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AL MAL INVESTMENT  
شركة المال للاستثمار

ANNUAL REPORT 2010

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**In The Name of Allah  
Most Gracious,  
Most Merciful**

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**H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah**  
Amir of Kuwait



**H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah**  
Crown Prince



**H.H. Sheikh Naser Al Mohammad Al-Ahmad Al-Sabah**  
Prime Minister

A close-up photograph of a desk with a pen and a folder labeled 'Table Of Contents'. The folder is white with a black label that reads 'Table Of Contents'. A black pen with a gold-colored tip is resting on the folder. The background is a blurred desk with a ruler and other papers.

## Table Of Contents

- 8 Board Of Directors & Management
- 9 Board of Director's Report
- 11 Corporate Governance
- 17 Management Discussion & Analysis
- 23 Consolidated Financial Statements and Independent Auditors' Report

## Board Of Directors & Management

**Mr. Loay J. Al-Kharafi**  
Chairman & Managing Director

**Mr. Abdul Kareem A. Al-Mutawa**  
Vice Chairman

**Mr. Dherar M. Al-Nisf**  
Board Member

**Mr. Salah A. Dashti**  
Board Member

**Mr. Khalid A. Al-Nughaimishi**  
Board Member

**Dr. Sulaiman T. Al-Abduljader**  
Board Member

**Mr. Fawzi A. Al Jouder**  
Chief Executive Officer

**Mr. Basem Bouz**  
Acting Investment Manager

**Mr. Nasr Mohamed Ali**  
Chief Financial Officer

**Mr. Muneer F. Saied**  
Administration Manager





## Board of Director's Report

The Board of Directors of Al Mal Investment Company takes pleasure in presenting the Annual Report of the Company together with the financial statements for the year ended 31<sup>st</sup> December 2010.

### **Dear Shareholders,**

The year 2010 continued to be a turbulent year for the GCC markets. The investment sector witnessed a significant decline in most revenue streams as a result of difficult operating environment and the persistent weakness in the Kuwaiti stock market. The poor performance was not confined to Al Mal but was in line with many of its peers and with the sector suffering as a whole. These circumstances led the company to put its expansionary policy which included new projects / products on hold, and adopt a strategy of executing projects at hand and exiting some of its investments to secure liquidity and minimize the impact of the crisis as well as servicing the debt obligations. The company has set a 5 year plan to lower its debt to 60% of its current amount, increase net profit by KD 10 million and increase its Return on Equity (ROE) to 12%. This plan was build with the help of external advisors and was put to action by 4<sup>th</sup> Quarter of 2010.

During the year, your company has engaged consultants for redesigning of its existing organization structure in accordance with its strategy, business needs and objectives, developed financial and operational policies and procedures, thereby assuring the operations of the company towards attaining higher value.

This year was not without any developments, most importantly the developments in real estate projects in Qatar and the Hail economic city in Saudi Arabia.

The real estate investment in Qatar is one of Al Mal's most lucrative investments. Currently Qatar's economy is experiencing tremendous growth, and is becoming one of the fastest growing economies in the world. Recently, Qatar was awarded the 2022 World Cup which is gearing the real estate activities forward. Strong economic growth, implementations of infrastructure and mega projects and Government's initiatives have all contributed to the strong growth in demand for the land.

The project in Hail is Prince AbdulAziz Bin Mousaed Economic City (PABMEC) in which the company has entered into agreement with Saudi Arabia General Investment Authority (SAGIA) to establish Hail Economic City Holding Company (Public Shareholding Co.) for the development and administration of economic city of Hail, in which Al Mal is the Master Developer of the project. This is a mega- project incorporating a cluster-based development comprising transportation, logistics and supply chain centers, educational services, agricultural and food processing services, mining and commercial services, housing and infrastructure. The company is currently seeking to attract strategic investors for participation in this project.

The company has ventured into asset management business during the year 2010 and the company plans to significantly increase the asset management activities in the future.

The Al Mal Board is pleased to state that a report on Corporate Governance is available on the Company's website. Further, an overview of good corporate governance practices adopted at Al Mal is available in the "Corporate Governance" section of this report.

## Board of Directors Report (continued)

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### Financial highlights for the year 2010:

- During 2010, Al Mal recorded a net profit of KD 12.02 million, an increase of 197% on the loss of KD (12.36) million for 2009;
- Earnings per share in 2010 were 22.75 fils against (24.09) fils for 2009 an increase of 194%;
- Total assets in 2010 were KD 199.64 million compared to KD 197.08 million an increase of 1.3% amounting to KD 2.56 million;
- Total liabilities for the year 2010 amounted to KD 104.8 million compared to KD 112.7 million for the year 2009 an decrease of 7%, in line with the above mentioned Company's 5 year plan.
- The **leverage ratio** for Al Mal stood at 1:1 against the 2:1 ratio stipulated by the Central Bank of Kuwait; **quick ratio** amounted to 18.2% which is higher than the minimum of 10% imposed by Central Bank of Kuwait; **foreign exposure ratio** which represents the company's total liabilities towards foreign lenders to shareholders equity stood at 0.34% which is lower by far than the maximum of 50% prescribed by Central Bank of Kuwait.

The Board of Directors propose no dividend distribution for the year 2010.

### Outlook for the year 2011:

Although the year 2011 is expected to be a challenging one, and not any less difficult than the previous year, yet the company will seek to continually mitigate the risks arising from fluctuation in market value of its assets.

As the last three years demonstrated, no one can predict the future. While we are encouraged by the prospects for sustainable economic recovery, we continue to place premium on conservatism and prudence. At the same time, we are focused on opportunities that can continue to grow our business and generate industry-leading returns through the strength of company's core attributes.

We would like to take this opportunity to thank our Shareholders, Financiers and Bankers for their highly appreciated support and to our staff for their dedication and relentless effort to overcome these difficult times. We also extend our gratitude to the regulatory authorities, specifically, the Central Bank of Kuwait, for their continued support and guidance in light of current conditions.

We would like to congratulate His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and His Highness the Prime Minister Sheikh Nasser Al-Mohammed Al-Ahmad Al-Sabah, on the 50th Anniversary of the Independence of the State of Kuwait, the 20th Anniversary of Liberation, and the 5th Anniversary of the ascendance of His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah to the leadership of the State of Kuwait, wishing for further progress and prosperity for our country.



Mr. Loay J. Al-Kharafi  
**Chairman and Managing Director**

April 6, 2011



## Corporate Governance

### 1 Corporate Governance Practices

#### • Corporate Governance Rules

The Company is committed to strong corporate governance principles, including the following:

- An effectively functioning and well informed Board;
- Clearly defined roles and responsibilities of the Board, its members, its Committees, and key company officers and executives;
- Effective communication with shareholders through the Annual General Assembly, Corporate Governance reports, periodic and annual financial reporting, and regular dialogue;
- Complying with the continuous disclosure rules of CBK and KSE;
- Ensuring that the Company's performance and financial reporting are properly directed and controlled through an effective internal control system; and
- Adopting high ethical standards and practices by the Company, its officers, and employees.

#### • Corporate Governance Structure

As per the Company's organization structure, the Board plays a key role in the Company's corporate governance requirements. It is ultimately responsible for the Company's compliance with its legal and regulatory obligations, the Company's Memorandum and Articles of Association, and its duties to shareholders. The Board is assisted in this process by various Board Committees (particularly the Audit and Risk Committee and the Executive Committee), external and internal auditors, and Company officers and employees (including the Chief Executive Officer, the Chief Financial Officer, the Compliance Officer, and other members of Management).

The new organizational structure, the Audit and Risk Committee and the Executive Committee charters were all approved by the BOD in its meeting dated in December 27, 2010.

#### Audit and Risk Committee

This Committee is an independent committee established by the Board to review the adequacy of internal control systems in the Company. The Committee is responsible for the appointment of external auditors and choose the Head of Internal Audit and the adoption of audit fees for any particular task and review annual reports on internal control systems and any matters relating to audit such as a letter prepared by external auditors and internal audit reports and inspection reports prepared for the Central Bank of Kuwait. In addition, the Committee is responsible for the discussion of any significant restrictions or modifies any disclosures or accounting those relating to results of the audit and proposed by the external auditors. The Committee does not have a secretary nominated

## Corporate Governance (continued)

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### 1 Corporate Governance Practices (continued)

#### Audit and Risk Committee (continued)

formally who is supposed to document and keep the minutes of meetings and prepares meeting agendas for the committee as well as the Board of Directors, as per the CBK circular pertaining to (Guidelines Manual for the Internal Control Systems of Investment Companies stipulated by CBK in February 15, 1998 in chapter one: Supervisory and Regulatory Instructions and Controls) which states the following:

“The Board’s Secretary shall be responsible for the Audit and Risk Committee secretary and shall take minutes of its meetings. These minutes, together with the minutes of the Board’s meetings, shall be part of the institution’s records.”

The Committee is comprise of the following members:

- Dr. Sulaiman T. Al Abduljader – Chairman of the Audit and Risk Committee
- Mr. Dherar M. Al-Nisf - Member
- Mr. Khalid A.H. Al-Nughaimish - Member

The Audit and Risk Committee held four meetings during 2010.

#### Executive Committee

The purpose of the Board Executive Committee of the Board of Directors is to assist the Board in fulfilling its oversight responsibilities relating to:

- The execution of the Company strategy and its performance with regards to targets set.
- The Periodic review of the Company’s financial position, capital structure, and other matters relating to the Company’s financial condition.
- Financial commitments and the execution of the investment plans of the Company.
- The Company’s financing plan, including funding and liquidity.
- Monitoring the execution of key managerial and administrative Board resolutions.
- Apprising the Board of key business related issues and their implications on the Company in a way to facilitate decision making process.
- The Company’s compensation programs and plans including the compensation of the Company’s executives.

The committee did not convene during 2010 as it was established in April 6,2011 by the BOD in its meeting number 1/2011. However there was an Investment Committee handling the Executive Committee’s roles in 2010 where it has been met eight (8) meetings.

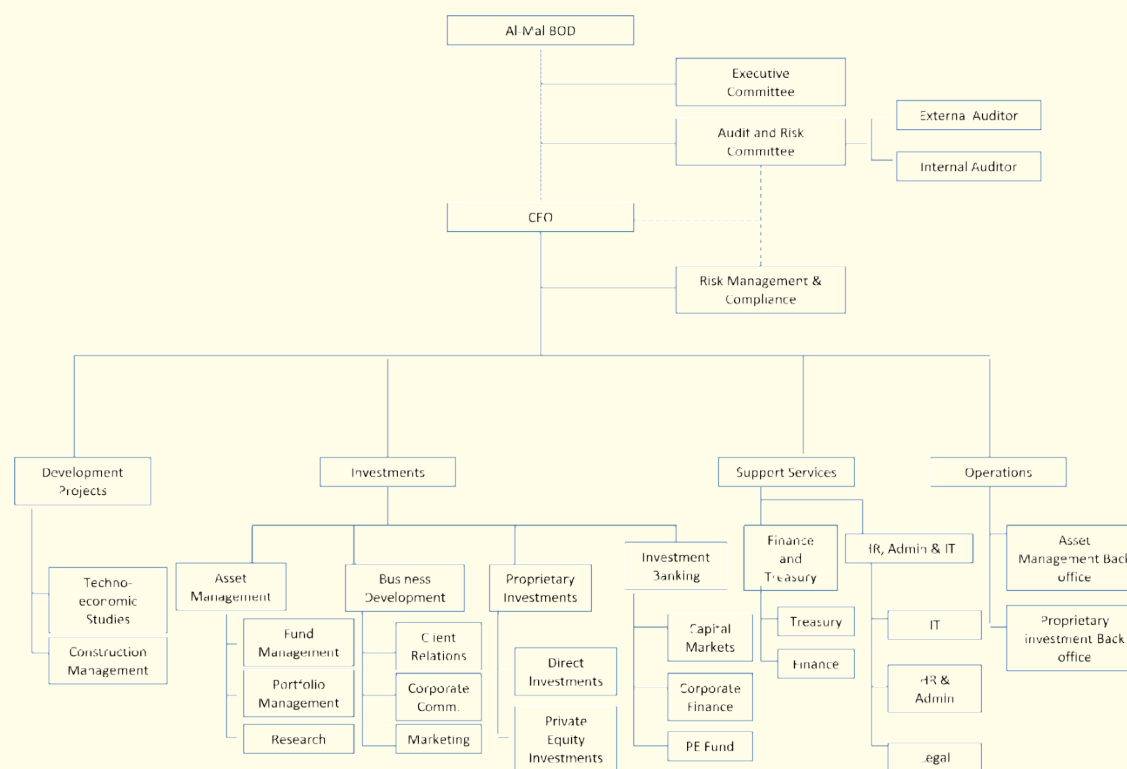


## Corporate Governance (continued)

### 1 Corporate Governance Practices (continued)

- **Al-Mal Organization Structure**

The following illustrates the organizational structure at Al-Mal:



- **Disclosure Practices**

The Company is committed to complying with all of its disclosure obligations, including to CBK, the KSE and to shareholders. In 2010, the Company made regular disclosures to CBK and KSE.

- **Delegation of Authority Policy**

The BOD has approved the authority matrix in its meeting dated December 27, 2010.

- **Code of Conduct**

The BOD has approved the code of conduct in its meeting dated in December 27, 2010. Company's officers and employees are required to comply with this Code in performing their duties.

## Corporate Governance (continued)

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### 2 Board of Directors

#### a. Role of the Board

The primary purpose of the Board of Directors is to protect the shareholders' interests and ensure that shareholders' returns are maximized. The Board, on behalf of Al-Mal and its shareholders, oversees and provides general direction to the management of the Company.

#### b. Composition of the Board

A BOD charter was approved by the BOD in its meeting in December 27, 2010. The Board is comprised of the following members:

- Mr. Loay Jassim Mohamed Al-Kharafi – Chairman and Managing Director
- Mr. Abdul Karim Abdullah Ibrahim Al-Mutawa – Vice Chairman
- Mr. Salah Abdullah Ali Dashti - Member
- Dr. Sulaiman T. Al Abduljader - Member
- Mr. Dherar M. Al-Nisf - Member
- Mr. Khalid A.H. Al-Nughaimish - Member

#### c. Directors' Qualifications and Experience

The Directors have academic and professional qualifications along with practical experience in corporations inside and outside state of Kuwait.

#### d. Board of Directors Meetings

The Board of Directors held thirteen (13) meetings during 2010 on the following dates:

- March 24, 2010
- May 11, 2010
- May 25, 2010
- June 09, 2010
- June 21, 2010
- June 29, 2010
- July 04, 2010
- August 18, 2010
- August 26, 2010
- November 02, 2010
- November 08, 2010
- December 20, 2010
- December 27, 2010

The minutes of each meeting were duly approved. The majority of directors attended at least twelve (12) of these Board meetings.

#### e. Directors' Remuneration

No BOD remuneration/benefits were paid to directors in 2010.



## Corporate Governance (continued)

### 3 Board Committees

The following Board Committees have been established, and comprise of non-executive Board members:

Name of Board Committee	Committee Members
Audit and Risk Committee	<ul style="list-style-type: none"> <li>• Dr. Sulaiman T. Al Abduljader – Chairman of the committee</li> <li>• Mr. Dherar M. Al-Nisf</li> <li>• Mr. Khalid A.H. Al-Nughaimish</li> </ul>

The Company adopts formal Terms of Reference (charters) for each of the above Board Committees, addressing the composition, duties, and responsibilities of each Committee, amongst other things.

### 4 Internal Control System

#### a. Independent Assessment of the Internal Control System

During the year 2010, the Company was subject to the following independent assessments of its internal control system:

- Annual external audit and interim reviews of Al-Mal consolidated financial statements through external audit firm appointed by the Shareholders' resolution at the Company's 2010 Annual General Assembly held on May 12, 2010, including assessment of internal controls over financial reporting.
- As per the CBK requirements, an independent assessment of the internal control environment is carried out by an external party.
- Al-Mal outsourced its internal audit function to an external provider which carries out its reviews, according to an annual Internal Audit Plan approved by the Audit and Risk Committee.

## Corporate Governance (continued)

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### 4 Internal Control System (continued)

#### a. Independent Assessment of the Internal Control System (continued)

The internal audit procedures are designed on the assumption that the responsibility for a sound system of internal controls rests with management and work performed by internal audit might not lead to identifying all strengths and weaknesses that may exist, but so that any material irregularity has a reasonable probability of discovery. The internal audit procedures focus on areas as identified by Management as being of greatest risk and significance, and the internal audit plan therein is subject to the approval of the Audit and Risk Committee.

The internal audit function (independent internal auditors) reports directly to the Audit and Risk Committee.

#### b. Company's Internal Control Practices

The Company's internal control/supervisory system is established to ensure that the Board and Management are able to achieve their business objectives in a prudent manner, safeguarding the interests of the Company's shareholders and other stakeholders, whilst at the same time minimizing key risks such as fraud, unauthorized business activity, misleading financial statements, uninformed risk-taking, or breach of legal or contractual obligations.

#### c. Compliance Function

In its meeting dated December 27, 2010, the Board approved the appointment of a Compliance Officer.



## Management Discussion & Analysis

Despite the headwinds faced by investment companies globally due to the past and current economic conditions, the company was able to successfully perform through Net profit of KWD 12 million ( losses of KWD 12 million for 2009 ) and book value per share increased to 147 Fils (124 Fils for 2009 ). These results backed by the fact that the company still maintains a strong pipeline of unique and potentially fruitful projects, gives us the total confidence that the company will be able to perform positively well into the future.

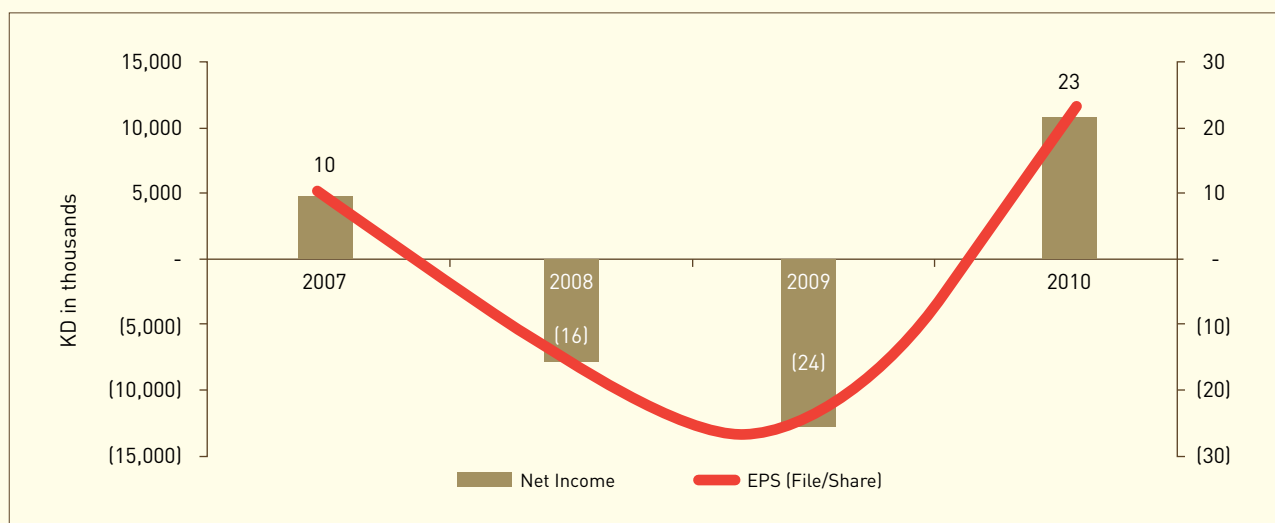
## Financial Ratios

Ratios	CBK guidelines	Actual Limits
Leverage Ratio (Total Liabilities / Equity)	Maximum 2:1	1:1
Quick Ratio (Cash and equivalents / Current liabilities)	Minimum 10%	18.2%
Foreign Exposure Limit	Maximum 50%	0.34%

## Profitability

Net profit of KWD 12.02 million in 2010 were posted versus losses of KWD (12.36) million for 2009 performing an increase of KWD 24.38 million of 197%.

The earnings per share increased from a loss of (24.09) Fils in 2009 to a profit of 22.75 Fils in 2010, equaling a total upside movement of 46.84 Fils.



## Revenue

Total revenues for year 2010 of KWD 32.89 million, compared to total revenues of KWD 3.64 million in 2009, performing an increase of KWD 29.25 million. These revenues were mainly recognized from the following:

- The sale of associate company which result in a net profit of KD 20.5 million.
- The increase in fair value of investment properties of KWD 5.47 million versus a decrease of KWD (3.1) million in 2009.
- The gains resulted from associates companies of KWD 3.8 million compared to KWD 1.7 million in 2009.
- The revenue of KWD 1.9 million realized from asset management, consultation and advisory services versus KWD 1.2 million in 2009.

Details of realized and unrealized gain:

Income	2010 (KD)	%	2009 (KD)	%
Realized Gains	24,462,907	74.4	4,698,763	129%
Unrealized Gains	8,428,986	25.6	(1,056,683)	(29%)
<b>Total</b>	<b>32,891,893</b>	<b>100</b>	<b>3,642,080</b>	<b>100%</b>

### Realized gain:

1. Sale of associate – KWD 20.5 million.
2. Dividend income – KWD 0.94 million
3. Management fees and others – KWD 1.9 million
4. Interest income and sukuk – KWD 0.87 million

### Unrealized gain:

1. Share of profit from associates – KWD 3.8 million
2. Change in fair value of investment properties – KWD 5.5 million

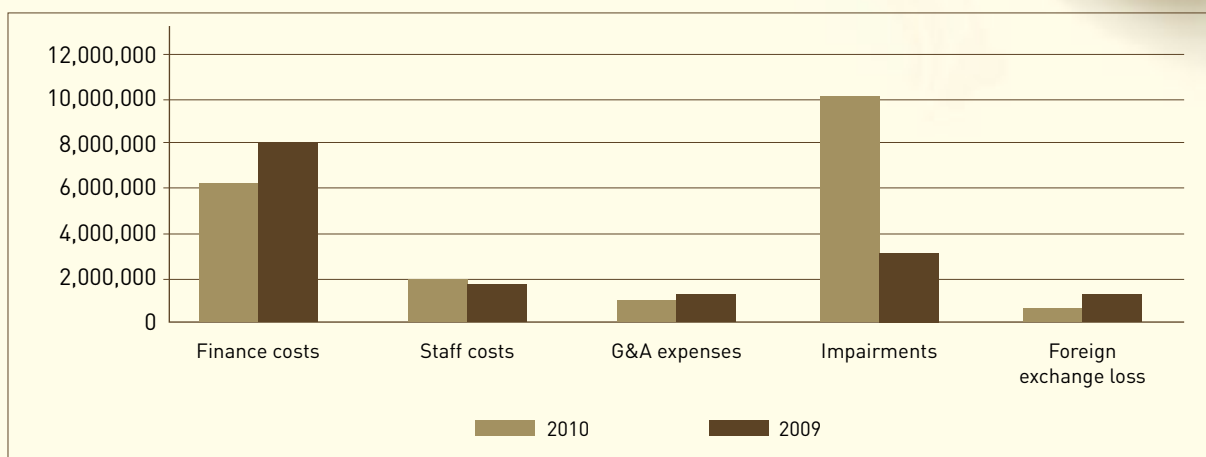
## Overheads

The overheads for the year 2010 amounted to KWD 21.84 million (KWD 16.45 million for the year 2009) with an increase of 32.7% amounting to KWD 5.38 million mainly resulted from the impairments which represent 49.8% of the total overheads, detailed as follows:

Description	2010 (KD)	2009 (KD)	Increase + / (Decrease -) (KD)	% Increase / (Decrease)
Finance costs	6,589,073	8,047,760	(1,458,687)	(18.13%)
Staff Costs	2,074,396	1,851,413	222,984	12.04%
G&A expenses	1,523,338	1,630,316	(106,978)	(6.6%)
Impairments	10,871,016	3,683,006	7,188,010	195.2%
Foreign exchange loss	782,789	1,243,204	(460,415)	(37.03%)
<b>Total</b>	<b>21,840,611</b>	<b>16,455,699</b>	<b>5,384,914</b>	<b>32.7%</b>



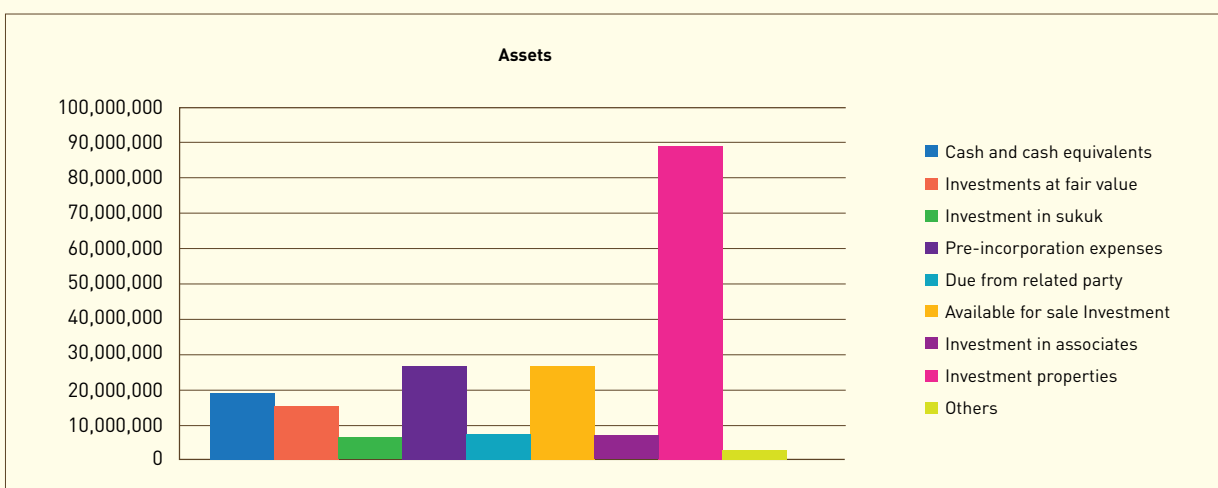
## Overheads (continued)



## Assets

The component of the Company's assets are as follows:

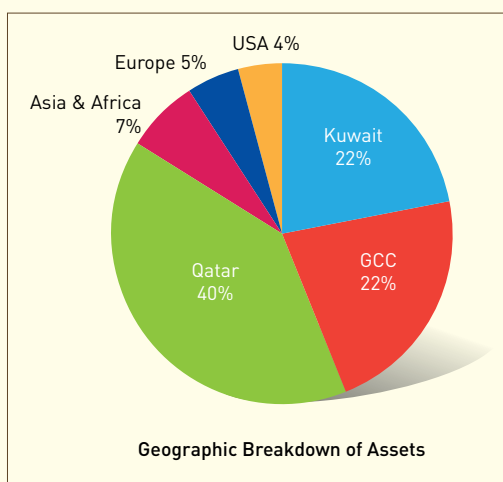
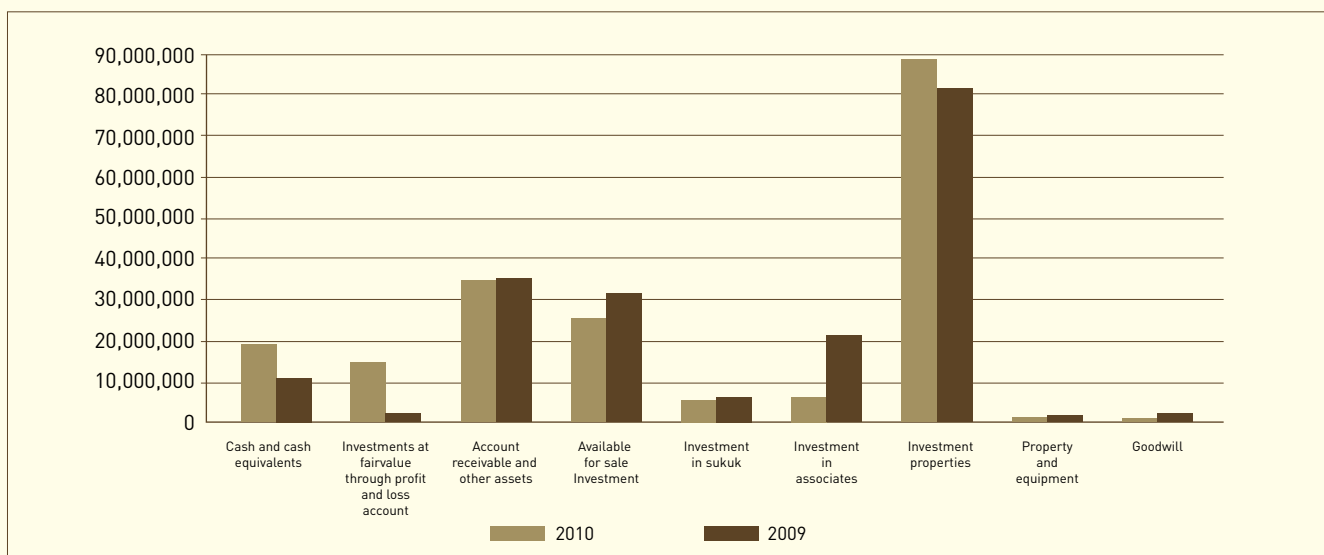
Description	Amount (KD)	%
Cash and cash equivalents	19,078,995	9.56%
Investments at fair value through profit or loss	15,145,525	7.59%
Investment in sukuk	6,177,737	3.09%
Advance for projects development	26,627,844	13.33%
Due from related parties	7,273,868	3.64%
Available for sale investments	26,555,636	13.31%
Investment in associates	6,942,401	3.48%
Investment properties	89,096,476	44.63%
Others	2,740,918	1.37%
<b>Total</b>	<b>199,639,400</b>	<b>100%</b>



### Assets (continued)

Total assets of KWD 199.64 million compared to KWD 197.08 million for the year 2009, at an increase of 1.3% amounting to KWD 2.55 million.

Description	2010 (KD)	2009 (KD)	Increase + / (Decrease -) (KD)	% Increase / (Decrease)
Cash and cash equivalents	19,078,995	11,800,687	7,278,308	62%
Investments at fair value through profit or loss	15,145,525	2,682,849	12,462,676	465%
Accounts receivable and other assets	35,476,892	35,549,217	(72,325)	(0%)
Available for sale investments	26,555,636	31,940,550	(5,384,914)	(17%)
Investment in sukuk	6,177,737	6,806,434	(628,697)	(9%)
Investment in associates	6,942,401	21,466,890	(14,524,489)	(68%)
Investment properties	89,096,476	81,973,269	7,123,207	9%
Property and equipment	1,075,406	1,206,600	(131,194)	(11%)
Goodwill	90,332	3,653,006	(3,562,674)	(98%)
<b>Total</b>	<b>199,639,400</b>	<b>197,079,502</b>	<b>2,559,898</b>	<b>1%</b>

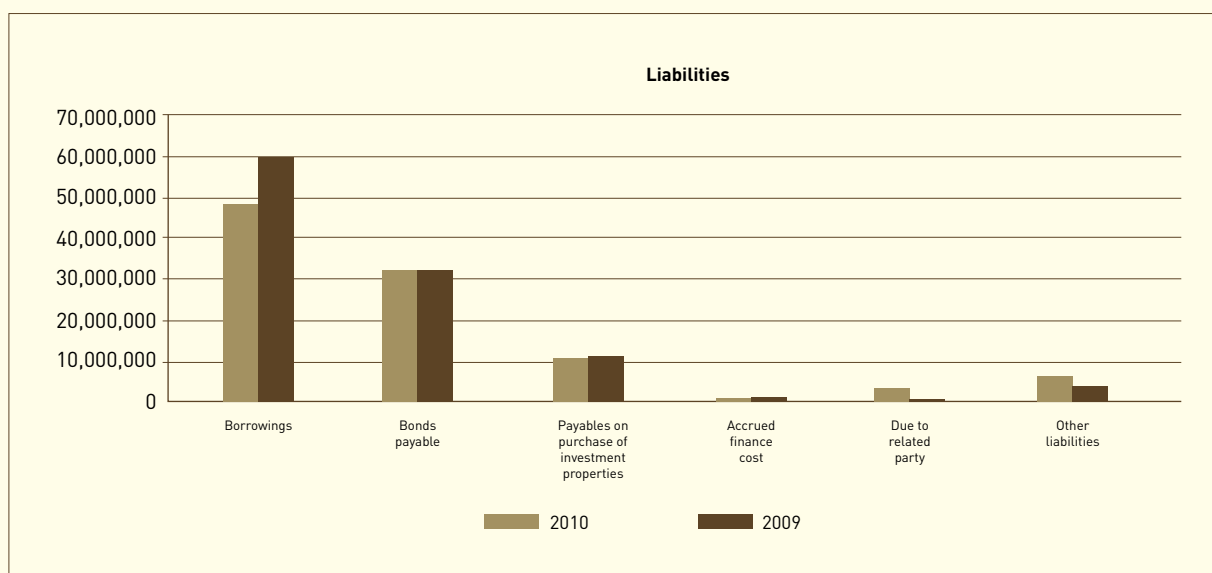




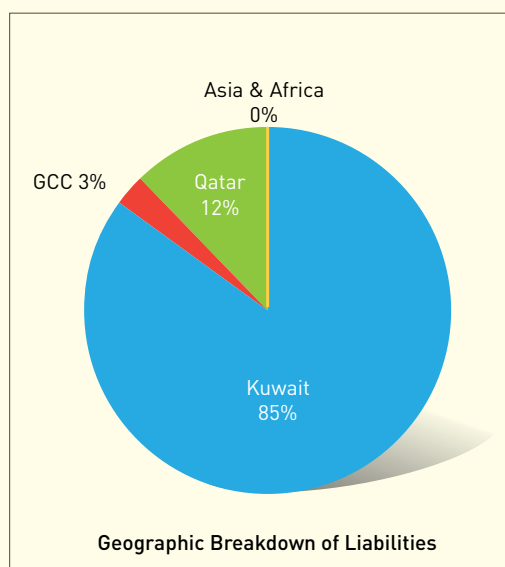
## Liabilities

Total liabilities for the year 2010 amounted to KWD 104.8 million compared to KWD 112.7 million for the year 2009 with a decrease of 7% worth KWD 8 million.

Description	2010 (KD)	2009 (KD)	Increase + / (Decrease -) (KD)	% Increase / (Decrease)
Borrowings	48,429,381	60,157,756	(11,728,375)	(19 %)
Bonds payable	33,320,000	33,320,000	-	-
Payables on purchase of investment properties	12,111,435	13,908,480	(1,797,045)	(13%)
Accrued finance costs	1,030,636	1,276,275	(245,639)	(19 %)
Due to related parties	3,181,456	324,320	2,857,136	881%
Other liabilities	6,723,942	3,734,845	2,989,097	80%
<b>Total</b>	<b>104,796,850</b>	<b>112,721,676</b>	<b>(7,924,826)</b>	<b>(7%)</b>



## Liabilities (continued)



### Maturity Profile for Borrowings and Bonds liabilities:

Description	2010 (KD)	2009 (KD)	Increase + / (Decrease -) (KD)	% Increase / (Decrease)
Less than 1 year	38,818,953	75,414,395	36,595,442	48.5%
1-3 years	42,930,428	18,063,361	(24,867,067)	(137.7%)
Total	81,749,381	93,477,756	(11,728,375)	(12.5%)

The table above shows the noticeable improvement in maturity dates, the company's 2010 Short Term Loans represent 47.48% of total loans versus 80.68% for 2009. This improvement demonstrates management's ability in successfully extending its Islamic based debt and extending its Bonds of KWD 13.3 million for an additional two years and restructure the remaining revolving loans to term loans to be settled over 5 years.

The positive factor is the Company's ability to access liquidity through debt and restructure the maturity dates over the next 5 years without guarantees or collateral despite the strict and rigid environment that all investment companies are facing due to the harsh economic situation that the world and Kuwait are facing.



**Consolidated Financial Statements and Independent Auditors' Report  
Al-Mal Investment Company KSC (Closed)  
and subsidiaries - Kuwait  
31 December 2010**

24	Independent Auditor's Report
26	Consolidated Statement of Income
27	Consolidated Statement of Comprehensive Income
28	Consolidated Statement of Financial Position
29	Consolidated Statement of Changes in Equity
30	Consolidated Statement of Cash Flows
31	Notes to the Consolidated Financial Statements





**Grant Thornton**

Al-Qatami, Al-Aiban & Partners

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## Independent Auditors' Report

To the shareholders of  
Al Mal Investment Company – KSC (Closed)  
Kuwait

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Al Mal Investment Company – Kuwaiti Shareholding Company (Closed) and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards adopted for use by the state of Kuwait and, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

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

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

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Al Mal Investment Company and its subsidiaries as at 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the state of Kuwait.

**Report on Other Legal and Regulatory Matters**

In our opinion, proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960 and by the Company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law nor of the Company's articles of association, as amended, have occurred during the year that might have had a material effect on the business or financial position of the Company.

We further report that, during the course of our audit, we have not become aware of any material violations during the year, of the provisions of Law No.32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations.

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

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

## Consolidated Statement of Income

	Note	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
<b>Income</b>			
Realised loss from sale of investments at fair value through profit or loss		(318)	(1,918,426)
Unrealised loss from investments at fair value through profit or loss		(855,500)	(587,043)
Realised loss on disposal of available for sale investments		(96,846)	(285,000)
Dividend income		942,241	1,940,142
Share of results of associates	18	3,815,577	1,771,343
Profit on disposal of associates	18	20,555,066	-
Profit/(loss) on sale of investment properties	19	106,913	(558,188)
Change in fair value of investment properties	19	5,468,909	(3,101,983)
Sukuk & interest income		867,541	854,625
Profit on partial disposal of subsidiary	7	-	3,170,883
Net income from communication services	8	112,563	282,885
Management fees and other income	9	1,975,747	1,211,842
Reversal of provision no longer required	28	-	861,000
		<b>32,891,893</b>	<b>3,642,080</b>
<b>Expenses and other charges</b>			
Finance costs	11	6,589,073	8,047,760
Staff costs		2,074,396	1,851,413
General, administrative and other expenses		1,523,338	1,630,316
Foreign exchange loss		782,789	1,243,204
Impairment of available for sale investments	16.2	3,996,543	3,683,006
Impairment of intangible assets	20	3,877,300	-
Impairment of receivables and other assets	15	2,997,172	-
		<b>21,840,611</b>	<b>16,455,699</b>
<b>Profit/(loss) for the year before provision for NLST and Zakat</b>		<b>11,051,282</b>	<b>(12,813,619)</b>
Provision for National Labour Support Tax (NLST)		(263,771)	-
Provision for Zakat		(105,861)	-
<b>Profit/(loss) for the year</b>		<b>10,681,650</b>	<b>(12,813,619)</b>
Attributable to :			
Owners of the parent company		12,016,616	(12,363,566)
Non-controlling interests		(1,334,966)	(450,053)
		<b>10,681,650</b>	<b>(12,813,619)</b>
<b>Basic and diluted earnings/(loss) per share attributable to the owners of the parent company</b>	12	<b>22.75 Fils</b>	<b>(24.09) Fils</b>



## Consolidated Statement of Comprehensive Income

	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
Profit/(loss) for the year	10,681,650	(12,813,619)
<b>Other comprehensive income:</b>		
Exchange differences arising on translation of foreign operations	(808,857)	671,265
Available for sale investments:		
- Net changes in fair value arising during the year	(3,618,538)	(2,365,446)
- Transferred to consolidated statement of income on disposal	(52,909)	111,822
- Transferred to consolidated statement of income on impairment	3,996,543	3,683,006
Share of other comprehensive income of associates	286,835	34,831
Total other comprehensive income for the year	(196,926)	2,135,478
Total comprehensive income for the year	10,484,724	(10,678,141)
Total comprehensive income attributable to:		
Owners of the parent company	11,974,527	(10,206,050)
Non-controlling interests	(1,489,803)	(472,091)
	10,484,724	(10,678,141)

## Consolidated Statement of Financial Position

	Note	31 Dec. 2010 KD	31 Dec. 2009 KD
<b>Assets</b>			
Cash and cash equivalents	13	19,078,995	11,800,687
Investments at fair value through profit or loss	14	15,145,525	2,682,849
Accounts receivable and other assets	15	35,476,892	35,549,217
Available for sale investments	16	26,555,636	31,940,550
Investment in sukuk	17	6,177,737	6,806,434
Investment in associates	18	6,942,401	21,466,890
Investment properties	19	89,096,476	81,973,269
Property and equipment		1,075,406	1,206,600
Intangible asset	20	-	3,562,674
Goodwill		90,332	90,332
<b>Total assets</b>		<b>199,639,400</b>	<b>197,079,502</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Accounts payable and other liabilities	21	22,592,653	18,895,129
Borrowings	22	48,429,381	60,157,756
Bonds payable	23	33,320,000	33,320,000
Employees' end of service indemnity		454,816	348,791
<b>Total liabilities</b>		<b>104,796,850</b>	<b>112,721,676</b>
<b>Equity</b>			
Share capital	24	52,828,125	52,828,125
Share premium	25	18,375,000	18,375,000
Statutory reserve	25	4,802,301	4,802,301
Voluntary reserve	25	4,802,301	4,802,301
Foreign currency translation reserve	25	390,259	753,918
Cumulative changes in fair value	25	582,334	260,764
Accumulated losses		(4,066,316)	(16,082,932)
<b>Equity attributable to owners of the parent company</b>		<b>77,714,004</b>	<b>65,739,477</b>
<b>Non-controlling interests</b>	25	<b>17,128,546</b>	<b>18,618,349</b>
<b>Total equity</b>		<b>94,842,550</b>	<b>84,357,826</b>
<b>Total liabilities and equity</b>		<b>199,639,400</b>	<b>197,079,502</b>

**Loay Jassim Al-Kharafi**  
Chairman and Managing Director

### Consolidated Statement of Changes in Equity

	Equity attributable to owners of the parent company										Non-controlling interests	Total
	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Accumulated losses/retained earnings KD	Sub-total KD	Total KD		
<b>Balance as at 1 January 2010</b>	52,828,125	18,375,000	4,802,301	4,802,301	4,802,301	753,918	260,764	(16,082,932)	65,739,477	18,618,349	84,357,826	
Profit/(loss) for the year	-	-	-	-	-	-	-	12,016,616	12,016,616	(1,334,966)	10,681,650	
Other comprehensive income for the year	-	-	-	-	-	(363,659)	321,570	(42,089)	(154,837)	(196,926)		
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(363,659)	321,570	12,016,616	11,974,527	(1,489,803)	10,484,724	
<b>Balance as at 31 December 2010</b>	<b>52,828,125</b>	<b>18,375,000</b>	<b>4,802,301</b>	<b>4,802,301</b>	<b>4,802,301</b>	<b>390,259</b>	<b>582,334</b>	<b>(4,066,316)</b>	<b>77,714,004</b>	<b>17,128,546</b>	<b>94,842,550</b>	
	Equity attributable to owners of the parent company											
	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Accumulated losses/retained earnings KD	Sub-total KD	Non-controlling interests	Total KD	
<b>Balance as at 1 January 2009</b>	52,828,125	18,375,000	(11,035,307)	4,802,301	4,802,301	57,169	(1,200,003)	3,876,408	72,505,994	10,235,433	82,741,427	
Increase in non-controlling interests on partial disposal of subsidiary	-	-	-	-	-	-	-	-	-	6,829,117	6,829,117	
Increase in non-controlling interests due to acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	
Purchase of treasury shares	-	(1,081,291)	-	-	-	-	-	-	(1,081,291)	-	2,025,890	
Sale of treasury shares	-	12,116,598	-	-	-	-	-	-	12,116,598	-	(1,081,291)	
Loss on sale of treasury shares	-	-	-	-	-	-	-	(7,595,774)	(7,595,774)	-	12,116,598	
Transactions with owners	-	-	11,035,307	-	-	-	-	(7,595,774)	3,439,533	8,855,007	(7,595,774)	
Loss for the year	-	-	-	-	-	-	-	(12,363,566)	(12,363,566)	(450,053)	12,294,540	
Other comprehensive income for the year	-	-	-	-	-	696,749	1,460,767	-	2,157,516	(22,038)	2,135,478	
<b>Total comprehensive income for the year</b>	-	-	-	-	-	696,749	1,460,767	-	2,157,516	(22,038)	2,135,478	
<b>Balance as at 31 December 2009</b>	<b>52,828,125</b>	<b>18,375,000</b>	-	<b>4,802,301</b>	<b>4,802,301</b>	<b>753,918</b>	<b>260,764</b>	<b>(12,363,566)</b>	<b>696,749</b>	<b>1,460,767</b>	<b>(10,678,141)</b>	
	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Accumulated losses/retained earnings KD	Sub-total KD	Non-controlling interests	Total KD	
<b>Balance as at 31 December 2009</b>	52,828,125	18,375,000	-	4,802,301	4,802,301	753,918	260,764	(12,363,566)	696,749	1,460,767	(10,678,141)	
	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Accumulated losses/retained earnings KD	Sub-total KD	Non-controlling interests	Total KD	
<b>Balance as at 31 December 2009</b>	52,828,125	18,375,000	-	4,802,301	4,802,301	753,918	260,764	(12,363,566)	696,749	1,460,767	(10,678,141)	
	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Accumulated losses/retained earnings KD	Sub-total KD	Non-controlling interests	Total KD	
<b>Balance as at 31 December 2009</b>	52,828,125	18,375,000	-	4,802,301	4,802,301	753,918	260,764	(12,363,566)	696,749	1,460,767	(10,678,141)	

## Consolidated Statement of Cash Flows

	Note	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
<b>OPERATING ACTIVITIES</b>			
Profit/(loss) for the year		11,051,282	(12,813,619)
Adjustments for:			
Impairment of available for sale investments		3,996,543	3,683,006
Impairment of intangible assets		3,877,300	-
Impairment of other assets		658,525	-
(Profit)/loss on sale of investment properties		(106,913)	558,188
Change in fair value of investment properties		(5,468,909)	3,101,983
Realised loss/(gain) on sale of available for sale investments		96,846	285,000
Profit on sale of associates		(20,555,066)	-
Dividend income		(942,241)	(1,940,142)
Share of results of associates		(3,815,577)	(1,771,343)
Profit on partial disposal of subsidiary	7	-	(3,170,883)
Depreciation		194,796	151,380
Gain on sale of property and equipment		-	(500)
Reversal of provision		-	(861,000)
Provision for employees end of service benefits		106,025	198,381
Murabaha, sukuk & interest income		(867,541)	(854,625)
Finance costs		6,589,073	8,047,760
Foreign exchange gain on non operating assets and liabilities		(297,995)	-
		(5,483,852)	(5,386,414)
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		(12,462,677)	12,900,178
Accounts receivable and other assets		(983,206)	(4,460,020)
Accounts payable and other liabilities		4,021,476	(9,700,466)
Cash used in operations		(14,908,259)	(6,646,722)
Employee end of service benefits paid		(81,800)	(51,572)
Net cash used in operating activities		(14,990,059)	(6,698,294)
<b>INVESTING ACTIVITIES</b>			
Additions to available for sale investments		-	(734,062)
Proceeds from redemption of available for sale investments		1,557,062	1,752,652
Net change in murabaha and sukuk		628,697	1,554,854
Additions to property and equipment		(63,605)	(221,149)
Proceeds from sale of property, plant and equipment		-	90,899
Additions to investment properties		(1,968,597)	(1,192,594)
Proceeds from sale of investment properties		106,913	3,307,390
Addition to intangible asset		(314,626)	(345,542)
Additions to investment in associates		(397,557)	(1,785,933)
Proceeds from sale of shares in associate		38,908,497	-
Dividend received and return of capital from associates		564,888	1,170,272
Dividend income received		942,241	1,940,142
Murabah, sukuk and Interest income received		867,541	431,043
Increased in blocked deposits		(1,900,000)	-
Net cash from investing activities		38,931,454	5,967,972
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares		-	(1,081,291)
Proceeds from sale of treasury shares		-	4,520,824
Proceeds from loans and borrowings		7,238,705	3,041,258
Repayment of loans		(18,967,080)	(15,567,438)
Finance costs paid		(6,834,712)	(6,771,485)
Net cash used in financing activities		(18,563,087)	(15,858,132)
Net increase/(decrease) in cash and cash equivalents		5,378,308	(16,588,454)
Cash and cash equivalents at beginning of the year		11,800,687	28,389,141
Cash and cash equivalents at end of the year	13	17,178,995	11,800,687



## Notes to the Consolidated Financial Statements

31 December 2010

### 1 Incorporation and activities

Al Mal Investment Company – KSC (Closed), (“the parent company”), is a Kuwaiti closed shareholding company established on 2 January 1980 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The parent company is regulated by the Central Bank of Kuwait as an investment company and its shares are listed on the Kuwait Stock Exchange. The parent company and its subsidiaries (listed in note 6) are together referred as “the group”.

The principal objectives of the parent company are as follows:

- Investment in various economic sectors through participating in establishing specialised companies or purchasing securities or shares in those companies;
- Act as investment trustees and manage different investment portfolios for others; and
- Act as intermediary in borrowing operations in return for commission;

Further, the Parent Company has the right to participate and subscribe, in any way with other firms which operate in the same field or those which would assist in achieving its objectives in Kuwait and abroad and to purchase those firms or participate in their equity.

The address of the parent company’s registered office is PO Box 26308, Safat 13124, State of Kuwait.

The board of directors authorised these consolidated financial statements for issue on 6 April 2011. The general assembly of the Parent Company’s shareholders has the power to amend these consolidated financial statements after issuance.

### 2 Statement of compliance

These consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as modified by the State of Kuwait for financial services institutions regulated by Central Bank of Kuwait.

These regulations require adoption of all IFRS except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

### 3 Application of new and revised International Financial Reporting Standards (“IFRS”) and Interpretations (“IFRIC”)

#### *a). Standards and Interpretations affecting amounts reported and/or disclosures made in the current period (and/or prior periods)*

The Group has adopted the following new standards, revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group’s financial statements for the annual

## Notes to the Consolidated Financial Statements

31 December 2010

### 3 Application of new and revised International Financial Reporting Standards (“IFRS”) and Interpretations (“IFRIC”) (continued)

#### *a). Standards and Interpretations affecting amounts reported and/or disclosures made in the current period (and/or prior periods) (continued)*

period beginning on 1 January 2010. Certain other amendments to standards have been made and certain new standards and interpretations have been issued but they are not expected to have a material impact on the Group’s financial statements.

- IFRS 3 Business Combinations (Revised 2008)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008)
- IAS 28 Investments in Associates (Revised 2008)
- IFRIC 17 Distribution of Non Cash Assets to Owners
- Annual improvements 2009
- IFRS 3 Business Combinations (Revised 2008) and IAS 27 Consolidated and Separate Financial Statements (Revised 2008)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after 1 January 2010. Changes affect the valuation of non-controlling interests, 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 (Revised) 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. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well.

The changes by IFRS 3 (Revised) and IAS 27 (Revised) was applied prospectively but had no material impact on the current years reported results.

- IAS 28 Investment in Associates (Revised)

The revised standard introduces changes to the accounting requirements for the loss of significant influence of an associate and for changes in the Group’s interest in associates. Consequently, when significant influence is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in the consolidated statement of income. These changes were applied prospectively but had no impact on the current years reported results.

- IFRIC 17 Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)  
The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its owners. The interpretation has no effect on either, the financial position or performance of the Group.

- Annual Improvements 2009

The *Improvements to IFRSs 2009* made several minor amendments to IFRSs and have lead to a number of changes in the detail of the Group’s accounting policies and some of which are changes in terminology only - some of which are substantive but have no material effect on amounts reported.



## Notes to the Consolidated Financial Statements

31 December 2010

### 3 Application of new and revised International Financial Reporting Standards (“IFRS”) and Interpretations (“IFRIC”) (continued)

*b). Standard, amendments and Interpretations to existing standards that are not yet effective and have not been adopted early by the Group.*

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

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

- IFRS 9 Financial Instruments (effective from 1 January 2013)

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

Although early application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided during December 2009, to postpone this allowed early application until further notice.

Management has yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

- IAS 24 (Revised) “Related party disclosures” (effective for annual periods beginning from 1 January 2011)

The amendments to the standard revise the definition of related party. The adoption of this amendment is not expected to have a significant impact on the group’s financial statements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual period beginning 1 July 2010).

The Interpretation provides guidance on the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. The Interpretation is required to be applied retrospectively. However, management does not expect to have any significant effect on the group’s financial statements on the date of initial application of the interpretation.

- Annual Improvements 2010

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

## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2009 except for the adoption of the revised and new standards discussed in Note 3. The summary of the significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

#### **Basis of preparation**

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments at fair value through profit or loss, available for sale financial assets and investment properties.

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

The consolidated financial statements have been presented in Kuwaiti Dinars which is the parent company's functional and presentation currency.

#### **Basis of consolidation**

##### **Basis of consolidation from 1 January 2010**

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2010, and the financial statements of its subsidiaries prepared to that date, using consistent accounting policies. Subsidiaries are those enterprises controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The details of the significant consolidated subsidiaries are set out in Note 6 to the consolidated financial statements.

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 consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any significant intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in full.

Non – controlling interests represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the equity attributable to the shareholders of the parent company. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences, recorded in equity



## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### Basis of consolidation (continued)

##### Basis of consolidation from 1 January 2010 (continued)

- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

##### Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interests had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 has not been restated

#### Business combinations and goodwill

##### 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 interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. 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 circumstance 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 as at the acquisition date through profit or loss.

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 asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as 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.

## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### **Business combinations and goodwill (continued)**

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests 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 profit or loss.

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.

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 of the above mentioned requirements, the following difference 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 interests (formerly known as minority interest) were 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.

#### **Recognition of income**

Income is recognised to the extent that it is probable that the economic benefits will flow to the group and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

##### *Dividend income*

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



## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### Recognition of income (continued)

##### *Murabaha and sukuk income and Interest income*

Murabaha, Sukuk and interest income are recognised on a time proportion basis using the effective interest method.

##### *Fee income*

Management fees relating to portfolio management services and other fee income are recognised as revenue as the services are provided.

##### *Revenue from sale of investment property*

Revenue from sale of investment property is recognised on the completion of the sale contract and after transferring the risk and rewards associated with the real estate to the purchaser and the amount of revenue can be reliably measured.

##### *Rental income*

Rental income is recognised on an accrual basis.

##### *Communication services income (from Tarasul Telecom)*

Tarasul Telecom service's income are recorded when services are rendered.

#### Finance costs

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

Finance costs that are directly attributable to the acquisition and construction 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 that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

#### Kuwait Foundation for Advancement of Sciences (KFAS)

The Group calculates the contribution to Kuwait foundation for the Advancement of Sciences in accordance with the modified calculation based on the foundation's Board of directors resolution, which states that income from Kuwaiti shareholding associates and subsidiaries, Board of Directors' remuneration, transfers to statutory reserve should be excluded from profit for the year when determining the contribution.

During the year contribution to KFAS has not been calculated as there are carried forward accumulated losses.

#### National Labour Support Tax

The group is required to contribute to the National Labour Support Tax ("NLST"). The group's contribution to NLST is recognised as an expense and is calculated in accordance with Ministry of Finance resolution No. 24/2008, law number 19/2000.

## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### **Zakat**

The group is required to contribute to Zakat. The group's contribution to Zakat is recognised as an expense and is calculated in accordance with Ministry of Finance resolution No. 58/2007 and 46/2006.

#### **Financial assets**

##### *Classification*

The group classifies financial assets upon initial recognition into the following categories:

- i. Investments at fair value through profit or loss
- ii. Receivables
- iii. Available for sale investments

Investments at fair value through profit or loss are either "held for trading" or "designated" as such on initial recognition.

The group classifies investments as trading if they are acquired principally for the purpose of selling or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Investments are classified as designated at fair value through profit or loss at inception if they have readily available reliable fair values and the changes in fair values are reported as part of the statement of income in the management accounts, according to the managements investment strategy.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The group's receivables are classified under "accounts receivable and other assets", "short term deposits", "investment in sukuk" and "cash and cash equivalents" in the consolidated statement of financial position.

Financial assets which are not classified as above are classified as available for sale investments.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of these financial instruments at initial recognition.

##### *Measurement*

###### *Investments at fair value through profit or loss*

Investments at fair value through profit or loss are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs.

Subsequent to initial recognition, investments at fair value through statement of income are re-measured at fair value unless fair value cannot be reliably measured, in which case they are measured at cost less impairment, if any. Changes in fair value are recognised in the consolidated statement of income.

###### *Receivables*

Receivables are stated at amortised cost using the effective interest method.



## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### *Measurement (continued)*

##### *Available for sale investments*

Available for sale investments are initially recognised at cost, being the fair value of the consideration given, plus transaction costs that are directly attributable to the acquisition.

Subsequent to initial recognition, available for sale investments are re-measured at fair value unless fair value cannot be reliably measured, in which case they are measured at cost less impairment, if any.

Changes in fair value of available for sale investments are recognised as other comprehensive income in the "Cumulative changes in fair value" reserve account until the investment is either derecognised or determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated statement of income.

##### *Fair values*

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

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants.

#### **Financial liabilities**

Except for derivatives all other financial liabilities are classified as "non trading financial liabilities". The group's non trading financial liabilities are classified under "accounts payable and other liabilities", "borrowings" and "bonds payable" in the consolidated statement of financial position.

##### *Borrowings and bonds payable*

Borrowings and bonds payable are initially stated at their principal amount net of transaction cost incurred. Borrowings are subsequently measure at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

All other non-trading financial liabilities are stated at amortised cost using the effective interest method.

#### **Derivative financial instruments**

The group uses derivative financial instruments, such as interest rate swaps to mitigate its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at cost, being the fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using valuation quotes provided by financial institutions, based on prevailing market information. Derivatives are carried as trading financial assets when the fair value is positive and as trading financial liabilities when the fair value is negative. The group does not adopt hedge accounting, and any realised and unrealised (from changes in fair value) gain or losses are recognised directly in the consolidated statement of income.

## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument.

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

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of income.

#### Trade and settlement date accounting

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

#### Investment in associates

An associate is a company over which the Group has significant influence usually evidenced by holding of 20% to 50% of the voting power of the investee company. The consolidated financial statements include the Group's share of the associates' results using the equity method of accounting. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The share of results of an associate is shown on the face of the consolidated statements of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.



## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### Investment in associates (continued)

The financial statements of the associates are prepared either to the reporting date of the Group or to a date not earlier than three months of the Group's reporting date. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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 associate. 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 'share of results of associate' in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining 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 retaining investment and proceeds from disposal is recognised in profit or loss.

#### Investment properties

Investment properties are initially recorded at cost, being the purchase price and any directly attributable expenditure for a purchased investment property and cost at the date when construction or development is complete for a self-constructed investment property. Subsequent to initial recognition, investment properties (including investments properties under development) are re-measured at fair value on an individual basis based on valuations by independent real estate valuers. Changes in fair value are taken to the consolidated statement of income.

Investment properties are de-recognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

#### Impairment of financial assets

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

- a. For financial assets carried at fair value, impairment is the difference between cost and fair value; and
- b. For financial assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- c. For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### Impairment of financial assets (continued)

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision (1% for cash facilities and 0.5% for non-cash facilities) is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

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

#### Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. The group depreciates its property and equipment using the straight-line method at rates sufficient to write off the assets over their estimated useful economic lives.

#### Intangible assets

##### *Intangible assets acquired separately*

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

##### *Internally-generated intangible assets – research and development expenditure*

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.



## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### Intangible assets (continued)

##### *Internally-generated intangible assets – research and development expenditure (continued)*

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

#### Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the consolidated statement of income. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

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

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating units to which goodwill has been allocated, an impairment loss is recognised immediately in consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The group performs its annual impairment test of goodwill as at 31 December.

#### Treasury shares

The parent company's holding in its own shares is accounted for as treasury shares. Such shares are stated at cost as a deduction within equity and no cash dividends are distributed on these shares. The issue of bonus shares increase the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### Treasury shares (continued)

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

#### Provisions

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

#### Employees' end of service indemnity

End of service indemnity is calculated on the basis of accumulated periods of service of employees as at the financial position date in accordance with the Kuwait labour law for the private sector.

#### Fiduciary assets

Assets held in a trust or fiduciary capacity are not treated as assets of the group and, accordingly, they are not included in these consolidated financial statements.

#### Foreign currencies

##### *Functional and presentation currency*

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

##### *Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation difference on non-monetary asset classified as, "fair value through statement of income" are reported as part of the fair value gain or loss in the statement of income and "available for sale" are reported as part of the cumulative change in fair value reserve, in other comprehensive income.

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



## Notes to the Consolidated Financial Statements

31 December 2010

### 4 Summary of significant accounting policies (continued)

#### Foreign currencies (continued)

##### *Group companies*

As at the reporting date, the assets and liabilities of foreign subsidiaries, and the carrying values of foreign associates, are translated into the Group's presentation currency (the Kuwaiti Dinar) at the rate of exchange ruling at the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are recognised as other comprehensive income in the "foreign currency translation reserve". On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to the particular foreign operation is recognised in the consolidated statement of income.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, cash balances with portfolio managers, and short-term deposits maturing within three months from the date of inception. Cash and cash equivalents for the purpose of cash flow statement are presented net of balances due to banks and blocked deposits.

#### Contingencies

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

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

### 5 Critical accounting judgements and key sources of estimation uncertainty

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

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

#### Judgements

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

## Notes to the Consolidated Financial Statements

31 December 2010

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

#### Judgements (continued)

##### *Classification of financial assets*

Management decides on acquisition of an investment whether it should be classified as held for trading, designated at fair value through profit or loss, receivables or available for sale. In making that judgement the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgement determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the statement of income or other comprehensive income.

##### *Classification of real estate property*

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

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

The group classifies property as property under development if it is acquired with the intention of being developed for owner use or if it is being developed with the intention of selling it.

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

##### *Impairment of available for sale investments*

The group treats certain financial assets as available for sale and recognise movement in their fair value in equity. The group considers 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 judgement. In addition, the group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. During the year ended 31 December 2010 impairment losses recognised for available for sale investments amounted to KD3,996,543 (2009: KD3,683,006).

##### *Impairment of receivables*

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



## Notes to the Consolidated Financial Statements

31 December 2010

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

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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:

#### *Valuation of unquoted equity investments*

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

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

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

#### *Revaluation of investment properties*

The Group carries its investment properties at fair value, with changes in fair value being recognised in the statement of income. The Group engaged independent valuation specialists to determine fair value as at 31 December 2010 and the valuers have used valuation techniques to arrive at these fair values.

#### *Estimation of impairment of intangible assets and their useful lives*

The Group's management tests annually whether intangible assets have suffered impairment in accordance with the accounting policies stated in note 4 above. During the year the Group's management reconsidered the recoverability of the Group's intangible assets amounting to KD3,877,300 and has fully impaired the asset (see note 20).

## Notes to the Consolidated Financial Statements

31 December 2010

### 6 Subsidiaries

The significant subsidiaries which are directly owned by the parent company and consolidated to the group are as follows:

Name of the subsidiary	Place of incorporation	Percentage ownership		Principal activity
		2010	2009	
Tarasul Telecom Co. K.S.C.(Closed)	Kuwait	96.69%	96.69%	Communication services
Diyar Al-Kuwait Real Estate Company – KSC (Closed)	Kuwait	60.25%	60.25%	Real estate development
Al Mal International for Project Management Co.- WLL	Kuwait	80.00%	80.00%	Real estate project management
Al Mal Qatari Holding Company – KSC (Closed)	Kuwait	100%	100%	Real estate project management
United Investment Company SAL	Lebanon	97.00%	97.00%	Investment activities
Safe Hands Holding Co. – BSC (Closed)	Bahrain	60.72%	60.72%	Health care
Saudi Al Mal Co. – WLL	Kingdom of Saudi Arabia	100%	100%	Investment activities

### 7 Profit on partial disposal of subsidiary

During the previous year, the group sold 10% out of its 76.56% owned subsidiary First Diyar Real Estate Company – KSC (Closed) [a subsidiary of Al Mal Qatari Holding Company – KSC (Closed)] to a related party for a consideration of KD10,000,000 resulting in a profit of KD3,170,883. The sale consideration was settled by way of setting it off against the balance due to the same related party.

### 8 Net income from communication services

	2010 KD	2009 KD
Subscription, activation and installation income	1,214,915	904,272
Hardware and software sales and project income	103,678	336,870
	<b>1,318,593</b>	<b>1,241,142</b>
Direct operating costs	(1,206,030)	(958,257)
	<b>112,563</b>	<b>282,885</b>



## Notes to the Consolidated Financial Statements

31 December 2010

### 9 Management fees and other income

	2010 KD	2009 KD
Management and consultancy fees	1,531,048	789,074
Rent income	367,358	331,888
Other income	77,341	90,880
	<b>1,975,747</b>	<b>1,211,842</b>

### 10 Net loss or gain on financial assets

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

	2010 KD	2009 KD
Receivables		
- bank balances and short term deposits	261,139	128,943
- Investment in sukuk	606,402	725,682
- Impairment of receivables and other assets	(2,997,172)	-
Assets at fair value through profit or loss:		
- held for trading	87,039	(1,935,826)
- designated as such on initial recognition	(942,857)	(569,643)
Available for sale investments:		
- recognised directly in other comprehensive income (including minority share)	325,096	1,429,382
- recycled from other comprehensive income to consolidated statement of income		
• On impairment	(3,996,543)	(3,683,006)
• On disposal	52,909	(111,822)
- recognised directly in consolidated statement of income	792,486	1,766,964
	<b>(5,811,501)</b>	<b>(2,249,326)</b>
Net loss recognised in the consolidated statement of income	<b>(6,136,597)</b>	<b>(3,678,708)</b>
Net gain recognised in other comprehensive income	<b>325,096</b>	<b>1,429,382</b>
	<b>(5,811,501)</b>	<b>(2,249,326)</b>

### 11 Finance costs

Finance costs relates mainly to borrowings and bonds payable. All these financial liabilities are stated at amortised cost.

## Notes to the Consolidated Financial Statements

31 December 2010

### 12 Basic and diluted earnings/(loss) per share

Earnings/(loss) per share is calculated by dividing the profit/(loss) for the year attributable to the owners of the parent company by the weighted average number of ordinary shares outstanding during the year as follows:

	2010	2009
Profit/(loss) for the year attributable to the owners of the parent company (KD)	12,016,616	(12,363,566)
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	528,281,250	513,181,666
Basic and diluted earnings/(loss) per share (Fils)	22.75	(24.09)

### 13 Cash and cash equivalents

	2010 KD	2009 KD
Cash and bank balances	9,836,903	5,506,123
Short term deposits	4,954,709	6,260,657
Cash balances with portfolio managers	4,287,383	33,907
Cash and cash equivalent as per consolidated statement of financial position	19,078,995	11,800,687
Less: Blocked deposits *	(1,900,000)	-
<b>Cash and cash equivalents as per consolidated statement of cash flow</b>	<b>17,178,995</b>	<b>11,800,687</b>

\* Short term deposits of KD1,900,000 related to a subsidiary company are pledged against islamic debt instruments of the same subsidiary.

Short term deposits carry an average effective interest rate of 1.32% (2009: 2.17%).

### 14 Investments at fair value through profit or loss

	2010 KD	2009 KD
<b>Held for trading:</b>		
Quoted shares	66,375	9,470
<b>Designated on initial recognition:</b>		
Quoted shares	-	1,216
Managed portfolios and funds	13,457,173	107,592
Unquoted shares	1,621,977	2,564,571
	15,079,150	2,673,379
	15,145,525	2,682,849



## Notes to the Consolidated Financial Statements

31 December 2010

### 15 Accounts receivable and other assets

	2010 KD	2009 KD
<b>Financial assets</b>		
Advance payment to purchase investments (a)	14,158,655	15,921,931
Refundable development expenses (b)	12,469,189	8,045,497
Due from related parties (net of provision) (d)	7,273,868	9,911,062
Trade receivables	1,137,366	1,096,979
Accrued income	331,665	423,582
Other assets	106,149	150,166
	<b>35,476,892</b>	<b>35,549,217</b>

- a. Advance payment to purchase investments includes an amount of KD12,985,776 (31 December 2009: KD13,272,295) paid for the infrastructure of a telecommunication project in Iraq and for which a new Iraqi company is being established to own this company and to determine the eventual share of the group in its capital.
- b. Refundable development expenses represent development cost incurred to develop an economic city in the Kingdom of Saudi Arabia jointly with the Saudi authorities. The parent company is the main developer for this project. A new shareholding company is being incorporated in Saudi Arabia to own and manage this project. The legal formalities are currently in process to establish that Saudi shareholding company. As per the agreement, with Saudi authority on incorporation of the Saudi shareholding company the total expenses incurred for the project will be re-reimbursed to the group.
- c. During the year the Group's management decided to discontinue certain projects in process and consequently recognised an impairment loss of KD658,525 against these projects which were classified under account receivable and other assets.
- d. The management has made 25% provision amounting to KD2,338,647 on a balance due from a related party (see note 27).

### 16 Available for sale investments

	2010 KD	2009 KD
Investments in unquoted shares	13,326,400	16,564,462
Investments in private equity funds	8,546,697	9,973,789
Investments in direct equity funds	3,479,889	4,191,661
Investments in portfolios managed by others	1,202,650	1,210,638
	<b>26,555,636</b>	<b>31,940,550</b>

16.1 Available for sale investments include investments of KD6,207,259 (31 December 2009: KD8,035,850), carried at cost less impairment, if any, due to the unpredictable nature of future cash flows and the unavailability of financial information to arrive at a reliable measure of fair value. The group's management believes that the available information for those investments has not indicated any impairment/further impairment in value.

16.2 During the period, the group recognised an impairment loss of KD3,996,543 for certain local and other foreign unquoted investments (2009 KD3,683,006), based on estimates made by management and the net asset values reported by investment managers at the reporting date.

## Notes to the Consolidated Financial Statements

31 December 2010

### 17 Investment in Sukuk

This represents investment by a subsidiary in convertible Sukuk issued by a foreign real estate institution maturing during the years 2011 and 2013 and it carries profit at the rate of 9% per annum (2009: 9%), payable quarterly.

### 18 Investment in associates

Company name	Ownership %	2010 KD	Ownership %	2009 KD
Safwan Trading and Contracting Co. – KSC (Closed) Kuwait	-	-	47.37	7,559,890
Ikarus Real Estate Co. – KSC (Closed) - Kuwait	25.00	583,779	25.00	582,216
Petroleum Coke Industries Co. – KSC (Closed) - Kuwait	-	-	40.82	7,551,828
Mac S.A. Incorporation Co. (Closed) - Tunisia	47.93	482,671	47.93	292,688
Falcon Aviation Group Limited- British Virgin island	20.00	4,094,639	20.00	4,127,442
United Insurance Co. (Closed) - Syria	18.39	1,101,011	18.39	1,149,169
Mazaya Gateway Co. F.Z.C. – United Arab Emirates	25.00	292,262	25.00	203,657
Al Mustathmer Al Watani - Libya	35.00	388,039	-	-
		<b>6,942,401</b>		<b>21,466,890</b>

18.1 The United Insurance Co. – Syria has been classified as investment in associate, as the group exercises significant influence over the operating and financial policies of this associate through representation in the board of directors of this company.

18.2 The group has recorded its share in United Insurance based on 30 September 2010 unaudited reviewed financial information. Except for Mazaya Gateway Co. F.Z.C, all other associates companies results have been recorded based on the latest available management accounts.

18.3 During the year, the group invested an amount of KD397,557 to acquire 35% of Al Mustathmer Al-Watani Libya. The associate's principal activity is financial brokerage.

18.4 During the Three month ended 30 September 2010 the group disposed 99.35% of its 47.37% holding in Safwan Trading and Contracting Company – KSC (Closed), an associate, for a consideration of K.D7,559,500 resulting in a profit of KD16,026. The remaining investment in the former associate amounting to KD48,647 (0.65%) has been transferred to investment at fair value through profit or loss.

18.5 During the three month ended 31 December 2010 the group disposed its holding in Petroleum Coke Industries Company – KSC (Closed), an associate, for a consideration of K.D31,348,997 resulting in a profit of KD20,539,040.

<i>Aggregate share of associates' assets and liabilities:</i>	2010 KD	2009 KD
Assets	12,467,092	42,454,040
Liabilities	(6,806,730)	(27,401,485)
Equity	5,660,362	15,052,555

Investment in associates include goodwill of KD1,282,039 (2009: KD6,414,335).



## Notes to the Consolidated Financial Statements

31 December 2010

### 18 Investment in associates (continued)

	2010 KD	2009 KD
<i>Aggregate share of associates' revenue and profit / (loss):</i>		
Revenue	6,377,618	5,268,947
Profit/(loss)	3,815,577	1,771,343

The fair value of investment in associates at 31 December 2010 could not be reliably measured as the associates are unquoted and they do not have published quoted prices.

### 19 Investment properties

	2010 KD	2009 KD
Investment properties	8,947,445	7,303,638
Land and properties under development	80,149,031	74,669,631
	<b>89,096,476</b>	<b>81,973,269</b>

The movement for investment properties is as follows:

	2010 KD	2009 KD
Balance as of 1 January	81,973,269	87,708,686
Disposals during the year	-	(4,223,176)
Additions during the year	1,968,597	1,550,191
Change in fair value	5,468,909	(3,101,983)
Foreign currency translation adjustment arising on consolidation	(314,299)	39,551
	<b>89,096,476</b>	<b>81,973,269</b>

The fair market value of the properties have been determined based on values obtained by independent valuers.

During the year, the group sold certain investment properties located in Iraq, which were fully impaired for in previous years, for a consideration of KD106,913 resulting in a profit of the same amount being recognised in the statement of income.

Investment properties with a carrying value of KD5,637,945 of a local subsidiary are pledged against Islamic debt instruments of the same subsidiary.

The above properties are located in GCC and other Middle Eastern countries.

## Notes to the Consolidated Financial Statements

31 December 2010

### 20 Intangible asset

	2010 KD	2009 KD
Model Hospitals project:		
- Intangible asset acquired separately	-	2,297,600
- Internally generated intangible asset	-	1,265,074
	-	3,562,674
The movement in intangible asset is as follows:		
At the beginning of the year	3,562,674	-
On acquisition of subsidiary	-	3,217,132
Additions	314,626	345,542
Impairment of intangible assets	(3,877,300)	-
<b>At the end of the year</b>	<b>-</b>	<b>3,562,674</b>

Intangible asset has arisen on consolidation of a subsidiary. It represents cost of acquisition incurred by the subsidiary of a model hospitals project and subsequent development cost related to the project. The total costs incurred mainly consists of payments made in relation to acquiring/executing the royalty, idea, business plan agreements and also includes expenditures incurred for developing the project.

The project was classified as intangible asset as it creates one standard model of hospital which is customized to meet different requirements of GCC countries.

During the year the Group's management has assessed the recoverability of the intangible asset, and due to uncertainties regarding the completion of the project and its ability to generate revenue, the management concluded to fully impair the intangible asset balance at the reporting date.

### 21 Accounts payables and other liabilities

	2010 KD	2009 KD
<b>Financial liabilities</b>		
Payables on purchase of investment properties*	12,111,435	13,908,480
Due to related parties (Note 27)	3,181,456	324,320
Accrued expenses	592,408	726,760
Accrued finance costs	1,030,636	1,276,275
Trade payable	3,244,500	2,246,636
Payable to contractors	1,325,785	-
Other credit balances	1,106,433	412,658
	22,592,653	18,895,129

Other credit balances includes the fair value of a liability related to a derivative contract amounting to KD Nil ( 2009: KD132,240) (refer note 31).



## Notes to the Consolidated Financial Statements

31 December 2010

### 21 Accounts payables and other liabilities (continued)

\* Payables on purchase of investment properties mature in instalments, and the maturity analysis is as follows:

	2010 KD	2009 KD
Less than 1 year	10,582,777	6,281,308
More than one year	1,528,658	7,627,172
	<b>12,111,435</b>	<b>13,908,480</b>

### 22 Borrowings

	2010 KD	2009 KD
Loans	29,818,953	44,801,388
Islamic debt instruments	18,610,428	15,356,368
	<b>48,429,381</b>	<b>60,157,756</b>

22.1 The following is the maturity analysis of loans and Islamic debt instruments:

	2010 KD	2009 KD
Less than 1 year	18,818,953	42,094,395
From 1 year to 5 years	29,610,428	18,063,361
	<b>48,429,381</b>	<b>60,157,756</b>

22.2 Loans and facilities have been granted to the parent company based on negative pledges on the parent company's assets.

22.3 Investment properties and term deposits of a local subsidiary are pledged against Islamic debt instruments of KD 8,645,501 related to that subsidiary (note 13 and 19).

22.4 The effective average interest rate of loans is 6.5% (2009: 6.5%).

22.5 The effective cost rate of the Islamic debt instruments is 7.46% (2009: 7%)

## Notes to the Consolidated Financial Statements

31 December 2010

### 23 Bonds payable

During October 2007, the parent company entered into an agreement to issue unsecured fixed rate bonds of KD 10,000,000 and floating rate bonds of KD3,320,000 at an issue price of 100% of their principal amount. The bonds were to mature on 2 October 2010, however on 23 September 2010 the maturity of the bonds were extended by the bond holders to 2 October 2012. The bonds bear fixed interest rate at 8.875% per annum and the floating bonds bear floating interest rate at 5.5% over the Central Bank of Kuwait discount rate. Interest is payable semi-annually in arrears.

On 5 April 2005, the parent company issued unsecured bonds of KD20,000,000 at an issue price of 100% of their principal amount. The bonds were to mature on 5 April 2010, however on 29 March 2010 the maturity of the bonds were extended by the bond holders to 5 April 2011. The bonds bear fixed interest rate at 8.375% per annum. Interest is payable semi-annually in arrears.

### 24 Share capital

The authorised, issued and paid up capital of the parent company amounts to KD52,828,125 distributed over 528,281,250 shares of 100 fils par value each as of 31 December 2010 and 2009.

### 25 Reserves and non-controlling interests

		2010 KD	2009 KD
Share premium	25.1	18,375,000	18,375,000
Statutory reserve	25.2	4,802,301	4,802,301
Voluntary reserve	25.3	4,802,301	4,802,301
Foreign currency translation reserve	25.4	390,259	753,918
Cumulative changes in fair value	25.5	582,334	260,764
<b>Non-controlling interests</b>	<b>25.6</b>	<b>17,128,546</b>	<b>18,618,349</b>

#### 25.1 Share premium

Share premium is not available for distribution, except as stipulated by Commercial Companies Law.

#### 25.2 Statutory reserve

In accordance with the Commercial Companies Law and the Parent Company's articles of association, 10% of the profit attributable to shareholders of the Parent Company before contribution to KFAS, Zakat provision, NLST provision and directors' remuneration is to be transferred to statutory reserve. No transfer is required in a year when losses are made or where cumulative losses exist. The Parent Company may resolve to discontinue such annual transfer when the reserve equals or exceeds 50% of the paid-up share capital.

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



## Notes to the Consolidated Financial Statements

31 December 2010

### 25 Reserves and non-controlling interests (continued)

#### 25.3 Voluntary reserve

In accordance with the Parent Company's articles of association, 10% of the profit attributable to shareholders of the Parent Company before contribution to KFAS, Zakat provision, NLST provision and directors' remuneration is to be transferred to voluntary reserve. The Parent Company may resolve to discontinue such transfers by a resolution of the Parent Company's board of directors. There are no restrictions on distribution of voluntary reserve. No transfer is required in a year when losses are made or when cumulative losses exist.

#### 25.4 Foreign currency translation reserve

	2010 KD	2009 KD
Balance at 1 January	753,918	57,169
Exchange differences arising on translation of foreign operations	(650,494)	661,918
Groups share of associates foreign currency translation reserve	286,835	34,831
<b>Balance at 31 December</b>	<b>390,259</b>	<b>753,918</b>

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Currency Units) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

#### 25.5 Cumulative changes in fair value

	2010 KD	2009 KD
Balance at 1 January	260,764	(1,200,003)
Net change in fair value arising during the year	(3,622,064)	(2,334,061)
Transferred to statement of income on sale of investments	(52,909)	111,822
Transferred to statement of income on impairment	3,996,543	3,683,006
<b>Balance at 31 December</b>	<b>582,334</b>	<b>260,764</b>

The reserve represents accumulated gains and losses arising from changes in fair value of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

#### 25.6 Non-controlling interests

	2010 KD	2009 KD
Balance at 1 January	18,618,349	10,235,433
Increase in non-controlling interests on partial disposal of subsidiary	-	6,829,117
Increase in non-controlling interests due to acquisition of new subsidiary	-	2,025,890
Loss for the year	(1,334,966)	(450,053)
Non controlling interest portion of subsidiaries cumulative change in fair value	3,526	(31,385)
Exchange differences arising on translation of foreign operations	(158,363)	9,347
<b>Balance at 31 December</b>	<b>17,128,546</b>	<b>18,618,349</b>

## Notes to the Consolidated Financial Statements

31 December 2010

### 26 Segmental information

The group activities are concentrated in three main segments: real estate, investment and finance. The segments' results are reported to the higher management in the group. In addition, the segments results, assets and liabilities are reported based on the geographic locations which the group operates in.

26.1 The following is the segments information, which conforms with the internal reporting presented to management:

	2010				
	Real estate KD	Investments KD	Financing KD	Unallocated KD	Total KD
Net income	5,575,823	24,360,220	682,554	2,273,296	32,891,893
Expenses and other charges	(130,349)	(8,532,368)	(6,589,073)	(6,588,821)	(21,840,611)
Profit/(loss) for the year before provision for NLST & zakat	5,445,474	15,827,852	(5,906,519)	(4,315,525)	11,051,282
Assets	89,096,476	75,177,767	11,132,446	24,232,711	199,639,400
Liabilities	(12,111,435)	-	(81,749,381)	(10,936,034)	(104,796,850)
Net assets	76,985,041	75,177,767	(70,616,935)	13,296,677	94,842,550
Sukuk and interest income	-	-	867,541	-	867,541
Interest expense	-	-	(6,589,073)	-	(6,589,073)
Capital expenditure					
Impairment in value of investments	-	(3,996,543)	-	-	(3,996,543)
Impairment of intangible assets	-	(3,877,300)	-	-	(3,877,300)
Impairment of receivables and other assets	-	(658,525)	-	(2,338,647)	(2,997,172)
	2009				
	Real estate KD	Investments KD	Financing KD	Unallocated KD	Total KD
Net income	(3,328,283)	4,946,525	-	2,023,838	3,642,080
Expenses and other charges	-	(3,683,006)	(8,047,760)	(4,724,933)	(16,455,699)
(Loss)/profit for the year	(3,328,283)	1,263,519	(8,047,760)	(2,701,095)	(12,813,619)
Assets	81,973,269	78,840,884	25,899,620	10,365,729	197,079,502
Liabilities	(13,908,480)	-	(95,078,352)	(3,734,844)	(112,721,676)
Net assets	68,064,789	78,840,884	(69,178,732)	6,630,885	84,357,826
Sukuk and interest income	-	-	854,625	-	854,625
Interest expense	-	-	(8,047,760)	-	(8,047,760)
Capital expenditure	-	15,026,460	-	-	15,026,460
Impairment in value of investments	-	3,683,006	-	-	3,683,006
Reversal of provision	-	861,000	-	-	861,000



## Notes to the Consolidated Financial Statements

31 December 2010

### 26 Segmental information (continued)

26.2 The geographical analysis is as follows:

	2010		
	Domestic KD	International KD	Total KD
Total income	25,801,992	7,089,901	32,891,893
Profit for the year before provision for NLST and Zakat	2,979,269	8,072,013	11,051,282
Total assets	35,020,029	164,619,371	199,639,400
Total liabilities	(89,497,881)	(15,298,969)	(104,796,850)
Net assets	(54,477,852)	149,320,402	94,842,550

	2009		
	Domestic KD	International KD	Total KD
Total income	6,875,224	(3,233,144)	3,642,080
(Loss)/profit for the year	(5,835,697)	(6,977,922)	(12,813,619)
Total assets	42,046,515	155,032,987	197,079,502
Total liabilities	(86,636,433)	(26,085,243)	(112,721,676)
Net assets	(44,589,918)	128,947,744	84,357,826

## Notes to the Consolidated Financial Statements

31 December 2010

### 27 Related party transactions

Related parties represent associates, directors and key management personnel of the group, and other related parties such as major shareholders and companies in which directors and key management personnel of the group are principal owners or over which they are able to exercise significant influence or joint control.

Significant transactions and balances with related parties included in the consolidated financial statements are as follows:

	2010 KD	2009 KD
<b>Balances in the consolidated statement of financial position:</b>		
Due from related parties (see note 15)*	7,273,868	9,911,062
Due to related parties (see note 21)	3,181,456	324,320
Due to related parties included in trade payables (note 21)	1,643,634	-

During the year the group received interest free advances of KD2,750,000 from related parties with no specific repayment terms.

\* Due from related parties include an advance of KD7,015,943 (net of provision) for increase in share capital of Mazaya Gateway an associate company (2009: KD9,649,597) (refer note 15d).

	Year ended 31 Dec. 2010 KD	Year ended 31 Dec. 2009 KD
<b>Transactions included in the consolidated statement of income:</b>		
Profit on partial disposal of subsidiary	-	3,170,883
Management fees and other income	1,278,788	500,000
Provision for impairment of receivables*(refer note 15d)	2,338,647	-
<b>Key management compensation:</b>		
Short term benefits	739,339	504,952
Employees end of service indemnity	17,279	23,926

Pricing policies and the terms of these transactions are approved by the Group's management.

Transactions with related parties are subject to approval of the shareholders at the general assembly meeting.



## Notes to the Consolidated Financial Statements

31 December 2010

### 28 Arbitration claim against the parent company

During 2008 one of the shareholders of an associate company filed an arbitration claim against the shareholders of that associate, one of which is the parent company. The subject of the petition is a claim of the loss incurred by this shareholder as a result of the non compliance of the agreement signed among the shareholders in terms of the subscription in the capital of the associate. Accordingly, in 2008 the parent company has provided a provision for the probable loss from this case for an amount of USD 2,000,000.

During the year 2009 the claimant withdrew his claim against the parent company. Accordingly the parent company's legal advisors and the arbitration tribunal has stated that the parent company will no longer be participating in the arbitration proceedings. Consequently the parent company's management believed that the above mentioned provision of KD861,000 was no longer required and it was reversed and recognised as an income in the consolidated statement of income for the year ended 31 December 2009.

### 29 Financial assets and liabilities

#### 29.1 Categories of financial assets and liabilities

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

	2010 KD	2009 KD
<b>Receivables:</b>		
• Cash and cash equivalents	19,078,995	11,800,687
• Accounts receivable and other assets	35,476,892	35,549,217
• Investments in sukuk	6,177,737	6,806,434
Investments at fair value through profit or loss		
• Held for trading	66,375	9,470
• Designated on initial recognition	15,079,150	2,673,379
Available for sale investments	26,555,636	31,940,550
	<b>102,434,785</b>	<b>88,779,737</b>
<b>Other financial liabilities:</b>		
• Accounts payable and other liabilities	22,592,653	18,895,129
• Borrowings	48,429,381	60,157,756
• Bonds payable	33,320,000	33,320,000
	<b>104,342,034</b>	<b>112,372,885</b>

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the parent company's management, except for certain available for sale investments which are carried at cost less impairment for reasons specified in Note 16, the carrying amounts of financial assets and liabilities as at 31 December 2010 and 2009 approximate their fair values.

## Notes to the Consolidated Financial Statements

31 December 2010

### 29 Financial assets and liabilities (continued)

#### 29.2 Fair value hierarchy for financial instruments measured at fair value

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

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

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

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

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

31 December 2010	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total Balance KD
<b>Assets at fair value</b>					
Investment at fair value through profit or loss					
- Quoted shares	a	66,375	-	-	66,375
- Managed portfolios and funds (International)	b	-	13,314,561	142,612	13,457,173
- Unquoted shares	c	-	825,263	796,714	1,621,977
Available for sale investments					
- Unquoted shares	c	-	623,824	6,786,484	7,410,308
- Private equity funds	d	-	-	8,546,697	8,546,697
- Direct equity funds	d	-	499,625	2,980,265	3,479,890
- Portfolios managed by others	e	-	911,483	-	911,483
<b>Total assets</b>		<b>66,375</b>	<b>16,174,756</b>	<b>19,252,772</b>	<b>35,493,903</b>



## Notes to the Consolidated Financial Statements

31 December 2010

### 29 Financial assets and liabilities (continued)

#### 29.2 Fair value hierarchy for financial instruments measured at fair value (continued)

31 December 2009	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total Balance KD
<b>Assets at fair value</b>					
Investment at fair value through profit or loss					
- Quoted shares	a	9,470	-	-	9,470
- Managed portfolios and funds (International)	b	-	107,592	-	107,592
- Unquoted shares	c	-	1,769,073	796,714	2,565,787
Available for sale investments					
- Unquoted shares	c	-	1,709,864	7,124,746	8,834,610
- Private equity funds	d	-	-	9,973,789	9,973,789
- Direct equity funds	d	-	4,191,661	-	4,191,661
- Portfolios managed by others	e	-	904,638	-	904,638
<b>Total assets</b>		<b>9,470</b>	<b>8,682,828</b>	<b>17,895,249</b>	<b>26,587,547</b>
<b>Liabilities at fair value</b>					
- Fair value of interest rate swap	f	-	132,240	-	132,240

#### Fair value measurements

The group measurement of financial assets and liabilities classified in level 3 uses valuation techniques inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	2010 KD
Opening balance	17,895,249
Change in fair value	(888,137)
Additions during the year (transferred from level 2 to level 3)	2,497,399
Impairment of level 3 investments	(251,739)
<b>Closing balance</b>	<b>19,252,772</b>

Changing inputs to the level 3 valuations to reasonably possible alternative assumption would not change significantly amounts recognised in profit or loss, total assets or total liabilities or total equity.

## Notes to the Consolidated Financial Statements

31 December 2010

### 29 Financial assets and liabilities (continued)

#### 29.2 Fair value hierarchy for financial instruments measured at fair value (continued)

##### Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are as follows:

##### a) Quoted shares

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

##### b) Managed portfolio and funds (International)

The underlying investments in managed portfolios and funds represents quoted bonds and securities and unquoted securities. They are valued based on latest reports received from the managers.

##### c) Unquoted shares

These represent holdings in local and foreign unlisted securities which are measured at fair value. Fair value is estimated based on the average of recent transaction prices for these investments and other valuation techniques.

##### d) Private and direct equity funds

The underlying investments in these private and direct equity funds mainly represent local and foreign quoted and unquoted securities. Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

##### e) Portfolios managed by others

The underlying investments in managed portfolios represent quoted and unquoted securities. They are valued based on latest fund managers reports.

##### f) Interest rate swaps

The Interest rate swap has been entered into by the company to mitigate its risks associated with interest rate fluctuations on its USD borrowings. (refer note 31). The fair value of the derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using valuation quotes provided by financial institutions based on prevailing market information.



## Notes to the Consolidated Financial Statements

31 December 2010

### 30 Risk management objectives and policies

The Group's principal financial liabilities comprise, borrowings bonds payable and accounts payable and other liabilities. The main purpose of these financial liabilities is to raise finance for Group operations. The Group has various financial assets such as accounts receivable and other assets, cash and bank balances, short term deposits, investment in Sukuk and investment securities which arise directly from operations.

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

The parent company's board of directors sets out policies for reducing the risks discussed below.

Although, the Group policy is not to use derivative financial instruments, during the previous years the Group had entered in to an interest rate swap agreement to manage the interest rate risk arising from the Group's loans. This was settled during the year.

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

#### 30.1 Market risk

##### a) Foreign currency risk

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

The group mainly operates in the Middle Eastern countries, Europe and USA and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, Qatari Riyals and Euro. The group's balance sheet can be significantly affected by the movement in these currencies. To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Foreign currency risk is managed by the group by diversifying its investments geographically and monitoring the foreign currency movements and the groups open positions on a regular basis.

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

	2010 Equivalent KD	2009 Equivalent KD
US Dollars	13,656,257	(9,485,628)
Qatari Riyal	(12,173,344)	(14,132,826)
Euro	6,177,737	7,706,434

## Notes to the Consolidated Financial Statements

31 December 2010

### 30 Risk management objectives and policies (continued)

#### 30.1 Market risk (continued)

##### a) Foreign currency risk (continued)

If the Kuwaiti Dinar had strengthened against the foreign currencies by 5.7% (2009: 5.7%), then this would have the following impact on the profit/loss for the year. There is no impact on the group's equity.

	Profit/(loss) for the year	
	2010 KD	2009 KD
US Dollars	(778,407)	540,681
Qatari Riyal	693,881	805,571
Euro	(352,131)	(439,267)
<b>Total (loss)/profit</b>	<b>(436,657)</b>	<b>906,985</b>

If the Kuwaiti Dinar had weakened against the foreign currencies by 5.7% (2009: 5.7%), then there would be an equal and opposite impact on the profit/loss for the year, and the negative balances shown above would be positive and positive balances will be negative.

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

##### b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk with respect to its short term deposits (refer note 13), borrowings (refer note 22) and bonds payable (refer note 23) which are both at fixed rate and floating interest rates. The risk is managed by the group by maintaining an appropriate mix between fixed and floating rate short term deposits and borrowings.

Positions are monitored regularly to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit/(loss) for the year to reasonable possible change of interest rate of +75 (0.75%) and -75 (0.75%) basis points with effect from the beginning of the year. The calculation is based on the Group's financial instruments held at each reporting date. All other variables are held constant. There is no impact on group's equity.

	Increase in interest rates		Decrease in interest rates	
	2010 KD	2009 KD	2010 KD	2009 KD
Increase/(decrease) in profit for the year	(336,710)	(703,636)	336,710	703,636



## Notes to the Consolidated Financial Statements

31 December 2010

### 30 Risk management objectives and policies (continued)

#### 30.1 Market risk (continued)

##### c) Price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The group is exposed to price risk with respect to its listed equity and debit instruments which are primarily located in Kuwait and Germany. Investments are classified either as investments carried at fair value through profit or loss (including trading securities) or available for sale.

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

The price risk sensitivity is determined on the exposure to price risks at the reporting date. If asset prices had been 10% higher/lower, the effect on the profit/(loss) for the year ended 31 December would have been as follows:

A positive number below indicates a increase/decrease in profit/loss where the prices increase by the above mentioned percentages. All other variables are held constant.

	Profit/(loss) for the year	
	2010 KD	2009 KD
Investments at fair value through profit or loss	1,352,355	11,828
	<b>1,352,355</b>	<b>11,828</b>

A negative number below indicates a decrease/increase in profit/loss where the asset prices decreased by the above mentioned percentages. All other variables are held constant.

	Profit/(loss) for the year	
	2010 KD	2009 KD
Investments at fair value through profit or loss	(1,352,355)	(11,828)
	<b>(1,352,355)</b>	<b>(11,828)</b>

There is no impact on equity as the group is available for sale investments are unquoted investments.

**Notes to the Consolidated Financial Statements**

31 December 2010

**30 Risk management objectives and policies (continued)****30.2 Credit risk**

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

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

	2010 KD	2009 KD
Cash and cash equivalents	19,078,995	11,800,687
Investment at fair value through profit or loss (managed portfolios) (refer note 14)	13,457,173	107,592
Investment in Sukuk	6,177,737	6,806,434
Accounts receivable and other assets (refer note 15)	35,476,892	35,549,217
Available for sale investments	26,555,636	31,940,550
	<b>100,746,433</b>	<b>86,204,480</b>

Except for certain available for sale investment and other assets as stated in note 16 and 15 respectively, none of the above financial assets are past due or impaired. The group continuously monitors defaults of customers and other counter parties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The group's policy is to deal only with creditworthy counterparties. The group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

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

The credit risk for cash and bank balances and short term deposits is considered negligible, since the counterparties are reputable financial institutions with high credit quality. Information on other significant concentrations of credit risk is set out in note 30.3.



## Notes to the Consolidated Financial Statements

31 December 2010

### 30 Risk management objectives and policies (continued)

#### 30.3 Concentration of assets

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

	Kuwait KD	GCC KD	Asia & Africa KD	Europe KD	USA KD	Total KD
<b>31 December 2010</b>						
Cash and cash equivalents	14,563,397	4,368,991	51,770	28,512	66,325	19,078,995
Investments at fair value through profit or loss	891,375	14,111,274	264	142,612	-	15,145,525
Accounts receivable and other assets (refer note 15)	15,224,272	19,556,915	695,705	-	-	35,476,892
Available for sale investments	7,242,648	4,384,883	4,843,930	2,660,586	7,423,589	26,555,636
Investment in Sukuk	-	-	-	6,177,737	-	6,177,737
	<b>37,921,692</b>	<b>42,422,063</b>	<b>5,591,669</b>	<b>9,009,447</b>	<b>7,489,914</b>	<b>102,434,785</b>
Accounts payable and other liabilities	7,651,302	14,936,037	5,314	-	-	22,592,653
Borrowings	48,110,428	318,953	-	-	-	48,429,381
Bonds payable	33,320,000	-	-	-	-	33,320,000
Employees' end of service indemnity	446,074	8,742	-	-	-	454,816
	<b>89,527,804</b>	<b>15,263,732</b>	<b>5,314</b>	<b>-</b>	<b>-</b>	<b>104,796,850</b>
<b>31 December 2009</b>						
Cash and cash equivalents	9,558,666	2,058,066	88,935	25,380	69,640	11,800,687
Investments at fair value through profit or loss	1,777,327	796,714	1,216	107,592	-	2,682,849
Accounts receivable and other assets (refer note 15)	1,676,424	33,725,328	147,465	-	-	35,549,217
Available for sale investments	8,786,048	5,481,713	5,180,670	3,400,998	9,091,121	31,940,550
Investment in Sukuk	-	-	-	6,806,434	-	6,806,434
	<b>21,798,465</b>	<b>42,061,821</b>	<b>5,418,286</b>	<b>10,340,404</b>	<b>9,160,761</b>	<b>88,779,737</b>
Accounts payable and other liabilities	3,116,006	15,776,651	2,472	-	-	18,895,129
Borrowings	49,856,369	10,301,387	-	-	-	60,157,756
Bonds payable	33,320,000	-	-	-	-	33,320,000
Employees' end of service indemnity	344,059	4,732	-	-	-	348,791
	<b>86,636,434</b>	<b>26,082,770</b>	<b>2,472</b>	<b>-</b>	<b>-</b>	<b>112,721,676</b>

**Notes to the Consolidated Financial Statements**

31 December 2010

**30 Risk management objectives and policies (continued)****30.4 Liquidity risk**

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summarises the maturity profile of the group's assets and liabilities. Except for investments carried at fair value through profit or loss and available for sale investments, the maturities of assets and liabilities have been determined on the basis of the remaining period from the balance sheet date to the contractual maturity date. The maturity profile for investments carried at fair value through profit or loss and available for sale investments is determined based on management's estimate of liquidation of those investments.

Maturity profile of all assets and liabilities at 31 December 2010 and 2009.

	1 year KD	1 -5 years KD	Over 5 years KD	Total KD
<b>At 31 December 2010</b>				
<b>ASSETS</b>				
Cash and cash equivalents	19,078,995	-	-	19,078,995
Investment at fair value through profit or loss	15,145,525	-	-	15,145,525
Investment in sukuk	-	6,177,737	-	6,177,737
Accounts receivable and other assets	22,749,791	12,727,101	-	35,476,892
Available for sale investments	-	26,555,636	-	26,555,636
Investment in associates	-	6,942,401	-	6,942,401
Investment properties	-	89,096,476	-	89,096,476
Property and equipment	-	-	1,075,406	1,075,406
Goodwill and intangible assets	-	-	90,332	90,332
	<b>56,974,311</b>	<b>141,499,351</b>	<b>1,165,738</b>	<b>199,639,400</b>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	21,063,995	1,528,658	-	22,592,653
Borrowings	18,818,953	29,610,428	-	48,429,381
Bonds payable	20,000,000	13,320,000	-	33,320,000
Employees' end of service indemnity	-	-	454,816	454,816
	<b>59,882,948</b>	<b>44,459,086</b>	<b>454,816</b>	<b>104,796,850</b>



## Notes to the Consolidated Financial Statements

31 December 2010

### 30 Risk management objectives and policies (continued)

#### 30.4 Liquidity risk (continued)

	1 year KD	1 -5 years KD	Over 5 years KD	Total KD
At 31 December 2009				
<b>ASSETS</b>				
Cash and cash equivalents	11,800,687	-	-	11,800,687
Investment at fair value through profit or loss	2,682,849	-	-	2,682,849
Investment in sukuk	-	6,806,434	-	6,806,434
Accounts receivable and other assets	12,627,325	22,921,892	-	35,549,217
Available for sale investments	-	31,940,550	-	31,940,550
Investment in associates	-	21,466,890	-	21,466,890
Investment properties	-	81,973,269	-	81,973,269
Property and equipment	-	-	1,206,600	1,206,600
Goodwill and intangible assets	-	-	3,653,006	3,653,006
	<u>27,110,861</u>	<u>165,109,035</u>	<u>4,859,606</u>	<u>197,079,502</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	11,267,957	7,627,172	-	18,895,129
Borrowings	42,094,395	18,063,361	-	60,157,756
Bonds payable	33,320,000	-	-	33,320,000
Employees' end of service indemnity	-	-	348,791	348,791
	<u>86,682,352</u>	<u>25,690,533</u>	<u>348,791</u>	<u>112,721,676</u>

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

	Up to 1 month KD	1-3 Months KD	3-12 months KD	Over 1 Year KD	Total KD
<b>31 December 2010</b>					
<b>Financial liabilities</b>					
Accounts payable and other liabilities	-	-	21,063,995	1,528,658	22,592,653
Borrowings	-	2,363,898	19,018,870	32,287,938	53,670,706
Bonds payable	-	-	21,996,755	14,473,100	36,469,855
Employees' end of service indemnity	-	-	-	454,816	454,816
	-	<u>2,363,898</u>	<u>62,079,620</u>	<u>48,744,512</u>	<u>113,188,030</u>
<b>31 December 2009</b>					
<b>Financial liabilities</b>					
Fair value of interest rate swaps	-	-	132,240	-	132,240
Accounts payable and other liabilities	1,654,933	983,398	7,859,295	8,265,264	18,762,890
Borrowings	-	12,102,943	31,910,431	19,837,118	63,850,492
Bonds payable	-	601,177	35,144,544	7,017,636	42,763,357
Employees' end of service indemnity	-	-	-	348,791	348,791
	<u>1,654,933</u>	<u>13,687,518</u>	<u>75,046,510</u>	<u>35,468,809</u>	<u>125,857,770</u>

## Notes to the Consolidated Financial Statements

31 December 2010

### 31 Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments of the group in the previous year represent interest rate swaps.

The notional amounts and the fair value of the interest rates swaps at the balance sheet date based on the contractual maturity days are as follows:

	31 Dec. 2010 Notional amount KD	31 Dec. 2009 Notional amount KD	31 Dec. 2010 Negative fair value KD	31 Dec. 2009 Negative fair value KD
Interest rate swaps (denominated in US Dollars)	-	5,983,333	-	(132,240)

The above interest rate swaps represent range accrual interest rates swap contracts with a reputable foreign bank and are based on 6 months LIBOR and matured on 21 May 2010.

The negative fair value of the interest rate swaps at 31 December 2010 amounted to KD Nil (2009: KD132,240) the 2009 negative fair value is recognised in the previous years consolidated statement of income and the corresponding liability under "other liabilities" (refer note 21).

The negative fair value of the derivative financial instrument is equivalent to the market value and the notional amount is the amount of a derivative's underlying asset, and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions and are not indicative of credit risk.

Credit risk with respect to derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of derivatives that are favourable to the group.



## Notes to the Consolidated Financial Statements

31 December 2010

### 32 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the costs of capital.

The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, buy back shares, issue new shares or sell assets to reduce debt.

There were no changes in the Group's approach to capital management during the year as compared to the previous year. The capital structure of the Group consists of the following:

	2010 KD	2009 KD
Borrowings (refer note 22)	48,429,381	60,157,756
Bonds payable (refer note 23)	33,320,000	33,320,000
Less: Cash and cash equivalents (refer note 13)	(19,078,995)	(11,800,687)
Net debt	62,670,386	81,677,069
Total equity	94,842,550	84,357,826
Total Capital	157,512,936	166,034,895

In order to maintain or adjust the capital structure, the Group monitors capital on the basis of gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.

	2010 KD	2009 KD
Net debt	62,670,386	81,677,069
Total capital	157,512,936	166,034,895
Gearing ratio	40%	49%

## Notes to the Consolidated Financial Statements

31 December 2010

### 33 Contingent liabilities and commitments

	2010 KD	2009 KD
Bank guarantees issued	56,050	56,050
Uncalled instalment for financial investments	1,061,386	2,783,689
Capital commitment related to intangible asset	1,350,378	1,852,177

### 34 Assets under management

The Group manages mutual funds, portfolios on behalf of its major shareholders, other related parties and outsiders, and maintains securities in fiduciary accounts which are not reflected in the Group's statement of financial position. Assets under management at 31 December 2010 amounted to KD28,373,000 (31 December 2009: KD29,292,000) of which assets managed on behalf of its related parties amounted to KD10,000,000 (31 December 2009 : KD14,000,000).

During the year total fees earned by the group from assets under management amounted to KD32,262 (2009: KD27,781)

### 35 Proposed dividend

The Board of Directors proposed not to distribute any dividend for the year ended 31 December 2010. This proposal is subject to the approval of the general assembly of the shareholders. No dividends were distributed for the year ended 31 December 2009.

### 36 Comparative amounts

Certain comparative amounts have been reclassified to conform to the presentation in the current year. Such reclassification does not affect previously reported net assets, net equity and net results for the year or net increase in cash and cash equivalents.