# Ekttitab Holding Company K.S.C. Holding
And its subsidiaries
State of Kuwait

## Consolidated Financial Statements and Independent Auditors' Report

For the year ended 31 December 2009

**Ekttitab Holding Company K.S.C. Holding**
**And its subsidiaries**
**State of Kuwait**

**Consolidated Financial Statements**

**And Independent Auditors' Report**
**For the year ended 31 December 2009**

## Contents

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**Ekttitab Holding Company K.S.C. Holding**
**State of Kuwait**

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Ekttitab Holding Company K.S.C.H. "the Company" and its subsidiaries "together referred to as the Group" which comprise the consolidated financial position as of 31 December 2009, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*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 whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 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 consolidated financial position of the Group as of 31 December 2009, and of its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PRICEWATERHOUSECOOPERS

Al-ATEEQI
CERTIFIED ACCOUNTANTS

**Ekttitab Holding Company K.S.C. Holding**
**State of Kuwait**

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of provision of the Commercial Companies Law of 1960, as amended, or of the Articles of Association of the Company have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Group or on its consolidated financial position.

| | |
|---|---|
| **Bader A. Al Wazzan** | **Barrk Al- Ateeqi** |
| Licence No. 62A | Licence No. 69A |
| PricewaterhouseCoopers | An Independent Member of |
| | B.K.R International |

Kuwait
30 March 2010

Ekttitab Holding Company K.S.C. (Holding)
And its subsidiaries

## Consolidated Statement of Financial Position as at 31 December 2009

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 1,069,175 | 3,760,897 |
| Investments at fair value through profit or loss | 6 | 13,833,661 | 48,355,471 |
| Available for sale investments | 7 | 12,136,254 | 10,653,314 |
| Murabaha investments | 8 | 18,289,830 | 6,568,130 |
| Receivables and other debit balances | | 183,788 | 254,990 |
| Due from related parties | 17 | 1,039,640 | 4,519,653 |
| Properties held for trading | 17 | 2,447,959 | - |
| Fixed assets | | 19,077 | 25,440 |
| Total assets | | 49,019,384 | 74,137,895 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Murabaha payable | 9 | 7,558,525 | 7,337,534 |
| Payables and other debt balances | 10 | 1,995,660 | 3,275,296 |
| Due to related parties | 17 | 3,320,485 | 3,314,991 |
| Total liabilities | | 12,874,670 | 13,927,821 |
| **Equity** | | | |
| **Equity attributable to shareholders of the Parent Company** | | | |
| Share capital | 11 | 51,700,000 | 51,700,000 |
| Treasury shares | 12 | - | (2,184) |
| Statutory reserve | 13 | 1,545,914 | 1,545,914 |
| Voluntary reserve | 13 | 1,545,914 | 1,545,914 |
| Change in fair value reserve | | (1,354,753) | (396,000) |
| (Losses) / retained earnings | | (23,001,413) | 766,822 |
| | | 30,435,662 | 55,160,466 |
| Non-controlling interest | | 5,709,052 | 5,049,608 |
| Total equity | | 36,144,714 | 60,210,074 |
| **Total liabilities and equity** | | 49,019,384 | 74,137,895 |

The notes on pages from (8) to (20) form an integral part of these consolidated financial statements.

**Dr. Ali Darweesh Al Shamali**
Chairman and Managing Director

**Mamdouh Al Sherbiny**
Vice chairman

## Consolidated Statement of Income for the year ended 31 December 2009

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Revenues** | | | |
| (Losses) / gains from investments at fair value through profit or loss | 14 | (5,951,636) | 14,127,737 |
| Realized profits on sale of available for sale investments | | 1,584,558 | - |
| Dividends gain | | 204,003 | 1,296,276 |
| Murabaha income | | 1,344,062 | 682,272 |
| Losses form investments in an associate | 15 | (9,412,178) | - |
| Losses from foreign currency differences | | (492,708) | (23,086) |
| Other income | | 11,730 | - |
| | | (12,712,169) | 16,083,199 |
| **Expenses and other charges** | | | |
| Impairment of available for sale investments | 7.1 | (696,941) | (14,987,758) |
| Finance costs | | (627,747) | (752,948) |
| General and administrative expenses | | (669,078) | (621,482) |
| | | (1,993,766) | (16,362,188) |
| **Net loss for the year** | | (14,705,935) | (278,989) |
| **Attributable to:** | | | |
| Shareholders of the Parent Company | | (14,948,637) | (274,277) |
| Non-controlling interest | | 242,702 | (4,712) |
| | | (14,705,935) | (278,989) |
| **Loss per share (fils)** | 16 | (28.98) | (0.53) |

The notes on pages from (8) to (20) form an integral part of these consolidated financial statements.

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

*(All amounts in Kuwaiti Dinars)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| Net loss for the year | | (14,705,935) | (278,989) |
| Change in fair value of available for sale investments | | (1,354,753) | (15,383,758) |
| Transferred to the statement of income as the result of sale of available for sale investments | | 396,000 | - |
| Impairment of available for sale investments | | - | 14,987,758 |
| Group's share in other comprehensive income for an associate | 7 | 515,946 | - |
| Transferred to statement of income as a result of sale of investments in an associate | | (66,713) | - |
| The effect of reclassification of investments in associate to available for sale investments | | (449,233) | - |
| Other comprehensive losses | | (958,753) | (396,000) |
| **Total comprehensive losses for the year** | | (15,664,688) | (674,989) |
| **Attributable to :** | | | |
| Shareholders of the Parent Company | | (15,907,390) | (670,277) |
| Non-controlling interest | | 242,702 | (4,712) |
| | | (15,664,688) | (674,989) |

The notes on pages from (8) to (20) form an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity for the year ended 31 December 2009

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

| | Equity attributable to shareholders of the Parent Company | | | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Treasury shares | Gain on sale of treasury shares | Statutory reserve | Voluntary reserve | Change in fair value reserve | Retained earnings / (accumulated losses) | Total equity attributable to shareholders of the Parent Company | | |
| **Balance at 1 January 2008** | 47,000,000 | (286,032) | 32,692 | 1,545,914 | 1,545,914 | - | 8,834,369 | 58,672,857 | - | 58,672,857 |
| Total comprehensive losses for the year | - | - | - | - | - | (396,000) | (274,227) | (670,277) | (4,712) | (674,989) |
| Cash dividends (Note 18) | - | - | - | - | - | - | (2,343,438) | (2,343,438) | - | (2,343,438) |
| Bonus shares dividends (Note 18) | 4,700,000 | - | - | - | - | - | (4,700,000) | - | - | - |
| Purchase of treasury shares | - | (62,331,201) | - | - | - | - | - | (62,331,201) | - | (62,331,201) |
| Sale of treasury shares | - | 62,615,049 | (32,692) | - | - | - | (749,832) | 61,832,525 | - | 61,832,525 |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | 5,054,320 | 5,054,320 |
| **Balance at 31 December 2008** | 51,700,000 | (2,184) | - | 1,545,914 | 1,545,914 | (396,000) | 766,822 | 55,160,466 | 5,049,608 | 60,210,074 |
| **Balance at 1 January 2009** | 51,700,000 | (2,184) | - | 1,545,914 | 1,545,914 | (396,000) | 766,822 | 55,160,466 | 5,049,608 | 60,210,074 |
| The effect of reclassification of investments at fair value through profit or loss to investment in associate (Note 7.2) | - | - | - | - | - | - | (8,841,975) | (8,841,975) | - | (8,841,975) |
| | 51,700,000 | (2,184) | - | 1,545,914 | 1,545,914 | (396,000) | (8,075,153) | 46,318,491 | 5,049,608 | 51,368,099 |
| Total comprehensive losses for the year | - | - | - | - | - | (958,753) | (14,948,637) | (15,907,390) | 242,702 | (15,664,688) |
| Purchase of treasury shares | - | (683,974) | - | - | - | - | - | (683,974) | - | (683,974) |
| Sale of treasury shares | - | 686,158 | - | - | - | - | 22,377 | 708,535 | - | 708,535 |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | 416,742 | 416,742 |
| **Balance at 31 December 2009** | 51,700,000 | - | - | 1,545,914 | 1,545,914 | (1,354,753) | (23,001,413) | 30,435,662 | 5,709,052 | 36,144,714 |

The notes on pages from (8) to (20) form an integral part of these consolidated financial statements.

**Consolidated Statement of Cash Flow for the year ended 31 December 2009**
*(All amounts in Kuwaiti Dinars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss for the year | | (14,705,935) | (278,989) |
| *Adjustments:* | | | |
| Depreciation | | 6,363 | 4,688 |
| Losses / (gains) from investments at fair value through profit or loss | | 5,951,636 | (14,127,737) |
| Dividends gain | | (204,003) | (1,296,276) |
| Impairment of available for sale investments | | 696,941 | 14,987,758 |
| Gains from available for sale investments | | (1,584,558) | - |
| Losses from investment in an associate | | 9,412,178 | - |
| Realized losses from decrease of Group's share of subsidiaries company | | - | 54,320 |
| Murabaha income | | (1,344,062) | (682,272) |
| Finance costs | | 627,747 | 752,948 |
| Operating losses before changes in the operating assets and liabilities | | (1,143,693) | (585,560) |
| Investments at fair value through profit or loss | | 251,678 | 5,011,664 |
| Receivables and other debit balances | | 71,202 | (181,286) |
| Due from related parties | | 535,969 | 3,566,291 |
| Payables and other credit balances | | (1,279,629) | (569,297) |
| Due to related parties | | (2,442,468) | (1,217,097) |
| Net cash (used in) / generated from operating activities | | (4,006,941) | 6,024,715 |
| **Cash flows from investing activities** | | | |
| Investments in Murabaha | | (7,433,596) | 11,455,860 |
| Paid for purchase of available for sale investments | | (1,402,171) | (24,651,072) |
| Proceeds from sale of available for sale investments | | 10,116,442 | - |
| Paid for purchase of investment in an associate | | (1,758,961) | - |
| Proceeds from sale of investment in an associate | | 1,758,961 | - |
| Paid for purchase of fixed assets | | - | (30,129) |
| Dividends received | | - | 1,296,276 |
| Increase in non-controlling interest on subsidiary | | - | 5,000,000 |
| Net cash generated from / (used in) investing activities | | 1,280,675 | (6,929,065) |
| **Cash flows from financing activities** | | | |
| Purchase of treasury shares | | (683,974) | (62,331,201) |
| Sale of treasury shares | | 708,533 | 61,832,525 |
| Change in minority interest | | 416,742 | - |
| Finance costs paid | | (802,934) | (752,948) |
| Proceeds from Murabaha payable | | 396,177 | 3,859,724 |
| Dividends paid | | - | (2,260,105) |
| Net cash generated from financing activities | | 34,544 | 347,995 |
| Net decrease in cash and cash equivalents | | (2,691,722) | (556,355) |
| **Cash and cash equivalents at beginning of year** | | 3,760,897 | 4,317,252 |
| **Cash and cash equivalents at end of year** | 5 | 1,069,175 | 3,760,897 |

The notes on pages from (8) to (20) form an integral part of these consolidated financial statements.

## 1. Incorporation of the Group

Ekttitab Holding Company "the Parent Company" is a Kuwaiti shareholding company (Holding) incorporated in 1999. The Company is registered in the commercial register under No. 105414 and listed on Kuwait Stock Exchange on 19 December 2005.

The Parent Company's office is at Jassim Al Asfour Building – Sharq – Kuwait city, P.O. Box 2799 Safat 3028 Kuwait.

These consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

| Company name | Legal entity | Ownership % | |
|---|---|---|---|
| | | 2009 | 2008 |
| Indian Holding Company | K.S.C. (Holding) | 66.67 | 66.67 |
| Al Madina Markets Holding Co. | K.S.C. (Holding) | 100 | 100 |
| Petro Markets Company | K.S.C. (Closed) | 100 | 100 |

Audited financial statements was used in consolidate the financial statements as of 31 December 2009 for Al-Madina Holding & Petro Market, and the management account were used for Al-Madina Market. The total asset of these subsidiaries are KD 13,638,028 as of 31 December 2009 and their net profit is KD 298,901 for the year then ended on that date.

The Parent Company and its subsidiaries (together referred to as "The Group") are engaged principally in incorporating and acquiring Kuwaiti and foreign companies, extending borrowings and acting as grantor for such companies. All activities are conducted in accordance with the Nobel Islamic Shariaa principles.

The consolidated financial statements were approved for issue by the Board of Directors on 30 March 2010 and are subject to approval of the shareholders of the Parent Company in the annual General Assembly Meeting.

## 2. Basis of preparation and Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented in these consolidated financial statements unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments at fair value through profit or loss and available for sale investments.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment, or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note (4).

*2.1.1 Changes in accounting policy and disclosures*

***(a). The Group has adopted the following new standards and amendments as of 1 January 2009.***

- IFRS 7 Financial instruments – Disclosers' (amendment)- effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk.
- IAS 1 (revised). "Presentation of financial statements" – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, "non- owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

- IFRS 8 Operating segments'. IFRS replaces IAS, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

(b). ***Standards, amendments and interpretation to existing standards that are not yet effective and have not been early adopted by the group.***

- IFRIC 17, "Distribution of non- cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

  IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present IFRIC 17 from 1 January 2010.

- IAS 27 (revised), "Consolidated and separate financial statements" , (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 3 (revised), "Business combination" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes.

  All acquisition- related costs will be expensed. The group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- IAS 38 (amendment), "Intangible Assets". The group and company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted .The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a "business combination".

- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as a current or non current. The group will apply IAS 1 (amendment) from 1 January 2010.

- IFRS 9 'Financial Instruments". The standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2013. IFRS 9 establishes principles for the classification and measurement of financial assets that will present relevant and useful information to users of the consolidated financial statements for their assessment of the amounts, timing and uncertainty of the Group's future cash flows.

These Interpretations and amendments to existing standards that are not yet effective and it is not expected to have a material impact on the group's financial statements.

## 2.2 Consolidation

### Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

Balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the statement of income. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries.

**Associates**

Associate companies are entities over which the Group has significant influence but not control, generally, accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in reserves is recognized in the statement of comprehensive income.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in the statement of income.

## 2.3 Cash and cash equivalents

For the preparation of cash flows statement, cash and cash equivalents includes cash on hand and at banks, term and demand deposits with financial institutions whose original maturities of three months or less from the date of placement.

## 2.4 Financial Instruments

### Classification

The Group classifies its financial assets upon acquisitions based on the purpose of acquiring these investments. The Group had classified its financial assets as "at fair value through profit or loss", "Murabaha and receivables" and "available for sale investments".

*a) Financial assets at fair value through profit or loss*

This classification is divided into two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial assets held for trading are those assets acquired principally for the purpose of selling in the short term. The financial assets designated at fair value through profit or loss at inception are classified in this category, if they are managed and their performance is evaluated and internally reported on a fair value basis in accordance with risk management approved by the management or investment strategy.

*b) Murabaha and receivables*

These are non – derivative financial assets with fixed or determined payment that are not quoted in active market. The Group's receivables comprise finance receivables, investment in Murabaha and cash and cash equivalent.

Murabaha is the sale of commodities and real estate at cost plus an agreed profit markup whereby the seller informs the purchaser of the price which he purchases the product and also stipulates on amount of profit.

*c) Financial assets available for sale*

These are non-derivative financial assets that are either designated in this category or not included in any of the above categories and are principally, those acquired to be held for an indefinite period of time which could be sold when liquidity is needed or upon changes in rates of profit.

**Recognition and De-recognition**

Financial assets are recognized when the Group becomes a party in a contractual agreement of financial instrument. Purchase and sale of financial assets are recognized at trade date, the date on which the Group commits to sell or purchase the assets. Financial assets are de-recognized when the rights to receive cash flows from the assets have expired or when the right in receiving cash flow of these assets and when either (a) the Group transfer all risks and rewards or ownership to other party or (b) the Group transferred or hold all risks and rewards but lost control on the asset.

**Measurement**

Financial assets are initially recognized at fair value (plus transaction costs for all assets not carried at fair value through profit or loss). Subsequently financial assets at fair value through profit or loss and available for sale investments are re-measured at fair value. Loans and receivables are carried at amortized cost using the effective yield method less any provision for impairment.

Realized and unrealized gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement for the year in which they arise. Changes in fair value of financial assets classified as available for sale are recognized in the statement of comprehensive income. When available-for sale financial assets are sold or impaired, the accumulated changes in fair value recognized in the statement of comprehensive income are included in the statement of income.

Available for sale investments that their market values can not be determined are recorded at cost less impairment in value.

**Fair value**

Fair values of financial instruments which are quoted are determined based on quoted latest bid price. The fair value of investments in mutual funds, unit trusts or similar investment pools are based on the last published net asset value. The fair value of unquoted financial instruments is determined by reference to the market value of a similar investment, valuation techniques as earning ratios or the expected discounted cash flows, brokers' quotes, or other appropriate valuation models.

**Impairment in value**

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar financial assets may be impaired as a result of one or more events that occurred after the initial recognition of those assets and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably measured. If such evidence exists, any impairment loss is recognized in the statement of income.

*Impairment is determined as follows:*

a) For financial assets with fixed rates of return, carried at amortized cost, impairment is the difference between the carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective profit rate; and for financial assets with variable profit rates, carried at amortized cost, discounted at the current effective rate of return.

b) For financial assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income;

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

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognized. Reversal of impairment loss is recorded in the statement of income to the extent that the book value does not exceed the amortized cost at the date of reverse the loss. For investments in equity instruments classified as available for sale, the significant or prolonged decline in the fair value is considered an objective evidence of an impairment, impairment losses on equity instruments classified as available for sale are not reversed through the statement of income as the effect of any increase of fair value is recorded subsequently after the impairment was recognized in the statement of comprehensive income.

## 2.5 Properties held for trading

Property held for trading are stated at cost when acquired. Cost is determined on an individual basis for such property; cost represents the fair value of the consideration given, plus ownership transfer fee and brokerage expenses and any other expenses required for land or real estate development. Property held for trading are classified under current assets and are valued at the lower of cost or realizable value on an individual basis. Realizable value is determined on the basis of estimated sales value, less the estimated expenses necessary to complete the sale.

## 2.6 Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost comprises of acquisition costs and all directly attributable costs of bringing the asset to working condition for its intended use. Depreciation is calculated based on the estimated useful lives of the assets using the straight line method.

## 2.7 Murabaha payable

These are financial liabilities created by Murabaha contracts. They are recognized initially at fair value, net of transactions costs incurred. They are subsequently stated at amortized cost, any difference between the proceeds and the redemption value is recognized in the statement of income using the effective yield method.

## 2.8 End of service's indemnity

The Group is liable under Kuwait Labor Law to make payments under defined benefit plans to employees at termination of employment. The defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of all employees on the consolidated statement of financial position date. This basis is considered to be a reliable approximation of the present value of the Group's liability.

### 2.9 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction from the proceeds

Where any of Group's Company purchased the Parent Company's own shares (treasury shares), the total cost of the shares acquired is deducted from equity until the shares are reissued or cancelled. Gains are credited to a separate undistributable account in equity "gain on sale of treasury shares. Any realized losses are charged to the same account to the extent of the balance and then to retained earnings and reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and the gain on sale of treasury shares.

### 2.10 Revenue recognition

Murabaha income are recognized on a time proportion basis using the effective rate of return on outstanding balances for such transactions.

Dividends income is recognized when right to receive payment is established.

### 2.11 Foreign currencies

***Functional and presentation currency***

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

***Transactions and balances***

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

### 2.12 Zakat

Responsibility of paying Zakat lies on the shareholders.

### 2.13 Dividend distribution

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Parent Company's Shareholders.

## 3. Risk Management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

### (A) Market risk

#### (i) Foreign risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

Management has set up a policy to manage its foreign exchange risk against their functional currency, through diversifying its investments on geographical level and in different economical sectors. In addition, the group concentrates its investments in Kuwaiti Dinar to avoid the fluctuation in foreign currency rates risk.

If the currency had changed by 5% against the Kuwaiti Dinar with all other variables held constant, post-tax profit for the year ended 31 December 2009 would have been affected by KD 200 (KD 4,500 - 2008).

#### (ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated financial statements as available for sale or investments at fair value through profit and loss. The Group has established its policies to studying and evaluating the investments opportunities. These policies are implemented within the group within the limits of roles and responsibilities that approved by the board of directors of the Parent Company.

The Group's investment in the quoted shares is subject to regular monitoring of the share price through indexes. However, the price of the investment in unquoted funds are monitored by the Group's management through periodic reports of the net asset value of those funds.

Investments in unquoted shares are managed and their performance is evaluated and internally reported on a fair value basis in accordance with investment strategy approved by the management.

The table below summarizes the impact of decrease of the indexes on the Group's post-tax profit for the year and on Comprehensive income. The analysis is based on the assumption that the equity indexes had decreased by 10% with all other variables held constant :

| | Effect on net profit | | Effect on comprehensive income | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Kuwait stock exchange | 427,453 | 1,474,860 | 651,495 | 241,012 |
| Dubai and Abu Dhabi stock exchange | 242,296 | - | - | - |
| Egypt stock exchange | 37,173 | - | 300,166 | - |

#### (iii) Return rate risk

Return rate risk arises from the possibility that changes in return rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to return rate risk as the group works under Islamic Shareea and the Group is not exposed to profit rate risk. Investments returns are determined in Murabha and payables costs based on effective rate of return.

### (B) Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharges their contractual obligations. Credit risk arises from cash and cash equivalents, financial institutions, Murabaha investments and due from related parties.

For cash and cash equivalent, credit risks are managed through dealing with high credit rating financial institutions.

For receivables (Murabaha, receivables and due from related parties), the group assesses their credit quality taking into consideration its financial position, past experience and reputation and obtaining collaterals.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position without taking into consideration the collaterals:

| | 2009 | 2008 |
|---|---|---|
| Cash and cash equivalents | 1,069,175 | 3,760,897 |
| Murabaha investments | 18,289,830 | 6,568,130 |
| Receivables | 183,788 | 254,990 |
| Due from related parties | 1,039,640 | 4,519,653 |

**(C) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, management has diversified funding sources, manages assets and monitors future cash flows and liquidity on a daily basis. This encompasses an assessment of expected cash flows and the availability of high grade collaterals which could be used to secure additional funding if required.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated financial statements to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months from the consolidated financial statements date equal their carrying balances as the impact of discounting is not significant.

| | 2009 | | |
|---|---|---|---|
| | Within 3 months | From 3 months to 1 year | From 1 to 5 years |
| **Liabilities** | | | |
| Murabaha payables | 4,507,643 | 3,151,026 | - |
| Payables and other credit balances | 28,200 | 408,900 | 1,558,560 |

| | 2008 | | |
|---|---|---|---|
| | Within 3 months | From 3 months to 1 year | From 1 to 5 years |
| **Liabilities** | | | |
| Murabaha payables | - | 7,337,534 | - |
| Payables and other credit balances | 2,946,929 | 328,367 | - |

## 3.2 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stockholders and to maintain an optimal capital structure to reduce the costs of capital. In order to maintain or adjust the capital structure, the Group monitors capital on the basis of gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.

| | 2009 | 2008 |
|---|---|---|
| Total borrowings | 7,558,525 | 7,337,534 |
| (Less): cash and cash equivalents | (1,069,175) | (3,760,897) |
| Net debt | 6,489,350 | 3,576,637 |
| Total equity | 36,144,723 | 60,210,074 |
| Total capital | 42,634,073 | 63,786,711 |
| Gearing ratio % | 15.22 | 5.61 |

The increase of ratio is due to realized losses during year 2009.

### 3.3 Fair value estimation

The fair value of the financial instruments that are trade in an active market, based on the last bid price.

As for the un quoted investments, its fair value of is determined by reference to the market value of similar investments or by using discounted cash flows or by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. Estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of receivables and Murabaha investments and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market yield rate that is available to the Group for similar financial instruments. The fair value of the financial assets and financial liabilities has been disclosed in the related notes in these consolidated financial statements.

## 4. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

***Fair value of unquoted equity investments***

Valuation techniques for unquoted equity investments is in which estimates are used representing the expected cash flows discount rates, return trades, adjusted local market prices, credit risks, related cost and other valuation techniques used by market participants. The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

***Impairment losses on receivable***

The Group reviews the receivables to assess impairment on regular basis. In determining whether an impairment loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimated and the actual loss experienced.

***Impairment of available for sale financial assets***

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment from management. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the invested, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

## 5. Cash and cash equivalents

| | 2009 | 2008 |
|---|---|---|
| Cash on hand | 600 | 600 |
| Cash with banks and financial institutions | 81,606 | 99,881 |
| Cash at portfolios | 986,969 | 3,660,416 |
| | 1,069,175 | 3,760,897 |

## 6. Investments at fair value through profit or loss

| | 2009 | 2008 |
|---|---|---|
| Investments held for trading | 6,684,687 | 30,359,121 |
| Investments designated at fair value through profit or loss at acquisition | 7,148,974 | 17,996,350 |
| | 13,833,661 | 48,355,471 |
| Investments in local shares - quoted | 3,768,670 | 29,359,823 |
| Investments in local shares – unquoted | 5,740,942 | 9,472,910 |
| Investments in foreign shares – quoted | 2,916,017 | 999,298 |
| Investments in foreign shares – unquoted | 230,708 | 7,005,158 |
| Investments in local funds – unquoted | 1,177,324 | 1,518,282 |
| | 13,833,661 | 48,355,471 |

6.1 The fair value of the quoted investments is determined based on there current bid prices. The fair value of unquoted investments are determined based on the latest deals took place on those investments, discounted cash flows and by using other valuation techniques. The fair value of the investments in funds is determined by reference to the net assets value of those funds.

6.2 Investments in local and foreign quoted and unquoted shares include KD 221,352 as of 31 December 2009 (KD 740,665 as of 31 December 2008) registered in the name of a related party who provided an assignment letter of the ownership of these investments in favor of the Group.

6.3 Investments at fair value through profit or loss includes investments amounted to KD 1,830,021 as of 31 December 2009 (KD 2,976,180 as of 31 December 2008) pledged against Murabaha payables

6.4 Investments at fair value through profit or loss are dominated in the following currencies:

| | 2009 | 2008 |
|---|---|---|
| Kuwaiti Dinar | 8,432,722 | 40,350,683 |
| US Dollar | - | 364,955 |
| UAE Dirham | 4,798,501 | 5,576,908 |
| GBP | 230,708 | 1,997,000 |
| EGP | 371,730 | 65,925 |
| | 13,833,661 | 48,355,471 |

## 7. Available for sale investments

| | 2009 | 2008 |
|---|---|---|
| Local quoted shares | 8,924,592 | 2,412,686 |
| Local unquoted shares | 210,000 | - |
| Foreign quoted shares | 3,001,662 | 8,240,628 |
| | 12,136,254 | 10,653,314 |

7.1 The Group has recorded impairment of available for sale investments of KD 696,941 recorded in the statement of income for the year ended 31 December 2009 (KD 14,987,758 – 2008). Unrealized gains for same investments which are charged on change in fair value reserve as of 31 December 2009 amounted to KD 210,110.

7.2 At the beginning of the current year, the Group obtained significant influence on the financial and operating policies for Hits Telecom Company, accordingly, it was reclassified to investment in associate which resulted decrease in retained earnings on 1 January 2009 with an amount of KD 8,841,975 and recorded a goodwill of KD 5,671,923, also the Company has recognized the following during the year:

| | 2008 |
|---|---|
| Group's share from of resulted (losses) | (89,550) |
| Groups share form other comprehensive income | 515,946 |
| Impairment of investments in associate | 8,320,999 |

During the last quarter of the current year the Group has disposed part of this investment also the contractual agreement for representation in the Board of Directors has been cancelled, accordingly, the Group lost the significant influence on this Company, accordingly, the investments has been reclassified to available for sale investment also the Group share from the other comprehensive income amounted to KD 449,233 as of the date of transfer. The investment has been valued based on the last bid price according to IAS (39).

## 8. Murabaha investments

8.1 This balance represents the amounts granted to related party according to Murabaha contracts. The average effective rate of return is 7.35% as of 31 December 2009 (8.75 as of 31 December 2008). All Murabaha investments are dominated in Kuwait Dinars.

8.2 Fair value of Murabaha investments approximately equals its carrying value as of 31 December 2009 and as of 31 December 2008 as they are matured within one year from the statement of financial position date and the profit rates on these investments equal the market profit rates for similar instruments.

## 9. Murabaha payables

9.1 This item represents the amounts received from counterparties in accordance with Murabaha contracts. These liabilities carry a fixed finance cost rate. The average effective cost rate is 7.94% for the year ended 31 December 2009 (8.53% for the year ended 31 December 2008).

9.2 The carrying amounts of Murabha payables as of 31 December 2009 and as of 31 December 2008 approximately equal its fair value.

9.3 Murabaha payables are denominated into the following currencies:

| | 2009 | 2008 |
|---|---|---|
| Kuwaiti Dinar | 5,179,770 | 5,200,905 |
| GBP | 2,378,755 | 2,136,629 |
| | 7,558,525 | 7,337,534 |

9.4 Murabaha payables are secured against investments at fair value through Profit and loss of KD 1,830,021 as of 31 December 2009 (KD 2,976,180 - as of 31 December 2008).

## 10. Payables and other credit balances

| | 2009 | 2008 |
|---|---|---|
| Due from purchase of investments | 1,482,613 | 2,946,929 |
| Cash dividends payables | 50,314 | - |
| Accrued Zakat | 17,385 | 5,856 |
| Kuwait Foundation for the Advancement of Sciences (KFAS) | 98,603 | 86,837 |
| National labour support tax | 239,805 | 223,491 |
| Others | 106,940 | 12,183 |
| | 1,995,660 | 3,275,296 |

## 11. Share capital

The issued and fully paid up capital is KD 51,700,000 comprises of 517,000,000 shares of 100 fils each as of 31 December 2009 (KD 51,700,000 – 31 December 2008).

## 12. Treasury shares

| | 2009 | 2008 |
|---|---|---|
| Number of treasury shares (share) | - | 14,750 |
| Ownership percentage (%) | - | 0.03 |
| Market value | - | 649 |

## 13. Statutory reserves and Voluntary reserves

### Statutory reserve

In accordance with the Commercial Companies Law and the Parent Company's Articles of Association, 10% of profit for the year before KFAS and National Labor Support Tax, Zakat expense and Board of Directors' remuneration is transferred to statutory reserve. Statutory reserve is not distributable to shareholders; however, the reserve could be utilized to secure for payment of a dividend of 5% of share capital in years when retained earnings are not sufficient payment of dividends. When the balance of the reserve exceeds 50% of share capital, the General Assembly is permitted to utilize amounts in excess of 50% of the share capital in aspects seen appropriate for the benefit of the Parent company and its shareholders.

### Voluntary reserve

In accordance with the Parent company's Articles of Association, a percentage of profit for the year, proposed by the Board of Directors and approved by the general assembly - before KFAS and National Labor Support Tax, Zakat expense and Board of Directors' remuneration is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the General Assembly based on the proposal put forward by the Board of Directors.

## 14. (Losses) / gains from investments at fair value through profit and loss

| | 2009 | 2008 |
|---|---|---|
| (Losses) / gain from sale | (371,952) | 5,211,377 |
| (Losses) / gains from change in fair value | (5,579,684) | 8,916,360 |
| | (5,951,636) | 14,127,737 |

Losses from change in fair value includes unrecognized losses for the year amounted to KD 4,307,100 for the year ended 31 December 2009 (profit of 632,606 – 2008) resulted from evaluation of unquoted shares.

## 15. Losses from investments in associate

| | 2009 | 2008 |
|---|---|---|
| Group's share from associates' results | (89,550) | - |
| Losses from sale of investments in associate | (1,001,629) | - |
| Impairment of an associate | (8,320,999) | - |
| | (9,412,178) | - |

## 16. Loss per share

Losses per share are calculated by dividing the net loss for the year by the weighted average number of outstanding shares during the year as follows determined the calculation losses covering per share:

| | 2009 | 2008 |
|---|---|---|
| Net loss for the year | (14,948,637) | (274,277) |
| Weighted average number of outstanding shares during the year (share) | 515,763,640 | 514,999,036 |
| Loss per share (fils) | (28.98) | (0.53) |

## 17. Related parties' transactions

Related parties are the Parent Company's shareholders who have representation in the Board of Directors, members of the Board of Directors and major shareholders. In the normal course of business, subject to the Parent Company's management approval, there were transactions with related parties, the existing major shareholder, its subsidiaries. The significant transactions and outstanding balances with related parties, other than what disclosed in other notes, were as follows:

| | 2009 | 2008 |
|---|---|---|
| **Transactions** | | |
| Murabaha income | 1,344,062 | 682,272 |
| Purchase of properties held for trading | 2,447,959 | - |
| **Balances** | | |
| Investment in Murabaha and Mudaraba | 18,289,830 | 6,568,130 |
| Due from related parties | 1,039,640 | 4,519,653 |
| Due to related parties | 3,320,485 | 3,314,991 |

During the year ended 31 December 2009, the Group acquired properties held fro trading from a related party which represent a developed properties in Laála Al Khairan. The fair value of these properties amounted to KD 2,480,000 as of 31 December 2009. Property amounted to KD 611,990 is pledged against bank facilities granted to a related party.

During the year ended 31 December 2009 the Group signed agreements with other parties for the purpose of adjustments, due from and due to related parts of the amount.

All transactions are subject to the approval of the shareholders in the General Assembly Meeting.

## 18. Dividends

On 25 May 2009, the shareholders in the general assembly meeting approved the financial statements for the year ended 31 December 2008 and also approved no dividends distribution for year 2008 (cash dividends of 5 fils per share and bonus shares 10% for 2007).

On 30 March 2010, the Board of Directors proposed not to distribute profit for the year ended 31 December 2009.

## 19. Employees' stock option plan

The extra ordinary General Assembly held on 25 May 2009 approved to decrease of the Company's authorized share capital from 521,700,000 shares to 517,000,000 share by cancelling 4,700,000 which represent the unsubscribed shares issued in terms of the proposed employees' stock option plan (ESOP) as per the General Assembly resolution dated 1 May 2008, in addition, it approved increasing the authorized share capital to 526,400,000 by issuing 9,400,000 shares for the Parent Company's employees as stock option plan (ESOP) with price of 100 fils each. Currently, the determination of program conditions, terms of the methods of shares issuance, the program duration, and the allocation of shares between the employees is under process.

## 20. Segment distribution

The Group carries out only in investment segment which represents in owed investment through profit and loss, available for sale investments and properties held for trading.

A financial analysis of activities for the year ended 31 December 2009:

| | Investment activities | | | | | | |
|---|---|---|---|---|---|---|---|
| | Kuwait | UAE | Egypt | Other | Total segment | Other | Total |
| Revenues | (11,253,583) | (638,191) | 945,897 | (1,766,292) | (12,712,169) | - | (12,712,169) |
| Net losses for the year | (11,642,481) | (786,485) | 248,956 | (1,856,847) | (14,036,857) | (669,078) | (14,705,935) |
| Assets | 42,773,620 | 2,638,950 | 3,376,106 | 230,708 | 49,019,384 | - | 49,019,384 |

A financial analysis of activities for the year ended 31 December 2008:

| | Investment activities | | | | | | |
|---|---|---|---|---|---|---|---|
| | Kuwait | UAE | Egypt | Other | Total segment | Other | Total |
| Revenues | 21,049,998 | (4,966,799) | - | - | 16,083,199 | - | 16,083,199 |
| Net losses for the year | 13,580,528 | (4,978,765) | (8,155,640) | (103,630) | 342,493 | (621,482) | (278,989) |
| Assets | 57,385,328 | 6,449,014 | 8,306,553 | 1,997,000 | 74,137,895 | - | 74,137,895 |