# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED FINANCIAL STATEMENTS

**31 DECEMBER 2010**

ERNST & YOUNG

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74 Safat
13001 Safat, Kuwait
Baitak Tower, 18-21st Floor
Safat Square
Ahmed Al Jaber Street

Tel : 2245 2880/2295 5000
Fax: 2245 6419
Email: kuwait@kw.ey.com
www.ey.com/me

BAKER TILLY
KUWAIT
Dr. Saud Al-humaidi & Partners
Public Accountants
P.O.Box 1486 Safat,13015 Kuwait
Sharq Area, Omar Bin Khattab Street
Shawafat Bldg, Block No. 5, 1st Floor
Tel : 22442333 / 22443222
Fax : 22461225
www.bakertillykuwait.com

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

## Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aref Energy Holding Company K.S.C. (Closed) ("the company") and its subsidiaries (collectively, "the group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's responsibility for the consolidated financial statements*

The company's 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 whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 for 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.

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

**Report on Consolidated Financial Statements (continued)**

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2010, and its 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 company and the consolidated financial statements, together with the contents of the report of the company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law, as amended, nor of the company's articles of association, as amended, have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the company or on its financial position.

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

DR. SAUD AL-HUMAIDI
LICENSE NO. 51 A
DR. SAUD AL-HUMAIDI & PARTNERS
MEMBER OF BAKER TILLY INTERNATIONAL

14 March 2011
Kuwait

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

| | Notes | *2010* *KD* | *2009* *KD* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 3 | **15,817,396** | 19,925,450 |
| Investment property | 4 | **5,647,680** | 4,956,952 |
| Intangible assets | 5(a) | **673,863** | 13,298,679 |
| Investment in associates | 6 | **4,710,907** | 3,581,377 |
| Financial assets available for sale | 7 | **3,397,085** | 3,428,166 |
| | | **30,246,931** | 45,190,624 |
| **Current assets** | | | |
| Inventories | | **2,695,814** | 4,696,945 |
| Financial asset at fair value through statement of income | 8 | **32,400,000** | 32,400,000 |
| Accounts receivable and other assets | 9 | **22,771,342** | 26,744,419 |
| Bank balances, deposits and cash | 10 | **24,952,355** | 3,310,819 |
| | | **82,819,511** | 67,152,183 |
| **TOTAL ASSETS** | | **113,066,442** | 112,342,807 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 11 | **75,000,000** | 75,000,000 |
| Share premium | 12 | **193,550** | 193,550 |
| Statutory reserve | 12 | **461,295** | 314,957 |
| Voluntary reserve | 12 | **314,957** | 314,957 |
| Foreign currency translation reserve | | **(1,728,042)** | (1,294,751) |
| Cumulative changes in fair values | | **23,922** | 23,922 |
| Retained earnings (accumulated losses) | | **714,861** | (9,937,083) |
| **Equity attributable to equity holders of the company** | | **74,980,543** | 64,615,552 |
| Non-controlling interests | | **8,600,633** | 9,355,609 |
| **Total equity** | | **83,581,176** | 73,971,161 |
| **Non-current liabilities** | | | |
| Employees' end of service benefits | | **250,048** | 337,006 |
| Murabaha payables | 13 | **-** | 295,092 |
| Liabilities against assets subject to finance lease | 14 | **3,780,905** | 4,909,211 |
| | | **4,030,953** | 5,541,309 |
| **Current liabilities** | | | |
| Accounts payable and other liabilities | 15 | **18,696,168** | 18,039,466 |
| Current portion of liabilities against assets subject to finance lease | 14 | **914,172** | 765,781 |
| Murabaha payables | 13 | **5,843,973** | 14,025,090 |
| | | **25,454,313** | 32,830,337 |
| **Total liabilities** | | **29,485,266** | 38,371,646 |
| **TOTAL EQUITY AND LIABILITIES** | | **113,066,442** | 112,342,807 |

Walid K. Al-Hashash
Chairman

Tareq Al-Wazzan
Chief Executive Officer

The attached notes 1 to 24 form part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2010

| | Notes | *2010* *KD* | *2009* *KD* |
|---|---|---|---|
| **Continuing operations** | | | |
| Contract revenue | | **22,377,838** | 38,572,100 |
| Rental income from investment property | | **564,636** | 538,416 |
| Fair valuation gain on investment property | 4 | **946,240** | - |
| Share of results from associates | 6 | **(1,221,507)** | (1,217,670) |
| Gain on sale of exploration assets | 5(b) | **25,074,149** | 790,416 |
| Other income | | **962,836** | 790,123 |
| Foreign exchange gain (loss) | | **282,435** | (374,398) |
| **Income** | | **48,986,627** | 39,098,987 |
| Contract cost | | **22,075,703** | 37,109,881 |
| Finance cost | | **1,305,859** | 1,076,741 |
| Staff cost | | **1,725,244** | 1,916,724 |
| General and administration expenses | | **2,288,793** | 2,788,596 |
| Write back of impairment loss on accounts receivable | 9 | **(118,176)** | - |
| Impairment loss on accounts receivable | 9 | - | 1,160,887 |
| Amortisation of intangible assets | 5(a) | **97,798** | 268,496 |
| Impairment of intangible assets | 5(c) | **2,607,504** | - |
| Write off of intangible assets | 5(c) | - | 3,245,694 |
| Impairment of investment in an associate | | - | 864,093 |
| **Expenses** | | **29,982,725** | 48,431,112 |
| **Profit (loss) for the year before taxation** | | **19,003,902** | (9,332,125) |
| Board of directors' remuneration | 17 | **(300,000)** | - |
| Taxation | 18 | **(8,278,396)** | (189,187) |
| **Profit (loss) for the year from continuing operations** | | **10,425,506** | (9,521,312) |
| Loss on sale of discontinued operation | | - | (25,543) |
| **Profit (loss) for the year** | | **10,425,506** | (9,546,855) |
| **Attributable to:** | | | |
| Equity holders of the company | | **10,798,282** | (7,959,610) |
| Non-controlling interests | | **(372,776)** | (1,587,245) |
| **Profit (loss) for the year** | | **10,425,506** | (9,546,855) |
| Basic and diluted earnings (loss) per share attributable to equity holders of the company | 19 | **14.4 fils** | (10.6) fils |
| Basic and diluted earnings (loss) per share from continuing operations attributable to equity holders of the company | 19 | **14.4 fils** | (10.6) fils |

The attached notes 1 to 24 form part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

| | *2010* *KD* | *2009* *KD* |
|---|---|---|
| **Profit (loss) for the year** | **10,425,506** | (9,546,855) |
| Change in fair value of financial assets available for sale | - | 23,922 |
| Foreign currency translation adjustment | **(815,491)** | (598,144) |
| **Other comprehensive loss for the year** | **(815,491)** | (574,222) |
| **Total comprehensive income (loss) for the year** | **9,610,015** | (10,121,077) |
| **Attributable to:** | | |
| Equity holders of the company | **10,364,991** | (7,898,573) |
| Non-controlling interests | **(754,976)** | (2,222,504) |
| **Total comprehensive income (loss) for the year** | **9,610,015** | (10,121,077) |

The attached notes 1 to 24 form part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | Notes | *2010* *KD* | *2009* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit (loss) for the year from continuing operations | | 10,425,506 | (9,521,312) |
| Loss for the year from discontinuing operations | | - | (25,543) |
| | | 10,425,506 | (9,546,855) |
| Adjustments for: | | | |
| Rental income from investment property | | (564,636) | (538,416) |
| Share of results from associates | 6 | 1,221,507 | 1,217,670 |
| Gain on disposal of property and equipment | | (95,601) | (120,375) |
| Gain on sale of exploration assets | 5 | (25,074,149) | (790,416) |
| Fair valuation gain on investment property | 4 | (946,240) | - |
| Depreciation | 3 | 3,928,838 | 4,218,599 |
| Amortisation of intangible assets | 5 | 97,798 | 268,496 |
| Impairment / write off of intangible assets | 5 | 2,607,504 | 3,245,694 |
| Impairment of investment in an associate | 6 | - | 864,093 |
| (Write back of) impairment for trade receivables | | (118,176) | 1,160,887 |
| Impairment of property and equipment | 3 | - | 58,483 |
| (Write back of) provision for employees' end of service benefits | | (9,106) | 336,498 |
| Provision for taxation | 18 | 8,278,396 | 189,187 |
| Finance costs | | 1,305,859 | 1,076,741 |
| Provision for Board of directors' remuneration | 17 | 300,000 | - |
| Loss on sale of discontinued operations | | - | 25,543 |
| | | 1,357,500 | 1,665,829 |
| Working capital changes: | | | |
| Inventories | | 2,001,131 | 1,883,983 |
| Accounts receivable and other assets | | 3,482,567 | (910,345) |
| Accounts payable and other liabilities | | (1,349,376) | 2,243,138 |
| Cash from operating activities | | 5,491,822 | 4,882,605 |
| Employees' end of service benefits paid | | (77,852) | (224,718) |
| Taxes paid | | (7,265,201) | - |
| Net cash (used in) from operating activities | | (1,851,231) | 4,657,887 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | 3 | (1,162,769) | (3,376,813) |
| Proceeds from sale of property and equipment | | 758,162 | 985,354 |
| Proceeds from sale of investment property | | - | 4,956,952 |
| Rental income from investment property | | 564,636 | 538,416 |
| Acquisition of intangible assets | 5 | - | (3,839,595) |
| Net proceeds from sale of intangible asset | 5 | 35,207,044 | 1,188,480 |
| Investment in associates | 6 | (1,642,062) | - |
| Increase in restricted bank balances and deposits | 10 | (993,768) | (161,883) |
| Proceeds from disposal of discontinued operation | | - | 242,161 |
| Net cash from investing activities | | 32,731,243 | 533,072 |
| **FINANCING ACTIVITIES** | | | |
| Net movement in assets subject to finance lease | | (979,915) | - |
| Finance costs paid | | (679,826) | (921,753) |
| Net movement in murabaha payables | | (8,476,209) | (2,107,657) |
| Net cash used in financing activities | | (10,135,950) | (3,029,410) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 20,744,062 | 2,161,549 |
| Net foreign exchange difference | | (96,294) | (428,539) |
| Cash and cash equivalents at the beginning of the year | | 2,670,505 | 937,495 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 10 | 23,318,273 | 2,670,505 |

The attached notes 1 to 24 form part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

| | *Attributable to equity holders of the company* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD* | *Share premium KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *Foreign currency translation reserve KD* | *Cumulative changes in fair values KD* | *Retained earnings (accumulated losses) KD* | *Sub-total KD* | *Non-controlling interests KD* | *Total equity KD* |
| Balance at 1 January 2010 | 75,000,000 | 193,550 | 314,957 | 314,957 | (1,294,751) | 23,922 | (9,937,083) | 64,615,552 | 9,355,609 | 73,971,161 |
| Profit (loss) for the year | - | - | - | - | - | - | 10,798,282 | 10,798,282 | (372,776) | 10,425,506 |
| Other comprehensive loss for the year | - | - | - | - | (433,291) | - | - | (433,291) | (382,200) | (815,491) |
| Total comprehensive (loss) income for the year | - | - | - | - | (433,291) | - | 10,798,282 | 10,364,991 | (754,976) | 9,610,015 |
| Transfer to reserves | - | - | 146,338 | - | - | - | (146,338) | - | - | - |
| **Balance at 31 December 2010** | **75,000,000** | **193,550** | **461,295** | **314,957** | **(1,728,042)** | **23,922** | **714,861** | **74,980,543** | **8,600,633** | **83,581,176** |
| Balance at 1 January 2009 | 75,000,000 | 193,550 | 314,957 | 314,957 | (1,331,866) | - | (1,977,473) | 72,514,125 | 11,847,361 | 84,361,486 |
| Loss for the year | - | - | - | - | - | - | (7,959,610) | (7,959,610) | (1,587,245) | (9,546,855) |
| Other comprehensive income (loss) for the year | - | - | - | - | 37,115 | 23,922 | - | 61,037 | (635,259) | (574,222) |
| Total comprehensive income (loss) for the year | - | - | - | - | 37,115 | 23,922 | (7,959,610) | (7,898,573) | (2,222,504) | (10,121,077) |
| Movement in non-controlling interest on discontinued operation | - | - | - | - | - | - | - | - | (269,248) | (269,248) |
| Balance at 31 December 2009 | 75,000,000 | 193,550 | 314,957 | 314,957 | (1,294,751) | 23,922 | (9,937,083) | 64,615,552 | 9,355,609 | 73,971,161 |

The attached notes 1 to 24 form part of these consolidated financial statements

## 1 ACTIVITIES

Aref Energy Holding Company K.S.C. (Closed) ("the company") is a Kuwaiti shareholding company registered in Kuwait on 1 October 1996 and is listed on the Kuwait Stock Exchange. The registered office of the company is located at P.O. Box 21909, Safat 13080, Kuwait. The company carries out its activities as per Islamic Sharee'a.

The consolidated financial statements of the company and its subsidiaries ("the group") for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 14 March 2011 and are issued subject to the approval of the Ordinary General Assembly of the shareholders' of the company. The Ordinary General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

The principal activities of the group are explained in Note 20.

The company is a subsidiary of AREF Investment Group S.A.K. (the "parent company"). The parent company is a subsidiary of Kuwait Finance House (the "ultimate parent company"). Both the parent company and the ultimate parent company are listed on the Kuwait Stock Exchange.

## 2 SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**
The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is also the functional currency of the company.

**Measurement basis**
The consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of financial assets at fair value through statement of income, financial assets available for sale and investment property.

**Changes in accounting policies and disclosures**
The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following issued, revised and amended International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretation Committee (IFRIC) interpretations adopted by the group during the year:

- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009.

The adoption of the standards and interpretations is described below:
*IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended):*
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended): requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Changes in accounting policies and disclosures (continued)**

*IFRIC 17 Distribution of Non-cash Assets to Owners*
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. The interpretation has no effect on either, the financial position or performance of the group.

The application of the above revised and amended IASB Standards and new interpretation did not have any impact on the consolidated financial statements of the group.

**The following IASB Standards have been amended or issued but not yet mandatory, and have not been adopted by the group:**

*IAS 24 Related Party Disclosures (Amended)*
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities.

*IFRS 9: Financial Instruments: Classification and Measurement*
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

*Improvements to IFRSs (issued in May 2010)*
The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.
IFRS 3 Business Combinations
IFRS 7 Financial Instruments: Disclosures
IAS 1 Presentation of Financial Statements
IAS 27 Consolidated and Separate Financial Statements

The group, however, expects no material impact from the adoption of the above amended or new standards on its financial position or performance.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and subsidiaries [including Special Purpose Vehicles (SPVs)] as at 31 December 2010.

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of consolidation (continued)**
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

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

The principal subsidiaries of the group are as follows:

| *Name of company* | *Country of incorporation* | *Effective interest as at %* | | *Principal activities* |
|---|---|---|---|---|
| | | *2010* | *2009* | |
| Khalifa Daij Al Dabbous and Brothers Company - W.L.L. ("KDDB"). | Kuwait | **80** | 80 | General trading and contracting |
| Higleig Petroleum Services & Investment Company Ltd. ("Higleig") | Sudan | **64.25** | 64.25 | Contracting |

***Business combinations from 1 January 2010***
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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.

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 the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Business combinations from 1 January 2010 (continued)***

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

***Business combinations prior to 1 January 2010***

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

**Property and equipment**

Property and equipment is stated at cost less accumulated depreciation and / or accumulated impairment losses, if any. An item of property and equipment initially recognised is derecognised upon disposal when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

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

| | |
|---|---|
| Leasehold properties | 5 to 50 years |
| Buildings | 12 to 14 years |
| Furniture, fixtures and office equipments | 2 to 7 years |
| Motor vehicles and equipments | 4 to 10 years |

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 carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

2 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment property**
Investment property is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date that is determined based on valuation performed by independent valuers using valuation methods consistent with the nature and usage of the investment property. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

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

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

**Intangible assets**
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets (other than goodwill and exploration assets) are carried at cost less any accumulated amortisation that is recognised on a straight line basis over their useful lives and any accumulated impairment losses. Internally generated intangible assets excluding capitalised developmental costs are not capitalized and expenditure is reflected in consolidated statement of income in the year in which the expenditure is incurred.

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

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

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

**Investment in associates**
The group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor separately tested for impairment.

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment in associates (continued)**
The reporting dates of the associates and the group are identical 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.

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

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

**Financial assets and liabilities**
The group classifies its financial assets and liabilities as "financial assets at fair value through statement of income", "loans and receivables", financial assets available for sale" and "financial liabilities other than at fair value through statement of income". The group determines the classification of financial assets and liabilities at initial recognition.

***Financial assets***
*Initial measurement and recognition*
Financial assets within the scope of IAS 39 are classified as "financial assets at fair value through statement of income", "financial assets available for sale" and "loans and receivables". The group determines the classification of financial assets at initial recognition.

All financial assets are initially recognised at fair value plus, in the case of investments not at fair value through statement of income, directly attributable transaction costs.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognised on trade date, i.e., the date that the group commits to purchase or sell the asset.

The group's financial assets include cash and cash equivalents, trade and other receivables and quoted and unquoted financial instruments.

***Subsequent measurement***
The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through statement of income*
Financial assets at fair value through statement of income includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through statement of income. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Non-trading financial assets may be designated at initial recognition as financial assets designated as at fair value through statement of income if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented investment and risk management strategy.

After initial recognition, financial assets at fair value through statement of income are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets and liabilities (continued)**

***Financial assets (continued)***
Financial assets at fair value through statement of income are carried in the consolidated statement of financial position at fair value with gains and losses recognised in the consolidated statement of income. As at 31 December 2010, the group has no financial assets that are held for trading (31 December 2009: Nil).

*Financial assets available for sale*
Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as "financial assets at fair value through statement of income" and "loans and receivables".

After initial recognition, financial assets available for sale are measured at fair value with gains and losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in the consolidated statement of income.

*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 measurement, loans and receivables are carried at amortised cost using the effective profit method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective profit rate. The company's loans and receivables include accounts receivables and other assets. Gains and losses are recognised in consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

***Derecognition of financial assets***
A financial asset (in whole or in part) is derecognised either when:
- the contractual rights to receive the cash flows from the asset have expired;
- the group retains the right to receive the cash flows from the assets, but has assumed an obligation to pay them 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 the risks and rewards of ownership of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets and liabilities (continued)**

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

*Financial assets carried at amortised cost*
For financial assets carried at amortised cost, the group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective profit rate. If a loan has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the related account in the consolidated statement of income.

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from the consolidated statement of comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

***Financial liabilities***
*Initial recognition and measurement*
Financial liabilities within the scope of IAS 39 are classified as "Financial liabilities other than at fair value through statement of income" and "loans and borrowings". The group determines the classification of its financial liabilities at initial recognition.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial assets and liabilities (continued)**

***Financial liabilities (continued)***
The financial liabilities include trade and other payables, murabaha payables and liabilities against assets subject to finance lease.

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

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

*Murabaha payable*
Murabaha payable represents the amount payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payable is stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

***Derecognition of financial liabilities***
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 the consolidated statement of income.

***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.

***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; discounted cash flow analysis or other valuation models.

**Inventories**
Inventories are stated at the lower of weighted average cost and net realisable value. Cost is determined using weighted average basis except for those in transit which are stated at invoice price plus other charges paid thereupon to the statement of financial position date. Costs are those expenses incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

**Leases**
*Group as lessee*
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases (continued)**
Finance leases, which transfer to the group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of profit on the remaining balance of the liability. Finance charges are recognised in the consolidated statement of income.

Leased assets are depreciated on a straight line basis over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the lease term.

**Borrowing costs**
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of profit and other costs that an entity incurs in connection with the borrowing of funds.

The group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009. The group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

**Impairment of non-financial assets**
The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the consolidated statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currency translation**
The group's consolidated financial statements are presented in Kuwaiti Dinars, which is also the company's functional currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

*Transactions and balances*
Transactions in foreign currencies are initially recorded by group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated to respective functional currencies at rates of exchange prevailing on the reporting date. Any resultant gains or losses are recognised in the statement of income of respective entities.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in the consolidated statement of comprehensive income, foreign exchange differences are recognised directly in the consolidated statement of comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated statement of income are recognised in the consolidated statement of income.

*Group companies*
Assets including goodwill and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in a separate section of consolidated statement of comprehensive income "foreign currency translation reserve" until the disposal of the foreign operation.

**Segment reporting**
A segment is a distinguishable component of the group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the company to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

**Provisions**
Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**Employees' end of service benefits**
Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment. The group also contributes to the government defined contribution plan for its Kuwaiti employees in accordance with the legal requirements in Kuwait.

In case of arrangements where the payment of end of service benefits is reimbursed by the counter party, the group recorded the related amount as other receivable.

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable.

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

*Construction contracts*
Revenue and profits from long-term contracts are calculated in accordance with the percentage of completion method of accounting. Such contracts generally extend for periods in excess of one year. Under this method the amount of revenue and profit from construction contracts is measured by reference to the percentage of actual costs incurred to date to the estimated total costs for each contract applied to the estimated contract profit, and reduced by the proportion of profit previously recognised.

Profit is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. During the early stages of a contract, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable; hence no profit is recognised. Claims and variation orders are only included in the determination of contract profit when negotiations have reached an advanced stage such that it is probable they will be approved by contract owners and can be reliably measured. Anticipated losses on contracts are recognised in full as soon as they become foreseen.

*Rental income*
Rental income arising from operating leases on investment property is accounted for on a straight line basis over the term of the lease.

*Dividend income*
Dividend income is recognised when the right to receive payment is established.

**Taxation**
*National Labour Support Tax (NLST)*
The company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

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

*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.

*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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Significant accounting judgments, estimates and assumptions

***Judgments***
The preparation of the group's financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the amount of the asset or liability affected in future periods.

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

*Classification of investments*
Judgments are made in the classification of financial instruments based on management's intention at acquisition.

*Finance lease*
The group has entered into a sale and lease back transaction with a related party. The group has determined, based on evaluation of the terms and conditions of the arrangements and classified the lease as finance lease.

*Impairment of financial assets available for sale*
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.

*Impairment losses of receivables*
An estimate of the collectible amount of receivables 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.

*Estimated cost on uncompleted contracts*
Revenue from installation contracts is measured by reference to the percentage of costs incurred to the estimated total costs for each contract applied to the estimated contract revenue, and reduced by the proportion of revenue previously recognised. This requires the management to use judgment in the estimation of the total cost expected to complete each contract.

*Profit on uncompleted contracts*
Profit on uncompleted contracts is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. This requires the company's management to determine the level at which reasonable estimates can be reached.

***Estimates and assumptions***
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Significant accounting judgments, estimates and assumptions (continued)**

***Estimates and assumptions (continued)***

*Impairment of property and equipment*

The carrying amounts of the group's assets are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

*Useful lives of property and equipment and intangible assets*

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

*Valuation of unquoted financial assets*

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

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity financial assets requires significant estimation.

## 3 PROPERTY AND EQUIPMENT

| | *Land* *KD* | *Leasehold properties* *KD* | *Buildings* *KD* | *Furniture, fixtures and office equipments* *KD* | *Motor vehicles and equipments* *KD* | *Work in progress* *KD* | *Total* *KD* |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 January 2010 | 1,230,000 | 1,432,564 | 999,281 | 162,842 | 20,752,671 | 114,584 | 24,691,942 |
| Additions | - | - | - | 122,199 | 1,031,759 | 8,811 | 1,162,769 |
| Disposals | - | (610,917) | - | (62,015) | (688,622) | - | (1,361,554) |
| Foreign currency translation adjustment | - | (62,487) | (53,599) | (1,110) | (1,517,686) | (4,998) | (1,639,880) |
| **At 31 December 2010** | **1,230,000** | **759,160** | **945,682** | **221,916** | **19,578,122** | **118,397** | **22,853,277** |
| **Depreciation:** | | | | | | | |
| At 1 January 2010 | - | 155,780 | 42,710 | 52,792 | 4,515,210 | - | 4,766,492 |
| Charge for the year | - | 33,353 | 91,959 | 41,237 | 3,762,289 | - | 3,928,838 |
| Disposals | - | (69,161) | - | (54,847) | (574,985) | - | (698,993) |
| Foreign currency translation adjustment | - | (5,308) | (15,497) | (472) | (939,179) | - | (960,456) |
| **At 31 December 2010** | - | **114,664** | **119,172** | **38,710** | **6,763,335** | - | **7,035,881** |
| **Net carrying value:** | | | | | | | |
| **At 31 December 2010** | **1,230,000** | **644,496** | **826,510** | **183,206** | **12,814,787** | **118,397** | **15,817,396** |

Motor vehicles and equipments with a net carrying value of KD 5,326,235 (31 December 2009: KD 8,648,173) is mortgaged as security against murabaha payables (Note 13).

In 2009, buildings amounting to KD 718,040 had been entered into a finance lease arrangement with a related party (Note 16) resulting from a sale and lease back transaction (Note 14). These leases are non-cancellable with a term of 5 years and the group has an option to buy back these assets at the end of the lease term at carrying value.

## 3 PROPERTY AND EQUIPMENT (continued)

| | *Land KD* | *Leasehold properties KD* | *Buildings KD* | *Furniture, fixtures and office equipments KD* | *Motor vehicles and equipments KD* | *Work in progress KD* | *Total KD* |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| At 1 January 2009 | 1,230,000 | 1,459,873 | 832,462 | 195,695 | 21,921,685 | 84,979 | 25,724,694 |
| Additions | - | - | 718,040 | 10,940 | 2,616,638 | 31,195 | 3,376,813 |
| Disposals | - | - | (519,506) | - | (1,917,121) | - | (2,436,627) |
| Discontinued operation | - | - | (8,545) | (43,497) | (1,218,581) | - | (1,270,623) |
| Foreign currency translation adjustment | - | (27,309) | (23,170) | (296) | (649,950) | (1,590) | (702,315) |
| At 31 December 2009 | 1,230,000 | 1,432,564 | 999,281 | 162,842 | 20,752,671 | 114,584 | 24,691,942 |
| Depreciation: | | | | | | | |
| At 1 January 2009 | - | 98,008 | 55,903 | 20,940 | 2,421,570 | - | 2,596,421 |
| Charge for the year | - | 59,851 | 91,390 | 42,352 | 4,025,006 | - | 4,218,599 |
| Disposals | - | - | (92,577) | - | (1,479,071) | - | (1,571,648) |
| Impairment | - | - | - | - | 58,483 | - | 58,483 |
| Discontinued operation | - | - | (2,990) | (10,462) | (198,066) | - | (211,518) |
| Foreign currency translation adjustment | - | (2,079) | (9,016) | (38) | (312,712) | - | (323,845) |
| At 31 December 2009 | - | 155,780 | 42,710 | 52,792 | 4,515,210 | - | 4,766,492 |
| Net carrying value: | | | | | | | |
| At 31 December 2009 | 1,230,000 | 1,276,784 | 956,571 | 110,050 | 16,237,461 | 114,584 | 19,925,450 |

## 3 PROPERTY AND EQUIPMENT (continued)

Depreciation charge for the year is allocated as follows:

| | *2010* *KD* | *2009* *KD* |
|---|---|---|
| Contract cost | **3,756,490** | 3,997,890 |
| General and administration expenses | **172,348** | 220,709 |
| | **3,928,838** | 4,218,599 |

## 4 INVESTMENT PROPERTY

| | *2010* *KD* | *2009* *KD* |
|---|---|---|
| Opening balance | **4,956,952** | 5,051,446 |
| Fair valuation gain on investment property | **946,240** | - |
| Foreign currency translation adjustment | **(255,512)** | (94,494) |
| | **5,647,680** | 4,956,952 |

Investment property is stated at fair value, which has been determined based on the valuation performed as at 31 December 2010 by an accredited independent valuator who is an industry specialist in valuing this type of investment property.

In 2009, one of the subsidiaries entered into a finance lease arrangement with a related party (Note 16) resulting from a sale and lease back transaction (Note 14). The lease is non-cancellable with a term of 5 years and the group has an option to buy back the asset at the end of the lease term at carrying value of the investment property prevailing at the time of buy back.

## 5 INTANGIBLE ASSETS

**(a)**

| | *Goodwill* *KD* | *Exploration assets* *KD* | *Other intangible assets* *KD* | *Total* *KD* |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2010 | 2,460,974 | 10,066,044 | 1,555,181 | 14,082,199 |
| Additions | - | 328,678 | - | 328,678 |
| Disposals | - | (10,394,722) | - | (10,394,722) |
| Impairment loss | (2,607,504) | - | - | (2,607,504) |
| Foreign currency translation adjustment | 146,530 | - | - | 146,530 |
| **At 31 December 2010** | - | - | **1,555,181** | **1,555,181** |
| **Amortisation:** | | | | |
| At 1 January 2010 | - | - | (783,520) | (783,520) |
| Charge for the year | - | - | (97,798) | (97,798) |
| **At 31 December 2010** | - | - | **(881,318)** | **(881,318)** |
| **Net carrying value:** | | | | |
| **At 31 December 2010** | - | - | **673,863** | **673,863** |

**5 INTANGIBLE ASSETS (continued)**

| | *Goodwill* *KD* | *Exploration assets* *KD* | *Other intangible assets* *KD* | *Total* *KD* |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2009 | 2,607,504 | 9,873,449 | 1,555,181 | 14,036,134 |
| Additions | - | 3,839,595 | - | 3,839,595 |
| Disposal | - | (401,306) | - | (401,306) |
| Impairment loss / write off | - | (3,245,694) | - | (3,245,694) |
| Foreign currency translation adjustment | (146,530) | - | - | (146,530) |
| At 31 December 2009 | 2,460,974 | 10,066,044 | 1,555,181 | 14,082,199 |
| Amortisation: | | | | |
| At 1 January 2009 | - | - | (515,024) | (515,024) |
| Charge for the year | - | - | (268,496) | (268,496) |
| At 31 December 2009 | - | - | (783,520) | (783,520) |
| Net carrying value: | | | | |
| At 31 December 2009 | 2,460,974 | 10,066,044 | 771,661 | 13,298,679 |

Other intangible assets have finite useful lives and amortised over 10 years.

(b) During the current year, the group sold exploration assets (held through special purpose vehicles entities incorporated in Cayman Islands) having the carrying value of KD 10,394,722 for a total sale consideration of KD 36,336,471 which resulted in a total gain of KD 25,074,149, net of transactions costs. The company is in the process of winding up these special purpose entities at the reporting date.

(c) During the current year, the group based on the impairment testing of goodwill recognized on the acquisition of Higleig Petroleum Services and Investment Company Limited recorded an impairment loss of KD 2,607,504 in the consolidated statement of income.

**Key assumptions used in value in use calculations**
The calculation of value in use for the cash-generating unit is most sensitive to the following assumptions:

- Gross margin;
- Discount rates and
- Growth rate to extrapolate cash flows beyond forecast period

**Sensitivity to changes in assumptions**
With regard to the assessment of value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## 6 INVESTMENT IN ASSOCIATES

| | *2010* *KD* | *2009* *KD* |
|---|---|---|
| Opening balance | **3,581,377** | 5,674,051 |
| Additions* | **2,250,748** | - |
| Share of results | **(1,221,507)** | (1,217,670) |
| Impairment loss | **-** | (864,093) |
| Foreign currency translation adjustment | **100,289** | (10,911) |
| Closing balance | **4,710,907** | 3,581,377 |

During the year 2009, carrying value of investments in associates were assessed for impairment which resulted in the recognition of impairment loss amounting to KD 864,093 in the consolidated statement of income. No such impairment loss was recorded in the current year.

* Additions include KD 608,686 (2009: KD Nil) that represents conversion of partial receivables to investment in an associate resulting in the increase of group's equity participation in the associate.

Summarised financial information of associates is as follows:

| | *2010* *KD* | *2009* *KD* |
|---|---|---|
| **Share of associates' statement of financial position:** | | |
| Total assets | **8,413,852** | 5,326,921 |
| Total liabilities | **(3,702,945)** | (1,745,544) |
| Net assets | **4,710,907** | 3,581,377 |
| **Share of associates' revenue and loss:** | | |
| Revenue | **1,034,100** | 553,762 |
| Loss for the year | **(1,221,507)** | (1,217,670) |

| *Name of company* | *Principal Activities* | *Country of incorporation* | *Effective interest 2010* | *Effective interest 2009* | *Carrying value 2010* | *Carrying value 2009* |
|---|---|---|---|---|---|---|
| Synfuels International, Inc. | Oil and gas technology and services | U.S.A. | **25.01%** | 25.01% | **2,347,747** | 2,720,829 |
| Al Dindir Petroleum International Company Limited | Oil and gas technology and services | Sudan | **50%** | 45% | **640,863** | 860,548 |
| Resource Development Group | Oil & Gas Exploration | Sudan | **50%** | - | **593,897** | - |
| Kitara OFIL Limited | Oil and gas technology and services | Mauritius | **36.36%** | - | **1,128,400** | - |
| | | | | | **4,710,907** | 3,581,377 |

Kitara OFIL Limited has not started its operations as of 31 December 2010.

All the associates are unquoted companies.

## 7 FINANCIAL ASSETS AVAILABLE FOR SALE

| | *2010* | *2009* |
|---|---|---|
| | *KD* | *KD* |
| Quoted equity securities | **673,600** | 704,681 |
| Unquoted equity securities | **2,723,485** | 2,723,485 |
| **Total** | **3,397,085** | 3,428,166 |

Unquoted equity securities are carried at cost due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value for these financial assets. Based on the currently available information, management believes that there are no indications of impairment in the value of these investments.

## 8 FINANCIAL ASSET AT FAIR VALUE THROUGH STATEMENT OF INCOME

The financial asset at fair value through statement of income consist of designated unquoted equity security and has been fair valued using a valuation technique (Note 22).

Financial asset at fair value through statement of income with a net carrying value of KD 8,000,000 (31 December 2009: KD 17,720,000) is mortgaged as security against murabaha payables (Note 13).

## 9 ACCOUNTS RECEIVABLE AND OTHER ASSETS

| | *2010* | *2009* |
|---|---|---|
| | *KD* | *KD* |
| Trade accounts receivable | **12,863,784** | 12,227,194 |
| Retention receivables | **3,496,430** | 6,690,996 |
| Advances & prepayments | **3,785,746** | 4,716,153 |
| Amount due from related parties (Note 16) | **1,770,324** | 1,899,849 |
| Other receivables | **855,058** | 1,210,227 |
| | **22,771,342** | 26,744,419 |

As at 31 December 2010, trade accounts receivable at nominal value of KD 5,804,603 (31 December 2009: KD 5,599,053) was impaired and provided for to the extent of KD 1,323,063 (2009: KD 1,441,239). Movement in the allowance for impairment of trade receivables is as follows:

| | *KD* |
|---|---|
| At 1 January 2009 | 280,352 |
| Charge for the year | 1,160,887 |
| At 31 December 2009 | 1,441,239 |
| Write back for the year | (118,176) |
| At 31 December 2010 | **1,323,063** |

## 9 ACCOUNTS RECEIVABLES AND OTHER ASSETS (continued)

As at 31 December, the ageing of unimpaired trade accounts receivable is as follows:

| | | *Past due but not impaired* | | | |
|---|---|---|---|---|---|
| | *Neither past due nor impaired KD* | *< 30 days KD* | *30 to 90 days KD* | *> 90 days KD* | *Total KD* |
| **2010** | **6,578,147** | **162,940** | **533,350** | **1,107,808** | **8,382,244** |
| 2009 | 7,050,471 | 117,842 | 413,010 | 488,057 | 8,069,380 |

Unimpaired trade accounts receivable are expected, on the basis of past experience, to be fully recoverable.

## 10 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances in the consolidated statement of financial position:

| | ***2010 KD*** | *2009 KD* |
|---|---|---|
| Bank balances, deposits and cash | **24,952,355** | 3,310,819 |
| Less: restricted bank balances and deposits | **(1,634,082)** | (640,314) |
| Cash and cash equivalents for the purpose of consolidated statement of cash flows | **23,318,273** | 2,670,505 |

Bank balances and deposits include KD 21,503,290 (2009: KD 2,756,070) that are placed with related parties (Note 16).

Restricted bank balances and deposits represent margin deposits that are held as security against letter of credit and letter of guarantees granted by a related party (Note 16 and 21).

## 11 SHARE CAPITAL

The authorised, issued and fully paid up share capital of the company consists of 750,000,000 shares of 100 fils each (31 December 2009: 750,000,000 million shares of 100 fils each).

## 12 RESERVES

***Share premium***
The share premium account is not available for distribution.

***Statutory reserve***
In accordance with the Law of Commercial Companies and the company's articles of association, 10% of the profit attributable to the equity holders of the company before contribution to KFAS, and provision for NLST, Zakat and Board of directors' remuneration for the year, after offsetting accumulated losses brought forward, has been transferred to statutory reserve. Distribution of the 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 accumulated profits are not sufficient for the payment of a dividend of that amount.

***Voluntary reserve***
In accordance with the company's Articles of Association, 10% of the profit for the year attributable to shareholders of the company before contribution to KFAS, and provision for NLST, Zakat and Board of directors' remuneration is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the company's annual general meeting upon a recommendation by the Board of Directors. Voluntary reserve is available for distribution. No transfer has been made by the company during the year on recommendation of Board of Directors.

## 13 MURABAHA PAYABLES

Murabaha payables represent the value of assets purchased on a deferred settlement basis.

Murabaha payables include facilities amounting to KD 4,039,558 (31 December 2009: 5,831,588) taken from a related party (Note 16). These facilities are secured against financial assets at fair value through statement of income amounting to KD 8,000,000 (31 December 2009: 17,720,000) (Note 8).

Of the total murabaha payables, facilities amounting to KD 1,788,415 (31 December 2009: KD 7,770,594) are secured against property and equipment amounting to KD 5,326,235 (31 December 2009: KD 8,648,173) (Note 3). These payables include facilities amounting to KD 299,981 (2009: KD 4,160,108) that are borrowed from a related party (Note 16).

## 14 LIABILITES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The group has entered into a finance lease arrangement with a related party (Note 16) resulted from a sale and lease back transaction of an investment property (Note 4) and a building recorded under property and equipment (Note 3). These leases are non-cancellable with a term of 5 years and the group has an option to buy back these assets at the end of the lease term at carrying value prevailing on the date of buy back.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments, discounted at 14.13% per annum, are as follows:

| | ***31 December 2010*** | |
|---|---|---|
| | *Minimum lease payments KD* | *Present value of minimum lease payments KD* |
| Within one year | 1,519,688 | 914,172 |
| After one year but not more than five years | 4,685,703 | 3,780,905 |
| Total minimum lease payments | 6,205,391 | 4,695,077 |
| Less: amounts represents finance charges | (1,510,314) | - |
| Present value of minimum lease payments | 4,695,077 | 4,695,077 |
| Less: payable within one year from the reporting date classified as current liabilities | (914,172) | (914,172) |
| Non-current portion of lease obligation | **3,780,905** | 3,780,905 |

| | *31 December 2009* | |
|---|---|---|
| | *Minimum lease payments KD* | *Present value of minimum lease payments KD* |
| Within one year | 1,456,581 | 765,781 |
| After one year but not more than five years | 6,488,408 | 4,909,211 |
| Total minimum lease payments | 7,944,989 | 5,674,992 |
| Less: amounts represents finance charges | (2,269,997) | - |
| Present value of minimum lease payments | 5,674,992 | 5,674,992 |
| Less: payable within one year from the reporting date classified as current liabilities | (765,781) | (765,781) |
| Non-current portion of lease obligation | 4,909,211 | 4,909,211 |

## 15 ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | *2010* *KD* | *2009* *KD* |
|---|---|---|
| Trade payable under construction contracts | **8,688,082** | 8,404,795 |
| Advances received from customers | **3,715,712** | 2,905,216 |
| Amount due to related parties (Note 16) | **351,648** | 24,939 |
| Provisions | **2,123,675** | 2,351,046 |
| Dividend payable | **2,310,018** | 2,415,374 |
| Other payables | **1,507,033** | 1,938,096 |
| | **18,696,168** | 18,039,466 |

## 16 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates, directors and key management personnel of the group and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by the group's management. Transactions with related parties are as follows:

| | *Ultimate parent/parent company* *KD* | *Other related parties* *KD* | *2010* *KD* | *2009* *KD* |
|---|---|---|---|---|
| **Consolidated statement of financial position** | | | | |
| Bank balances and deposits | 21,199,336 | 304,593 | **21,503,929** | 2,756,070 |
| Accounts receivable and other assets (Note 9) | - | 1,770,324 | **1,770,324** | 1,899,849 |
| Murabaha payables secured against: | | | | |
| -Financial assets (Note 13) | 4,039,558 | - | **4,039,558** | 5,831,588 |
| -Non-financial asset (Note 13) | - | 299,981 | **299,981** | 4,160,108 |
| Unsecured murabaha payables | - | - | **-** | 718,000 |
| Liabilities against assets subject to finance lease | - | 4,695,077 | **4,695,077** | 5,674,992 |
| Accounts payable and other liabilities (Note 15) | 151,036 | 200,612 | **351,648** | 24,939 |

As at 31 December 2010, the group had outstanding letter of credit and letter of guarantee facilities obtained from a related party amounting to KD 1,004,132 (31 December 2009: KD 5,312,254) (Note 21).

Accounts receivable/payable from/to related parties are unsecured, free of finance charges and are receivable/payable on demand.

| | *Ultimate parent/parent company* *KD* | *Other related parties* *KD* | *2010* *KD* | *2009* *KD* |
|---|---|---|---|---|
| **Consolidated statement of income** | | | | |
| Murabaha finance cost | 278,900 | 440,362 | **719,262** | 728,636 |
| Brokerage fees | - | 800 | **800** | 27,800 |

**Key management compensation**

Remuneration paid or accrued in relation to "key management" (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers) as follows:

| | *2010* *KD* | *2009* *KD* |
|---|---|---|
| Short term employee benefits – including salary and bonus | **678,476** | 554,969 |
| End of service benefits | **31,989** | 32,019 |
| | **710,465** | 586,988 |

## 17 DIRECTOR'S REMUNERATION

Directors' remuneration of KD 300,000 (2009: KD Nil) is subject to approval by the annual general assembly of the shareholders of the company.

## 18 TAXATION

| | *2010* *KD* | *2009* *KD* |
|---|---|---|
| Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") | **14,313** | - |
| National Labour Support Tax ("NLST") | **287,869** | - |
| Zakat | **114,278** | - |
| Taxation relating to sale of exploration assets | **7,553,805** | - |
| Taxation on foreign operations | **308,131** | 189,187 |
| | **8,278,396** | 189,187 |

Taxation on foreign operations includes the current year Zakat tax amounting to KD 202,432 (2009: KD 189,187) for one of the subsidiaries computed in accordance with the regulations prevailing in the county of domicile.

## 19 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted profit (loss) per share is calculated by dividing the profit (loss) attributable to equity holders of the company for the year by the weighted average number of shares outstanding during the year, as follows:

| | *2010* | *2009* |
|---|---|---|
| Profit (loss) for the year attributable to equity holders of the company (KD) | **10,798,282** | (7,959,610) |
| Weighted average number of shares outstanding during the year | **750,000,000** | 750,000,000 |
| Basic and diluted earnings (loss) per share | **14.4 fils** | (10.6) fils |

**Basic and diluted earnings (loss) per share from continuing operations**

| | *2010* | *2009* |
|---|---|---|
| Profit (loss) for the year attributable to equity holders of the company (KD) | **10,798,282** | (7,959,610) |
| Loss on sale of discontinued operation (KD) | **-** | 25,543 |
| Profit (loss) for the year attributable to equity holders of the company from continuing operations (KD) | **10,798,282** | (7,934,067) |
| Weighted average number of shares outstanding during the year | **750,000,000** | 750,000,000 |
| Basic and diluted earnings (loss) per share from continuing operations | **14.4 fils** | (10.6) fils |

## 20 SEGMENTAL INFORMATION

For management reporting purpose the group is organised into business units based on products as follows:

- Energy: Exploration, drilling, development and production of oil and gas, alternate and renewable sources of energy, licensing and other activities related to the energy sector;
- Other: Investment and other related services

| *31 December 2010* | *Energy KD* | *Others KD* | *Total KD* |
|---|---|---|---|
| Segment revenues | **46,399,234** | **2,587,393** | **48,986,627** |
| Segment results | 16,859,376 | 2,144,526 | 19,003,902 |
| Depreciation and amortisation | 3,991,017 | 35,619 | 4,026,636 |
| Segment impairment loss | 2,607,504 | - | 2,607,504 |
| **Assets and liabilities** | | | |
| Segment assets | 100,201,075 | 8,154,460 | 108,355,535 |
| Investment in associates | 4,710,907 | - | 4,710,907 |
| Total assets | **104,911,982** | **8,154,460** | **113,066,442** |
| Segment liabilities | **23,745,137** | **5,740,129** | **29,485,266** |

Segment assets under the energy segment includes goodwill of KD Nil (31 December 2009: KD 2,460,974) (Note 5).

| *31 December 2009* | *Energy KD* | *Others KD* | *Total KD* |
|---|---|---|---|
| Segment revenues | 38,473,494 | 625,493 | 39,098,987 |
| Segment results | (9,949,582) | 617,457 | (9,332,125) |
| Depreciation and amortisation | 4,448,985 | 38,110 | 4,487,095 |
| Segment impairment loss | 4,109,787 | - | 4,109,787 |
| Assets and liabilities | | | |
| Segment assets | 101,692,386 | 7,069,044 | 108,761,430 |
| Investment in associates | 3,581,377 | - | 3,581,377 |
| Total assets | 105,273,763 | 7,069,044 | 112,342,807 |
| Segment liabilities | 32,560,876 | 5,810,770 | 38,371,646 |

## 20 SEGMENTAL INFORMATION (continued)

The company also earns revenue and has assets mainly in two geographic markets; a) Kuwait and b) Middle East and North Africa. The following table shows the distribution of the group's segment revenues, segment assets, segment liabilities and other segment information by geographical segment:

| ***31 December 2010*** | ***Kuwait KD*** | ***Middle East and North Africa KD*** | ***Others KD*** | ***Total KD*** |
|---|---|---|---|---|
| Segment revenues | **(164,601)** | **24,255,869** | **24,895,359** | **48,986,627** |
| Non current assets | **1,329,399** | **24,767,522** | **4,150,010** | **30,246,931** |

| *31 December 2009* | *Kuwait KD* | *Middle East and North Africa KD* | *Others KD* | *Total KD* |
|---|---|---|---|---|
| Segment revenues | 84,498 | 39,453,114 | (438,625) | 39,098,987 |
| Non current assets | 1,255,669 | 30,376,422 | 13,558,533 | 45,190,624 |

Non current assets for this purpose consist of property and equipment, investment property and intangible assets.

Segment assets at the year ended 31 December 2009 under Middle East and North Africa includes carrying value of goodwill amounting to KD 2,460,974 which was impaired during the year (Note 5).

## 21 CAPITAL COMMITMENTS AND CONTINGENCIES

| | ***2010 KD*** | *2009 KD* |
|---|---|---|
| **Capital expenditure commitments** | | |
| *Financial assets* | | |
| Financial assets available for sale | **6,743,700** | 6,891,300 |
| *Others* | | |
| Exploration assets | **-** | 5,736,820 |
| | **6,743,700** | 12,628,120 |

At the reporting date, the group had contingent liabilities amounting to KD 5,511,241 (31 December 2009: KD 8,469,160) in respect of outstanding letters of credit and letters of guarantees. No material liabilities are anticipated to arise out of contingent liabilities. These letters of credit and letters of guarantee are partly secured by bank balances and deposits (Note 10).

## 22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Fair values of all financial instruments are not materially different from their carrying values except financial assets available for sale carried at cost (Note 7). For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities:

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

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

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

| **31 December 2010** | *Level: 1* *KD* | *Level: 3* *KD* | *Total fair value* *KD* |
|---|---|---|---|
| **Financial assets at fair value through statement of income:** | | | |
| Unquoted equity securities | - | 32,400,000 | **32,400,000** |
| **Financial assets available for sale:** | | | |
| Quoted equity securities | 673,600 | - | **673,600** |
| | **673,600** | **32,400,000** | **33,073,600** |

| 31 December 2009 | *Level: 1* *KD* | *Level: 3* *KD* | *Total fair value* *KD* |
|---|---|---|---|
| Financial assets at fair value through statement of income: | | | |
| Unquoted equity securities | - | 32,400,000 | 32,400,000 |
| Financial assets available for sale: | | | |
| Quoted equity securities | 704,681 | - | 704,681 |
| | 704,681 | 32,400,000 | 33,104,681 |

During the year ended 31 December 2010, there were no transfers between Level 1 and Level 3 fair value measurements.

## 23 RISK MANAGEMENT

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

The group's risk management is carried out by investment and management committee and focuses on actively securing the group's short to medium term cash flows by minimizing the potential adverse effects on the group's financial performance through internal risk reports. The company's board of directors are ultimately responsible for the overall risk management and for approving risk strategies and principles.

The group is exposed to credit risk, liquidity risk, market risk, prepayment risk and operational risk. Market risk is subdivided into profit rate risk, foreign currency risk, equity price risk and prepayment risk. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the group's strategic planning process.

### 23.1 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.

With respect to credit risk arising from the other financial assets of the group, which comprise bank balances and other assets, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

***Maximum exposure to credit risk***
The group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The group bears credit risk on bank balances and accounts receivables.

The group seeks to limit its credit risk with respect to banks by only dealing with reputable banks, and with respect to customers by monitoring outstanding receivables on an ongoing basis. The five largest customers accounted for 99% (31 December 2009: 99%) (Government/government controlled entities: 76% (31 December 2009: 64%)) of the outstanding trade accounts receivable.

The table below shows the gross maximum exposure to credit risk across financial assets:

| | ***2010*** ***KD*** | *2009* *KD* |
|---|---|---|
| Bank balances and deposits | **24,937,084** | 3,299,239 |
| Accounts receivable and other assets | **18,985,596** | 22,028,266 |
| Gross maximum credit risk exposure | **43,922,680** | 25,327,505 |

The exposures set above are based on carrying amounts as reported in the consolidated statement of financial position.

**23 RISK MANAGEMENT (continued)**

**23.1 Credit risk (continued)**

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

The group's credit bearing assets can be analysed by the geographical regions and industry wise sector as follows:

| | *2010* | *2009* |
|---|---|---|
| | *KD* | *KD* |
| **Geographic region:** | | |
| Kuwait | **23,954,547** | 1,986,163 |
| Middle East and North Africa | **19,742,529** | 22,863,516 |
| Others | **225,604** | 477,826 |
| | **43,922,680** | 25,327,505 |

| | *2010* | *2009* |
|---|---|---|
| | *KD* | *KD* |
| **Industry sector:** | | |
| Banks and financial institutions | **24,937,084** | 3,299,239 |
| Construction and real estate | **18,780,881** | 21,480,040 |
| Other | **204,715** | 548,226 |
| | **43,922,680** | 25,327,505 |

**Collateral and other credit enhancements**
It is not the practice of the group to obtain collateral over trade accounts receivable.

**23.2 Liquidity risk**

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the company's management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents, and readily marketable securities.

The table below summarises the analysis of group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future profit payments over the life of these financial liabilities.

**23 RISK MANAGEMENT (continued)**

**23.2 Liquidity risk (continued)**

| **31 December 2010** | ***On demand KD*** | ***Less than 1 year KD*** | ***More than 1 year KD*** | ***Total KD*** |
|---|---|---|---|---|
| Murabaha payable | 1,254,359 | 4,645,942 | - | **5,900,301** |
| Liabilities against assets subject to finance lease | 126,641 | 1,393,047 | 4,685,703 | **6,205,391** |
| Accounts payable and other liabilities | 151,037 | 18,545,131 | - | **18,696,168** |
| | 1,532,037 | 24,584,120 | 4,685,703 | **30,801,860** |
| **Capital commitments** | - | - | 6,743,700 | **6,743,700** |

| 31 December 2009 | *On demand KD* | *Less than 1 year KD* | *More than 1 year KD* | *Total KD* |
|---|---|---|---|---|
| Murabaha payable | 718,000 | 13,541,461 | 295,092 | 14,554,553 |
| Liabilities against assets subject to finance lease | - | 1,456,581 | 6,488,408 | 7,944,989 |
| Accounts payable and other liabilities | 24,939 | 18,014,527 | - | 18,039,466 |
| | 742,939 | 33,012,569 | 6,783,500 | 40,539,008 |
| Capital commitments | - | 12,628,120 | - | 12,628,120 |

**23.3 MARKET RISK**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

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

**23.3.1 Profit rate risk**

Profit rate risk arises from the possibility that changes in profit rates of Islamic financial instruments will affect future profitability of the group. Profit rate risk is managed by the treasury department of the company. The group is not significantly exposed to profit rate risk as a result of mismatches of profit rate repricing of assets and liabilities since it does not own significant floating rate Islamic financial assets and Islamic financial liabilities that could have a material impact on the group's profit before taxes and Board of Directors' remuneration.

**23.3.2 Currency risk**

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.

The management monitors the open positions on an ongoing basis to ensure that they are maintained within established limits.

**23 RISK MANAGEMENT (continued)**

**23.3 MARKET RISK (continued)**

**23.3.2 Currency risk**

As at the reporting date the group had the following significant net asset exposures denominated in foreign currencies:

| | *2010* | *2009* |
|---|---|---|
| | ***KD*** | *KD* |
| US Dollar | **24,947,901** | 2,076,556 |
| Sudanese pounds | **23,391,681** | 25,485,919 |

The group's exposure to other foreign currencies is not material to the consolidated financial statements.

The effect on profit before tax (due to change in the fair value of monetary assets and liabilities) and on the other comprehensive income, as a result of change in currency rate, with all other variables held constant is shown below as at 31 December 2010:

| | ***31 December 2010 Change in currency rate by 3%*** | | *31 December 2009 Change in currency rate by 3%* | |
|---|---|---|---|---|
| | ***Effect on other comprehensive income*** | ***Effect on profit before taxation*** | *Effect on other comprehensive income* | *Effect on profit before taxation* |
| | ***KD*** | ***KD*** | *KD* | *KD* |
| United State Dollar | **104,284** | **729,416** | 81,625 | 192,642 |
| Sudanese pounds | **701,750** | **-** | 764,578 | - |

Sensitivity to currency rate movements is assumed to be on a symmetric basis and financial instruments giving rise to non-symmetric movements are not significant.

**23.3.3 Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the group's investment portfolio. The group manages the risk by focusing on the long term holding of equity assets, keeping its exposure at an acceptable level and by continuously monitoring the markets.

The effect on other comprehensive income (as a result of a change in the fair value of financial assets available for sale) due to a 3% change in regional market indices, with all other variables held constant is KD 20,223 (31 December 2009: KD 21,145).

**23.3.4 Prepayment risk**

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.

## 24 CAPITAL MANAGEMENT

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

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The group monitors capital on the basis of the gearing ratio which is total debt divided by total equity attributable to equity holders of the company. The group includes profit bearing muhrabha payables (including deferred profit) and liabilities against assets subject to finance lease within total debt.

The capital structure of the group consists of the following:

| | *2010* | *2009* |
|---|---|---|
| | *KD* | *KD* |
| Profit Bearing Murabaha Payables | **5,843,973** | 14,320,182 |
| Deferred Finance Cost | **56,328** | 234,372 |
| Total liabilities against assets subject to finance lease | **6,205,391** | 7,944,989 |
| Total debt | **12,105,692** | 22,499,543 |
| Equity attributable to the equity holders of the company | **74,980,543** | 64,615,552 |
| Gearing ratio | **16%** | 35% |