

**MUNSHAAT REAL ESTATE PROJECTS
COMPANY K.S.C. (CLOSED) AND
SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C. (CLOSED)

We have audited the accompanying consolidated financial statements of Munshaat Real Estate Projects Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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' judgement, 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 auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C. (CLOSED) (continued)**

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Emphasis of Matter

Without qualifying our opinion, we draw attention to:

- (a) Note 2 in the consolidated financial statements which indicates that the Group incurred a loss of KD 43,889,404 during the year ended 31 December 2009 and, as of that date, the Group's current liabilities exceeded its current assets by KD 26,916,841. The management of the Group is in discussion with lenders which include a major shareholder, to restructure the Group's liabilities. The management is confident of a positive outcome.
- (b) Note 13 to the consolidated financial statements which show the revenue, expenses and balances resulting from the Group's transactions with major shareholders and other related parties on which the Group has significant dependency.

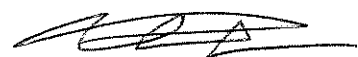
Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Parent Company or on its financial position.



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

29 March 2010
Kuwait



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

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2009

		<i>12 months ended 31 December 2009 KD</i>	<i>15 months ended 31 December 2008 KD</i>
	<i>Notes</i>		
Sales commission		427,701	5,128,955
Management fees	13	1,704,324	1,596,859
Unrealised gain (loss) from financial assets carried at fair value through statement of income		23,541	(2,389,343)
Realised gain from financial assets carried at fair value through statement of income		214,049	-
(Loss) income from investment properties	10	(29,678,081)	22,119,852
Finance income		684,900	2,009,983
Dividend income		438,077	84,375
Other income		868,379	620,829
Impairment loss on available for sale financial assets	9	(882,458)	(1,819,126)
Provision for doubtful debts	12	(1,466,562)	(1,477,176)
General and administration expenses		(4,787,864)	(6,801,367)
Depreciation		(278,087)	(257,599)
Finance costs		(6,557,690)	(8,921,334)
Foreign exchange loss		(4,692,348)	(3,033,537)
Share of results of associates	8	92,715	(117,957)
Gain on sale of investment in an associate		-	360,139
Loss on deemed disposal of an associate		-	(47,815)
Net arrangement and placement fees		-	3,396,162
(LOSS) PROFIT FOR THE YEAR/PERIOD BEFORE KFAS, NLST AND ZAKAT		(43,889,404)	10,451,900
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		-	(91,806)
National Labour Support tax (NLST)		-	(221,498)
Zakat		-	(87,263)
(LOSS) PROFIT FOR THE YEAR/ PERIOD	4	(43,889,404)	10,051,333
Attributable to			
Equity holders of the Parent Company		(44,271,414)	9,675,209
Non-controlling interests		382,010	376,124
(LOSS) PROFIT FOR THE YEAR / PERIOD		(43,889,404)	10,051,333
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE	5	(137) fils	30 fils

The attached notes 1 to 25 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<i>12 months ended 31 December 2009 KD</i>	<i>15 months ended 31 December 2008 KD</i>
(LOSS) PROFIT FOR THE YEAR /PERIOD	(43,889,404)	10,051,333
OTHER COMPREHENSIVE (LOSS) INCOME		
Available for sale financial assets:		
- Net movement in cumulative change in fair values	(1,556,728)	(1,911,667)
- Realised loss transferred to the consolidated statement of income	16,432	-
- Impairment loss transferred to the consolidated statement of income	882,458	1,819,126
Exchange differences on translation of foreign operations	450,035	(245,711)
OTHER COMPREHENSIVE LOSS FOR THE YEAR/PERIOD	(207,803)	(338,252)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR/PERIOD	(44,097,207)	9,713,081
Attributable to:		
Equity holders of the Parent Company	(44,449,457)	9,336,957
Non-controlling interests	352,250	376,124
	(44,097,207)	9,713,081

The attached notes 1 to 25 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

ASSETS	Notes	31 December 2009 KD	31 December 2008 KD
Non-current assets			
Property and equipment	6	569,670	425,955
Goodwill	7	2,875,238	2,875,238
Investment in associates	8	6,669,629	6,415,086
Available for sale financial assets	9	9,693,446	11,333,816
Investment properties	10	181,683,513	192,677,564
		<u>201,491,496</u>	<u>213,727,659</u>
Current assets			
Financial assets carried at fair value through statement of income	11	443,174	807,785
Accounts receivable and prepayments	12	4,125,780	8,035,768
Amounts due from related parties	13	11,858,341	38,532,616
Cash and cash equivalents	14	7,942,533	16,344,813
		<u>24,369,828</u>	<u>63,720,982</u>
TOTAL ASSETS		<u><u>225,861,324</u></u>	<u><u>277,448,641</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	15	32,200,000	32,200,000
Share premium		12,400,000	12,400,000
Statutory reserve	16	8,854,013	8,854,013
Voluntary reserve	16	4,427,007	4,427,007
Cumulative change in fair values		(750,379)	(92,541)
Foreign currency translation reserve		(194,885)	(674,680)
Retained earnings		2,666,455	46,937,869
Equity attributable to equity holders of the Parent Company		<u>59,602,211</u>	104,051,668
Non-controlling interests		1,277,645	925,395
Total equity		<u>60,879,856</u>	104,977,063
Non-current liabilities			
Murabaha payables	17	57,208,734	38,742,072
Obligations under finance leases	18	1,680,379	1,607,522
Accounts payable and accruals	19	17,414,221	17,491,375
Amounts due to related parties	13	37,263,367	38,902,433
Employees' end of service benefits		128,098	86,853
		<u>113,694,799</u>	<u>96,830,255</u>
Current liabilities			
Murabaha payables	17	8,819,776	22,252,620
Obligations under finance leases	18	13,476,900	25,583,920
Accounts payable and accruals	19	22,042,901	25,769,402
Amounts due to related parties	13	6,947,092	2,035,381
		<u>51,286,669</u>	<u>75,641,323</u>
Total liabilities		<u>164,981,468</u>	172,471,578
TOTAL EQUITY AND LIABILITIES		<u><u>225,861,324</u></u>	<u><u>277,448,641</u></u>

Ebrahim Al-Khuzam
Chairman

Khalid Al-Shatti
Vice Chairman

The attached notes 1 to 25 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

		<i>12 months ended</i> 31 December 2009 KD	<i>15 months ended</i> 31 December 2008 KD
OPERATING ACTIVITIES			
(Loss)/ profit for the year/period		(43,889,404)	10,051,333
Adjustments for:			
Depreciation	6	278,087	257,599
Share of results of associates	8	(92,715)	117,957
Loss on deemed disposal of an associate		-	47,815
Gain on sale of investment in an associate		-	(360,139)
Provision for doubtful debts	12	1,466,562	1,477,176
Foreign exchange loss		4,692,348	3,033,537
Finance income		(684,900)	(2,009,983)
Dividend income		(438,077)	(84,375)
Loss on sale of available for sale financial assets		16,432	-
Impairment loss of available for sale financial assets		882,458	1,819,126
Unrealised (gain) loss from financial assets carried at fair value through statement of income		(23,541)	2,389,343
Realised gain on sale of financial assets carried at fair value through statement of income		(214,049)	-
Change in fair values of investment properties	10	32,028,889	(13,167,054)
Loss/ (gain) on sale of investment properties	10	4,858,155	(6,186,448)
Finance costs		6,557,690	8,921,334
Provision for employees' end of service benefits		60,271	16,179
		<u>5,498,206</u>	<u>6,323,400</u>
Working capital changes:			
Amounts due from / to related parties		(3,341,405)	14,343,194
Accounts receivable and prepayments		3,244,616	454,865
Accounts payable and accruals		1,409,100	546,311
		<u>6,810,517</u>	<u>21,667,770</u>
Cash from operations		6,810,517	21,667,770
Employees' end of service benefits paid		(19,026)	(50,340)
Finance costs paid		(4,247,370)	(13,166,822)
		<u>2,544,121</u>	<u>8,450,608</u>
Net cash from operating activities		<u>2,544,121</u>	<u>8,450,608</u>
INVESTING ACTIVITIES			
Net movement in investment properties		(2,024,431)	(31,085,658)
Wakala receivables		-	38,306,382
Purchase of property and equipment	6	(421,802)	(305,818)
Investment in subsidiary (net of cash acquired)		-	(1,749,004)
Proceeds from sale of investment in an associate		-	614,925
Purchase of available for sale financial assets		(38,103)	(1,377,969)
Proceeds from sale of available for sale financial assets		216,745	-
Proceeds from sale of financial assets carried at fair value through statement of income		602,201	-
Finance income received		347,889	1,980,654
Dividends income received		438,077	84,375
		<u>(879,424)</u>	<u>6,467,887</u>
Net cash (used in) from investing activities		<u>(879,424)</u>	<u>6,467,887</u>
FINANCING ACTIVITIES			
Net movement in non-controlling interests		(29,760)	(1,172,666)
Net movement in murabaha payables		3,413,045	7,813,493
Movement in obligations under finance leases		(12,034,163)	(6,506,260)
Movement in wakala payables		-	(6,334,942)
Amounts due from / to related parties		(1,639,066)	6,995,784
Dividends paid		-	(2,800,000)
		<u>(10,289,944)</u>	<u>(2,004,591)</u>
Net cash used in financing activities		<u>(10,289,944)</u>	<u>(2,004,591)</u>
Foreign currency translation reserve movement		222,967	(123,811)
		<u>(8,402,280)</u>	<u>12,790,093</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<u>(8,402,280)</u>	<u>12,790,093</u>
Cash and cash equivalents at the beginning of the year/period		16,344,813	3,554,720
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/ PERIOD	14	<u>7,942,533</u>	<u>16,344,813</u>

The attached notes 1 to 25 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 2009

Equity attributable to shareholders of the Parent Company

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Cumulative change in fair values KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
Balance at 1 January 2009	32,200,000	12,400,000	8,854,013	4,427,007	(92,541)	(674,680)	46,937,869	104,051,668	925,395	104,977,063
(Loss) profit for the year	-	-	-	-	-	-	(44,271,414)	(44,271,414)	382,010	(43,889,404)
Other comprehensive (loss) income for the year	-	-	-	-	(657,838)	479,795	-	(178,043)	(29,760)	(207,803)
Total comprehensive (loss) income for the year	-	-	-	-	(657,838)	479,795	(44,271,414)	(44,449,457)	352,250	(44,097,207)
Balance at 31 December 2009	32,200,000	12,400,000	8,854,013	4,427,007	(750,379)	(194,885)	2,666,455	59,602,211	1,277,645	60,879,856
Balance at 1 October 2007	28,000,000	12,400,000	7,846,436	3,923,218	-	(428,969)	45,774,026	97,514,711	1,721,937	99,236,648
Profit for the period	-	-	-	-	-	-	9,675,209	9,675,209	376,124	10,051,333
Other comprehensive loss for the period	-	-	-	-	(92,541)	(245,711)	-	(338,252)	-	(338,252)
Total comprehensive (loss) income for the period	-	-	-	-	(92,541)	(245,711)	9,675,209	9,336,957	376,124	9,713,081
Issue of bonus shares	4,200,000	-	-	-	-	-	(4,200,000)	-	-	-
Dividends	-	-	-	-	-	-	(2,800,000)	(2,800,000)	-	(2,800,000)
Transfer to reserves	-	-	1,007,577	503,789	-	-	(1,511,366)	-	-	-
Movement in non-controlling interests	-	-	-	-	-	-	-	-	(1,172,666)	(1,172,666)
Balance at 31 December 2008	32,200,000	12,400,000	8,854,013	4,427,007	(92,541)	(674,680)	46,937,869	104,051,668	925,395	104,977,063

The attached notes 1 to 25 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

1 CORPORATE INFORMATION

The consolidated financial statements of Munshaat Real Estate Projects Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the board of directors on 29 March 2010. The General Assembly of the shareholders of the Parent Company has the power to amend these consolidated financial statements after issuance.

The Parent Company was established on 8 April 2003 in accordance with the articles of association authenticated at the Real Estate Registration and Authentication Department in the Ministry of Justice under No. 1416/Vol.1.

The main objectives of the Group are to own, sell and purchase real estate, in addition to developing them for the benefit of the Group inside and outside the State of Kuwait, and to manage properties of other parties. The Group also can utilise its surpluses by investing them in financial and real estate portfolios that are managed by specialised entities. The Group shall not directly or indirectly perform any operations that include dealing through usury or any other work that may contradict the Islamic Shari'a.

The Parent Company's registered address is P.O. Box 1393 Dasman – 15464 - State of Kuwait.

The extraordinary general meeting of the Parent Company's shareholders held on 16 September 2008 approved to change the financial year end of the Parent Company from 30 September to 31 December.

2 FUNDAMENTAL ACCOUNTING CONCEPT

For the year ended 31 December 2009, the Group incurred a loss of KD 43,889,404 and, as at that date, the Group's current liabilities exceed its current assets by KD 26,916,841. Notwithstanding the above fact the consolidated financial statements have been prepared under the going concern concept as the management is in discussion with the lenders, which include a major shareholder, in order to restructure its liabilities. The management is confident of a positive outcome.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that may be necessary if the Company is unable to continue as going concern.

3.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale financial assets, investment properties and financial assets carried at fair value through statement of income. The consolidated financial statements have been presented in Kuwaiti Dinars which is the functional and presentation currency of the Parent Company.

The comparative figures included in the consolidated financial statements cover the period from 30 September 2007 till 31 December 2008 representing a period of 15 months and are not comparable.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990.

Basis of consolidation

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

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 the control ceases. The financial statements of the subsidiaries are prepared for same reporting period as the Parent Company, using consistent accounting policies.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

3.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any significant intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit and 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 equity attributable to the equity holders of the Parent Company. Acquisition of non-controlling interests is 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 is recognised in goodwill.

The results of the subsidiaries acquired or disposed off during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as detailed below:

Name of the company	Country of incorporation	Interest in equity		Principal activities
		2009	2008	
Directly held:				
Munshaat for Projects and Contracting Company W.L.L.	Kingdom of Saudi Arabia	100%	100%	Contracting and real estate activities
Al Reyada Real Estate Financial Centre Company W.L.L.	Kuwait	100%	100%	Real Estate Company
Al Waha International Real Estate Projects Company W.L.L.	Kuwait	100%	100%	Real Estate Company
MAS Holding Company K.S.C. (Closed)	Kuwait	60%	60%	Holding Company
Held by MAS Holding Company K.S.C (closed)				
MAS International General Trading and Contracting Company W.L.L.	Kuwait	98%	98%	General trading and contracting activities
MAS Com for Media and advertising W.L.L.	Kuwait	98%	98%	Media and advertising
Held by MAS International General Trading and Contracting Company W.L.L.				
Korfez Uluslararası Turizm Ve Pazarlama Ticaret Ltd Sti W.L.L.	Turkey	100%	100%	Tourists and Haj & Umra services
MAS International Egypt W.L.L.	Egypt	100%	100%	Real estate projects Management
MAS Al Oula W.L.L.	Kingdom of Saudi Arabia	99.5%	-	Real estate projects Management

During the year, the Group has acquired a new subsidiary namely MAS Al Oula W.L.L. through MAS International General Trading and Contracting Company W.L.L. with 99.5% ownership for a total consideration of KD 38,160.

3.2 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted by the Group are consistent with those used in the previous financial year except as follows:

The Group has adopted the following new and amended International Accounting Standards Board (IASB) standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective for annual periods beginning on or after 1 January 2009.

IFRS 7 Financial Instruments: Disclosures (Amended)

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The fair value measurement disclosures are presented in Note 25.

IFRS 8 Operating segments

The new standard which replaced IAS 14 'Segment reporting' requires a management approach for segment reporting under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker. However, the application of the revised standard has not had a significant impact on designation of the Group's reporting segments as it has previously been consistent with the internal reporting provided to the chief operating decision maker.

IAS 1 Presentation of Financial Statements (Revised)

The revised standard separates owner and non owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 Borrowing costs (Revised)

This standard requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset and removes the option of expensing these borrowing costs in the consolidated statement of income. The application of the revised standard has not had an impact on the consolidated financial statements because it has always been the Group's accounting policy to capitalise borrowing costs incurred on qualifying assets.

IAS 40 Investment Properties (revised):

The improvements to IFRS project revised the scope of IAS 40 'Investment properties' such that property under construction or development for future use as an investment property is classified as investment property. Since the Group follows 'fair value model', property under construction or development should be fair valued at each reporting date. If fair value cannot be reliably determined, property under construction or development will be measured at cost until such time as fair value can be determined or construction is complete. The Group's property under development is measured at cost.

The following IASB Standards and IFRIC Interpretations relevant to the Group have been issued but are not yet effective and have not been early adopted by the Group.

IFRS 3 Business Combination (Revised) (effective 1 July 2009)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after effective date. 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: Consolidated and separate financial statements (Revised) (effective 1 July 2009)

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

3.2 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2013)

IFRS 9 will replace IAS 32 and IAS 39 upon its effective date. The application of IFRS 9 will result in amendments to the classification and measurement of financial assets and liabilities of the consolidated financial statements of the Group. The amendments will be made in the consolidated financial statements when the standard becomes effective.

IFRIC 17 provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to members in the past.

Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised.

Finance income is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the net balance outstanding.

Management fees, incentive fees, arrangement and advisory fees, and placement fees are recognised when earned upon performance of services envisaged under the service agreements.

Commission income is recognised upon completion of sales agreement.

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

Gain or loss on sale of investment properties is recognised when the significant risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably.

Finance costs

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 capitalized as part of the cost of that asset. Capitalization 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

KFAS, NLST and Zakat

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat represent taxes/ levies imposed on the Parent Company at the flat percentage of net profits less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent taxation/levy regulations no carry forward of losses is permitted and there are no significant differences between the tax /levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

Tax/statutory levy	Rate
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions
Zakat	1.0% of net profit less permitted deductions

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of other assets as follows:

Furniture and fixtures	over 3 to 5 years
Equipment and computers	over 3 to 4 years

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

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

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition accounting method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in business combination are measured initially at fair value at the date of acquisition, irrespective of the extent of any non-controlling interest (formerly known as minority interest).

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Combinations and Goodwill (continued)

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

Investment in associates

An associate is an entity over which the Group exerts significant influence. Investment in associate is accounted for under the equity method of accounting.

Under the equity method, the investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The Group recognises in the consolidated statement of income its share of the results of the associate from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in the associate's equity. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes in the consolidated statement of comprehensive income.

Unrealised gains on transactions with associate are eliminated to the extent of the Group's share in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investment in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The associate's financial statements are prepared to the Parent Company's financial position date or of a date not earlier than three months of the Parent Company's financial position date. Where practicable, appropriate adjustments for non-uniform accounting policies are made to the associate's financial statements to bring them in line with the Group's accounting policies.

Financial assets and liabilities

Initial recognition and measurement

The Group classifies its financial assets and liabilities as "financial assets at fair value through statement of income", "cash and cash equivalents", "trade and other receivables", "available for sale financial assets", "accounts payables and accruals" and "financial liabilities other than at fair value through profit or loss". The Group determines the classification of financial assets and liabilities at initial recognition.

A financial asset or a financial liability is recognised and derecognised, on a trade date basis, when the Group becomes, or ceases to be, a party to the contractual provisions of the instrument. All financial assets and liabilities are recognised initially at fair value plus, in the case of financial assets not at fair value through statement of income, directly attributable transaction costs.

Purchases or sales of financial assets or liabilities that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to acquire or dispose the asset or liability.

Subsequent measurement

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

Cash and cash equivalents

Cash and cash equivalents are defined as bank balances, cash and short-term wakala investments.

Short-term wakala investments are financial assets originated by the Group and represent deals with affiliated companies with an original maturity of three months or less. These are stated at amortised cost and are subject to an insignificant risk of changes in value.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Financial assets carried at fair value through statement of income

After initial recognition, financial assets are re-measured at fair value. Unrealised gains and losses are included in the consolidated statement of income.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are neither classified as Islamic finance receivables nor classified as financial assets at fair value through profit or loss.

After initial measurement, financial assets available for sale are subsequently measured at fair value with gains or losses being recognised as other comprehensive income in the cumulative change in fair values reserve until the investment is derecognised at which time the cumulative gain or loss is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Accounts receivable

These are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market.

After initial recognition receivables are carried at amortised cost using the effective profit rate method less a provision for any uncollectible amount. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective profit rate. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Accounts payable and accruals

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

Murabaha payables

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

Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and the fair value estimates.

Underlying the definitions of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in recognised financial markets is their quoted market price, based on the current bid price.

Financial assets with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value, if any.

The fair value of profit-bearing items is estimated based on discounted cash flows using profit rates for items with similar terms and risk characteristics.

The fair value of investment properties is based on periodic external valuation by independent, registered, real estate assessors or by reference to recent transactions in similar properties.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Fair values (continued)

For all other financial assets or liabilities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current fair value of another instrument that is substantially the same; recent arm's length market transactions or discounted cash flow analysis or other valuation methods and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors. The fair value of derivatives is the equivalent of the unrealised gain or loss from marking to market the derivatives using prevailing market inputs or internal pricing models.

Impairment of financial assets

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

Financial assets carried at amortised cost

If there is objective evidence that impairment loss has occurred in the carrying amount of assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

In relation to gross receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off when they are assessed as uncollectible.

Assets carried at cost

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

Available for sale financial assets

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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 the consolidated statement of income.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

Investment properties

Investment properties are initially measured at cost, including transaction costs. The carrying cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day to day servicing of investment property. After the initial recognition, the investment property is carried at fair value that is determined based on valuation performed by independent valuers periodically using valuation methods consistent with the nature and usage of the investment property. Gains or losses from change in the fair value are recognised in the consolidated income statement.

Investment property is derecognised when either it has been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses are recognised in the consolidated income statement in the year of retirement or disposal.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases where the Group is a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as expense on straight line basis over the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Certain property interests held for investment purposes by the Group under operating leases are classified as investment properties and accounted for as if they were in the nature of a finance leases. The fair value model is used for the assets recognised.

Leases where the Group is a lessor

Leases where the Group doesn't transfer substantially all the risks and benefits of ownership of the assets are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they have earned.

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 indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use 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 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.

For assets excluding 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 estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Group makes contributions to social security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Foreign currency translation

The Group's consolidated financial statements are presented in Kuwait Dinars, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

i) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the consolidated statement of income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

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 is determined.

ii) Group companies

The assets and liabilities of foreign operations are translated into Kuwaiti Dinars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of 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 operation and translated at the closing rate.

Fiduciary assets

Assets held in trust or fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in these consolidated financial statements.

Profit rate swaps

Profit rate swaps are derivative financial instruments. The Group uses profit rate swaps to mitigate exposure to firm commitments.

Profit rate swap instruments ("the instruments") are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of these instruments includes unrealised gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

The resultant gains and losses from profit rate swaps are taken directly to the consolidated statement of income.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 position, but are disclosed when an inflow of economic benefits is probable.

Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The Group has used judgments and estimates principally in, but not limited to, the classification of investments and real estate property, the determination of impairment provisions and the valuation of unquoted investments and investment properties.

Judgements

Classification of investments

Management decides on acquisition of investments whether they should be classified as available for sale financial assets or financial assets carried at fair value through statement of income.

The management classifies financial assets as carried at fair value through statement of income if they are acquired primarily for the purpose of short term profit making and fair value of those investments can be reliably determined.

Classification of financial assets as fair value through statement of income also depends on how management monitor the performance of these financial assets when they are not classified as held for trading but have readily available fair values and if the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through statement of income.

All other financial assets are classified as available for sale.

Classification of real estate

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

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

The management classifies real estate as property under development if it is acquired with the intention of development.

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

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

Impairment of financial assets

The Group treats available for sale equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Useful lives of plant and equipment

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

Impairment of goodwill

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

Impairment of receivables

An estimate of the collectible amount of receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Valuation of unquoted investments

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

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

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

Valuation of investment properties

For investment properties, fair value is determined by independent, registered, real estate assessors or by reference to recent transactions in similar properties.

4 (LOSS) PROFIT FOR THE YEAR/PERIOD

The (loss) profit for the year/period is stated after charging:

	<i>12 months ended 31 December 2009 KD</i>	<i>15 months ended 31 December 2008 KD</i>
Staff costs	1,674,272	2,368,152
Rental leases	277,494	292,583
Unrealised loss on profit rate swaps included under finance costs	<u>937,930</u>	<u>21,848</u>

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

5 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earnings per share are calculated by dividing the (loss) profit for the year/ period attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year/period as follows:

	<i>12 months ended 31 December 2009 KD</i>	<i>15 months ended 31 December 2008 KD</i>
(Loss) profit for the year/period attributable to the equity holders of the Parent Company (KD)	<u>(44,271,414)</u>	<u>9,675,209</u>
Weighted average number of ordinary shares outstanding during the year/period (shares)	<u>322,000,000</u>	<u>322,000,000</u>
Basic and diluted (loss) earnings per share	<u>(137) fils</u>	<u>30 fils</u>

6 PROPERTY AND EQUIPMENT

	<i>Furniture and fixtures KD</i>	<i>Equipment and computers KD</i>	<i>Total KD</i>
Cost			
At 1 January 2009	611,368	420,689	1,032,057
Additions	177,515	313,776	491,291
Disposals	(118,978)	-	(118,978)
At 31 December 2009	<u>669,905</u>	<u>734,465</u>	<u>1,404,370</u>
Depreciation			
At 1 January 2009	330,644	275,458	606,102
Charge for the year	130,228	147,859	278,087
Related to disposals	(49,489)	-	(49,489)
At 31 December 2009	<u>411,383</u>	<u>423,317</u>	<u>834,700</u>
Net carrying amount			
At 31 December 2009	<u><u>258,522</u></u>	<u><u>311,148</u></u>	<u><u>569,670</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

6 PROPERTY AND EQUIPMENT (continued)

	<i>Furniture and fixtures KD</i>	<i>Equipment and computers KD</i>	<i>Total KD</i>
Cost			
At 1 October 2007	472,521	253,718	726,239
Additions	138,847	166,971	305,818
At 31 December 2008	<u>611,368</u>	<u>420,689</u>	<u>1,032,057</u>
Depreciation			
At 1 October 2007	198,218	150,285	348,503
Charge for the period	132,426	125,173	257,599
At 31 December 2008	<u>330,644</u>	<u>275,458</u>	<u>606,102</u>
Net carrying amount			
At 31 December 2008	<u><u>280,724</u></u>	<u><u>145,231</u></u>	<u><u>425,955</u></u>

7 GOODWILL

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
Balance at the beginning of the year/period	2,875,238	-
Goodwill arised from the acquisition of a subsidiary, MAS International for General Trading and Contracting W.L.L.	-	4,050,448
Less: Impairment of goodwill	-	(1,175,210)
Balance at the end of the year/period	<u><u>2,875,238</u></u>	<u><u>2,875,238</u></u>

Impairment testing of goodwill

The recoverable amount of goodwill has been determined based on a value in use calculation, using cash flow projections approved by management covering the five year period. The discount rate applied to cash flow projections beyond the five year period are extrapolated using projected growth rate.

Key assumptions used in value in use calculations

The calculation of value in use is most sensitive to the following assumptions:

- Revenue;
- EBITDA;
- Discount rates;
- Growth rate used to extrapolate cash flows beyond the budget period.

Sensitivity to changes in assumptions

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

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8 INVESTMENT IN ASSOCIATES

	Country of incorporation	Percentage of ownership		31 December	31 December
		2009	2008	2009	2008
				KD	KD
Qitaf GCC Real Estate Fund (Qitaf)	Kuwait	28.4%	28.4%	3,440,129	3,185,586
Athman Al Khaligya Company W.L.L.	Kuwait	32.6%	32.6%	3,229,500	3,229,500
				<u>6,669,629</u>	<u>6,415,086</u>
				31 December	31 December
				2009	2008
				KD	KD
Balance as at 1 January				6,415,086	3,728,044
Addition				-	3,229,500
Loss on deemed disposal				-	(47,815)
Disposal				-	(254,786)
Share of results				92,715	(117,957)
Share of changes in equity				161,828	(121,900)
Balance as at 31 December				<u>6,669,629</u>	<u>6,415,086</u>

The following table illustrates summarised information of the Group's investment in associates:

	31 December	31 December
	2009	2008
	KD	KD
Share of associates' financial positions:		
Assets	8,335,015	9,079,178
Liabilities	(1,665,386)	(2,664,092)
Net assets	<u>6,669,629</u>	<u>6,415,086</u>
Share of associates' revenues and results:		
Revenues	<u>213,772</u>	<u>74,557</u>
Results	<u>92,715</u>	<u>(117,957)</u>

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

9 AVAILABLE FOR SALE FINANCIAL ASSETS

	31 December	31 December
	2009	2008
	KD	KD
Unquoted securities	6,691,677	8,158,474
Unquoted real estate funds	3,001,769	3,175,342
	<u>9,693,446</u>	<u>11,333,816</u>
Carried at fair value	6,488,065	7,284,276
Carried at cost less impairment	3,205,381	4,049,540
	<u>9,693,446</u>	<u>11,333,816</u>

9 AVAILABLE FOR SALE FINANCIAL ASSETS (continued)

Unquoted securities include investments amounting to KD 3,205,381 (2008: KD 4,049,540) that are carried at cost, less impairment, if any, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments.

During the year, the Group recorded an impairment loss of KD 882,458 (2008: KD 1,819,126) against unquoted securities based on information available to management of the Parent Company. The management of the Parent Company is not aware of any circumstances that would indicate any further impairment in the value of these investments at the financial position date.

Hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in note 25.

10 INVESTMENT PROPERTIES

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
Opening balance	192,677,564	59,368,110
Additions	18,051,304	128,287,341
Adjustment	4,763,519	-
Change in fair values	(32,028,889)	13,167,054
Disposals	(1,779,985)	(8,144,941)
Closing balance	<u>181,683,513</u>	<u>192,677,564</u>

Adjustment represents cost of an investment property on cancellation of a sale agreement of lease rights in a real estate deal which was executed in the period ended 31 December 2008. As a result, the Group also reversed the previously recognised gain on sale of the same investment property amounting to KD 5,725,799 (see below) recorded in the period ended 31 December 2008.

Additions to investment in properties include capitalised borrowing costs of KD 954,242 (2008: KD 466,056).

The changes in fair values for the current year relates to properties located in the Kingdom of Saudi Arabia and Kuwait and are based on external valuations by accredited independent valuers using acceptable methods of valuation such as sales comparison and income capitalisation.

Investment properties include a property under development amounting to KD 18,038,964 (2008: KD 9,339,743) which is measured at cost as the fair value cannot be reliably determined until such time the development is complete.

Investment properties with a carrying value of KD 13,780,000 (2008: KD 13,847,137) are mortgaged against certain murabaha payables (Note 17). Further, investment properties with a carrying value of KD 16,163,865 (2008: KD Nil) are mortgaged against a murabaha payable obtained from a local Islamic financial institution which is also a related party (Note 13).

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10 INVESTMENT PROPERTIES (continued)

(Loss) income from investment properties included in the consolidated statement of income includes the following:

	<i>12 months ended 31 December 2009 KD</i>	<i>15 months ended 31 December 2008 KD</i>
Change in fair values	(32,028,889)	13,167,054
Net rental income	7,208,963	2,766,350
Gain on sale of investment properties	867,644	6,186,448
Reversal of gain on cancellation of sale agreement of lease rights (refer note above)	(5,725,799)	-
	<u>(29,678,081)</u>	<u>22,119,852</u>

11 FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
<i>Held for trading:</i>		
Quoted securities	<u>443,174</u>	<u>807,785</u>

Hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in note 25.

12 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
Receivable from sale of investment properties	2,681,308	2,711,251
Advances to contractors	480,914	658,445
Accrued income	-	1,032,097
Prepaid expenses	46,481	596,145
Staff receivable	46,905	25,489
Other receivables	870,172	3,012,341
	<u>4,125,780</u>	<u>8,035,768</u>

At 31 December 2009, receivables at nominal value of KD 3,934,555 (2008: KD 2,467,993) were fully impaired and provided for.

Movements in the allowance for impairment of receivables were as follows:

	<i>12 months ended 31 December 2009 KD</i>	<i>15 months ended 31 December 2008 KD</i>
Opening balance	2,467,993	990,817
Charge for the year / period	1,466,562	1,477,176
Ending balance	<u>3,934,555</u>	<u>2,467,993</u>

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12 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

The analysis of unimpaired trade receivables (receivables from sale of investment properties and advances to contractors) is as follows:

	Total KD	Neither past due nor impaired KD	Past due but not impaired				
			< 30 days KD	30 – 60 days KD	60 – 90 days KD	90 – 120 days KD	More than 120 days KD
31 December 2009	3,162,222	1,233,117	407,714	535,518	267,759	160,656	557,458
31 December 2008	3,369,696	677,474	569,739	748,332	374,167	224,500	775,484

It is not the Group's policy to obtain collateral over receivables and the vast majority is, therefore unsecured.

13 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates, directors and key management personnel of the Group, and entities which are controlled by them or over which they exert significant influence. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions with related parties included in the consolidated statement of income are as follows:

	Major shareholders KD	Other related parties KD	12 months ended 31 December 2009 KD	15 months ended 31 December 2008 KD
Management fees	-	1,704,324	1,704,324	1,596,859
Gain on sale of investment in an associate	-	-	-	360,139
Realised gain on sale of financial assets carried at fair value through statement of income	214,049	-	214,049	-
Finance income	-	146,863	146,863	111,868
Net arrangement and placement fees	-	-	-	3,294,412
Other income	-	-	-	239,973
Provision for doubtful debts	-	(470,917)	(470,917)	(379,615)
Finance costs	(5,345,060)	-	(5,345,060)	(1,811,801)

Balances with related parties included in the consolidated statement of financial position are as follows:

	Major shareholders KD	Other related parties KD	31 December 2009 KD	31 December 2008 KD
Available for sale financial assets	-	4,582,087	4,582,087	5,677,227
Financial assets at fair value through statement of income	443,174	-	443,174	807,785
Cash and cash equivalents	25,931	-	25,931	275,842
Amounts due from related parties	-	11,858,341	11,858,341	38,532,616
Amount due to related parties (Current and non-current)	37,276,570	6,933,889	44,210,459	40,937,814
Murabaha payables (Note 17)	36,905,232	-	36,905,232	14,463,567

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13 RELATED PARTY TRANSACTIONS (continued)

Amounts due from (to) related parties disclosed on the face of the consolidated statement of financial position are free of profit and unsecured.

Included in amounts due to related parties is an amount of KD 37,263,367 (2008: KD 34,010,536) resulted from acquisition of investment properties.

The non-current portion of amounts due to related parties is discounted at an effective discount rate of 6% (2008: 8%) per annum.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year / period were as follows:

	<i>12 month ended 31 December 2009 KD</i>	<i>15 months ended 31 December 2008 KD</i>
Short-term benefits	193,851	245,250
Employees' end of service benefits	8,097	5,211
	<u>201,948</u>	<u>250,461</u>

14 CASH AND CASH EQUIVALENTS

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
Bank balances and cash	2,018,328	13,772,013
Money market funds	3,539,753	-
Wakala investments	2,384,452	2,572,800
	<u>7,942,533</u>	<u>16,344,813</u>

Bank balances represent non-interest bearing current bank accounts held mainly with islamic financial institutions. As at 31 December 2009, bank balances include KD 25,931 placed with a related party (31 December 2008: KD 275,842) (Note 13).

Investment in money market fund includes investment in funds of reputable financial institution. These instruments are highly liquid and readily convertible into cash.

Wakala investments represent deposits with local islamic financial institutions and maturing within three months from the date of placement. The profit rate on wakala investments is 6% per annum (2008: 6%).

15 SHARE CAPITAL

	<i>2009 KD</i>	<i>2008 KD</i>
Authorised, issued and paid up capital consists of 322,000,000 (2008: 322,000,000) shares of 100 fils each	<u>32,200,000</u>	<u>32,200,000</u>

The board of directors have not proposed any dividends for the financial year ended 31 December 2009 (31 December 2008: 10 fils per share totalling to KD 2,800,000).

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16 STATUTORY AND VOLUNTARY RESERVES

As required by Kuwait Law of Commercial Companies and the Parent Company's articles of association, 10% of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration to be transferred to statutory reserve. No transfer is required for the year as loss is incurred. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued 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.

As required by the Parent Company's articles of association, a percentage of the profit for the year attributable to the Parent Company before KFAS, NLST, Zakat and board of directors' remuneration to be transferred to general reserve based on the proposal of the board of directors of the Parent Company and the approval of the annual general assembly of the Parent Company shareholders'.

The extraordinary general assembly meeting may upon an approval by the board of directors of the Parent Company increase the percentage as it deems appropriate, and may resolve to discontinue such annual transfers, if proposed by the board of directors of the Parent Company.

17 MURABAHA PAYABLES

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
Gross amount	67,935,808	62,231,069
Less: deferred profit payable	<u>(1,907,298)</u>	<u>(1,236,377)</u>
	<u>66,028,510</u>	<u>60,994,692</u>
	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
Current portion	8,819,776	22,252,620
Non-current portion	<u>57,208,734</u>	<u>38,742,072</u>
	<u>66,028,510</u>	<u>60,994,692</u>

The average profit payable rate attributable to murabaha payables is 6.5% (2008: 8.5%) per annum.

Murabaha payables amounting to KD 36,905,232 (2008: KD 14,463,567) are with related parties (Note 13) of which KD 19,632,070 is secured by certain investment properties with a carrying value of KD 16,163,865 (Note 10).

Murabaha payables amounting to KD 6,580,263 (2008: 6,636,232) are secured by certain investment properties with a carrying value of KD 13,780,000 (Note 10).

18 OBLIGATIONS UNDER FINANCE LEASES

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
Lease obligations	15,157,279	27,191,442
Less: current portion	<u>(13,476,900)</u>	<u>(25,583,920)</u>
Long term obligations under finance leases	<u>1,680,379</u>	<u>1,607,522</u>

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18 OBLIGATIONS UNDER FINANCE LEASES (continued)

Obligations under finance leases relate to projects at Al-Madina Al-Monawara and Makka Al-Mokarama and represent the future instalments due for the net present value of minimum lease payments for property interests acquired under finance lease which are classified as investment properties and accounted for as a finance lease. The instalments due within twelve months from the financial position date are shown under current liabilities.

The minimum lease payments by year are as follows:

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
2009	-	25,600,325
2010	13,507,910	110,505
2011	114,803	110,505
Thereafter	3,214,469	3,094,140
Total minimum lease payments	16,837,182	28,915,475
Less: estimated lease amount representing finance charges relating to future years	(1,679,903)	(1,724,033)
Present value of minimum finance lease rental payments	15,157,279	27,191,442
Current portion of lease obligations	(13,476,900)	(25,583,920)
Non-current portion of lease obligations	1,680,379	1,607,522

19 ACCOUNTS PAYABLE AND ACCRUALS

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
Payables to contractors for investment properties	25,426,858	27,565,102
Accrued expenses	331,335	804,227
Unearned revenue	8,327,640	9,369,386
Advances from customers	1,639,576	3,245,501
Other payables	3,731,713	2,276,561
	39,457,122	43,260,777

Included in payables to contractors for investment properties and unearned revenue is an amount of KD 17,414,221 (2008: KD 17,491,375) which is due after one year from the financial position date and accordingly it is classified as non-current accounts payable.

20 SEGMENTAL INFORMATION

Primary segment information

For management purposes the Group is organised into two major business segments. The principal activities and services under these segments are as follows:

- Investment : Managing portfolio of investments.
- Real estate : Purchase, sale, development and renting of properties.

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20 SEGMENTAL INFORMATION (continued)

31 December 2009	Investment KD	Real estate KD	Unallocated KD	Total KD
Revenue				
Segment revenues (losses)	1,360,567	(27,546,056)	-	(26,185,489)
Results				
Segment results	1,360,567	(45,050,520)	868,379	(42,821,574)
Share of results of associates	92,715	-	-	92,715
Depreciation	-	(278,087)	-	(278,087)
Impairment loss on available for sale financial assets	(882,458)	-	-	(882,458)
Profit (loss) for the year	570,824	(45,328,607)	868,379	(43,889,404)
Assets and liabilities				
Segment assets	26,182,218	186,599,526	6,409,951	219,191,695
Investment in associates	3,440,129	3,229,500	-	6,669,629
Total assets	29,622,347	189,829,026	6,409,951	225,861,324
Segment liabilities	2,374,818	154,005,144	8,601,506	164,981,468
Other segmental information:				
Capital expenditure:	-	18,542,595	-	18,542,595
31 December 2008				
Revenue				
Segment (losses) revenues	(2,304,968)	28,845,667	-	26,540,699
Results				
Segment results	(2,304,968)	13,676,447	220,262	11,591,741
Share of results of associates	(117,957)	-	-	(117,957)
Gain on sale of investment in an associate	360,139	-	-	360,139
Loss on deemed disposal of an associate	(47,815)	-	-	(47,815)
Depreciation	-	(257,599)	-	(257,599)
Impairment loss on available for sale financial assets	(1,477,176)	-	-	(1,477,176)
(Loss) profit for the period	(3,587,777)	13,418,848	220,262	10,051,333
Assets and liabilities				
Segment assets	21,092,630	237,691,322	12,249,603	271,033,555
Investment in associates	3,185,586	3,229,500	-	6,415,086
Total assets	24,278,216	240,920,822	12,249,603	277,448,641
Segment liabilities	7,446,428	154,121,637	10,903,513	172,471,578
Other segmental information:				
Capital expenditure:	-	128,593,159	-	128,593,159

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20 SEGMENTAL INFORMATION (continued)

Secondary segment information

The Group operates in different geographical areas. A geographical analysis based on location of revenue, results, assets and liabilities based on location is as follows:

31 December 2009	Kuwait KD	Turkey KD	GCC KD	Total KD
Revenue				
Segment revenues (losses)	<u>(1,406,312)</u>	<u>(21,108)</u>	<u>(24,758,069)</u>	<u>(26,185,489)</u>
Non-current assets	<u>31,688,013</u>	<u>3,354</u>	<u>169,800,129</u>	<u>201,491,496</u>
31 December 2008	Kuwait KD	Turkey KD	GCC KD	Total KD
Revenue				
Segment (losses) revenues	<u>(1,189,918)</u>	<u>146,270</u>	<u>27,584,347</u>	<u>26,540,699</u>
Non-current assets	<u>28,523,882</u>	<u>76,644</u>	<u>185,127,133</u>	<u>213,727,659</u>

Non current assets for this purpose consist of property, plant and equipment and investment properties. Segment assets under Kuwait include goodwill of KD 2,875,238 (2008 KD 2,875,238) (Note 7).

21 PROFIT RATE SWAPS

The Group enters into profit rate swaps to mitigate exposure to rate of profit on murabaha exposures. In profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value.

The table below shows the negative fair values of profit rate swaps, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of profit rate swap instrument's underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

31 December 2009	Negative fair value KD	Notional amounts		
		Within 1 year KD	1 - 3 years KD	Total KD
Profit rate swaps held for trading: Tabdeel	<u>(937,930)</u>	<u>5,743,200</u>	<u>22,972,800</u>	<u>28,716,800</u>
31 December 2008				
Profit rate swaps held for trading: Tabdeel	<u>(21,848)</u>	<u>5,524,000</u>	<u>8,286,000</u>	<u>13,810,000</u>

22 COMMITMENTS AND CONTINGENCIES

At 31 December 2009, the Group had commitments in respect of construction cost amounting to KD 4,121,294 (2008: KD 6,381,605).

At 31 December 2009, the Group had contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 86,151 (2008: 547,950).

23 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into interest rate risk, foreign currency risk and equity price risk. It is also subject to operational risks. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process.

The management of the Parent Company is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

The management of the Parent Company reviews and agrees policies for managing each of these risks which are summarised below.

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. Management of the Parent Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The maximum credit risk is limited to amounts appearing on the consolidated statement of financial position.

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party.

Impaired and past due but not impaired financial assets of the Group are disclosed in note 12.

The Group's credit risk bearing financial assets, before taking into account any collateral held or credit enhancements can be analysed by industry wise sector as follows:

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
<i>Industry sector:</i>		
Banks and financial institutions	7,942,533	16,344,813
Construction and real estate	4,079,299	7,439,623
	<u>12,021,832</u>	<u>23,784,436</u>

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management of the Parent Company has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. For the year ending 31 December 2010, funds may be required from the shareholders to meet the Group's liabilities.

The table below summarises the maturity profile of the Group's liabilities based on contractual undiscounted repayment obligations.

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23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2009	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
Obligations under finance leases	-	-	13,507,909	3,329,273	16,837,182
Murabaha payables	862,134	292,285	8,778,684	58,002,705	67,935,808
Accounts payable and accruals	2,367,427	3,945,712	15,729,762	17,414,221	39,457,122
Amounts due to related parties	552,631	751,578	5,642,883	42,148,614	49,095,706
TOTAL LIABILITIES	3,782,192	4,989,575	43,659,238	120,894,813	173,325,818
Commitments	-	-	2,884,906	1,236,388	4,121,294
31 December 2008	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
Obligations under finance leases	-	13,617,142	13,690,811	1,607,522	28,915,475
Murabaha payables	1,311,169	1,282,156	20,380,992	39,256,752	62,231,069
Accounts payable and accruals	5,225,612	9,144,821	11,398,969	17,491,375	43,260,777
Amounts due to related parties	508,845	712,383	814,153	45,809,871	47,845,252
TOTAL LIABILITIES	7,045,626	24,756,502	46,284,925	104,165,520	182,252,573
Commitments	-	1,865,059	1,865,059	2,651,487	6,381,605

Market risk

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

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

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to profit rate risk as all its islamic financial instruments are at fixed profit rates.

Currency risk

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

The management of the Parent Company monitors the positions on a daily basis to ensure positions are maintained within established limits.

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23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The effect on (loss) profit before KFAS, NLST and Zakat (due to change in the fair value of monetary assets and liabilities) and on equity, as a result of change in currency rate, with all other variables held constant is shown below:

	<i>Change in currency rate in %</i>	<i>Effect on (loss) profit before KFAS, NLST and Zakat</i>		<i>Change in currency rate in %</i>	<i>Effect on equity</i>	
		<i>31 December</i>	<i>31 December</i>		<i>31 December</i>	<i>31 December</i>
		<i>2009</i>	<i>2008</i>		<i>2009</i>	<i>2008</i>
		<i>KD</i>	<i>KD</i>		<i>KD</i>	<i>KD</i>
United State Dollars	+5	(1,481,962)	500,082	+5	333,833	126,940
Saudi Riyals	+5	(41,001)	(2,892,298)	+5	168,443	384,038

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through placing limits on individual and total equity investments.

The effect on equity (as a result of a change in the fair value of available for sale financial assets) and Group's (loss) profit before KFAS, NLST and Zakat (as a result of a change in the fair value of financial assets carried at fair value through statement of income) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	<i>2009</i>		<i>2008</i>	
	<i>Change in equity price %</i>	<i>Effect on loss before KFAS, NLST and Zakat KD</i>	<i>Change in equity price %</i>	<i>Effect on loss before KFAS, NLST and Zakat KD</i>
<i>Market indices</i>				
Kuwait	+5	22,159	+5	139,279

As at 31 December 2009, the Group had no quoted available for sale equity investments (2008: Nil).

24 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder's value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the year/period ended 31 December 2009 and 31 December 2008.

The Group includes within net debt, murabaha payables, Obligation under finance leases, accounts payables and accruals, amounts due to related parties less cash and cash equivalents. Total capital represents equity attributable to the Parent Company less cumulative changes in fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

24 CAPITAL MANAGEMENT (continued)

	2009 KD	2008 KD
Murabaha payables	66,028,510	60,994,692
Obligations under finance leases	15,157,279	27,191,442
Accounts payable and accruals	39,457,122	43,260,777
Amounts due to related parties	44,210,459	40,937,814
Less: cash and cash equivalents	(7,942,533)	(16,344,813)
Net debt	156,910,837	156,039,912
Total capital	60,352,590	104,144,209
Net debt to equity ratio	2.60	1.50

25 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of available for sale financial assets, financial assets at fair value through statement of income, accounts receivables, and cash and cash equivalents. Financial liabilities consist of murabaha payables, obligations under finance leases and other payables.

The fair values of financial instruments, with the exception of certain available for sale financial assets carried at cost (Note 9), are not materially different from their carrying values at the financial position date.

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

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

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

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

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

31 December 2009	Level: 1 KD	Level: 2 KD	Level: 3 KD	Total KD
Financial assets carried at fair value through statement of income				
Financial assets carried at fair value through statement of income	443,174	-	-	443,174
Available for sale financial assets:				
Unquoted securities	-	-	3,486,296	3,486,296
Managed funds	-	3,001,769	-	3,001,769
	<u>443,174</u>	<u>3,001,769</u>	<u>3,486,296</u>	<u>6,931,239</u>

During the year ended 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.