Consolidated financial statements and independent auditors' report

Specialties Group Holding Company – KSC (Closed) and Subsidiaries

Kuwait

31 December 2010

Contents

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Independent auditors' report

To the shareholders of
Specialties Group Holding Company – KSC (Closed)
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Specialties Group Holding Company – Kuwaiti Shareholding Company (Closed) and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and 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

Management 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 auditor's judgment, 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 auditors consider 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 Specialties Group Holding Company and its subsidiaries as at 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Matters

In our opinion, proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the 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 and by the 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 nor of the Company's articles of association, as amended, have occurred during the year that might have had a material effect on the business or financial position of the Company.

Abdullatif M. Al-Aiban (CPA)
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of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Fawzia Mubarak Al-Hassawi
(Licence No. 80-A)
of UHY-Fawzia Mubarak Al-Hassawi

Kuwait
29 March 2011

Consolidated statement of income

	Notes	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
Revenue from sales and services	8	**18,118,054**	6,931,802
Cost of sales and services		**(15,165,558)**	(5,111,463)
Gross profit		**2,952,496**	1,820,339
Profit/(loss) from trading properties	9	**321,669**	(591,663)
Profit from bank savings account		**62,062**	297,068
Share of results of associates		**397,343**	76,807
Realised gain from available for sale investment		**-**	4,444
Realised gain from investments at fair value through statement of income		**-**	26,034
Unrealized loss from investments at fair value through statement of income		**(68,072)**	(113,600)
Rental income		**11,791**	-
Exchange gain		**41,663**	-
Other income		**93,342**	68,768
		3,812,294	1,588,197
Expenses			
Selling and distribution expenses		**(13,771)**	(19,869)
General, administrative and other expenses		**(1,852,510)**	(1,954,704)
Provision for doubtful debts		**(120,000)**	(125,000)
Finance costs	10	**(127,069)**	(612,009)
Impairment of available for sale investment		**-**	(683,100)
Profit/(loss) before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Zakat, NLST and directors' remuneration	11	**1,698,944**	(1,806,485)
Contribution to KFAS		**(6,360)**	-
Zakat		**(14,171)**	-
National Labour Support Tax (NLST)		**(45,361)**	-
Directors' remuneration		**(20,000)**	-
Profit/(loss) for the year		**1,613,052**	(1,806,485)
Attributable to :			
Owners of the parent company		**1,393,549**	(1,398,840)
Non-controlling interests		**219,503**	(407,645)
		1,613,052	(1,806,485)
Basic & diluted earnings/(loss) per share attributable to the owner of the parent company	13	**9.4 Fils**	(9.3) Fils

The notes set out on pages 9 to 37 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
Profit/(loss) for the year	**1,613,052**	(1,806,485)
Other comprehensive income:		
Available for sale investments:		
- Net change in fair value	**298,562**	(683,100)
- Impairment transferred to consolidated statement of income	**-**	683,100
Exchange differences arising on translation of foreign operations	**(205,440)**	132,098
Total other comprehensive income	**93,122**	132,098
Total comprehensive income/(loss) for the year	**1,706,174**	(1,674,387)
Total comprehensive income/(loss) attributable to:		
Owners of the parent	**1,496,456**	(1,298,884)
Non-controlling interests	**209,718**	(375,503)
	1,706,174	(1,674,387)

The notes set out on pages 9 to 37 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Notes	31 Dec. 2010 KD	31 Dec. 2009 KD
Assets			
Non-current assets			
Property, plant and equipment	14	966,669	930,474
Goodwill	7	390,907	390,907
Investment properties	21	2,359,980	-
Intangible assets	15	3,061,427	3,249,561
Investment in associates	16	5,749,286	1,576,807
Available for sale investments	17	1,540,258	1,116,459
		14,068,527	7,264,208
Current assets			
Inventories	18	1,489,959	1,359,385
Accounts receivable and other assets	19	9,059,378	4,336,817
Due from related party	20	1,315,291	1,328,292
Trading properties	21	7,857,763	13,661,653
Investments at fair value through statement of income	22	190,808	86,400
Cash and bank balances	28	9,230,084	12,454,260
		29,143,283	33,226,807
Total assets		43,211,810	40,491,015
Equity and liabilities			
Equity			
Share capital	23	15,000,000	15,000,000
Share premium	23	17,500,000	17,500,000
Statutory reserve	24	592,481	528,882
Voluntary reserve	24	621,089	557,490
Revaluation reserve	24	381,224	406,639
Fair value reserve	24	298,562	-
Foreign exchange translation reserve	24	(95,699)	99,956
Treasury shares	25	(323,281)	(61,040)
Retained earnings/(accumulated losses)		448,319	(843,447)
Total equity attributable to the owners of the parent		34,422,695	33,188,480
Non-controlling interests		847,145	915,449
Total equity		35,269,840	34,103,929
Liabilities			
Non–current liabilities			
Provision for end of service indemnity		496,707	416,626
		496,707	416,626
Current liabilities			
Murabaha payables	26	-	3,500,000
Accounts payable and other liabilities	27	7,445,263	2,470,460
		7,445,263	5,970,460
Total liabilities		7,941,970	6,387,086
Total equity and liabilities		43,211,810	40,491,015

Dr. Abdul Aziz Al-Saqer
Chairman and Managing Director

The notes set out on pages 9 to 37 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to the owners of the parent						Non-controlling interests	Total
	Share capital KD	Share premium KD	Reserves (Note 24) KD	Treasury shares KD	(Accumulated losses)/ retained earnings KD	Sub-total KD	KD	KD
Balance as at 31 December 2009	15,000,000	17,500,000	1,592,967	(61,040)	(843,447)	33,188,480	915,449	34,103,929
Profit for the year	-	-	-	-	1,393,549	1,393,549	219,503	1,613,052
Other comprehensive income	-	-	77,492	-	25,415	102,907	(9,785)	93,122
Total comprehensive income for the year	-	-	77,492	-	1,418,964	1,496,456	209,718	1,706,174
Purchase of treasury shares	-	-	-	(262,241)	-	(262,241)	-	(262,241)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(100,000)	(100,000)
Capital introduced by non-controlling interests	-	-	-	-	-	-	46,357	46,357
Paid to non-controlling interests on reduction of a subsidiary's capital	-	-	-	-	-	-	(224,379)	(224,379)
Transactions with owners	-	-	-	(262,241)	-	(262,241)	(278,022)	(540,263)
Transfer to reserves	-	-	127,198	-	(127,198)	-	-	-
Balance as at 31 December 2010	**15,000,000**	**17,500,000**	**1,797,657**	**(323,281)**	**448,319**	**34,422,695**	**847,145**	**35,269,840**

The notes set out on pages 9 to 37 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

	Equity attributable to the owners of the parent						Non-controlling interests	Total
	Share capital KD	Share premium KD	Reserves (Note 24) KD	Treasury shares KD	Retained earnings/ (accumulated losses) KD	Sub-total KD	KD	KD
Balance as at 31 December 2008	15,000,000	17,500,000	1,594,671	-	1,953,733	36,048,404	1,146,691	37,195,095
Loss for the year	-	-	-	-	(1,398,840)	(1,398,840)	(407,645)	(1,806,485)
Other comprehensive income	-	-	(1,704)	-	101,660	99,956	32,142	132,098
Total comprehensive loss for the year	-	-	(1,704)	-	(1,297,180)	(1,298,884)	(375,503)	(1,674,387)
Purchase of treasury shares	-	-	-	(61,040)	-	(61,040)	-	(61,040)
Dividends paid	-	-	-	-	(1,500,000)	(1,500,000)	-	(1,500,000)
Capital introduced by non-controlling interests	-	-	-	-	-	-	3,354	3,354
Movement in non-controlling interests	-	-	-	-	-	-	390,907	390,907
Dividends paid to non-controlling interests	-	-	-	-	-	-	(250,000)	(250,000)
Transactions with owners	-	-	-	(61,040)	(1,500,000)	(1,561,040)	144,261	(1,416,779)
Balance as at 31 December 2009	15,000,000	17,500,000	1,592,967	(61,040)	(843,447)	33,188,480	915,449	34,103,929

The notes set out on pages 9 to 37 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Notes	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
OPERATING ACTIVITIES			
Profit/(loss) for the year		**1,613,052**	(1,806,485)
Adjustments for:			
Depreciation and amortisation		**353,413**	324,855
Gain on disposal of property, plant and equipment		**(3,697)**	(5,818)
Share of results of associates		**(397,343)**	(76,807)
Realised gain from available for sale investment		**-**	(4,444)
Finance costs		**127,069**	612,009
Provision for end of service indemnity		**90,087**	78,475
Impairment of available for sale investment		**-**	683,100
Profit from bank savings account		**(62,062)**	(297,068)
		1,720,519	(492,183)
Changes in operating assets and liabilities:			
Inventories		**(130,574)**	238,131
Accounts receivable and other assets		**(4,660,499)**	607,391
Due from contracting customers		**-**	481,395
Due from related parties		**13,001**	84,814
Trading properties		**3,443,910**	(2,846,895)
Investments at fair value through statement of income		**(104,408)**	192,800
Accounts payable and other liabilities		**4,974,803**	160,625
Indemnity paid		**(10,006)**	(7,304)
Net cash from/(used in) operating activities		**5,246,746**	(1,581,226)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(203,246)**	(462,135)
Purchase of intangible assets		**-**	(1,946,575)
Proceeds from disposal of property, plant and equipment		**5,469**	11,068
Acquisition of associates		**(3,850,136)**	(1,500,000)
Dividends received from associates		**75,000**	-
Proceeds from available for sale investments		**-**	15,979
Purchase of available for sale investments		**(125,237)**	(11,535)
Net cash used in investing activities		**(4,098,150)**	(3,893,198)
FINANCING ACTIVITIES			
Purchase of treasury shares		**(262,241)**	(61,040)
Movement in murabaha payables		**(3,500,000)**	(3,500,000)
Dividends paid		**-**	(1,500,000)
Dividends paid to non-controlling interests		**(100,000)**	(250,000)
Finance costs paid		**(127,069)**	(612,009)
Capital introduced by non-controlling interests		**46,357**	3,354
Paid to non-controlling interests on reduction of subsidiary's share capital		**(224,379)**	-
Net cash used in financing activities		**(4,167,332)**	(5,919,695)
Net decrease in cash and cash equivalents		**(3,018,736)**	(11,394,119)
Foreign currency translation		**(205,440)**	132,098
Cash and cash equivalents at beginning of the year		**12,454,260**	23,716,281
Cash and cash equivalents at end of the year	28	**9,230,084**	12,454,260

The notes set out on pages 9 to 37 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

31 December 2010

1 Incorporation and activities

Specialties Group Holding Company – KSC (Closed) ("the parent company") was initially incorporated as a Kuwaiti limited liability company on 1 October 1988 in accordance with the Commercial Companies Law in Kuwait to carry out trading in construction materials, fire equipment, cleaning material and to engage in building construction and other general trading activities ("general trading and contracting activities").

During 2006 the parent company changed the legal form of the company from a Kuwaiti limited liability company to a Kuwaiti closed shareholding company and also changed its name from Alghanim Specialties Company – WLL to Specialties Group Holding Company – KSC (Closed) and amended its articles of association accordingly. According to the revised articles of association of the parent company, its objectives are as follows;

- Owning stocks and shares in Kuwaiti or non-Kuwaiti shareholding companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, lending to and managing of these companies and acting as a guarantor for these companies.
- Lending money to companies in which it owns 20% or more of the capital of the borrowing company, along with acting as guarantor on behalf of these companies.
- Owning industrial equities such as patents, industrial trade marks, royalties, or any other related rights, and franchising them to other companies or using them within or outside the State of Kuwait.
- Owning real estate and moveable property to conduct its operations within the limits as stipulated by law.
- Employing excess funds available with the company by investing them in investment portfolios managed by specialised companies.

Further during 2006, upon completion of the change in the legal form of the parent company as mentioned above, the net assets of the parent company's "general trading and contracting activities" were transferred at their book values to a newly acquired wholly owned subsidiary.

The group comprises the parent company and its subsidiaries. Details of the subsidiaries are set out in Note 6.

The address of the parent company's registered office is PO Box 23595, Safat 13096, State of Kuwait.

The board of directors of the parent company approved these consolidated financial statements for issue on 29 March 2011 and are subject to the approval of the general assembly of the shareholders.

2 Statement of compliance

These 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).

3 Adoption of new and revised standards

The group has adopted all the following new standards, interpretations, revisions and amendments to IFRS issued by International Accounting Standards Board, which are relevant to and effective for the group's consolidated financial statements for the annual period beginning 1 January 2010. Certain other new standards and interpretations have been issued but are not relevant to the group's operations and, therefore, not expected to have a material impact on the group's consolidated financial statements.

- IFRS 3 Business Combinations (Revised 2008)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008)
- 2009 Improvements to IFRSs

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described below.

Adoption of IFRS 3 Business Combinations (Revised 2008)

The revised standard on business combinations introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The adoption of the revised standard did not have any effect on the measurement and recognition of the group's assets, liabilities, income and expenses.

Adoption of IAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The adoption of IFRS 3 required that the revised IAS 27 is adopted at the same time. IAS 27 introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary. These changes are applied prospectively.

Adoption of 2009 Improvements to IFRSs (Issued in April 2009)

The IASB issued *Improvements for International Financial Reporting Standards 2009* to certain standards. Most of these amendments became effective for annual periods beginning on or after 1 July 2009 or 1 January 2010 and have been adopted by the group that largely clarify the required accounting treatment where previous practice had varied some of which are substantive but have not resulted in any significant changes in the group's accounting policies.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's financial statements.

Annual Improvements 2010 (effective from 1 July 2010 and later)

The IASB has issued Improvements to IFRS 2010 (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 3, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the group's financial statements.

3 Adoption of new and revised standards (continued)

IFRS 9 Financial Instruments (effective from 1 January 2013)
The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice, due to the non-completion of the remaining stages of the standard.

IAS 24 Related Party Disclosures
The amendments to the standard revised the definition of a related party. The adoption of this amendment is not expected to have a significant impact on the group's consolidated financial statements.

IAS 32 Financial Instruments: Presentation
The amendment to the standard clarifies classification right issues in foreign currency. The adoption of this amendment is not expected to have a significant impact on the group's consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
The Interpretation provides guidance on the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. The Interpretation is required to be applied retrospectively. However, management does not expect to have any significant effect on the consolidated financial statements on the date of initial application of the interpretation.

4 Significant accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2009.

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

Basis of preparation
The consolidated financial statements of the group are prepared under the historical cost convention as modified by the revaluation of property, plant and equipment and intangible assets, measurement at fair value of investments and investment properties.

The financial statements have been presented in Kuwaiti Dinars which is the functional currency of the parent company.

Basis of consolidation
These consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2010, and the financial statements of its subsidiaries prepared to that date using consistent accounting policies.

Subsidiaries are those enterprises controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

4 Significant accounting policies (continued)

Basis of consolidation (continued)
The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Inter company balances and transactions, including inter company profits and unrealised profits and losses are eliminated on consolidation. Adjustments are made for non-uniform accounting policies.

Non-controlling interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill.

Profit and losses are attributed to the owners of the parent company and to the non-controlling interest in the ratio of their respective shareholding even if this results in the non-controlling interest, having a deficit balance.

Changes in the group's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent company.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to the consolidated statement of income or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Business combinations and goodwill
Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of an acquisition over the group's share of the acquiree's fair value of the net identifiable assets as at the date of the acquisition. Following initial recognition, goodwill is measured at cost less impairment losses. Any excess, at the date of acquisition, of the group's share in the acquiree's fair value of the net identifiable assets over the cost of the acquisition is recognised in the consolidated statement of income.

Goodwill is allocated to each of the group's cash-generating units or groups of cash generating units and is tested annually for impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit, to which goodwill relates. The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

4 Significant accounting policies (continued)

Business combinations and goodwill (continued)
Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generation unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation difference and goodwill is recognised in the consolidated statement of income.

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. The following specific recognition criteria must also be met before revenue is recognised.

Contract revenue and costs
The group recognises contract revenue and costs on the basis of the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. The group measures the stage of completion of each contract on the basis of the engineers' reports.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The group presents as an asset, under the heading "Due from contracting customers", the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "accounts receivable and other assets".

Sale of goods
Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services
Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the financial position date.

Profit from bank accounts
Profit from bank savings account is recorded on time proportion basis.

Rental income
Rental income arising from investment properties is accounted for on a straight line basis over the lease terms.

Finance costs
Finance costs are calculated and recognised on a time proportionate basis taking into account the principal loan balance outstanding and the interest or profit rate applicable.

Taxation and Zakat
The parent company calculates the National Labour Support Tax (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. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subject to NLST have been deducted from the profit for the year.

4 Significant accounting policies (continued)

Taxation and Zakat (continued)
The parent company calculates the contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) at 1% of taxable profit in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Contribution to 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, equipment and depreciation
Property, plant and equipment are stated at cost or revaluation net of accumulated depreciation and impairment losses. The group depreciates its property, plant and equipment on the straight-line basis at rates estimated to depreciate the property, plant and equipment concerned over their estimated useful lives.

Investment properties
Investment properties are initially measured at cost. Subsequently, all investment properties are carried at fair value that is determined based on valuation performed by independent valuer at the end of each year using valuation methods consistent with the market conditions at the reporting date. Gains or losses from change in the fair value are recognised in the interim condensed consolidated statement of income.

Investment properties are derecognised when either they have 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 statement of income in the period of derecognition.

Intangible assets
Intangible assets represent right of use of land leased from the government and are stated at revalued amounts net of accumulated amortisation and impairment losses. Right of use of leased land is amortised over the lease period.

Investment in associate
An associate is an entity over which the group exerts significant influence. Investments in associates are accounted for under the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale under IFRS 5.

Under the equity method, the investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of the associate's equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The group recognises in the statement of income its share of the total recognised profit or loss of the associate from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate arising from changes in the associate's equity. The group's share of those changes is recognised directly in equity.

Unrealised gains on transactions with associate are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever impairment requirements of IAS 36 indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. Goodwill is included in the carrying amount of an investment in associate and, therefore, is not separately tested for impairment.

4 Significant accounting policies (continued)

Investment in associate (continued)
In case of different reporting date of an associate, which are not more than three months from that of the group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the group's financial statements. The associate's accounting policies conform to those used by the group for like transactions and events in similar circumstances.

Investments
Investments are classified into the following categories:

- Available for sale investments
- Investments at fair value through statement of income

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available for sale investments
Available for sale investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition.

After initial recognition, available for sale investments are remeasured at fair value except for investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

Unrealised gain or loss on remeasurement of available for sale investments to fair value is recognised directly in equity in "fair value reserve" account until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income.

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

Investments at fair value through statement of income are initially recognised at fair value, excluding transaction costs.

1- Held for trading
Held for trading investments are acquired principally for the purpose of selling or repurchasing it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

2- Investments designated at fair value through statement of income
Financial assets are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy.

After initial recognition, investments at fair value through statement of income are remeasured at fair value.

Gains or losses arising either from the sale or changes in fair value of "investments at fair value through statement of income" are recognised in the consolidated statement of income.

4 Significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not taken into consideration. Costs of ordinarily interchangeable items are assigned using weighted average cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Trade and other receivables

Trade receivables are stated at face value less impairment losses or provision for any uncollectible amounts. 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.

Trading properties

Trading properties include purchase costs of unsold real estate and recorded at the lower of cost and net realizable value.

Fair values

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the consolidated statement of financial position date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each consolidated statement of financial position date. Valuation techniques used include the use of comparable recent arm's length transactions analysis and other valuation techniques commonly used by market participants.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place concerned.

Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised either when the group has transferred substantially all the risk and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards, but no longer has control over the asset or a proportion of the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Impairment of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value; and
(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for reversal of impairment losses related to equity instruments classified as available for sale, all other impairment reversals are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Impairment reversals in respect of equity instruments classified as available for sale are recognised in the fair value reserve.

4 Significant accounting policies (continued)

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 such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit'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 and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs.

Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the consolidated statement of income. 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 (or cash-generating unit).

In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

Treasury shares

Treasury shares are stated at cost as a deduction within equity and they are not entitled to cash dividends. The issue of bonus shares increase the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Gains or losses resulting from the sale of treasury shares are recognised directly in equity under "Treasury shares reserve". Should the reserve fall short of any losses from the sale of treasury shares, the difference is charged to retained earnings then reserves, subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves then retained earnings equal to the loss previously charged to these accounts.

Murabaha payables

Murabaha payable is the total amount due on murabaha instalments as a result of financing of construction contracts and trading properties in accordance with murabaha arrangements. Murabaha payable is recorded at the total amount due after adding the proportionate profit for the year. This profit is charged to the consolidated statement of income based on time span and total profit margin.

Trade and other payables

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

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) resulting from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Provision for staff indemnity

The provision for staff indemnity is calculated on the basis of the accumulated period of service for each employee in accordance with the Kuwait labour law for the private sector and the company's bye-laws.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances.

4 Significant accounting policies (continued)

Foreign currencies
The consolidated financial statements are presented in Kuwaiti Dinars, which is the parent company's functional and presentation 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 and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial position date. All differences are taken to gain/ loss on foreign currency translation in the consolidated statement of income.

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 was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Group companies
As at the reporting date, the assets and liabilities of foreign operations are translated into the parent company's presentation currency (the Kuwaiti Dinar) at the rate of exchange ruling at the financial position date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation reserve within equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

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

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

5 Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumption about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position 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 discussed below:

5 Critical accounting judgements and key sources of estimation uncertainty (continued)

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; or
- other valuation models.

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

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held for trading, at fair value through statement of income, or available for sale.

The group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as investment at fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as at fair value through statement of income.

All other investments are classified as available for sale.

Impairment of available for sale investments
The group treats available for sale equity investments 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. The group recognised an impairment loss of KD Nil for the year ended 31 December 2010 (2009: KD683,100).

Impairment of associates
After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

Impairment of goodwill
The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimation of impairment of financial assets
The group's management reviews periodically items classified as receivables to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgement by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

5 Critical accounting judgements and key sources of estimation uncertainty (continued)

Estimation of impairment of non-financial assets and useful lives
The group's management tests annually whether non financial assets have suffered impairment in accordance with other accounting policies which are stated above. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The group's management determines the useful lives and related depreciation/amortisation charge. The depreciation/amortisation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Estimation of contract revenue and costs
The group uses the percentage-of-completion method in accounting for its construction contracts. Use of this method requires the group to depend on estimated completion schedules, costs and values approved by engineers.

6 Subsidiary companies

Details of subsidiary companies are set out below:

Company name	Country of incorporation	Percentage of ownership		Principal activities
		31 Dec. 2010	31 Dec. 2009	
Alghanim Specialties Company – WLL	Kuwait	**100%**	100%	Trading in construction materials and to engage in building construction and other general trading activities
Specialities Real Estate Company – WLL	Kuwait	**99%**	99%	Investment and real estate
Specialities Energy Company – WLL	Kuwait	**70%**	70%	Trading in petrol devices and equipment and to engage in excavation and maintenance of oil wells
Specialties Aspec for General Trading and Contracting Company – WLL	Kuwait	**100%**	100%	General trading and contracting
Specialties Kumex for General Trading and Contracting Company – WLL	Kuwait	**100%**	100%	General trading and contracting
Specialties Real Estate Company – WLL	Saudi Arabia	**99%**	75%	Real estate and contracting
Saudi Specialties Energy Company – WLL	Saudi Arabia	**73%**	73%	Oil & gas activities and maintenance and operation of oil wells
Towell and Specialties Real Estate Company – WLL	Oman	**70%**	70%	Real estate activities
Specialties Factory for Building Chemicals – WLL	Qatar	**80%**	80%	Manufacturing cement and concrete materials additives
Specialties Energy Company – WLL	UAE	**70%**	70%	Oil and gas activities and maintenance activities
Specialties Gulf Building Company (newly established)	Saudi Arabia	**80%**	-	Manufacturing and construction
Gulf Specialized Limited Co. (newly established)	Saudi Arabia	**50%**	-	Real estate and contracting

7 Goodwill

In the previous year, the share capital of Specialties Real Estate Company – WLL (Kuwait) was increased for which group contributed KD1,500,000. The non-controlling interests in that subsidiary did not subscribe towards the increase resulting into increase the ownership interest of the group from 75% to 99%. This transaction led to recognition of goodwill of KD390,907.

8 Revenue from sale and services

	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
General trading	3,072,167	3,670,956
Contracting division	843,045	833,347
Construction division	1,001,197	716,959
Oil and gas services activities	13,201,645	1,710,540
	18,118,054	6,931,802

9 Profit/(loss) from trading properties

	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
Gain on sale	439,750	-
Provision for decline in value	(118,081)	(591,663)
	321,669	(591,663)

10 Finance costs

Finance costs relate to due to banks and Murabaha payables. All these financial liabilities are stated at amortised cost.

11 Profit/(loss) for the year

Profit/(loss) for the year is stated after charging:

	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
Staff costs (Note 11a)	1,138,427	1,081,757
Depreciation and amortisation (Note 11b)	353,413	324,855

a. Staff costs for the year have been allocated as follows:

	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
Cost of sales and services	165,419	166,877
General, administration and other expenses	973,008	914,880
	1,138,427	1,081,757

b. Depreciation and amortisation for the year have been allocated as follows:

	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
Cost of sales and services	87,834	62,666
General, administration and other expenses	265,579	262,189
	353,413	324,855

12 Net loss on financial assets

Net loss on financial assets, analysed by category, is as follows:

	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
Cash and bank balances	62,062	297,068
Trade receivables	(120,000)	(125,000)
Investments at fair value through statement of income	(68,072)	(87,566)
Available for sale investments	-	(678,656)
	(126,010)	(594,154)

13 Basic and diluted earnings/(loss) per share attributable to the owners of the parent company

Basic and diluted earnings/(loss) per share are calculated by dividing the profit/(loss) for the year attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2010	Year ended 31 Dec. 2009
Profit/(loss) for the year attributable to the owners of the parent (KD)	**1,393,549**	(1,398,840)
Weighted average number of shares outstanding during the year	**148,975,562**	149,848,438
Earnings/(loss) per share	**9.4 Fils**	(9.3) Fils

14 Property, plant and equipment

	Buildings KD	Furniture and fittings KD	Equipment and machinery KD	Motor vehicles KD	Computers KD	31 Dec. 2010 KD
Cost or valuation						
At 1 January 2010	782,595	276,014	1,066,796	144,535	86,373	2,356,313
Additions	-	63,836	94,720	13,825	30,865	203,246
Disposals	-	(2,700)	(12,176)	(13,804)	-	(28,680)
At 31 December 2010	782,595	337,150	1,149,340	144,556	117,238	2,530,879
Accumulated depreciation						
At 1 January 2010	197,547	236,147	801,712	126,715	63,718	1,425,839
Charge for the year	38,493	21,976	84,557	10,140	10,113	165,279
Relating to disposals	-	(933)	(12,174)	(13,801)	-	(26,908)
At 31 December 2010	236,040	257,190	874,095	123,054	73,831	1,564,210
Net book value at 31 December 2010	546,555	79,960	275,245	21,502	43,407	966,669

14 Property, plant and equipment (continued)

	Buildings KD	Furniture and fittings KD	Equipment and machinery KD	Motor vehicles KD	Computers KD	31 Dec. 2009 KD
Cost or valuation						
At 1 January 2009	372,952	253,505	1,073,950	145,790	74,516	1,920,713
Additions	409,643	22,509	6,846	10,935	12,202	462,135
Disposals	-	-	(14,000)	(12,190)	(345)	(26,535)
At 31 December 2009	782,595	276,014	1,066,796	144,535	86,373	2,356,313
Accumulated depreciation						
At 1 January 2009	159,058	226,486	714,380	128,361	55,618	1,283,903
Charge for the year	38,489	9,661	96,082	10,544	8,445	163,221
Relating to disposals	-	-	(8,750)	(12,190)	(345)	(21,285)
At 31 December 2009	197,547	236,147	801,712	126,715	63,718	1,425,839
Net book value at 31 December 2009	585,048	39,867	265,084	17,820	22,655	930,474

The group depreciates its property, plant and equipment at the following annual rates:

Buildings	5%
Furniture, fittings and computers	20%
Machinery and equipment	25% - 50%
Motor vehicles	33%

The group's buildings are constructed on land leased from the government (Note 15). The buildings were revalued by an independent valuer on 30 September 2005, which resulted in a revaluation surplus of KD6,162 and an impairment loss of KD117,007.

15 Intangible assets

	Right of use of leased land KD	Sealant line expenses KD	31 Dec. 2010 KD	31 Dec. 2009 KD
Cost or valuation				
At 1 January	3,550,533	10,949	**3,561,482**	1,614,907
Additions	-	-	-	1,946,575
At 31 December	3,550,533	10,949	**3,561,482**	3,561,482
Amortisation				
At 1 January	300,972	10,949	**311,921**	150,287
Charge for the year	188,134	-	**188,134**	161,634
At 31 December	489,106	10,949	**500,055**	311,921
Net book value at 31 December	**3,061,427**	-	**3,061,427**	3,249,561

Right of use of lands represent the value of the right to use the lease hold land from the government and these are amortized over 20 years. On 30 September 2005, the rights of use of the lease hold land from the government were revalued by an independent evaluator which resulted in a revaluation surplus of KD841,083.

16 Investment in associates

Details of investment in associates are as follows:

	Country of incorporation	Percentage of ownership 31 Dec. 2010	31 Dec. 2009	Purpose
Kuwait International Advanced Industries Co. – KSCC	Kuwait	**25%**	25%	Constructing and executing industrial projects
Al Baida Gulf Real Estate Co. – WLL	Saudi Arabia	**50%**	-	Real estate and construction
Development Gulf Real Estate Co. – WLL	Saudi Arabia	**50%**	-	Real estate and construction

The movement of investment in associates during the year is as follows:

	31 Dec. 2010 KD	31 Dec. 2009 KD
Balance at beginning of the year	**1,576,807**	-
Additions during the year	**3,850,136**	1,500,000
Share of results	**397,343**	76,807
Dividend received	**(75,000)**	-
	5,749,286	1,576,807

During the year, the group invested an amount of KD3,831,504 to contribute towards a 50% interest in Al Baida Gulf Real Estate Co. – WLL. The associate is engaged in real estate and construction. At the time of acquisition during the year this investment was initially accounted for as an investment in subsidiary. However, as more information was available and final agreements were reached with the remaining investors, this has now been classified as an investment in associate since the group only exercises significant influence. There was no impact on the profit for the year.

The group invested an amount of KD18,632 to contribute towards a 50% interest in Development Gulf Real Estate Co. – WLL. The associate is engaged in real estate and construction.

The investment in Kuwait International Advanced Industries includes goodwill of KD571,349.

16 Investment in associates (continued)

Share of associates' assets and liabilities:

	31 Dec. 2010 KD	31 Dec. 2009 KD
Assets	6,002,105	1,845,453
Liabilities	(824,168)	(834,797)
	5,177,937	1,010,656

Share of associates' revenue and profit:

	31 Dec. 2010 KD	31 Dec. 2009 KD
Revenue	1,778,638	1,038,385
Profit	397,343	76,807

17 Available for sale investments

	31 Dec. 2010 KD	31 Dec. 2009 KD
Local quoted equity securities	1,520,899	1,097,100
Real estate fund	19,359	19,359
	1,540,258	1,116,459

The fair values of the local quoted equity securities have been determined by reference to their quoted bid prices at the reporting date.

The real estate fund represents an investment in a foreign fund which is stated at cost since its fair value cannot be reliably measured.

The group recognised impairment loss of KD Nil (2009: KD683,100) in respect of certain available for sale investments.

18 Inventories

	31 Dec. 2010 KD	31 Dec. 2009 KD
Construction materials	784,628	659,935
Raw and packing materials	770,366	753,808
Fire and safety equipment	840	840
	1,555,834	1,414,583
Provision for slow moving inventories	(65,875)	(55,198)
	1,489,959	1,359,385

19 Accounts receivable and other assets

	31 Dec. 2010 KD	31 Dec. 2009 KD
Financial assets		
Trade receivables	4,620,609	1,555,150
Retentions	639,547	1,163,696
Provision for doubtful debts	(501,651)	(381,651)
	4,758,505	2,337,195
Staff receivables	101	640
	4,758,606	2,337,835
Non-financial assets		
Advance to suppliers	3,591,234	1,073,029
Prepaid expenses and other assets	709,538	925,953
	9,059,378	4,336,817

The carrying values of the financial assets included above approximate their fair values and all of these are due within one year.

Trade receivables are non-interest bearing and generally on 30 – 90 days terms.

As at 31 December, the aging analysis of trade receivables and retention receivables is as follows;

	31 Dec. 2010 KD	31 Dec. 2009 KD
Less than 3 months	3,915,054	860,238
Past due but not impaired		
- 3 – 6 months	110,625	95,754
- over 6 months	528,729	1,409,506
Impaired		
- over 6 months	705,748	353,348
Total trade receivables and retention receivables	5,260,156	2,718,846

20 Due from related party

	31 Dec. 2010 KD	31 Dec. 2009 KD
Due from:		
Equipment Holding Company – KSC (Closed)	1,315,291	1,328,292
	1,315,291	1,328,292

21 Trading properties

	31 Dec. 2010 KD	31 Dec. 2009 KD
Properties in Oman	74,121	-
Properties in UAE	7,783,642	9,991,403
Properties in Kuwait	-	3,670,250
	7,857,763	13,661,653

21 Trading properties (continued)

The movement in trading properties is as follows:

	31 Dec. 2010 KD	31 Dec. 2009 KD
Balance at beginning of the year	13,661,653	10,814,758
Additions during the year	24,421	3,438,558
Sale during the year	(3,350,250)	-
Provision for decline	(118,081)	(591,663)
Transfer to investment property	(2,359,980)	-
	7,857,763	13,661,653

As of 31 December 2010, trading properties amounting to KD2,359,980 were transferred to investment properties as the group has changed the use for these properties evidenced by rental operations.

22 Investments at fair value through statement of income

	31 Dec. 2010 KD	31 Dec. 2009 KD
Held for trading:		
Local investment portfolio	126,808	-
Local quoted equity securities	64,000	86,400
	190,808	86,400

23 Share capital and share premium

	Authorised		Issued and fully paid	
	31 Dec. 2010 KD	31 Dec. 2009 KD	31 Dec. 2010 KD	31 Dec. 2009 KD
Shares of KD0.100 each	15,000,000	15,000,000	15,000,000	15,000,000

Share premium is not available for distribution.

24 Reserves

	Statutory reserve KD	Voluntary reserve KD	Revaluation reserve KD	Fair value reserve KD	Foreign exchange translation reserve KD	Total KD
Balance at 31 December 2009	528,882	557,490	406,639	-	99,956	1,592,967
Net change in fair value of available for sale investments	-	-	-	298,562	-	298,562
Foreign exchange differences	-	-	-	-	(195,655)	(195,655)
Transfer related to depreciation charge to retained earnings	-	-	(25,415)	-	-	(25,415)
Transfer from retained earnings	63,599	63,599	-	-	-	127,198
Balance at 31 December 2010	592,481	621,089	381,224	298,562	(95,699)	1,797,657

24 Reserves (continued)

	Statutory reserve KD	Voluntary reserve KD	Revaluation reserve KD	Fair value reserve KD	Foreign exchange translation reserve KD	Total KD
Balance at 31 December 2008	528,882	557,490	508,299	-	-	1,594,671
Net change in fair value of available for sale investments	-	-	-	(683,100)	-	(683,100)
Impairment in available for sale investments transferred to statement of income	-	-	-	683,100	-	683,100
Foreign exchange differences	-	-	-	-	99,956	99,956
Transfer related to depreciation charge to retained earnings	-	-	(101,660)	-	-	(101,660)
Balance at 31 December 2009	528,882	557,490	406,639	-	99,956	1,592,967

Statutory reserve
As required by the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year before KFAS, Zakat, NLST and directors' remuneration is transferred to the statutory reserve until the balance reaches 50% of the company's issued and paid-up capital. No transfer is required in a year when losses are made. Distribution of the statutory 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 distribution of a dividend of that amount.

Voluntary reserve
In accordance with the parent company's articles of association, a certain percentage of the parent company's profit before KFAS, Zakat, NLST and directors' remuneration is to be transferred to the voluntary reserve at the discretion of the board of directors which is to be approved at the general assembly.

Revaluation reserve
This has arisen due to revaluation of property, plant and equipment.

Fair value reserve
This has arisen on fair value remeasurement of available for sale investments.

Foreign exchange translation reserve
This has arisen on consolidation of foreign subsidiaries of the group.

25 Treasury shares

	31 Dec. 2010 KD	31 Dec. 2009 KD
Number of shares (number)	**1,400,000**	280,000
Percentage of issued shares (%)	**0.93%**	0.19%
Cost of treasury shares (KD)	**323,281**	61,040
Market value (KD)	**319,200**	72,800

26 Murabaha payables

Murabaha payables represent the value of commodities and trading properties purchased on a deferred payment basis. Murabaha payables matured during the year.

27 Accounts payable and other liabilities

	31 Dec. 2010 KD	31 Dec. 2009 KD
Financial liabilities		
Trade payables	**253,915**	234,369
Retentions – Due to sub contractors	**101,965**	95,461
Notes payable	**32,741**	141,024
Advances received from customers	**6,419,632**	1,232,050
	6,808,253	1,702,904
Non – Financial liabilities		
Provisions and other payables	**637,010**	767,556
	7,445,263	2,470,460

28 Cash and cash equivalents

	31 Dec. 2010 KD	31 Dec. 2009 KD
Bank savings account	**1,506,712**	9,120,830
Cash and bank balances	**7,723,372**	3,333,430
Cash and cash equivalents in statement of cash flows	**9,230,084**	12,454,260

29 Proposed dividend

Subject to the requisite consent of the relevant authorities and approval of the general assembly, the directors propose for the year ended 31 December 2010 a cash dividend of 7 Fils per share of paid up share capital be distributed to the shareholders of record as of the date of the general assembly.

The shareholders' annual general assembly held on 19 May 2010 approved the consolidated financial statements for the year ended at 31 December 2009. The general assembly also approved the directors' proposal not to distribute any dividend for the year then ended.

30 Related party transactions

Related parties represent, major shareholders, directors and key management personnel of the group, and companies of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the group's management.

Details of significant related party transactions and balances are as follows:

	31 Dec. 2010 KD	31 Dec. 2009 KD
Transactions with related parties		
Purchase of trading properties (major shareholder)	**-**	1,100,000
Consolidated statement of financial position		
Due from related party (Note 20)	**1,315,291**	1,328,292
Consolidated statement of income		
Profit from saving account (major shareholder)	**62,062**	297,068
Finance charges (major shareholder)	**(118,131)**	(599,319)
Key management compensation		
Salaries and other short term benefits	**117,396**	137,400

31 Segmental information

The group's reportable segments under IFRS 8 are as follows:

	General trading, contracting and construction KD	Oil activities KD	Real estate KD	Total KD
31 December 2010				
Segment revenue	**4,916,409**	**13,201,645**	**3,790,000**	**21,908,054**
Segment results	**450,737**	**1,004,226**	**(54,426)**	**1,400,537**
Unallocated income				**414,080**
Unallocated expenses				**(201,565)**
Profit for the year				**1,613,052**
Total assets	**25,476,681**	**212,732**	**17,522,397**	**43,211,810**
Total liabilities	**(7,941,419)**	**(551)**	**-**	**(7,941,970)**
	17,535,262	**212,181**	**17,522,397**	**35,269,840**
31 December 2009				
Segment operating revenue	5,221,262	1,710,540	-	6,931,802
Segment results	306,759	(107,854)	(1,490,232)	(1,291,327)
Unallocated income				411,839
Unallocated expenses				(926,997)
Loss for the year				(1,806,485)
Total assets	23,396,254	894,839	16,199,922	40,491,015
Total liabilities	(5,155,655)	(1,229,181)	(2,250)	(6,387,086)
	18,240,599	(334,342)	16,197,672	34,103,929

32 Risk management objectives and policies

The group's principal financial liabilities comprise murabaha and accounts payable. The main purpose of these financial liabilities is to raise finance for group operations. The group has various financial assets such as accounts receivable, bank balances and investment securities which arise directly from operations.

The group's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The parent company's board of directors is ultimately responsible to set out policies and strategies for management of risks.

The group does not use derivative financial instruments.

The most significant financial risks to which the group is exposed to are described below.

32.1 Market risk

a) Foreign currency risk

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

32 Risk management objectives and policies (continued)

32.1 Market risk (continued)

a) Foreign currency risk (continued)

The group mainly operates in the Middle Eastern countries and USA and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, UAE Dirham, Omani Riyal, Saudi Riyal and Euro. The group's consolidated statement of financial position can be significantly affected by the movement in these currencies. To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

The group's significant net exposure to foreign currency denominated monetary assets less monetary liabilities at the consolidated statement of financial position date, translated into Kuwaiti Dinars at the closing rates are as follows:

	31 Dec. 2010 *Equivalent* KD	31 Dec. 2009 *Equivalent* KD
US Dollar	**(77,504)**	(88,065)
UAE Dirham	**71,990**	50,707
Omani Riyal	**510,271**	1,388,798
Saudi Riyal	**114,881**	52,777
Euro	**3,876,778**	(134,283)

Based on the average market volatility in exchange rates in the previous twelve months, the parent company's management estimates that a reasonable possible change in the above exchange rate would be 5%. There have been no changes during the year in the methods and assumptions used in preparing the sensitivity analysis.

If the Kuwaiti Dinar had strengthened/weakened against the foreign currencies assuming the above sensitivity (5%), then this would have the following impact on the profit for the year. There is no impact on the group's equity.

	Profit for the year	
	31 Dec. 2010 KD	31 Dec. 2009 KD
US Dollar	**± 3,875**	± 4,403
UAE Dirham	**± 3,600**	± 2,535
Omani Riyal	**± 25,514**	± 69,439
Saudi Riyal	**± 5,745**	± 2,639
Euro	**± 193,839**	± 6,714

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the group's exposure to the foreign currency risk.

b) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The group is exposed to profit rate risk with respect to bank saving and murabaha payable. An increase or decrease by 1% (2009: 1%) in the effective profit rate would result in increase of profit for the year by KD15,067 (2009: KD56,208) and decrease by KD15,067 (2009: KD56,208), respectively.

c) Price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through statement of income or available for sale investments.

32 Risk management objectives and policies (continued)

32.1 Market risk (continued)

c) Price risk (continued)

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. There have been no changes during the year in the methods and assumptions used in preparing the sensitivity analysis.

If equity prices had been 10% (2009: 10%) higher/lower, the effect on the profit for the year and equity would have been as follows:

	Profit for the year		Equity	
	31 Dec. 2010 KD	31 Dec. 2009 KD	**31 Dec. 2010 KD**	31 Dec. 2009 KD
Available for sale investments	**-**	-	**± 154,026**	± 111,646
Investments at fair value through statement of income	**± 19,081**	± 8,640	**-**	-

32.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the consolidated statement of financial position date, as summarized below:

	31 Dec. 2010 KD	31 Dec. 2009 KD
Accounts receivable and other assets (Note 19)	**4,758,606**	2,337,835
Due from related parties	**1,315,291**	1,328,292
Bank balances	**9,191,253**	12,375,167
	15,265,150	16,041,294

The group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The group's policy is to deal only with creditworthy counterparties. The group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality other than those disclosed in note 19.

None of the group's financial assets are secured by collateral or other credit enhancements.

The credit risk for bank balances is considered negligible, since the counterparties are financial institution with high credit quality. Information on other significant concentrations of credit risk is set out in note 32.3

32 Risk management objectives and policies (continued)

32.3 Concentration of assets

The distribution of financial assets by geographic region for 2010 and 2009 is as follows:

At 31 December 2010	Kuwait KD	Outside Kuwait KD	Total KD
Available for sale investments	1,520,899	19,359	1,540,258
Accounts receivable and other assets (Note 19)	1,579,186	3,179,420	4,758,606
Due from related parties	1,315,291	-	1,315,291
Investments at fair value through statement of income	190,808	-	190,808
Cash and bank balances	8,523,337	706,747	9,230,084
	13,129,521	3,905,526	17,035,047
At 31 December 2009			
Available for sale investments	1,097,100	19,359	1,116,459
Accounts receivable and other assets (Note 19)	2,337,835	-	2,337,835
Due from related parties	1,328,292	-	1,328,292
Investments at fair value through statement of income	86,400	-	86,400
Cash and bank balances	11,008,951	1,445,309	12,454,260
	15,858,578	1,464,668	17,323,246

32.4 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. 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 liabilities. The maturities of liabilities have been determined on the basis of the remaining period from the consolidated statement of financial position date to the contractual maturity date.

31 December 2010	1 year KD	1 -5 years KD	Total KD
LIABILITIES			
Provision for end of service indemnity	-	496,707	496,707
Accounts payable and other liabilities (Note 27)	6,808,253	-	6,808,253
	6,808,253	496,707	7,304,960
31 December 2009			
LIABILITIES			
Murabaha payables	3,500,000	-	3,500,000
Provision for end of service indemnity	-	416,626	416,626
Accounts payable and other liabilities (Note 27)	1,702,904	-	1,702,904
	5,202,904	416,626	5,619,530

32 Risk management objectives and policies (continued)

32.4 Liquidity risk (continued)

The contractual maturity profile of financial liabilities based on undiscounted cash flows are as follows:

	1 year KD	1 -5 years KD	Total KD
31 December 2010			
Financial liabilities			
Provision for end of services indemnity	-	496,707	496,707
Accounts payable and other liabilities (Note 27)	6,808,253	-	6,808,253
	6,808,253	496,707	7,304,960
31 December 2009			
Financial liabilities			
Murabaha payables	3,634,896	-	3,634,896
Provision for end of services indemnity	-	416,626	416,626
Accounts payable and other liabilities (Note 27)	1,702,904	-	1,702,904
	5,337,800	416,626	5,754,426

33 Summary of financial assets and liabilities by category

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorized as follows:

	31 Dec. 2010		31 Dec. 2009	
	Carrying amount KD	Fair value KD	Carrying amount KD	Fair value KD
Available for sale investments	19,359	1,520,899	19,359	1,097,100
Accounts receivable and other assets	4,758,606	-	2,337,835	-
Due from related parties	1,315,291	-	1,328,292	-
Investments at fair value through statement of income	-	190,808	-	86,400
Cash and bank balances	9,230,084	-	12,454,260	-
	15,323,340	1,711,707	16,139,746	1,183,500
Murabaha payables	-	-	3,500,000	-
Accounts payable and other liabilities	6,808,253	-	1,702,904	-
	6,808,253	-	5,202,904	-

Financial instruments measured at fair value

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy.

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

33 Summary of financial assets and liabilities by category (continued)

Financial instruments measured at fair value (continued)

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

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows

31 December 2010

	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investment at fair value through statement of income					
Local quoted equity security	a	64,000	-	-	64,000
Local investments portfolio	a	126,808	-	-	126,808
Available for sale investments					
Local quoted equity security	a	1,520,899	-	-	1,520,899
		1,711,707	-	-	1,711,707

31 December 2009

	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investment at fair value through statement of income					
Local quoted equity security	a	86,400	-	-	86,400
Available for sale investments					
Local quoted equity security	a	1,097,100	-	-	1,097,100
		1,183,500	-	-	1,183,500

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Quoted securities

All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

34 Capital management objectives

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The capital of the group consists of total equity. The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The group monitors its capital by way of return on equity. This is calculated by reference to profit/(loss) for the year divided by total equity as follows:

	31 Dec. 2010 KD	31 Dec. 2009 KD
Profit/(loss) for the year	1,613,052	(1,806,485)
Total equity	35,269,840	34,103,929
Return/(loss) on equity	4.6%	(5.3)%

35 Contingent liabilities

At the financial position date the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD16,742,119 (2009 : KD9,570,419).