Consolidated financial statements and independent auditors' report

Specialties Group Holding Company – KSC (Closed) and Subsidiaries

Kuwait

31 December 2011

Contents

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) (the Parent Company) and its subsidiaries (together the "group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the 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 2011, 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

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 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 nor of the Parent 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 Parent Company.

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Waleed A. Al-Osaimi
(Licence No. 68-A)
of Ernst & Young

Kuwait
21 February 2012

Consolidated statement of income

	Notes	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Revenue			
Revenue from sales and services	8	**45,683,239**	18,118,054
Cost of sales and services		**(34,848,452)**	(15,165,558)
Gross profit		**10,834,787**	2,952,496
(Loss)/profit from trading properties	9	**(3,992,942)**	321,669
Change in fair value of investment properties	14	**(1,119,013)**	-
Rental income		**24,584**	11,791
Share of results of associates	16	**51,014**	397,343
Gain on bargain purchase of an associate	16	**1,783,293**	-
Loss on deemed disposal of available for sale investment	16	**(100,240)**	-
Change in fair value of investments at fair value through statement of income		**(52,565)**	(68,072)
Profit from savings account		**-**	62,062
Foreign currency exchange gain		**260,893**	41,663
Other income		**247,542**	93,342
		7,937,353	3,812,294
Expenses and other charges			
Selling and distribution expenses		**(23,701)**	(13,771)
General, administrative and other expenses		**(2,162,320)**	(1,852,510)
Provision for doubtful debts		**-**	(120,000)
Finance costs		**(33,998)**	(127,069)
Impairment of goodwill	10	**(390,907)**	-
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and directors' remuneration	11	**5,326,427**	1,698,944
KFAS		**(44,250)**	(6,360)
NLST		**(126,118)**	(45,361)
Zakat		**(48,510)**	(14,171)
Directors' remuneration		**(25,000)**	(20,000)
Profit for the year		**5,082,549**	1,613,052
Attributable to :			
Owners of the parent company		**4,672,755**	1,393,549
Non-controlling interests		**409,794**	219,503
		5,082,549	1,613,052
Basic & diluted earnings per share attributable to the owners of the parent company	12	**31.45 Fils**	9.35 Fils

The notes set out on pages 9 to 41 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Note	**Year ended 31 Dec. 2011 KD**	Year ended 31 Dec. 2010 KD
Profit for the year		**5,082,549**	1,613,052
Other comprehensive income:			
Available for sale investments:			
- Net change in fair value		**(398,802)**	298,562
- Transferred to consolidated statement of income on deemed disposal	16	**100,240**	-
Share of other comprehensive income of associates		**82,687**	-
Exchange differences arising on translation of foreign operations		**(50,352)**	(205,440)
Total other comprehensive (loss)/income		**(266,227)**	93,122
Total comprehensive income for the year		**4,816,322**	1,706,174
Total comprehensive income attributable to:			
Owners of the parent company		**4,415,036**	1,496,456
Non-controlling interests		**401,286**	209,718
		4,816,322	1,706,174

The notes set out on pages 9 to 41 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Notes	31 Dec. 2011 KD	31 Dec. 2010 KD
Assets			
Non-current assets			
Property, plant and equipment	13	**844,406**	966,669
Goodwill	10	**-**	390,907
Investment properties	14	**1,461,878**	2,359,980
Intangible assets	15	**2,873,301**	3,061,427
Investment in associates	16	**9,204,991**	5,749,286
Available for sale investments	17	**15,212**	1,540,258
		14,399,788	14,068,527
Current assets			
Inventories	18	**1,481,879**	1,489,959
Accounts receivable and other assets	19	**20,054,896**	9,059,378
Due from related parties	20	**3,534,901**	1,315,291
Trading properties	21	**3,790,699**	7,857,763
Investments at fair value through statement of income	22	**135,563**	190,808
Cash and bank balances	23	**6,856,990**	9,230,084
		35,854,928	29,143,283
Total assets		**50,254,716**	43,211,810
Equity and liabilities			
Equity			
Share capital	24	**15,000,000**	15,000,000
Share premium	24	**17,500,000**	17,500,000
Statutory reserve	25	**1,084,144**	592,481
Voluntary reserve	25	**520,871**	621,089
Other components of equity	26	**300,953**	584,087
Treasury shares	27	**(323,281)**	(323,281)
Retained earnings		**3,714,844**	448,319
Total equity attributable to the owners of the parent		**37,797,531**	34,422,695
Non-controlling interests		**1,010,928**	847,145
Total equity		**38,808,459**	35,269,840
Liabilities			
Non–current liabilities			
Provision for end of service indemnity		**484,808**	496,707
		484,808	496,707
Current liabilities			
Advances received from contracting customers		**4,782,061**	6,419,632
Accounts payable and other liabilities	28	**6,179,388**	1,025,631
		10,961,449	7,445,263
Total liabilities		**11,446,257**	7,941,970
Total equity and liabilities		**50,254,716**	43,211,810

Dr. Abdul Aziz Al-Saqer
Chairman

Mr. Waddah Jassem Al-Mousa
Managing Director and CEO

The notes set out on pages 9 to 41 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	Statutory reserve KD	Voluntary reserve KD	Other components of equity (Note 26) KD	Treasury shares KD	Retained earnings KD	Sub-total KD	KD	KD
Balance as at 1 January 2011	15,000,000	17,500,000	592,481	621,089	584,087	(323,281)	448,319	34,422,695	847,145	35,269,840
Profit for the year	-	-	-	-	-	-	4,672,755	4,672,755	409,794	5,082,549
Other comprehensive (loss)/income	-	-	-	-	(283,134)	-	25,415	(257,719)	(8,508)	(266,227)
Total comprehensive (loss)/income for the year	-	-	-	-	(283,134)	-	4,698,170	4,415,036	401,286	4,816,322
Dividend paid (note 29)	-	-	-	(591,881)		-	(448,319)	(1,040,200)	-	(1,040,200)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(108,900)	(108,900)
Paid to non-controlling interests on reduction of a subsidiary's capital	-	-	-	-	-	-	-	-	(128,603)	(128,603)
Transactions with owners	-	-	-	(591,881)	-	-	(448,319)	(1,040,200)	(237,503)	(1,277,703)
Transfer to reserves	-	-	491,663	491,663	-	-	(983,326)	-	-	-
Balance as at 31 December 2011	**15,000,000**	**17,500,000**	**1,084,144**	**520,871**	**300,953**	**(323,281)**	**3,714,844**	**37,797,531**	**1,010,928**	**38,808,459**

The notes set out on pages 9 to 41 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	Statutory reserve KD	Voluntary reserve KD	Other components of equity (Note 26) KD	Treasury shares KD	(Accumulated losses)/ retained earnings KD	Sub-total KD	KD	KD
Balance as at 1 January 2010	15,000,000	17,500,000	528,882	557,490	506,595	(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/(loss)	-	-	-	-	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	-	-	63,599	63,599	-	-	(127,198)	-	-	-
Balance as at 31 December 2010	15,000,000	17,500,000	592,481	621,089	584,087	(323,281)	448,319	34,422,695	847,145	35,269,840

The notes set out on pages 9 to 41 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Notes	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
OPERATING ACTIVITIES			
Profit for the year		**5,082,549**	1,613,052
Adjustments for:			
Depreciation and amortisation	11	**364,538**	353,413
Loss/(gain) on disposal of property, plant and equipment		**190**	(3,697)
Share of results of associates		**(51,014)**	(397,343)
Change in fair value of investment properties		**1,119,013**	-
Loss on deemed disposal of available for sale investment		**100,240**	-
Finance costs		**33,998**	127,069
Gain on bargain purchase of an associate		**(1,783,293)**	-
Impairment of goodwill		**390,907**	-
Profit from savings account		**-**	(62,062)
Provision for end of service indemnity		**64,553**	90,087
		5,321,681	1,720,519
Changes in operating assets and liabilities:			
Inventories		**8,080**	(130,574)
Accounts receivable and other assets		**(10,995,518)**	(4,660,499)
Due from related parties		**(2,219,610)**	13,001
Trading properties		**3,992,942**	3,443,910
Investments at fair value through statement of income		**52,565**	(104,408)
Advances received from customers		**(1,637,571)**	5,187,582
Accounts payable and other liabilities		**5,115,402**	(212,779)
Indemnity paid		**(76,452)**	(10,006)
Net cash (used in)/from operating activities		**(438,481)**	5,246,746
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(54,339)**	(203,246)
Proceeds from disposal of property, plant and equipment		**-**	5,469
Purchase of investment properties		**(146,789)**	-
Acquisition of associates		**(234,003)**	(3,850,136)
Dividends received from associates		**112,500**	75,000
Capital return from associate		**104,996**	-
Purchase of available for sale investments		**(426,363)**	(125,237)
Reduction of available for sale investment		**4,647**	-
Blocked deposits		**150,000**	(150,000)
Net cash used in investing activities		**(489,351)**	(4,248,150)
FINANCING ACTIVITIES			
Purchase of treasury shares		**-**	(262,241)
Movement in murabaha payables		**-**	(3,500,000)
Dividends paid		**(1,001,845)**	-
Dividends paid to non-controlling interests		**(108,900)**	(100,000)
Finance costs paid		**(33,998)**	(127,069)
Capital introduced by non-controlling interests		**-**	46,357
Paid to non-controlling interests on reduction of subsidiary's share capital		**(128,603)**	(224,379)
Net cash used in financing activities		**(1,273,346)**	(4,167,332)
Net decrease in cash and cash equivalents		**(2,201,178)**	(3,168,736)
Foreign currency translation		**(21,916)**	(205,440)
Cash and cash equivalents at beginning of the year		**9,080,084**	12,454,260
Cash and cash equivalents at end of the year	23	**6,856,990**	9,080,084

The notes set out on pages 9 to 41 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

31 December 2011

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 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.

The group comprises the parent company and its subsidiaries. Details of the subsidiaries are set out in Note 7.

The parent company's share are listed on the Kuwait Stock Exchange.

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 21 February 2012 and are subject to the approval of the general assembly of the shareholders.

2 Basis of preparation

The consolidated financial statements of the group have been prepared under historical cost convention except for financial assets at fair value through income statement, financial assets available for sale, investment properties and right of use of land or building that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is the functional and presentation currency of the parent company.

The group has elected to present the "statement of comprehensive income" in two statements: the "statement of income" and a "statement of comprehensive income".

3 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) and applicable requirements of Ministerial Order No. 18 of 1990.

4 Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in previous year except as follows:

The group has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year:

4.1 Adoption of Improvements to IFRSs 2010

The Improvements to IFRSs 2010 made several minor amendments to a number of IFRSs. The only amendment relevant to the group relates to IAS 1 Presentation of Financial Statements. The group previously presented the reconciliations of each component of other comprehensive income in the statement of changes in equity. The group now presents these reconciliations in the notes to the financial statements, as permitted by the amendment (see note 26). This reduces duplicated disclosures and presents more clearly the overall changes in equity. Prior period comparatives have been restated accordingly.

4.2 IAS 24 Related Party Disclosures (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. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any major impact on the financial position or performance of the group.

4.3 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB 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.

Standard or Interpretation	*Effective for annual periods beginning*
IAS 1 Presentation of Financial Statements – amendment	1 July 2012
IAS 27 Consolidated and Separate Financial Statements - Revised as IAS 27 Separate Financial Statements	1 January 2013
IAS 28 Investments in Associates - Revised as IAS 28 Investments – Associates and Joint Venture	1 January 2013
IFRS 7 Financial Instruments: Disclosures – amendment	1 July 2011
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013

4 Changes in accounting polices (continued)

4.3.1 IAS 1 Presentation of Financial Statements
The amendment to IAS 1 requires entities to group other comprehensive income items presented in the consolidated statement of comprehensive income based on those:

a) Potentially reclassifiable to consolidated statement of income in a subsequent period, and

b) That will not be reclassified to consolidated statement of income subsequently.

The group will change the current presentation of the consolidated statement of comprehensive income when the amendment becomes effective.

4.3.2 IAS 27 Consolidated and Separate Financial statements – Revised as IAS 27 Separate Financial Statements
As a result of the consequential amendments, IAS 27 now deals with separate financial statements.

4.3.3 IAS 28 Investments in Associates – Revised as IAS 28 Investments in Associates and Joint Ventures
As a result of the consequential amendments, IAS 28 brings investments in joint ventures into its scope. However, the equity accounting methodology under IAS 28 remains unchanged.

4.3.4 IFRS 7 Financial Instruments: Disclosures
The amendments to IFRS 7 Financial Instruments: Disclosures resulted as a part of comprehensive review of off financial position activities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption of this amendment is not expected to have any significant impact on the financial position or performance of the group.

4.3.5 IFRS 9 Financial Instruments
The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety, with the replacement standard to be effective for annual periods beginning 1 January 2015. IFRS 9 is being issued in phases and to date phase 1 has been issued. The main phases are:

- Phase 1: Classification and Measurement
- Phase 2: Impairment methodology
- Phase 3: Hedge accounting

In addition, a separate project is dealing with derecognition.

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.

4.3.6 IFRS 10 Consolidated Financial Statements
IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements. It revised the definition of control together with accompanying guidance to identify an interest in subsidiary. However, the requirements and procedures of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

4.3.7 IFRS 13 Fair Value Measurement
IFRS 13 does not affect which items to be fair valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. The adoption of this standard is not expected to have a significant impact on the financial position and performance of the group.

5 Significant accounting policies

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

5.1 Basis of consolidation

The group financial statements consolidate those of the parent company and all of its subsidiaries (see note 7). Subsidiaries are all entities over which the group has the power to control the financial and operating policies. The group obtains and exercises control through more than half of the voting rights. All subsidiaries have a reporting date of 31 December.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed off, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated income statement.

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 the owners of the parent company.

5.2 Business combinations

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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 at the acquisition date through consolidated statement of income.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

5 Significant accounting policies (continued)

5.2 Business combinations (continued)

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in consolidated statement of income immediately.

5.3 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note 5.2 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to note 5.18 for a description of impairment testing procedures.

5.4 Revenue

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 payment is made.

Revenue is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. The group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

5.4.1 Sale of goods

Sale of goods is recognised when the group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods.

Revenue from the sale of goods with no significant service obligation is recognised on delivery. Where significant tailoring, modification or integration is required, revenue is recognised in the same way as construction contracts described below.

5.4.2 Construction contracts

When the outcome can be assessed reliably, contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the group cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised in the period in which they are incurred.

In either situation, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in consolidated statement of income.

A construction contract's stage of completion is assessed by management based on milestones (usually defined in the contract) for the activities to be carried out under the contract and other available relevant information at the reporting date. The maximum amount of revenue recognised for each milestone is determined by estimating relative contract fair values of each contract phase, i.e. by comparing the group's overall contract revenue with the expected profit for each corresponding milestone. Progress and related contract revenue in-between milestones is determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone (a procedure sometimes referred to as the cost-to-cost method).

The gross amount due from customers for contract work is presented within trade and other receivables for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented within other liabilities for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

5 Significant accounting policies (continued)

5.4.3 Profit from saving accounts

Profit from saving accounts is recognised on a time proportions basis so as to yield a consist periodic rate of return based on the balance outstanding.

5.4.4 Dividend income

Dividend income, other than those from investments in associates, are recognised at the time the right to receive payment is established.

5.4.5 Rental income

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

5.5 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin. Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised.

5.6 Taxation

5.6.1 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the group after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

5.6.2 Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the group 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.

5.6.3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

5.6.4 Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

5.7 Segment reporting

The group has three operating segments: general trading, contracting and construction, oil activities and real estate. In identifying these operating segments, management generally follows the group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

5 Significant accounting policies (continued)

5.8 Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the group's management.

Property, plant and equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses except for building which are stated at revalued amounts less accumulated depreciation. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment. The following useful lives are applied:

- Buildings: 20 years
- Furniture, fitting and computers: 5 years
- Machinery and equipment: 2-4 years.
- Motor vehicles: 3 years.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of income.

5.9 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in consolidated statement of income within change in fair value of investment property.

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.

5.10 Trading properties

Trading properties include purchased costs of unsold real estate and stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. If the net realisable value is lower than cost, the difference is recognised in the consolidated statement of income.

5.11 Intangible assets

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

5 Significant accounting policies (continued)

5.11 Intangible assets (continued)

Group's intangible assets represent capitalised sealant line expenses and right of use of land leased from the government. Capitalised sealant line expenses are initially recognised at cost and subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Right of use of lease land is stated at revalued amounts. Revalued amounts are based on appraisals prepared by external professional valuers if market factors indicate a material change in value. Any revaluation surplus is recognised in other comprehensive income and credited to the revaluation reserve in equity. To the extent that any revaluation decrease or impairment loss has previously been recognised in consolidated statement of income, a revaluation increase is credited to consolidated statement of income with the remaining part of the increase recognised in other comprehensive income.

Downward revaluations of right of use of land are recognised upon appraisal or impairment testing, with the decrease being charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and any remaining decrease recognised in profit or loss. Any revaluation surplus remaining in equity on disposal of the asset is transferred to retained earnings.

Depreciation on the revalued right of use of land is charged to the consolidated statement of income and an amount equivalent to the depreciation charged on the revaluation surplus is transferred from revaluation surplus to retained earnings.

5.12 Investment in associates

Associates are those entities over which the group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the group.

Unrealised gains and losses on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The difference in reporting dates of the associates and the group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the group's consolidated financial statements. The associate's accounting policies conform to those used by the group for like transactions and events in similar circumstances.

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 remaining investment and proceeds from disposal are recognised in the consolidated income statement.

5.13 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. Costs of ordinarily interchangeable items are assigned using the weighted average cost formula.

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

5 Significant accounting policies (continued)

5.14 Financial instruments

5.14.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

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

- rights to receive cash flows from the assets 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 the risks and rewards of the asset or
  (b) the group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

Where the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of income.

5.14.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through statement of income (FVTSI)
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTSI are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

- ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

5 Significant accounting policies (continued)

5.14 Financial instruments (continued)

5.14.2 Classification and subsequent measurement of financial assets (continued)

- ***Loans and receivables (continued)***

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The group categorises loans and receivables into following categories:

Accounts receivables
Accounts receivable are stated at original invoice amount less allowance 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 as incurred

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and bank balances, together with other saving accounts, that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

- ***Financial assets at FVTSI***

Classification of investments as financial assets at FVTSI depends on how management monitor 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 consolidated statement of income, they are as designated at FVTSI upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in consolidated statement of income. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

- ***AFS financial assets***

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in consolidated statement of income. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in consolidated statement of income. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to consolidated statement of income and presented as a reclassification adjustment within other comprehensive income.

5 Significant accounting policies (continued)

5.14 Financial instruments (continued)

5.14.2 Classification and subsequent measurement of financial assets (continued)

- ***AFS financial assets (continued)***

The group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity 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. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated statement of income.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in consolidated statement of income only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.14.3 Classification and subsequent measurement of financial liabilities

The group's financial liabilities include trade and other payables.

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

- *Trade payables and other liabilities*

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

5.15 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 entity 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.

5.16 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.

5.17 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 or dealer price quotations (bid price for long positions and ask price for short positions), 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 33.

5 Significant accounting policies (continued)

5.18 Impairment testing of goodwill and non financial assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

5.19 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the commercial companies' law and the parent company's articles of association.

Other components of equity include the following:
- revaluation reserve – comprises gains and losses from the revaluation of leased hold land and building
- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign entities into Kuwaiti Dinars (KD)
- Fair value reserve – comprises gains and losses relating to available for sale financial assets
- Treasury shares reserve - comprises gain and losses relating from sale of treasury shares

Retained earnings includes all current and prior period retained profits. All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.

5 Significant accounting policies (continued)

5.20 Treasury shares

Treasury shares consist of the parent company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity.

When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

5.21 End of service indemnity

The group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date

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

5.22 Foreign currency translation

5.22.1 Functional and presentation currency

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. 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.

5.22.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in consolidated statement of income. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

5.22.3 Foreign operations

In the group's financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to consolidated statement of income and are recognised as part of the gain or loss on disposal.

5 Significant accounting policies (continued)

5.23 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

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

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.

6 Significant management judgements and estimation uncertainty

The preparation of the group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount 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.

6.1 Significant management judgments

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

6.1.1 Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as fair value through statement of income 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 profit or loss in the management accounts, they are classified as fair value through income statement.

Classification of assets as loans and receivables depends on the nature of the asset. If the group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

6 Significant management judgements and estimation uncertainty (continued)

6.1 Significant management judgments (continued)

6.1.2 Classification of real estate
Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.

The group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The group classifies property as property under development if it is acquired with the intention of development.

The group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

6.1.3 Fair values of assets and liabilities acquired
The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

6.2 Estimates uncertainty
Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different

6.2.1 Impairment of goodwill and other intangible assets
The group determines whether goodwill and intangible assets are 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 (Note 8).

6.2.2 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 income statement.

6.2.3 Impairment of available for sale equity 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.

6.2.4 Impairment of trade receivables
An estimate of the collectible amount of trade 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.

6 Significant management judgements and estimation uncertainty (continued)

6.2 Estimates uncertainty (continued)

6.2.5 Impairment of inventories
Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

6.2.6 Useful lives of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

6.2.7 Business combinations
Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

6.2.8 Recognition of construction contract revenue
Recognised amounts of construction contract revenues and related receivables reflect management's best estimate of each contract's outcome and stage of completion. This includes the assessment of the profitability of on-going construction contracts and the order backlog. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty.

6.2.9 Fair value of financial instruments
Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 33).

7 Subsidiary companies

Details of subsidiary companies and the group's ownership are set out below:

Company name	Country of incorporation	Percentage of ownership 31 Dec. 2011	Percentage of ownership 31 Dec. 2010	Principal activities
Alghanim Specialties Company – WLL	Kuwait	**99%**	99%	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	**99%**	99%	General trading and contracting
Specialties Kumex for General Trading and Contracting Company – WLL	Kuwait	**99%**	99%	General trading and contracting
Specialties Real Estate Company – WLL	Saudi Arabia	**99%**	99%	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	Saudi Arabia	**80%**	80%	Manufacturing and construction
Gulf Specialized Limited Co.	Saudi Arabia	**50%**	50%	Real estate and contracting

8 Revenue from sale and services

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
General trading	**2,803,537**	3,072,167
Contracting division	**1,044,123**	843,045
Construction division	**23,666,266**	1,001,197
Oil and gas contracting activities	**18,169,313**	13,201,645
	45,683,239	18,118,054

9 (Loss)/profit from trading properties

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Gain on sale	**-**	439,750
Provision for decline in value	**(3,992,942)**	(118,081)
	(3,992,942)	321,669

10 Impairment of goodwill

During the year, management impaired goodwill relating to one of the subsidiaries due to continued losses.

11 Profit for the year

Profit for the year is stated after charging:

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Staff costs (note 11a)	**1,147,825**	1,138,427
Depreciation and amortisation (note 11b)	**364,538**	353,413

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

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Cost of sales and services	**298,489**	165,419
General, administration and other expenses	**849,336**	973,008
	1,147,825	1,138,427

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

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Cost of sales and services	**142,023**	87,834
General, administration and other expenses	**222,515**	265,579
	364,538	353,413

12 Basic and diluted earnings per share attributable to the owners of the parent company

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

	Year ended 31 Dec. 2011	Year ended 31 Dec. 2010
Profit for the year attributable to the owners of the parent company (KD)	**4,672,755**	1,393,549
Weighted average number of shares outstanding during the year (excluding treasury shares)	**148,600,000**	148,975,562
Basic and diluted earnings per share	**31.45 Fils**	9.35 Fils

13 Property, plant and equipment

	Buildings KD	Furniture and fittings KD	Equipment and machinery KD	Motor vehicles KD	Computers KD	31 Dec. 2011 KD
Cost or valuation						
At 1 January 2011	782,595	337,150	1,149,340	144,556	117,238	**2,530,879**
Additions	-	9,041	31,208	6,360	7,730	**54,339**
Disposals	-	(200)	-	(3,650)	-	**(3,850)**
At 31 December 2011	782,595	345,991	1,180,548	147,266	124,968	**2,581,368**
Accumulated depreciation						
At 1 January 2011	236,040	257,190	874,095	123,054	73,831	**1,564,210**
Charge for the year	38,489	36,884	70,320	14,754	15,965	**176,412**
Relating to disposals	-	(10)	-	(3,650)	-	**(3,660)**
At 31 December 2011	274,529	294,064	944,415	134,158	89,796	**1,736,962**
Net book value at 31 December 2011	**508,066**	**51,927**	**236,133**	**13,108**	**35,172**	**844,406**

13 Property, plant and equipment (continued)

	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

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.

All deprecation and impairment charges are included with deprecation and amortisation expenses (see note 11).

14 Investment properties

	31 Dec. 2011 KD	31 Dec. 2010 KD
Properties in UAE	**950,900**	2,022,480
Properties in Oman	**84,978**	-
Properties in Kuwait	**426,000**	337,500
	1,461,878	2,359,980

The movement in investment properties as follows:

	31 Dec. 2011 KD	31 Dec. 2010 KD
At 1 January	**2,359,980**	-
Addition	**146,789**	-
Transferred from trading properties	**74,122**	2,359,980
Change in fair value	**(1,119,013)**	-
	1,461,878	2,359,980

15 Intangible assets

	Right of use of leased land KD	Sealant line expenses KD	31 Dec. 2011 Total KD	31 Dec. 2010 Total KD
Cost or valuation				
At 1 January	3,550,533	10,949	**3,561,482**	3,561,482
At 31 December	3,550,533	10,949	**3,561,482**	3,561,482
Amortisation				
At 1 January	489,106	10,949	**500,055**	311,921
Charge for the year	188,126	-	**188,126**	188,134
At 31 December	677,232	10,949	**688,181**	500,055
Net book value at 31 December	**2,873,301**	-	**2,873,301**	3,061,427

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

The group has mortgaged intangible assets amounting to KD459,026 against bank facilities.

16 Investment in associates

Details of investment in associates are as follows:

	Country of incorporation	Percentage of ownership 31 Dec. 2011	31 Dec. 2010	Purpose
Kuwait International Advanced Industries Co. – KSCC (see 16.1 below)	Kuwait	**25.00%**	25.00%	Constructing and executing industrial projects
Warehousing Projects and Logistics Company (Formerly: Al Baida Gulf Real Estate Co. – WLL	Saudi Arabia	**50.00%**	50.00%	Real estate and construction
Development Gulf Real Estate Co. – WLL	Saudi Arabia	**50.00%**	50.00%	Real estate and construction
Equipment Holding Company – KSCC (see 16.2 below)	Kuwait	**25.09%**	-	Industry and investment

16 Investment in associates (continued)

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

	31 Dec. 2011 KD	31 Dec. 2010 KD
At 1 January	**5,749,286**	1,576,807
Additions during the year	**3,567,936**	3,850,136
Capital reduction	**(104,996)**	-
Share of results	**51,014**	397,343
Dividend received	**(112,500)**	(75,000)
Share of other comprehensive income of associates	**82,687**	-
Foreign exchange translation	**(28,436)**	-
	9,204,991	5,749,286

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

16.2 During the year, the group acquired an additional 5.19% interest in Equipment Holding Company KSC for a total consideration of KD425,863. The group previously held 16.67% interest in Equipment Holding Company KSC was carried as an available for sale investment since the group did not exercise significant influence. The total investment in Equipment Holding Company KSC having a fair value of KD1,550,640 is now classified as investment in associate as the group holds 21.86% equity interest in the company. Reclassification of previously held available for sale investments resulted in a loss of KD100,240. The acquisition resulted in a gain on bargain purchase of associate amounting to KD1,783,293 pending completion of the purchase price allocation exercise. The provisional fair value of the identifiable assets and liabilities at the date of acquisition were as follows:

	KD
Total assets	**43,808,391**
Total liabilities	**(28,557,098)**
Net assets	**15,251,293**
Share of net assets acquired – 21.86%	**3,333,933**
Less: purchase consideration	**(1,550,640)**
Gain on bargain purchase	**1,783,293**

The fair value of identifiable assets and liabilities acquired has been provisionally determined by the management of the parent company. The estimates referred to above, and resultant gain are subject to revision within twelve months of the acquisition date.

In addition, subsequent to the acquisition, the group acquired an additional 3.23% interest in the investee company, which increased the group's share in the associates to 25.09%. The fair value of identifiable assets and liabilities at the date of additional acquisition has not been determined by the parent company. Therefore no provisional goodwill or gain on bargain purchase has been recognised. The parent company will revise their estimate of fair value of identifiable assets and liabilities and relevant gain following the completion of purchase price allocation exercise.

16 Investment in associates (continued)

Share of associates' assets and liabilities:

	31 Dec. 2011 KD	31 Dec. 2010 KD
Assets	**16,876,698**	6,002,105
Liabilities	**(8,243,056)**	(824,168)
	8,633,642	5,177,937

Share of associates' revenue and profit:

	31 Dec. 2011 KD	31 Dec. 2010 KD
Revenue	**4,925,438**	1,778,638
Profit	**51,014**	397,343
Carrying value of unquoted associates	**5,569,953**	5,749,286
Carrying value of quoted associates	**3,635,038**	-
	9,204,991	5,749,286
Fair value of quoted associates	**1,779,440**	-

17 Available for sale investments

	31 Dec. 2011 KD	31 Dec. 2010 KD
Local quoted equity securities	**-**	1,520,899
Real estate fund	**15,212**	19,359
	15,212	1,540,258

Local quoted equity securities have been reclassified to investment in associate (note 16).

The real estate fund represents an investment in a foreign fund which is stated at cost since its fair value cannot be reliably measured. Management has performed an analysis of the fund which indicates that there is no impairment.

18 Inventories

	31 Dec. 2011 KD	31 Dec. 2010 KD
Construction materials	**618,962**	784,628
Raw and packing materials	**927,952**	770,366
Fire and safety equipment	**840**	840
	1,547,754	1,555,834
Provision for slow moving inventories	**(65,875)**	(65,875)
	1,481,879	1,489,959

19 Accounts receivable and other assets

	31 Dec. 2011 KD	31 Dec. 2010 KD
Financial assets		
Trade receivables	**13,693,000**	4,620,609
Retention receivables	**2,924,229**	639,547
Provision for doubtful debts	**(501,651)**	(501,651)
	16,115,578	4,758,505
Staff receivables	**217**	101
	16,115,795	4,758,606
Non-financial assets		
Advance to suppliers	**2,629,477**	3,591,234
Prepaid expenses and other assets	**1,309,624**	709,538
	20,054,896	9,059,378

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

Retentions receivables on construction and contracting contracts will be received upon completion of post contracts retention period specified in each contracts.

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

Advances received from customers for construction and contracting contracts related to work not yet performed have been recognised in current liabilities.

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

	31 Dec. 2011 KD	31 Dec. 2010 KD
Less than 3 months	**13,412,608**	3,915,054
Past due but not impaired		
- 3 – 6 months	**1,371,036**	110,625
- over 6 months	**1,071,018**	528,729
Impaired		
- over 6 months	**762,567**	705,748
Total trade receivables and retention receivables	**16,617,229**	5,260,156

20 Due from related parties

	31 Dec. 2011 KD	31 Dec. 2010 KD
Due from:		
Equipment Holding Company – KSC (Closed) (associate)	**1,315,441**	1,315,291
Warehousing Projects and Logistics Company (Formerly: Al Baida Gulf Real Estate Co. – WLL) (associate)	**2,219,460**	-
	3,534,901	1,315,291

Due from Warehousing Projects and Logistics Company (Formerly: Al Baida Gulf Real Estate Co. – WLL) represents an interest free loan due on 30 April 2012.

21 Trading properties

	31 Dec. 2011 KD	31 Dec. 2010 KD
Properties in Oman	-	74,122
Properties in UAE	3,790,699	7,783,641
	3,790,699	7,857,763

The movement in trading properties is as follows:

	31 Dec. 2011 KD	31 Dec. 2010 KD
At 1 January	7,857,763	13,661,653
Additions during the year	-	24,421
Sale during the year	-	(3,350,250)
Provision for decline in value	(3,992,942)	(118,081)
Transfer to investment properties	(74,122)	(2,359,980)
	3,790,699	7,857,763

22 Investments at fair value through statement of income

	31 Dec. 2011 KD	31 Dec. 2010 KD
Held for trading:		
Local investment portfolio	45,963	126,808
Local quoted equity securities	89,600	64,000
	135,563	190,808

23 Cash and cash equivalents

	31 Dec. 2011 KD	31 Dec. 2010 KD
Bank savings account	1,613,601	1,506,712
Cash and bank balances	5,243,389	7,723,372
	6,856,990	9,230,084
Blocked deposits	-	(150,000)
Cash and cash equivalents in statement of cash flows	6,856,990	9,080,084

The group bank saving accounts yield profit at an average rate of 1.3% (2010: 1.3%) per annum.

24 Share capital and share premium

	Authorised		Issued and fully paid	
	31 Dec. 2011 KD	31 Dec. 2010 KD	31 Dec. 2011 KD	31 Dec. 2010 KD
Shares of KD0.100 each (paid in cash)	15,000,000	15,000,000	15,000,000	15,000,000

Share premium is not available for distribution.

25 Statutory and voluntary 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 parent 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.

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.

26 Other components of equity

	Revaluation reserve KD	Fair value reserve KD	Foreign exchange translation reserve KD	Total KD
Balance at 1 January 2011	**381,224**	**298,562**	**(95,699)**	**584,087**
Available for sale investments:				
- Net change in fair value	**-**	**(398,802)**	**-**	**(398,802)**
- Transfer to consolidated statement of income on deemed disposal	**-**	**100,240**	**-**	**100,240**
Shares of other comprehensive income of associates	**-**	**82,687**	**-**	**82,687**
Foreign exchange differences	**-**	**-**	**(41,844)**	**(41,844)**
Transfer relating to depreciation charge to retained earnings	**(25,415)**	**-**	**-**	**(25,415)**
Balance at 31 December 2011	**355,809**	**82,687**	**(137,543)**	**300,953**
Balance at 1 January 2010	406,639	-	99,956	506,595
Available for sale investments				
- Net change in fair value	-	298,562	-	298,562
Foreign exchange differences	-	-	(195,655)	(195,655)
Transfer relating to depreciation charge to retained earnings	(25,415)	-	-	(25,415)
Balance at 31 December 2010	381,224	298,562	(95,699)	584,087

27 Treasury shares

	31 Dec. 2011 KD	31 Dec. 2010 KD
Number of shares (number)	**1,400,000**	1,400,000
Percentage of issued shares (%)	**0.93%**	0.93%
Cost of treasury shares (KD)	**323,281**	323,281
Market value (KD)	**341,600**	319,200

Reserves of the parent company equivalent to the cost of treasury shares have been earmarked as non distributable.

28 Accounts payable and other liabilities

	31 Dec. 2011 KD	31 Dec. 2010 KD
Financial liabilities		
Trade payables	**337,342**	253,915
Retentions – Due to sub contractors	**171,681**	101,965
Notes payable	**4,346,764**	32,741
	4,855,787	388,621
Non – Financial liabilities		
Provisions and other payables	**1,323,601**	637,010
	6,179,388	1,025,631

The carrying values of trade payable are considered to be a reasonable approximation of their fair value.

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 2011 a cash dividend of 28.5 Fils per share of paid up share capital be distributed to the shareholders of record as of the date of the general assembly.

The General Assembly of the shareholders held on 9 May 2011 approved the consolidated financial statements of the group for the year ended 31 December 2010.

The General Assembly also declared a cash dividend of 7 Fils per share of paid up share capital to the shareholders of record as of the date of the General Assembly for the year 2010 (excluding treasury shares). The dividend amounting to KD1,040,200 is paid through utilising the retained earnings of KD448,319 and KD591,881 from voluntary reserve.

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. 2011 KD	31 Dec. 2010 KD
Consolidated statement of financial position		
Due from related parties (note 20)	**3,534,901**	1,315,291
Consolidated statement of income		
Profit from saving account (major shareholder)	-	62,062
Finance charges (major shareholder)	-	(118,131)
Key management compensation		
Salaries and other short term benefits	**327,675**	117,396

Directors' fees of KD25,000 for the year ended 31 December 2011 is subject to approval by the ordinary General Assembly meeting of the shareholders of the parent company.

Directors' fees of KD20,000 for the year ended 31 December 2010 was approved by the ordinary General Assembly meeting held on 9 May 2011.

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 2011				
Segment revenue	**27,513,926**	**18,169,313**	**-**	**45,683,239**
Segment results	**7,819,083**	**1,561,366**	**(5,795,533)**	**3,584,916**
Unallocated income				**2,044,186**
Unallocated expenses				**(546,553)**
Profit for the year				**5,082,549**
Total assets	**35,286,867**	**5,680,526**	**9,287,323**	**50,254,716**
Total liabilities	**(10,893,957)**	**(534,759)**	**(17,541)**	**(11,446,257)**
	24,392,910	**5,145,767**	**9,269,782**	**38,808,459**
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

32 Risk management objectives and policies

The group's principal financial liabilities comprise 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.

The group's activities expose it to variety of financial risks: market risk (including currency 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 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 is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, UAE Dirham, Omani Riyal, Saudi Riyal, Qatari 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 financial position date, translated into Kuwaiti Dinars at the closing rates are as follows:

	31 Dec. 2011 ***Equivalent*** **KD**	31 Dec. 2010 *Equivalent* KD
US Dollar	**(123,198)**	(77,504)
UAE Dirham	**84,403**	71,990
Omani Riyal	**62,677**	510,271
Saudi Riyal	**2,446,251**	114,881
Euro	**(1,017,115)**	3,876,778
Qatari Riyal	**312,388**	224,706

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. 2011 KD	31 Dec. 2010 KD
US Dollar	**± 6,160**	± 3,875
UAE Dirham	**± 4,220**	± 3,600
Omani Riyal	**± 3,134**	± 25,514
Saudi Riyal	**± 122,313**	± 5,745
Euro	**± 50,856**	± 193,839
Qatari Riyal	**± 15,619**	± 11,253

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) 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% (2010: 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. 2011 KD	31 Dec. 2010 KD	**31 Dec. 2011 KD**	31 Dec. 2010 KD
Available for sale investments	**-**	-	**± 1,521**	± 154,026
Investments at fair value through statement of income	**± 13,556**	± 19,081	**-**	-

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 financial position date, as summarized below:

	31 Dec. 2011 KD	31 Dec. 2010 KD
Accounts receivable and other assets (note 19)	**16,115,795**	4,758,606
Due from related parties	**3,534,901**	1,315,291
Bank balances	**6,710,472**	9,191,253
	26,361,168	15,265,150

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 2011 and 2010 is as follows:

	Kuwait KD	Outside Kuwait KD	Total KD
At 31 December 2011			
Available for sale investments	**500**	**14,712**	**15,212**
Accounts receivable and other assets (note 19)	**13,786,020**	**2,329,775**	**16,115,795**
Due from related parties	**1,315,441**	**2,219,460**	**3,534,901**
Investments at fair value through statement of income	**135,563**	**-**	**135,563**
Cash and bank balances	**6,703,159**	**153,831**	**6,856,990**
	21,940,683	**4,717,778**	**26,658,461**
At 31 December 2010			
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

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 financial position date to the contractual maturity date.

	1 year KD	1 -5 years KD	Total KD
31 December 2011			
Liabilities			
Advances received from contracting customers	**4,782,061**	**-**	**4,782,061**
Accounts payable and other liabilities (note 28)	**4,855,787**	**-**	**4,855,787**
	9,637,848	**-**	**9,637,848**
31 December 2010			
Liabilities			
Advances received from contracting customers	6,419,632	-	6,419,632
Accounts payable and other liabilities (note 28)	388,621	-	388,621
	6,808,253	-	6,808,253

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. 2011		31 Dec. 2010	
	Carrying amount KD	Fair value KD	Carrying amount KD	Fair value KD
Available for sale investments	15,212	-	19,359	1,520,899
Accounts receivable and other assets	16,115,795	-	4,758,606	-
Due from related parties	3,534,901	-	1,315,291	-
Investments at fair value through statement of income	-	135,563	-	190,808
Cash and bank balances	6,856,990	-	9,230,084	-
	26,522,898	135,563	15,323,340	1,711,707
Advances received from contracting customers	4,782,061	-	6,419,632	-
Accounts payable and other liabilities	4,855,787	-	388,621	-
	9,637,848	-	6,808,253	-

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).

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 2011

	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	89,600	-	-	89,600
Local investments portfolio	a	45,963	-	-	45,963
		135,563	-	-	135,563

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

Financial instruments measured at fair value (continued)

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

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 for the year divided by total equity as follows:

	31 Dec. 2011 KD	31 Dec. 2010 KD
Profit for the year	**5,082,549**	1,613,052
Total equity	**38,808,459**	35,269,840
Return on equity	**13.1%**	4.6%

35 Contingent liabilities

At the financial position date the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD16,614,649 (2010 : KD16,742,119).