949)	-
Transfer	-	624,255	-	-	(624,255)	-	-
Additions	7,855	3,131,973	242,113	26,760	1,518,790	4,927,491	1,452,784
Disposals	-	(106,994)	-	(240)	-	(107,234)	(4,727)
At 31 December	<u>233,227</u>	<u>8,394,675</u>	<u>908,023</u>	<u>201,547</u>	<u>2,852,432</u>	<u>12,589,904</u>	<u>6,568,016</u>
Depreciation:							
At 1 January	130,187	293,779	241,729	69,817	-	735,512	233,947
Discontinued operations (Note 7)	(56,811)	(41,318)	(1,605)	(9,439)	-	(109,173)	-
Depreciation charge for the year	22,411	455,081	189,642	37,894	-	705,028	503,011
Disposals	-	(93,487)	-	(76)	-	(93,563)	(1,446)
At 31 December	<u>95,787</u>	<u>614,055</u>	<u>429,766</u>	<u>98,196</u>	<u>-</u>	<u>1,237,804</u>	<u>735,512</u>
Net book value:							
At 31 December	<u><u>137,440</u></u>	<u><u>7,780,620</u></u>	<u><u>478,257</u></u>	<u><u>103,351</u></u>	<u><u>2,852,432</u></u>	<u><u>11,352,100</u></u>	<u><u>5,832,504</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

10 BUSINESS COMBINATIONS

- (a) The indirectly held subsidiary GOFSCO owned 20.73% equity interest in EUPS which was classified as financial asset available-for-sale with a carrying value of KD 310,933 (Note 14 (g)) since the Group did not have any significant influence over EUPS. On 24 November 2010, GOFSCO acquired additional 40% equity interest in EUPS for a total consideration of KD 498,037. Accordingly, in the current year, the Group accounted for EUPS as a subsidiary. The provisional fair value of the identifiable assets and liabilities as at the date of acquisition were as follows:

	<i>Provisional fair value recognised on acquisition KD</i>
Assets	
Property and equipment	1,767,580
Accounts receivable and prepayments	461,333
Bank balances and cash	160,622
	<u>2,389,535</u>
Liabilities	
Accounts payable and accruals	(674,926)
Bank overdraft	(65,603)
Term loans	(698,250)
Employees' end of service benefits	(24,538)
	<u>(1,463,317)</u>
Total identifiable net assets at fair value	<u>926,218</u>
Fair value of the previously held 20.73% equity interest	310,933
Consideration paid for 40% equity interest	498,037
NCI (39.27%) measured at identifiable net assets value	363,726
	<u>1,172,696</u>
Total identifiable net assets at fair value	<u>(926,218)</u>
Provisional goodwill arising on acquisition (Note 11)	<u>246,478</u>
Cash outflow on acquisition	
Consideration paid for 40% equity interest	498,037
Net cash acquired with the subsidiary	(95,019)
Net cash outflow on acquisition	<u>403,018</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

10 BUSINESS COMBINATIONS (continued)

As a result of EUPS was accounted for as a subsidiary of the Group in the current year, the consolidated income statement of the Group includes the following income and expenses of EUPS from the date control was achieved:

	<i>24 November 2010 to 31 December 2011 KD</i>
Income	
Revenue from services	1,443,032
Foreign exchange loss	<u>(22,111)</u>
	<u>1,420,921</u>
Expenses	
Cost of services rendered	(1,042,265)
Administrative expenses	<u>(405,542)</u>
	<u>(1,447,807)</u>
Loss for the period	<u><u>(26,886)</u></u>

- (b) In March 2011, GOFSCO sold 16% of its equity interest in Abyar for a total cash consideration of KD 160,000 which did not result any gain or loss.

11 INTANGIBLE ASSETS

	<i>Goodwill KD</i>	<i>Other intangible assets KD</i>	2011 Total KD	2010 Total KD
Cost				
At 1 January	3,095,958	1,167,502	4,263,460	3,317,673
Arising on acquisition of subsidiary (Note 10)	246,478	-	246,478	945,787
Discontinued operations (Note 7)	<u>(945,787)</u>	-	<u>(945,787)</u>	-
At 31 December	<u>2,396,649</u>	<u>1,167,502</u>	<u>3,564,151</u>	<u>4,263,460</u>
Amortisation				
At 1 January	-	468,344	468,344	-
Amortisation	-	279,663	279,663	468,344
At 31 December	<u>-</u>	<u>748,007</u>	<u>748,007</u>	<u>468,344</u>
Net book value				
At 31 December 2011	<u>2,396,649</u>	<u>419,495</u>	<u>2,816,144</u>	
At 31 December 2010	<u>3,095,958</u>	<u>699,158</u>		<u>3,795,116</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

12 INVESTMENT IN ASSOCIATES

Details of the Group's associates are as follows:

Name of the company	Country of incorporation	% equity interest		Activities
		2011	2010	
Kuwait Building Materials Manufacturing Company K.S.C. (Closed)	Kuwait	47.4%	47.5%	Building materials
First Transportation Company K.S.C. (Closed)*	Kuwait	16.0%	16.0%	Transportation services
Kingdom Electricity Company	Jordan	30.0%	30.0%	Energy and industrial Projects
Nawand Communications Holding Company B.S.C. (Closed)*	Kingdom of Bahrain	17.3%	27.7%	Telecom services
SNC-Lavalin Kuwait for General Trading & Contracting Company W.L.L.	Kuwait	30.0%	30.0%	General trading and Contracting
Strategia Investment Company K.S.C. (Closed) ("Strategia")	Kuwait	32.4%	-	Investments

* The investment in First Transportation Company K.S.C. (Closed) and Nawand Communications Holding Company B.S.C. (Closed) have been classified as associates because the Parent Company exercises significant influence over the investee companies through representation on their Board of Directors and participation in their decision making process in relation to their financial and operating policies.

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

	2011 KD	2010 KD
Share of associate's statement of financial position:		
Assets	58,676,076	52,623,098
Liabilities	(44,403,238)	(41,264,668)
Equity	<u>14,272,889</u>	<u>11,358,430</u>
Share of associates' revenue and profit:		
Revenue	<u>35,672,746</u>	<u>45,877,006</u>
Profit	<u>520,726</u>	<u>2,673,140</u>

The movement in investment in associates is as follows:

	2011 KD	2010 KD
At 1 January	11,953,337	10,346,422
Additions	4,963,214	1,139,349
Transfer from financial assets available-for-sale (Note 14(h))	1,277,924	-
Disposals	(2,899,933)	(2,068,180)
Dividends received	(275,594)	(198,075)
Share of results	520,726	2,673,140
Cumulative changes in fair values	(539,128)	-
Foreign currency translation adjustment	(134,888)	(307,081)
Other comprehensive income adjustment	-	367,762
At 31 December	<u>14,865,658</u>	<u>11,953,337</u>

The carrying amount of the investment in associates includes goodwill of KD 592,769 (2010: KD 594,907).

Investment in associates include quoted associate with a carrying value of KD 6,990,283 (2010: KD 2,654,739) having a market value of KD 6,103,216 (2010: KD 3,368,250).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

13 HELD-TO-MATURITY INVESTMENT

This represents investment in an unquoted bond which carries fixed interest at 5% per annum due every six months starting from 19 June 2012 and ending on 19 December 2016.

14 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2011 KD	2010 KD
Quoted equity securities	50,696,285	80,423,987
Unquoted equity securities	16,849,547	14,706,989
Mutual funds	<u>2,950,732</u>	<u>4,857,750</u>
	<u>70,496,564</u>	<u>99,988,726</u>

- (a) Quoted equity securities includes investments with a carrying value of KD 5,717,979 (2010: KD 63,432,536) managed by related parties, an investment company specialising in asset management (Note 27). At 31 December 2011, the Parent Company also held shares with a carrying value of KD 216,640 (2010: KD 4,719,031) in the related parties (Note 27).
- (b) Mutual funds include investments with a carrying value of KD 223,614 (2010: KD 4,857,747) and in 2010 unquoted equity securities include investments with a carrying value of KD 1,478,664 managed by related parties (Note 27).
- (c) Mutual funds are carried at net asset values provided by the fund managers and portfolio managers.
- (d) Unquoted equity securities are carried at cost, less impairment, if any, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. There is no active market for these financial assets and the Group intends to hold them for the long term.
- (e) Management has performed a review of financial assets available-for-sale to assess whether impairment has occurred and recorded a total impairment loss of KD 2,009,269 (on quoted equity securities of KD 1,430,754 and on unquoted equity securities of KD 578,515) (2010: total impairment loss of KD 3,131,258 (on quoted equity securities of KD 2,973,324 and on unquoted equity securities of KD 157,934), in the consolidated income statement.
- (f) Previously, the Group reclassified a trading investment with fair value of KD 3,412,981 from the “financial assets at fair value through income statement” to “financial assets available-for-sale” category. As at 31 December 2011, the carrying value of the reclassified trading investment amounted to KD 275,608 (2010: KD 872,553). During the year ended 31 December 2011, the Group has recorded an impairment loss of KD 596,945 (2010: KD 2,540,428) in respect of this reclassified investment in the consolidated income statement.
- (g) During the year, GOFSCO’s 20.73% equity interest in EUPS amounting to KD 310,933 is accounted for as investment in subsidiary (Note 10 (a)).
- (h) As at 31 December 2010, the Group owned 6.3% equity interest in Strategia which was classified as financial asset available-for-sale. During the current year, the Group acquired additional 26.1% equity interest in Strategia for KD 4,947,529. As a result, the Group’s ownership in Strategia increased to 32.4%. The Group is now in a position to exercise “significant influence” over Strategia and accordingly, this investment has been accounted for as an associate in accordance with International Accounting Standard IAS 28 Investments in Associates (Note 12).
- (i) During the year, the Group has transferred certain unquoted equity securities with carrying value of KD 1,710,409 for purchase of investment property (Note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

15 INVESTMENT PROPERTY

	<i>Land KD</i>	<i>Building KD</i>	<i>Furniture KD</i>	2011 Total KD	2010 Total KD
Cost					
At 1 January	-	-	-	-	-
Additions during the year	<u>2,630,387</u>	<u>409,299</u>	<u>91,428</u>	<u>3,131,114</u>	-
At 31 December	<u>2,630,387</u>	<u>409,299</u>	<u>91,428</u>	<u>3,131,114</u>	-

The investment property represents a villa in Spain. The purchase consideration was settled by exchange of certain financial assets available-for-sale amounting to KD 1,710,409 (Note 14 (i)) and cash of KD 1,420,705.

The management has determined that, the fair value of the investment property at the reporting date, is not materially different from its carrying value.

16 DUE FROM SALE OF INVESTMENT IN SUBSIDIARIES

(a) In 2008, the Parent Company sold one of its wholly owned subsidiaries, Ajwan General Trading and Contracting Company W.L.L. for a total consideration of KD 78,672,640 to a third party. KD 6,000,000 was collected 2010 and the remaining balance of KD 72,672,640 is overdue. The receivable bears interest at the rate of 4% (2010: 2.5% to 4%) per annum over the Central Bank of Kuwait ("CBK") discount rate. As orally agreed with the third party, interest income is offset by the finance costs on term loan from National Bank of Kuwait ("NBK") refer Note 24 for details. Overdue interest receivable as at 31 December 2011 amounted to KD 3,537,760 (2010: Nil) and is included in Accounts Receivables and Prepayments (Note 17). Management believes that the amount due will be settled once the rescheduling of the term loan mentioned in Note 24 is finalised.

(b) In March 2011, the Parent Company sold its wholly owned subsidiary, Loloah, for a total consideration of KD 2,300,000 (Note 7). Under the terms of the agreement with the buyer, KD 250,000 was received during the current year, KD 400,000 which was due on 31 December 2011 was received subsequent to the reporting date, KD 400,000 is due on 30 June 2012 and the remaining amount of KD 1,250,000 will be settled by transfer of title of real estate property in Egypt by 30 June 2012.

17 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 KD	2010 KD
Amounts due from related parties (Note 27)	4,382,921	7,544,481
Interest receivable (Note 16)	3,537,760	-
Prepaid expenses and accrued income	235,843	209,696
Other receivables	4,331,549	3,951,878
	<u>12,488,073</u>	<u>11,706,055</u>

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2011 KD	2010 KD
Held for trading		
Quoted equity securities	4,508,230	9,074,100
Designated upon initial recognition		
Unquoted equity securities	10,672,634	10,672,634
Mutual funds	1,001,297	1,669,999
	<u>16,182,161</u>	<u>21,416,733</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

Quoted equity securities include investments with a carrying value of KD 49,735 (2010: KD 4,159,837) managed by related parties, investment companies specialising in asset management (Note 27).

Mutual funds are carried at net asset values provided by the fund managers and portfolio managers. In 2010, mutual funds includes investments with a carrying value of KD 1,069,665, managed by a related party (Note 27).

The unquoted equity securities are registered in the name of a major shareholder of the Parent Company who has confirmed in writing that it holds these securities on behalf of the Parent Company (Note 27).

19 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2011 KD	2010 KD
Bank balances and cash	19,169,536	6,226,445
Bank overdraft	(7,960,436)	(4,336,568)
	<u>11,209,100</u>	<u>1,889,877</u>

Bank balances and cash includes saving accounts and short-term deposits held with reputable local commercial banks which yield an effective interest rate ranging between 1% to 1.5% (2010: 1.5% to 1.75%) per annum.

Bank overdraft is subject to an effective interest rate of 2.5% (2010: 2.5%) per annum over CBK discount rate.

20 SHARE CAPITAL

	2011 KD	2010 KD
Authorised 793,800,000 (2010: 793,800,000) shares of 100 fils each	<u>79,380,000</u>	<u>79,380,000</u>
Issued and fully paid up in cash 738,280,000 (2010: 793,800,000) shares of 100 fils each	<u>73,828,000</u>	<u>79,380,000</u>

21 RESERVES

a) Statutory reserve

In accordance with the Law of Commercial Companies and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contributions to KFAS, NLST, Zakat and Board of Directors' remuneration has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

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

b) General reserve

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration has been transferred to the general reserve. Such annual transfers may be discontinued by a resolution of the Parent Company's shareholders' General Assembly on recommendation by the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

22 TREASURY SHARES AND TREASURY SHARES RESERVE

	2011	2010
Number of shares	8,040,000	55,520,000
Percentage of issued shares	1.09%	6.99%
Cost (KD)	456,873	5,547,736
Market value (KD)	522,600	2,942,560

Reserves of the Parent Company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

The Annual General Assembly of shareholders of the Parent Company held on 29 May 2011, approved cancellation of 55,520,000 treasury shares which was also approved by the Capital Market Authority on 21 August 2011.

23 ACCOUNTS PAYABLE AND ACCRUALS

	2011 KD	2010 KD
Trade payables	1,883,890	138,545
Amounts due to related parties (Note 27)	88,318	-
Accrued expenses and other payables	1,433,674	2,568,368
	<u>3,405,882</u>	<u>2,706,913</u>

24 TERM LOANS

Term loans include KD 75,000,000 (2010: KD 75,000,000) obtained by the Parent Company from NBK. This loan is unsecured and bears interest at the rate of 4% (2010: 2.5% to 4%) per annum over the CBK discount rate. The loan was repayable on 19 September 2010. The Parent Company is in advance stage of negotiations with NBK for rescheduling of this loan which includes collecting the loan amount of KD 72,672,640 from the third party mentioned in Note 16 (a) secured by a guarantee from the Parent Company. Finance costs on this loan amount for the year ended 31 December 2011 amounting to KD 4,875,000 (2010: KD 3,838,356) were offset by the interest income of KD 4,723,722 (2010: KD 3,719,246) on due from sale of investment in a subsidiary (Note 16 (a)).

Term loans amounting to KD 30,734,447 (2010: KD 30,917,257) represents revolving short-term credit facilities taken from local banks. Any withdrawals are repayable within 90 days of the withdrawal date or renewable for further period of 90 days and are subject to interest rates ranging between 1.75% to 4.0% (2010: 1.75% to 2.5%) per annum over the CBK discount rate or 3 months LIBOR.

Term loans also includes Tawarruq finance obtained during the current year by the indirectly held subsidiary GOFSCO of KD 6,850,000 with a total deferred profit of KD 498,079 from a local bank. The Tawarruq is payable in 12 monthly instalments of KD 612,340 starting from 20 January 2012 and is secured by a guarantee from the Parent Company. Subsequent to the reporting date, GOFSCO rescheduled the repayment of principal portion of instalments due in January and February 2012 amounting to KD 1,141,667 for payment in two equal instalments payable in January and February 2013.

25 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on nature of business and has two reportable operating segments as follows:

- i) Investment segment represents trading in equities including investment in associates and other strategic investments; and
- ii) Other segment represents rendering of non-investment services and general trading and contracting.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on return on investments. The Group does not have any inter-segment transactions.

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25 SEGMENT INFORMATION (continued)

The following table presents segment income and results information regarding the Group's business segments:

	<i>Investment</i>		<i>Other</i>		<i>Total</i>	
	2011 KD	2010 KD	2011 KD	2010 KD	2011 KD	2010 KD
Income	9,120,880	7,592,146	6,399,633	4,522,627	15,520,513	12,114,773
Depreciation	(32,158)	(32,171)	(672,870)	(470,840)	(705,028)	(503,011)
Amortisation of intangibles	-	-	(279,663)	(468,344)	(279,663)	(468,344)
Impairment loss on financial assets available-for-sale	(2,009,269)	(3,131,258)	-	-	(2,009,269)	(3,131,258)
Results	4,047,991	1,310,303	224,884	858,214	4,272,875	2,168,517
Assets	205,022,738	219,189,600	22,901,252	14,401,956	227,923,990	233,591,556
Liabilities	114,426,952	112,253,796	9,906,121	1,035,239	124,333,073	113,289,035
Other segmental information:						
Investment in associates	14,865,658	11,953,337	-	-	14,865,658	11,953,337
Additions to property, plant and equipment	1,179	22,043	4,926,312	1,430,741	4,927,491	1,452,784
Additions to investment property	-	-	3,131,114	-	3,131,114	-

Geographic information

The Group operates in two geographic regions; Kuwait and Non-Kuwait. The following table shows the distribution of the Group's segment income and non-current assets by region:

	2011 KD	2010 KD
Income		
Kuwait	12,780,349	7,159,060
Non-Kuwait	2,740,164	4,955,713
	15,520,513	12,114,773

The income information above is based on the location of the assets generating the income.

	2011 KD	2010 KD
Non-current assets		
Kuwait	73,239,767	87,105,710
Non-Kuwait	32,121,814	34,463,973
	105,361,580	121,569,683

26 COMMITMENTS AND CONTINGENCIES

	2011 KD	2010 KD
Commitments		
Purchase of financial assets available-for-sale	4,050,675	6,461,450
Purchase of property, plant and equipment	1,483,855	2,148,976

Contingencies

At the reporting date, the Group has provided performance bank guarantees to a customer and suppliers amounting to KD 2,118,000 (2010: to a customer KD 2,010,000), from which it is anticipated that no material liabilities will arise.

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27 RELATED PARTY TRANSACTIONS

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

Transactions with related parties in the consolidated financial statements are as follows:

	2011			2010
	<i>Major shareholders</i> KD	<i>Other related parties</i> KD	<i>Total</i> KD	<i>Total</i> KD
Consolidated income statement				
Realised gain on sale of financial assets available-for-sale	-	-	-	77,016
Realised gain on sale of financial assets at fair value through income statement	806,323	-	806,323	300,000
Interest income	-	25,105	25,105	13,280
Portfolio management fees	-	3,979	3,979	(151,939)
Impairment losses on financial assets available for-sale	10,260	-	10,260	-
Consolidated statement of financial position				
Financial assets available-for-sale (Note 14 (a))	216,640	-	216,640	4,719,031
Due from related parties (Note 17)	4,297,306	85,615	4,382,921	7,544,481
Due to related parties (Note 23)	(318)	(88,000)	(88,318)	-

The amounts due from/to related parties are receivable/payable on demand and are interest free.

Compensation of key management personnel

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

	2011 KD	2010 KD
Short-term employee benefits	377,580	333,604
End of service benefits	56,975	33,764
	<u>434,555</u>	<u>367,368</u>

Other information

a) The following financial assets are managed by related parties:

	2011 KD	2010 KD
Financial assets available-for-sale (Note 14)		
Quoted equity securities	5,717,979	63,432,536
Unquoted equity securities	-	1,478,664
Mutual funds	223,614	4,857,747
Financial assets carried at fair value through income statement (Note 18)		
Quoted equity securities	49,735	4,159,837
Mutual funds	-	1,069,665

b) The unquoted equity securities classified as financial assets at fair value through income statement are registered in the name of a major shareholder of the Parent Company who has confirmed in writing that it holds these unquoted equity securities on behalf of the Parent Company (Note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk.

The Board of Directors of the Parent Company is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. No changes were made in the risk management objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

28.1 Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk principally on its bank balances, held-to-maturity investment, accounts receivable and due from sale of investment in subsidiaries.

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party and to monitor the collection of receivables on an ongoing basis. The Group limits its credit risk with regard to bank balances by only dealing with reputable banks. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Maximum exposure to credit risk

The Group's exposure to credit risk from bank balances, held-to-maturity investment, accounts receivable and due from sale of investment in subsidiaries 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 table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, without taking account of any collateral and other credit enhancements:

	2011 KD	2010 KD
Bank balances (excluding cash)	19,163,782	6,222,906
Accounts receivable (excluding prepayments)	12,252,230	11,496,359
Due from sale of investment in subsidiaries	74,722,640	72,672,640
Held-to-maturity investments	2,700,000	-
	<u>108,838,652</u>	<u>90,391,905</u>

Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group's financial assets subject to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors in one geographic region i.e. Kuwait:

	2011 KD	2010 KD
Banks and financial institutions	19,163,782	6,222,906
Corporate	11,414,470	11,496,359
Others	78,260,400	72,672,640
	<u>108,838,652</u>	<u>90,391,905</u>

The maximum credit risk exposure to a single counter party is KD 76,210,400 (2010: KD 71,290,398).

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28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

28.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations:

	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>Total KD</i>
2011			
Accounts payable and accruals	2,048,753	1,357,129	3,405,882
Bank overdraft	8,059,669	-	8,059,669
Term loans	101,092,593	12,327,636	113,420,229
	<u>111,201,015</u>	<u>13,684,765</u>	<u>124,885,780</u>
2010			
Accounts payable and accruals	1,873,810	833,103	2,706,913
Bank overdraft	4,396,196	-	4,396,196
Term loans	106,230,803	-	106,230,803
	<u>112,500,809</u>	<u>833,103</u>	<u>113,333,912</u>

28.3 Market risk

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

28.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's term loans and bank overdrafts with floating interest rates. The effect on Group's profit due to change in the interest rate by 25 basis points, with all variables held constant is as follows:

	2011 KD	2010 KD
Effect on profit	93,236	83,952

28.3.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign currency risk is managed on the basis of limits determined by management and a continuous assessment of the Group's open positions, current and expected exchange rate movements.

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of 5% in the KD currency rate against the US Dollar (USD), Jordanian Dinar (JOD) and others (Canadian Dollar, Euro, Indian Rupee, British Pound and United Arab Emirates Dirham), and with all other variables held constant, on the consolidated income statement (due to the fair value of currency sensitive monetary assets and liabilities) and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

28.3 Market risk (continued)

28.3.2 Foreign currency risk

	2011		2010	
	<i>Effect on profit</i> KD	<i>Effect on other comprehensive income</i> KD	<i>Effect on profit</i> KD	<i>Effect on other comprehensive income</i> KD
USD	999,900	19,562	1,140,311	82,544
JOD	-	27,561	-	65,442
Others	4,993	1,144	3,957	1,771

28.3.3 Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of the changes in the level of equity indices and the value of the individual stocks. The Group's quoted investments are primarily listed on the Kuwait Stock Exchange.

The effect on other comprehensive income (as a result of a change in the fair value of financial assets available-for-sale) and profit (as a result of a change in the fair value of financial assets at fair value through income statement) due to 5% change in market indices, with all other variables held constant is as follows:

	2011		2010	
	<i>Effect on profit</i> KD	<i>Effect on other comprehensive income</i> KD	<i>Effect on profit</i> KD	<i>Effect on other comprehensive income</i> KD
Market indices				
Kuwait	108,412	2,328,555	399,579	4,175,749

29 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings (term loans and bank overdraft), and other liabilities, less bank balances and cash. Capital represents equity attributable to the equity holders of the Parent Company.

	2011 KD	2010 KD
Interest bearing loans and borrowings	120,544,883	110,253,825
Accounts payable and accruals	3,405,882	2,706,913
Less: Bank balances and cash	(19,169,536)	(6,226,445)
Net debt	104,781,229	106,734,293
Capital	102,688,127	120,164,151
Total capital and net debt	207,469,356	226,898,444
Gearing ratio	51%	47%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

30 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Financial instruments comprise financial assets and financial liabilities.

The estimated fair values of financial instruments, except for unquoted equity securities classified as financial assets available-for-sale (Note 14) approximated their carrying values at the reporting date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

	<i>Level 1</i> <i>KD</i>	<i>Level 2</i> <i>KD</i>	<i>Level 3</i> <i>KD</i>	<i>Total</i> <i>KD</i>
2011				
Financial assets available-for-sale	50,696,285	2,950,732	-	53,647,017
Financial assets at fair value through income statement	4,508,230	11,673,931	-	16,182,161
2010				
Financial assets available-for-sale	80,423,987	4,857,750	-	85,281,737
Financial assets at fair value through income statement	9,074,100	12,342,633	-	21,416,733

During the reporting period ended 31 December 2011 and 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.