ANNUAL REPORT

2011

شركة الديرة القابضة

Al-Deera Holding Co.

شركة الديرة القابضة
Al-Deera Holding Co.

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A Brief History of Kuwait Stamps

The postal history of Kuwait begins around 1775, when the East India Company began an overland desert camel service from the head of the Persian Gulf to Aleppo and Constantinople, as an alternative to slower sea travel around the Arabian Peninsula. This operated until 1795. KUWAIT overprint on 4-anna olive green of India, 1934.

Under British administration, British stamps were overprinted with values in annas and rupees. Unusually, the overprint was applied to all British stamps issued during this period, both regular and commemorative issues.

In 1957, the currency was decimalised, 100 naye paise (np) to a rupee, which necessitated a fresh set of overprints. These were to be the last stamps issued by the British, for in anticipation of their coming independence, the Kuwaitis took over postal administration on 31 January 1959.

A first set of Kuwaiti stamps had already gone into production, with 5np and 10np values depicting Sheik 'Abd Allah III al-Salim al-Sabah, and a 40np value showing a dhow, being used on local mail in 1958. The full set of 13 values went on sale 1 February 1959, and included additional scenes of oil-related activities.

بسم الله الرحمن الرحيم

In the name of Allah, the most gracious, the most merciful

His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait

Contents

Members of the Board

Abdulwahab Ahmad Al-Nakib
Chairman and Managing Director

Nouf Jassim Al-Bahar
Vice Chairman

Turki Bin Nasser Al-Mutawa Al-Otaibi
Member of the Board

Amer Ali Al-Mutairi
Member of the Board

Dr. Rasem Zouq
Member of the Board

Chairman’s Message

Dear shareholders,

On behalf of myself and the Board of Directors of Al-Deera Holding Company, I present to you the corporate annual report for the financial year ended December 31, 2011.

Overview:

The effects of economic stagnation are still prevailing over the various business sectors, including local, regional and international investment and financial sectors, which are hindering the investment companies from performing customary investment activities. The investment sector and particularly the private equity sector have been affected because investors and consumers were unable to adapt to the new realities of the market after 25 years of continuous growth. This emerging reality resulted in a massive wave of divestments for the sake of winding down significant leverage accumulated throughout these years that ultimately and directly resulted in consecutive decline in investment valuation with each cycle of divestments.

Financial Performance:

Al-Deera Holding Company, similar to other companies in its domain, has been affected by this crisis and its consequences, and recorded a loss of Kuwait Dinars 16.5 million in 2011 (22.4 files per share), compared to a loss of Kuwaiti Dinars 12.9 million in 2010 (17.6 fils per share). These losses are mainly due to the decrease in the valuations of investments, provisions and Al-Deera Holding’s proportionate share in losses of some of its associate companies.

During 2011, the company has worked on restructuring its bank loans upon making Kuwaiti Dinars 3.4 million loan principal repayments for the sake of having adequate time to exit certain investments while generating a related worthwhile profitability from these exits. This is in contrast to a fire sales strategy that would result in avoidable losses. The amount of loans granted by local and foreign banks as at year ended December 31, 2011 is equal to Kuwaiti Dinars 34.5 million (27.4% of the total assets) compared to Kuwaiti Dinars 37.9 million as at December 31, 2010 (26.8% of the total assets). These ratios demonstrate the strength of the company’s balance sheet.

General Performance:

Despite the current market situation, many of our affiliate and subsidiary companies were able to increase their operating profits and market shares in 2011, such as FASTtelco which is specialized in providing internet services as well as local and international data communication solutions that also achieved record results during the prior year 2010; thanks to the new management that had the major role in effectively developing the company, both professionally and technically, who also introduced new innovative services in the information technology and telecommunication industry. In addition, Aiwa Gulf Co, which is specialized in offering value added services to the telecommunication industry and provides mobile content such as poetries and religious quotes, has also achieved worthwhile profits during the current year that exceeded last year’s record results.

Moreover, our other affiliate companies such as Al-Khat Printing Press Co. made a fresh restart of operations and achieved record profits that bypassed the high levels recorded during the past years of prosperity of the industrial sector. Al-Khat Printing Press Co. is one of the leading companies in Kuwait that specializes in printing and production of boxes and packaging materials. We, therefore, expect that that this company will further achieve higher profits in the coming years. All of these examples stated earlier further reflect the good quality of the company’s assets.

As for the strategic investments of Al-Deera Holding Co., the strategic and unique merger of three companies listed on the Kuwait Stock Exchange, each of which operates in different fields (Kuwait Invest Holding Co., Jeezan Holding Co. and International Finance Co.), has been completed during 2011. The International Finance Co. is specialized in financing and providing consumer loans, Kuwait Invest Co. offers brokerage services and Jeezan Holding Co. invests in both the real-estate and the services sectors.

The merger has resulted in the creation of a financial services company that offers consumer financing, brokerage services and asset management services. It has also resulted in bringing together distinctive experienced workforces across various industries in one single entity; all of which resulted in more competitively based company. Al-Deera Holding Co. owns a considerable stake of 18.33% in the merged entity.

Future Plans:

The company is planning to focus in the coming years on restructuring its portfolio of investments and boosting its stakes in affiliate and subsidiary companies. Furthermore, the company will also work on exiting certain investments within the telecommunication and industrial sectors while supporting the activities of its affiliate and subsidiary companies. In this context, it is worth noting that the company was not able to execute its planned divestments in 2011 due to various reasons. For example, the sale of our SeaMobile Co. sake could not be completed because the majority shareholders of SeaMobile Co. refused an acquisition offer made by a single buyer and instead is adopting other alternatives such as seeking offers from multiple parties. SeaMobile Co. is specialized in providing superior wireless voice and data communication services in the maritime industry including cruise lines, yachts, container ships and offshore oil, and gas platforms.

In conclusion, I would like to thank all of our shareholders for their continuous support and confidence. On behalf of all of us, I truly appreciate the efforts of our management and staff team and wish everyone success and prosperity.

Abdul Wahab Ahmad Al Naqib
Chairman and Managing Director

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Al-Qatami, Al-Aiban & Partners

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Independent auditors' report

To the shareholders of
Al-Deera Holding Company – KSC (Holding)
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Al-Deera Holding Company - Kuwaiti Shareholding Company (Holding) and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Independent auditors' report (continued)

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Al-Deera Holding Company and its subsidiaries as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Matters

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

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

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

Kuwait
1 April 2012

Consolidated statement of income

	Notes	**Year ended 31 Dec. 2011 KD**	Year ended 31 Dec. 2010 KD
Revenue			
Sales		**11,871,993**	11,201,868
Cost of sales		**(8,253,954)**	(7,500,850)
Gross profit		**3,618,039**	3,701,018
Change in fair value of investments at fair value through statement of income		**(365,427)**	(223,848)
(Loss)/profit on sale of investments at fair value through statement of income		**(336,587)**	231,897
Loss on sale of available for sale investments		**(392,352)**	(50,376)
Loss on sale of investment property		**-**	(57,000)
Share of results of associates		**(8,536,969)**	(5,454,598)
Profit on sale of associates' shares	14	**419,197**	622,469
Profit on disposal of associate	14	**4,477,106**	-
Dividend income		**-**	483,978
Interest and other income	8	**243,308**	429,727
Provisions no longer required written back		**-**	34,647
Gain on foreign exchange		**176,079**	574,178
		(697,606)	292,092
Expenses and other charges			
Distribution costs		**559,271**	646,076
Staff costs		**1,798,235**	2,045,177
General, administrative and other expenses		**1,094,147**	807,306
Finance costs	10	**2,555,810**	1,932,486
Provision for doubtful receivables	16	**4,975,991**	898,673
Impairment of available for sale investments	15	**1,158,486**	6,146,929
Impairment of investments in associates	14	**2,848,763**	-
		14,990,703	12,476,647
Loss for the year		**(15,688,309)**	(12,184,555)
Attributable to:			
Owners of the parent company		**(16,541,223)**	(12,975,981)
Non-controlling interests		**852,914**	791,426
		(15,688,309)	(12,184,555)
Basic and diluted loss per share attributable to the owners of the parent company	11	**(22.37) Fils**	(17.66) Fils

The notes set out on pages 20 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Loss for the year	**(15,688,309)**	(12,184,555)
Other comprehensive income/(loss):		
Exchange differences arising on translation of foreign operations	**(16,834)**	(37,750)
Available for sale investments:		
- Net losses arising during the year	**(6,303,048)**	(7,352,848)
- Transferred to consolidated statement of income on sale	**(10,013,030)**	(2,155,423)
- Transferred to consolidated statement of income on impairment	**1,158,486**	6,146,929
Share of other comprehensive income/(loss) of associates	**3,773,586**	(1,102,353)
Total other comprehensive loss	**(11,400,840)**	(4,501,445)
Total comprehensive loss for the year	**(27,089,149)**	(16,686,000)
Total comprehensive (loss)/income attributable to:		
Owners of the parent company	**(27,942,063)**	(17,477,426)
Non-controlling interests	**852,914**	791,426
	(27,089,149)	(16,686,000)

The notes set out on pages 20 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Notes	31 Dec. 2011 KD	31 Dec. 2010 KD
Assets			
Non-current assets			
Goodwill		7,060,016	7,060,016
Property, plant and equipment	12	3,687,033	3,835,664
Intangible asset	13	6,182,193	6,182,193
Investment in associates	14	66,346,625	58,513,461
Available for sale investments	15	30,177,764	58,520,596
		113,453,631	134,111,930
Current assets			
Inventories		434,954	499,282
Receivables and other assets	16	8,194,718	14,043,124
Investments at fair value through statement of income	17	2,651,235	4,786,095
Short-term deposits	26	753,543	250,905
Balances with banks and other financial institutions	26	785,738	796,908
		12,820,188	20,376,314
Total assets		126,273,819	154,488,244
Equity and liabilities			
Equity			
Share capital	18	74,445,648	74,445,648
Treasury shares	19	(201,606)	(482,760)
Legal reserve	20	1,000,000	18,204,754
Voluntary reserve	21	-	18,204,754
Other components of equity	22	26,122,466	37,521,123
Accumulated losses		(38,565,743)	(57,240,596)
Total equity attributable to the owners of the parent company		62,800,765	90,652,923
Non-controlling interests		2,424,250	1,571,336
Total equity		65,225,015	92,224,259

Consolidated statement of financial position (continued)

	Notes	31 Dec. 2011 KD	31 Dec. 2010 KD
Liabilities			
Non-current liabilities			
Term loans	23	13,674,250	22,969,526
Provision for end of service indemnity		1,027,677	944,980
		14,701,927	23,914,506
Current liabilities			
Payables and other liabilities	24	20,747,931	18,756,996
Advances from customers		4,729,178	3,745,250
Current portion of term loans	23	17,882,526	12,848,462
Bank overdrafts	25	2,987,242	2,998,771
		46,346,877	38,349,479
Total liabilities		61,048,804	62,263,985
Total equity and liabilities		126,273,819	154,488,244

Abdulwahab Ahmad Al-Nakib
Chairman and Managing Director

The notes set out on pages 20 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to the owners of the parent company							Non-controlling interests	
	Share capital	Treasury shares	Legal reserve	Voluntary reserve	Other components of equity	Accumulated losses	Sub – total		Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2011	74,445,648	(482,760)	18,204,754	18,204,754	37,521,123	(57,240,596)	90,652,923	1,571,336	92,224,259
Write off of accumulated losses (note 27)	-	-	(17,204,754)	(18,204,754)	-	35,409,508	-	-	-
Purchase of treasury shares	-	(4,886)	-	-	-	-	(4,886)	-	(4,886)
Sale of treasury shares	-	286,040	-	-	-	-	286,040	-	286,040
Loss on sale of treasury shares	-	-	-	-	-	(191,249)	(191,249)	-	(191,249)
Transactions with owners	-	281,154	(17,204,754)	(18,204,754)	-	35,218,259	89,905	-	89,905
(Loss)/profit for the year	-	-	-	-	-	(16,541,223)	(16,541,223)	852,914	(15,688,309)
Other comprehensive loss:									
Other comprehensive loss for the year	-	-	-	-	(11,398,657)	(2,183)	(11,400,840)	-	(11,400,840)
Total comprehensive (loss)/income for the year	-	-	-	-	(11,398,657)	(16,543,406)	(27,942,063)	852,914	(27,089,149)
Balance at 31 December 2011	**74,445,648**	**(201,606)**	**1,000,000**	**-**	**26,122,466**	**(38,565,743)**	**62,800,765**	**2,424,250**	**65,225,015**

The notes set out on pages 20 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

	Equity attributable to the owners of the parent company							Non-controlling interests	
	Share capital	Treasury shares	Legal reserve	Voluntary reserve	Other components of equity	Accumulated losses	Sub – total		Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2010 (as reported)	74,445,648	(1,155,358)	18,204,754	18,204,754	42,459,440	(44,983,101)	107,176,137	(2,991,227)	104,184,910
Prior year adjustment	-	-	-	-	-	964,422	964,422	3,771,137	4,735,559
Balance as at 1 January 2010 (as restated)	74,445,648	(1,155,358)	18,204,754	18,204,754	42,459,440	(44,018,679)	108,140,559	779,910	108,920,469
Purchase of treasury shares	-	(455,034)	-	-	-	-	(455,034)	-	(455,034)
Sale of treasury shares	-	1,127,632	-	-	-	-	1,127,632	-	1,127,632
Loss on sale of treasury shares	-	-	-	-	-	(682,808)	(682,808)	-	(682,808)
Transactions with owners	-	672,598	-	-	-	(682,808)	(10,210)	-	(10,210)
(Loss)/profit for the year	-	-	-	-	-	(12,975,981)	(12,975,981)	791,426	(12,184,555)
Other comprehensive loss:									
Other comprehensive loss for the year	-	-	-	-	(4,938,317)	436,872	(4,501,445)	-	(4,501,445)
Total comprehensive (loss)/income for the year	-	-	-	-	(4,938,317)	(12,539,109)	(17,477,426)	791,426	(16,686,000)
Balance at 31 December 2010	74,445,648	(482,760)	18,204,754	18,204,754	37,521,123	(57,240,596)	90,652,923	1,571,336	92,224,259

The notes set out on pages 20 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
OPERATING ACTIVITIES			
Loss for the year		**(15,688,309)**	(12,184,555)
Adjustments for:			
Foreign exchange gain on non-operating assets and liabilities		**(196,134)**	(565,689)
Depreciation		**1,051,084**	833,656
Interest income		**(243,308)**	(429,727)
Impairment of available for sale investments		**1,158,486**	6,146,929
Impairment of investment of associates		**2,848,763**	-
Provision for end of service indemnity		**183,539**	201,618
Provision for doubtful receivables		**4,975,991**	898,673
Provision for damaged inventories		**46,572**	29,046
Dividend income		**-**	(483,978)
Loss on sale of available for sale investments		**392,352**	50,376
Share of results of associates		**8,536,969**	5,454,598
Profit on sale of associates' shares		**(419,197)**	(622,469)
Profit on disposal of associate		**(4,477,106)**	-
Loss on write off of property, plant and equipment		**7,637**	-
Loss on sale of property, plant and equipment		**-**	13,946
Loss on sale of investment property		**-**	57,000
Finance costs		**2,555,810**	1,932,486
		733,149	1,331,910
Changes in operating assets and liabilities:			
Inventories		**17,756**	(52,926)
Receivables and other assets		**704,902**	(617,025)
Investments at fair value through statement of income		**(1,126,912)**	2,311,639
Payables and other liabilities		**2,986,437**	1,453,523
Advances from customers		**983,928**	58,816
End of service indemnity paid		**(110,726)**	(21,585)
Net cash from operating activities		**4,188,534**	4,464,352

The notes set out on pages 20 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

	Note	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
INVESTING ACTIVITIES			
Purchase of available for sale investments		**-**	(256,710)
Proceeds from sale of available for sale investments		**-**	374,539
Dividend income received		**-**	17,574
Interest income received		**125,065**	225,385
Purchase of property, plant and equipment		**(910,090)**	(917,279)
Proceeds from sale of property, plant and equipment		**-**	2,879
Proceeds from sale of investment property		**-**	650,000
Investment in associates		**(644,575)**	(1,532,224)
Proceeds from sale of investment in associates		**2,518,332**	1,502,556
Net cash from investing activities		**1,088,732**	66,720
FINANCING ACTIVITIES			
Sale of treasury shares		**94,791**	444,824
Purchase of treasury shares		**(4,886)**	(455,034)
Finance costs paid		**(2,131,729)**	(1,491,948)
Repayment of term loans		**(2,732,445)**	(3,242,500)
Net cash used in financing activities		**(4,774,269)**	(4,744,658)
Net increase/(decrease) in cash and cash equivalents		**502,997**	(213,586)
Cash and cash equivalents at beginning of the year	26	**(1,950,958)**	(1,737,372)
Cash and cash equivalents at end of the year	26	**(1,447,961)**	(1,950,958)

The notes set out on pages 20 to 52 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
31 December 2011

1. Incorporation and activities

Al-Deera Holding Company (the parent company) was established on 18 February 1998 as a Kuwaiti limited liability company. On 8 June 2005, the legal status of the company was changed from a limited liability company to a Kuwaiti holding shareholding company, with the following activities:

- Extending loans to investee companies and providing guarantees for third parties, provided that the share of the holding company in the investee company is not less than 20%.
- Acquisition of industrial rights and related intellectual properties or any other industrial trade marks or royalties and any other property related thereto, and renting such properties to the others whether inside Kuwait or abroad.
- Acquisition of properties and buildings necessary to carry out the business activities as allowable by the law.
- Ownership of shares in Kuwaiti and foreign shareholding companies in addition to ownership of shares in Kuwaiti and foreign limited liability companies and the participation in the share capital of both types of companies including management, lending and guaranteeing against third parties.
- Utilizing excess funds through investing in financial portfolios managed by specialized companies and institutions.

The parent company has the right to carry out its activities inside Kuwait or abroad whether directly or through power of attorney.

The parent company is authorized to have interest in or participate with any party or institution carrying out similar activities or those parties who will assist the company in achieving its objectives whether in Kuwait or abroad. The parent company has the right to establish, participate in or acquire such institutions.

The parent company's shares are listed on Kuwait Stock Exchange. The group comprises the parent company and its subsidiaries. Details of subsidiaries are set out in note 7.

The address of the parent company's registered offices is PO. Box 4839, Safat 13049 – Kuwait.

The parent company's board of directors approved these consolidated financial statements for issue on 1 April 2012. The general assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

2. Basis of preparation

The consolidated financial statements of the group have been prepared under historical cost convention except for financial assets at fair value through statement of income and financial assets available for sale that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD").

3. Statement of compliance

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

4. Changes in accounting policies

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

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

4.1 Adoption of Improvements to IFRSs 2010

The Improvements to IFRSs 2010 made several minor amendments to a number of IFRSs. The only amendment relevant to the group relates to IAS 1 Presentation of Financial Statements. The group previously presented the reconciliations of each component of other comprehensive income in the statement of changes in equity. The group now presents these reconciliations in the notes to the financial statements, as permitted by the amendment (see note 22). This reduces duplicated disclosures and presents more clearly the overall changes in equity. Prior period comparatives have been restated accordingly.

4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

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

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

4.2.1 *IAS 1 Presentation of Financial Statements*

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

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

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

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

4. Changes in accounting policies (continued)

4.2.2 *IAS 27 Consolidated and Separate Financial statements – Revised as IAS 27 Separate Financial Statements*

As a result of the consequential amendments, IAS 27 now deals with separate financial statements.

4.2.3 *IAS 28 Investments in Associates – Revised as IAS 28 Investments in Associates and Joint Ventures*

As a result of the consequential amendments, IAS 28 brings investments in joint ventures into its scope. However, the equity accounting methodology under IAS 28 remains unchanged.

4.2.4 *IFRS 7 Financial Instruments: Disclosures*

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

4.2.5 *IFRS 9 Financial Instruments*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety with the replacement standard to be effective for annual periods beginning 1 January 2015. IFRS 9 is the first part of Phase 1 of this project. The main phases are:

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

In addition, a separate project is dealing with derecognition.

Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice, due to the non-completion of the remaining stages of the standard.

4.2.6 *IFRS 10 Consolidated Financial Statements*

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

4.2.7 *IFRS 13 Fair Value Measurement*

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

5. Significant accounting policies

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

5.1 Basis of consolidation

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

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

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

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

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

5.2 Business combinations

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

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

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

5. Significant accounting policies (continued)

5.3 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

5.4 Investment in associates

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

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

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

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

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

5.5 Segment reporting

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

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

5.6 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.

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

5.6.1 Sale of goods

Sale of goods comprises the sale of internet telecom related hardware and software and is recognised when the group has transferred to the buyer the significant risks and rewards of ownership of the goods supplied, which is normally the date customer has taken delivery of the goods.

5. Significant accounting policies (continued)

5.6.2 Rendering of services

Subscription fees (consisting primarily of monthly charges for access to broad band and other internet access) and services like voice calls are recognised as the service is provided.

Revenue from internet service contracts is recognised on a straight line basis over the term of the contract.

5.6.3 Interest and similar income

Interest and similar income and expenses are reported on an accrual basis using the effective interest method.

5.6.4 Dividend income

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

5.7 Operating expenses

Operating expenses are recognised in statement of income upon utilisation of the service or at the date of their origin.

5.8 Finance costs

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

5.9 Taxation

5.9.1 National Labour Support Tax (NLST)

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

5.9.2 Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the group in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

5.9.3 Zakat

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

For the year ended 31 December 2011, the Parent Company has no liability towards NLST, KFAS and Zakat due to losses incurred. Under the NLST and Zakat regulations no carry forward of losses to the future years nor any carry back to prior years is permitted.

5. Significant accounting policies (continued)

5.10 Property, plant and equipment

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

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

- Telecom equipment: 3 - 8 years
- Furniture and fixture: 5 years
- Office equipment: 5 years.

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

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

5.11 Intangible asset

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

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

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or change in circumstances indicate the carrying value may be impaired, either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

5.12 Impairment testing of goodwill and non financial assets

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

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

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

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

5. Significant accounting policies (continued)

5.13 Financial instruments

5.13.1 *Recognition, initial measurement and derecognition*

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through statement of income which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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

- rights to receive cash flows from the assets have expired;
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either

(a) the group has transferred substantially all the risks and rewards of the asset or

(b) the group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

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

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

5.13.2 *Classification and subsequent measurement of financial assets*

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

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

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

- ***Loans and receivables***

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

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

The group categorises loans and receivables into following categories:

5. Significant accounting policies (continued)

5.13.2 Classification and subsequent measurement of financial assets (continued)

- ***Due from related parties***

Due from related parties are financial assets originated by the group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

- ***Trade receivables***

Trade receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred

- ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand, balances with banks and other financial institutions and short term deposits due within three months net of bank overdrafts, which are subject to an insignificant risk of changes in value.

- ***Financial assets at FVTSI***

Classification of investments as financial assets at FVTSI depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are as designated at FVTSI upon initial recognition. All derivative financial instruments fall into this category.

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

- ***AFS financial assets***

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

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

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

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

5. Significant accounting policies (continued)

5.13.3 Classification and subsequent measurement of financial liabilities

The group's financial liabilities include term loans, bank overdrafts and payables and other liabilities.

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

- ***Financial liabilities other than at fair value through income statement***

These are stated using effective interest rate method. Term loans, bank overdrafts and payables and other liabilities are classified as financial liabilities other than at FVTSI.

- ***Term loans and bank overdrafts***

All term loans and bank overdrafts are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

- ***Payables and other liabilities***

Payables and other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed or not.

- ***Advances from customers***

Advances from customers represent money received from customers towards subscription fees. Advances from customers are stated net of revenue recognised during the period.

5.14 Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

5.15 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.16 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

5.17 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 31.

5. Significant accounting policies (continued)

5.18 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition on a weighted average basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

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

5.19 Equity, reserves and dividend payments

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

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

Other components of equity include the following:

foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign entities into KD

Fair value reserve – comprises gains and losses relating to available for sale financial assets

Accumulated losses includes all current and prior period accumulated losses. All transactions with owners of the parent are recorded separately within equity.

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

5.20 Treasury shares

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

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

5.21 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

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

5. Significant accounting policies (continued)

5.22 Foreign currency translation

5.22.1 *Functional and presentation currency*

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

5.22.2 *Foreign currency transactions and balances*

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

5.22.3 *Foreign operations*

In the group's financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period. On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to statement of income and are recognised as part of the gain or loss on disposal.

5.23 End of service indemnity

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

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

5.24 Related party transactions

Related parties consist of directors, executive officers, their close family members and companies which they are principal owners. All related party transactions are approved by management.

6. Significant management judgements and estimation uncertainty

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

6. Significant management judgements and estimation uncertainty (continued)

6.1 Significant management judgments

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

6.1.1 Classification of financial instruments

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

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

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

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

All other financial assets are classified as available for sale.

6.1.2 Fair values of assets and liabilities acquired

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

6.2 Estimates uncertainty

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

6.2.1 Impairment of goodwill and other intangible assets

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

6.2.2 Impairment of associates

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

6.2.3 Impairment of available for sale equity investments

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

6.2.4 Impairment of receivables

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

6. Significant management judgements and estimation uncertainty (continued)

6.2.5 Impairment of inventories

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

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

6.2.6 Useful lives of depreciable assets

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

6.2.7 Licence cost

The management assesses whether the useful life of licence cost is finite or indefinite and, if finite, the length of the useful life. The licence cost is regarded by the management as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity.

6.2.8 Business combinations

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

6.2.9 Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 31). There is a number of investments where this estimation cannot be reliability determined, and as a result investments with a carrying amount of KD1,438,842 (2010: 1,438,842) are carried at cost.

7. Subsidiary companies

Details of subsidiary companies are set out below:

Subsidiary	Country of ncorporation	Voting capital held %		Activities
		31 Dec. 2011	31 Dec. 2010	
Al-Deera International Communication Co. – WLL	Kuwait	**98%**	98%	General trading & contracting
Al-Deera SG Company – WLL	Kuwait	**98%**	98%	General trading
Al-Deera REG Company – WLL	Kuwait	**98%**	98%	General trading
Al-Deera IG Company – WLL	Kuwait	**98%**	98%	General trading
Al-Deera FG Company – WLL	Kuwait	**98%**	98%	General trading
BPL Global Middle East – WLL	Kuwait	**74%**	74%	General trading & contracting
Fast Telecommunication Co. – WLL	Kuwait	**39%**	39%	Telecommunication

Control in Fast Telecommunication Company – WLL is demonstrated by representation of majority of directors on the board of directors of the subsidiary.

The group has pledged 35% of the share capital of Al-Deera International Communication Company against term loan and bank overdrafts (note 23 and 25).

8. Interest and other income

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Interest on cash and cash equivalents	**125,065**	167,634
Interest on due from related parties	**118,243**	204,342
Rental income	**-**	57,751
	243,308	429,727

9. Net gain or (loss) on financial assets

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

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Cash and cash equivalents	**125,065**	167,634
Due from related parties	**118,243**	204,342
Investments at fair value through statement of income		
• Trading	**(548,113)**	211,371
• Designated	**(153,901)**	(202,976)
Available for sale investments	**(1,550,838)**	(5,713,673)
Net realised and unrealised loss	**(2,009,544)**	(5,333,302)
Net unrealised loss recognised in equity	**(424,690)**	(2,888,227)
	(2,434,234)	(8,221,529)

10. Finance costs

Finance costs relate to the group's borrowings activities: long and short-term loans, due to related parties and other bank facilities. All these financial liabilities are stated at amortised cost.

11. Basic and diluted loss per share

Loss per share is calculated by dividing the loss for the year attributable to the owners of the parent company by weighted average number of shares outstanding during the year (excluding treasury shares).

	Year ended 31 Dec. 2011	Year ended 31 Dec. 2010
Loss for the year attributable to the owners of the parent company (KD)	**(16,541,223)**	(12,975,981)
Weighted average number of shares outstanding during the year (excluding treasury shares)	**739,350,700**	734,829,522
Basic and diluted loss per share attributable to the owners of the parent company	**(22.37) Fils**	(17.66) Fils

12. Property, plant and equipment

	Telecom equipment KD	**Furniture & fixtures KD**	**Office equipment KD**	**Work under progress KD**	**Total KD**
31 December 2011:					
Cost					
At 1 January	11,302,556	414,697	746,239	209,492	**12,672,984**
Additions	755,570	36,917	117,603	-	**910,090**
Transfer	-	-	209,492	(209,492)	**-**
Disposals	(8,743)	(29,093)	(199)	-	**(38,035)**
At 31 December	12,049,383	422,521	1,073,135	-	**13,545,039**
Accumulated depreciation					
At 1 January	8,154,167	250,371	432,782	-	**8,837,320**
Charge for the year	820,786	64,943	165,355	-	**1,051,084**
Relating to disposals	(8,361)	(21,838)	(199)	-	**(30,398)**
At 31 December	8,966,592	293,476	597,938	-	**9,858,006**
Net book value					
At 31 December	**3,082,791**	**129,045**	**475,197**	**-**	**3,687,033**
31 December 2010:					
Cost					
At 1 January	10,488,116	378,110	707,480	209,492	11,783,198
Additions	840,917	37,603	38,759	-	917,279
Disposals	(26,477)	(1,016)	-	-	(27,493)
At 31 December	11,302,556	414,697	746,239	209,492	12,672,984
Accumulated depreciation					
At 1 January	7,505,726	191,091	317,515	-	8,014,332
Charge for the year	658,094	60,295	115,267	-	833,656
Relating to disposals	(9,653)	(1,015)	-	-	(10,668)
At 31 December	8,154,167	250,371	432,782	-	8,837,320
Net book value					
At 31 December	3,148,389	164,326	313,457	209,492	3,835,664

Deprecation charge for the year has been allocated as follows:

	Year ended 31 Dec. 2011	Year ended 31 Dec. 2010
Cost of sales	**963,654**	744,630
General, administrative and other expenses	**87,430**	89,026
	1,051,084	833,656

13. Intangible asset

This represents costs incurred by the group to acquire two licences from Ministry of Communication (MOC) Kuwait to provide internet and digital and voice services in Kuwait. The useful life of licence is assessed to be indefinite. Therefore, the licence cost is not amortised, but is tested for impairment annually. Management is not aware of any factors which may indicate impairment of the licences.

14. Investment in associates

	Country of incorporation	Percentage of ownership 31 Dec. 2011 %	31 Dec. 2010 %	Purpose
Al Bab Holding Company – WLL	Kuwait	20%	20%	Investment
Univest Consultancy Group – WLL	Kuwait	49%	49%	Financial
Al Khat Printing Press Company – WLL	Kuwait	21%	21%	Printing
Warba Press & Publishing Company – WLL	Kuwait	21%	21%	Press & publishing
Sadara Industrial Development Co. – WLL [Formerly: Gulf Safat Limited Co. – WLL]	Saudi Arabia	25%	25%	Food Industry
Aiwa Gulf Company – WLL	Kuwait	28%	28%	Communications
Good Food International – USA	USA	35%	35%	Food Industry
Diwan Capital Limited – UAE	UAE	24%	24%	Investment
International Financial Advisors – KSC (Closed)	Kuwait	24.79	25.61%	Investment
Kuwait Invest Holding Company – KSC (Closed)	Kuwait	-	25.11%	Investment
International Finance Company - KSC (Closed)	Kuwait	18.33%	-	Financing

	31 Dec. 2011 KD	31 Dec. 2010 KD
Balance at beginning of the year	58,513,461	66,778,554
Purchase of associates	644,576	1,532,224
Arising on merger (see 'a' below)	17,132,453	-
Disposal of associates	(2,099,135)	(3,202,616)
Dividends from associates	(215,750)	-
Share of results	(8,536,969)	(5,454,598)
Share of other comprehensive income of associates	3,773,586	(1,102,353)
Foreign exchange translation	(16,834)	(37,750)
Impairment of investment in associates	(2,848,763)	-
	66,346,625	58,513,461

14. Investment in associates (continued)

a) During the year, the activities of International Finance Company – KSC (Closed) ("IFC") merged with Kuwait Invest Holding Company – KSC (Closed) and Jeezan Holding Company – KSC (Closed). The merger details are as follows:

- The group received 57,205,991 shares in IFC, plus cash amount of KD2,737,190 in return for its investment in Kuwait Invest with a carrying value of KD18,226,939 which was previously accounted for as an investment in associate. The group realised a gain of KD4,477,106 on swap of this investment.
- The group received 1,243,971 shares in IFC in return for its investment in Jeezan with a carrying value of KD151,116 (Notes 15 and 17) which was previously classified as available for sale investment and investment at fair value. The parent company realised a gain of KD120,281 on swap of this investment.

  The group also had existing investments in IFC represented by 81,578,827 shares with a carrying value of KD19,905,234 classified as available for sale investment (note 15) and 6,084,400 shares with a carrying value of KD1,484,594 classified as investment at fair value through statement of income (note 17). Therefore, as a result of the above share swaps, the group's existing and additional interests in IFC became 18.2% amounting to KD35,359,392. The group also appointed a representative on the board of directors of "IFC" and accounts for its investment in IFC as investment in associate since it is now able to exercise significant influence over the investee.

b) During the year, the group sold part of two associates: International Financial Advisors – KSC (Closed) ("IFA") and International Finance Company – KSC (Closed) ("IFC") for a total consideration of KD2,518,332 resulting into a profit of KD419,197. The group also purchased shares in those associates. As a result of these sale and purchase transactions, the ownership interest in IFA decreased from 25.61% to 24.79% and increased from 18.2% to 18.33% in IFC at 31 December 2011.

c) Investment in associates of KD21,826,491 (2010: KD28,284,344) is pledged against bank overdrafts and term loans (notes 23 and 25).

d) As a result of the impairment testing of the carrying value of the investment in associates, the group recognised an impairment loss of KD2,848,763 (2010: KD Nil).

	31 Dec. 2011 KD	31 Dec. 2010 KD
Share in associates' assets and liabilities:		
Assets	170,667,535	177,455,482
Liabilities	(113,068,816)	(124,046,938)
	57,598,719	53,408,544
Share in associates' revenue and loss:		
Revenue	7,720,129	5,064,499
Loss	(8,536,969)	(5,454,598)
Carrying value of unquoted associates	12,483,350	12,504,718
Carrying value of quoted associates	53,863,275	46,008,743
	66,346,625	58,513,461
Fair value of quoted associates	22,064,684	28,623,888

15. Available for sale investments

	31 Dec. 2011 KD	31 Dec. 2010 KD
Investment portfolios	**3,502,017**	8,367,635
Quoted investments	**130,500**	17,543,844
Equity participations	**26,545,247**	32,609,117
	30,177,764	58,520,596

- Investment portfolios included investment in Jeezan Holding Company amounting to KD94,276 which has been swapped with shares in International Finance Company (Note 14). The group realised a gain of KD124,681 on reclassification.
- Investment portfolios and quoted investments included investment in International Finance Company amounting to KD19,905,234 which has been reclassified to investment in associate (Note 14). The group incurred a loss of KD517,033 on reclassification.
- Equity participations are investments with the objective of future medium and long-term capital growth. These investments include investments with a carrying value of KD1,438,842 (2010: KD1,438,842) which are stated at cost due to unavailability of reliable fair market value.
- During the year, the group recognised an impairment loss of KD1,158,486 (2010: KD6,146,929) against certain available for sale investments as the market value of these investments declined significantly below their costs. Management is not aware of any factors which may indicate any further impairment against available for sale investments.
- Available for sale investments having a carrying value of KD3,215,132 (2010: KD25,021,066) are pledged as security against term loans and bank overdrafts (note 23 and 25).

16. Receivables and other assets

	31 Dec. 2011 KD	31 Dec. 2010 KD
Financial assets		
Trade receivables	**5,596,745**	4,934,962
Due from associates	**5,930,692**	3,972,802
Due from other related parties	**3,041,098**	6,081,688
	14,568,535	14,989,452
Provision for doubtful receivables	**(7,233,595)**	(2,257,604)
	7,334,940	12,731,848
Staff receivables	**35,263**	44,812
Advance to suppliers	**174,861**	258,179
Refundable deposit	**14,897**	40,493
Other assets	**147,174**	568,880
	7,707,135	13,644,212
Non-financial assets		
Prepaid expenses	**487,583**	398,912
	8,194,718	14,043,124

16. Receivables and other assets (continued)

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

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

As at 31 December 2011 and 2010 the ageing analysis of trade receivables is as follows;

	Not due KD	30 days KD	60 days KD	90 days KD	Over 90 days KD	Total KD
31 December 2011	**72,186**	**1,022,254**	**530,494**	**248,827**	**3,722,984**	**5,596,745**
31 December 2010	154,774	939,483	365,766	143,917	3,331,022	4,934,962

Due from associates include balances amounting to KD1,402,004 which carry interest rate ranging from 5.75% to 10% per annum. The group has recognised a provision of KD4.4 million against receivables from associates.

Due from other related parties include balances amounting to KD401,096 which carry interest ranging from 4.5% to 5% per annum.

17. Investments at fair value through statement of income

	31 Dec. 2011 KD	31 Dec. 2010 KD
Held for trading:		
Local quoted shares	**170,653**	37,499
	170,653	37,499
Designated on initial recognition:		
Unquoted investments	**912,135**	1,066,037
Investment portfolios	**1,568,447**	3,682,559
	2,480,582	4,748,596
	2,651,235	4,786,095

- Local quoted shares and investment portfolios included investment in Jeezan Holding Company amounting to KD56,840 which has been swapped with shares in International Finance Company (Note 14). The group incurred a loss of KD4,400 on reclassification.
- Investment portfolios included investment in International Finance Company amounting to KD1,484,594 which has been reclassified to investment in associate (Note 14). The group incurred a loss of KD200,785 on reclassification.
- Designated investment portfolios having a carrying value of KD1,568,447 (2010: KD1,694,089) are pledged against term loan and bank overdrafts (note 23 and 25).

18. Share capital

	Authorised, issued and fully paid	
	31 Dec. 2011	31 Dec. 2010
Shares of KD0.100 each	**744,456,480**	744,456,480

19. Treasury shares

	31 Dec. 2011	31 Dec. 2010
Number of shares	**2,259,831**	5,306,081
Percentage of issued shares	**0.304%**	0.713%
Cost of treasury shares (KD)	**201,606**	482,760
Market value (KD)	**62,145**	185,713

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

Treasury shares amounting to KD61,469 (2010: KD175,887) are pledged against long term loans and bank facilities (note 23 and 25).

20. Legal reserve

The Commercial Companies Law and the parent company's articles of association require that 10% of the profit for the year before KFAS, NLST, Zakat and directors' remuneration is transferred to legal reserve. The shareholders of the parent company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital. No transfer is required in a year in which the parent company has incurred a loss or where cumulative losses exist.

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

21. Voluntary reserve

The Commercial Companies Law and the parent company's articles of association require that 10% of the profit for the year before KFAS, NLST, Zakat and directors' remuneration is transferred to the voluntary reserve. No transfer is required in a year in which the company has incurred a loss or where cumulative losses exist. Upon recommendation of the board of directors and approval of general assembly, the parent company may resolve to discontinue transfer to the voluntary reserve. There are no restrictions on distribution of voluntary reserve.

22. Other components of equity

	Fair value reserve KD	**Foreign currency translation reserve KD**	**Total KD**
Balance at 1 January 2011	**36,289,691**	**1,231,432**	**37,521,123**
Exchange differences arising on translation of foreign operations	**-**	**(16,834)**	**(16,834)**
Share of other comprehensive income of associates	**4,719,872**	**(944,103)**	**3,775,769**
AFS financial assets:			
- Net losses arising during the year	**(6,303,048)**	**-**	**(6,303,048)**
- Transferred to consolidated statement of income on impairment	**1,158,486**	**-**	**1,158,486**
- Transferred to consolidated statement of income on sale	**(10,013,030)**	**-**	**(10,013,030)**
Total other comprehensive loss for the year	**(10,437,720)**	**(960,937)**	**(11,398,657)**
Balance at 31 December 2011	**25,851,971**	**270,495**	**26,122,466**
Balance at 1 January 2010	41,333,341	1,126,099	42,459,440
Exchange differences arising on translation of foreign operations	-	(37,750)	(37,750)
Share of other comprehensive income of associates	(1,682,308)	143,083	(1,539,225)
AFS financial assets:			
- Net losses arising during the year	(7,352,848)	-	(7,352,848)
- Transferred to consolidated statement of income on impairment	6,146,929	-	6,146,929
- Transferred to consolidated statement of income on sale	(2,155,423)	-	(2,155,423)
Total other comprehensive income for the year	(5,043,650)	105,333	(4,938,317)
Balance at 31 December 2010	36,289,691	1,231,432	37,521,123

23. Term loans

Currency	Final maturity	**31 Dec. 2011 KD**	31 Dec. 2010 KD
Kuwaiti Dinars	2015	**7,698,000**	8,660,000
Kuwaiti Dinars	2011	**-**	840,000
US Dollars	2015	**10,464,376**	11,419,688
US Dollars	2012	**13,394,400**	14,898,300
		31,556,776	35,817,988
Less: Instalments due within next twelve months – Kuwait Dinars		**(17,882,526)**	(12,848,462)
		13,674,250	22,969,526

The term loans and bank overdrafts are secured against investment in associates (note 14), available for sale investments (note 15), investments at fair value through statement of income (note 17) and treasury shares (note 19).

The average affective interest rates on US Dollar loans is 4.41% (2010: 2.64%) per annum and on Kuwaiti Dinars loans is 6% (2010: 5.91%) per annum.

On 21 October 2011, an instalment of USD26.5 million matured for a syndicated loan facility of USD53 million. However, the group settled an amount of USD5,000,000 (equivalent to KD1,376,165) plus the related accrued interest up to that date of USD643,469 (equivalent to KD177,598). Subsequent to the reporting date, the remaining balance of the total facility of USD48 million is being restructured. The group has obtained initial approvals from the respective banks and final loan documentation is currently in progress. Under the restructured facility, the final maturity will be in December 2014.

24. Payables and other liabilities

	31 Dec. 2011 KD	31 Dec. 2010 KD
Financial liabilities		
Trade payables	**4,348,468**	4,917,492
Due to associates	**3,057,396**	831,334
Due to other related parties	**4,760,692**	4,691,416
Accrued expenses	**736,675**	710,042
National Labour Support Tax	**3,973,974**	3,973,974
Dividend payable	**65,135**	65,983
KFAS	**1,891,086**	1,891,086
Zakat	**27,097**	27,097
Other payables	**1,887,408**	1,648,572
	20,747,931	18,756,996

Due to associates include balances amounting to KD2,734,925 which bear interest rate ranging from 2.063% to 6.5%.
Due to other related parties include balances amounting to KD4,361,917 which bear interest rate ranging from 2.5% to 5.375%.

25. Bank overdrafts

The overdrafts are granted by a local bank at commercial rates and are secured (note 23).

26. Cash and cash equivalents

	Effective interest rate per annum %	31 Dec. 2011 KD	31 Dec. 2010 KD
Balances with banks and other financial institutions	-	**785,738**	796,908
Short term deposits	1%	**753,543**	250,905
Bank overdrafts	2.5% + KIBOR	**(2,987,242)**	(2,998,771)
		(1,447,961)	(1,950,958)

27. Annual general assembly

The general assembly of the shareholders held on 19 May 2011 approved the consolidated financial statements for the year ended 31 December 2010. The parent company did not propose any dividends for the year ended 31 December 2010.
The general assembly of the shareholders approved to write off accumulated losses of KD35,409,508 as at 31 December 2010 by transfer from legal reserve of KD17,204,754 and KD18,204,754 from voluntary reserve.
The directors do not propose dividends for the year ended 31 December 2011.

28. Related party transactions

Related parties represent, associates, directors and key management personnel of the group, and other related parties such as major shareholders and companies in which directors and key management personnel of the group are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the group's management.
Details of balances with related parties are included in notes 16 and 24.
Details of significant related party transactions are as follows:

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Transactions included in consolidated statement of income:		
Interest income on loans to associates	**118,243**	204,342
Finance costs (associates)	**153,014**	23,705
Finance costs (other related parties)	**142,651**	407,689
Loss on sale of investments at fair value through statement of income	**-**	139,889
Management fees	**185,000**	-

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Compensation of key management personnel:		
Short-term benefits	**585,218**	518,220
Employees' end of service benefits	**41,773**	89,309
	626,991	607,529

29. Segmental information

The group's reportable segments under IFRS 8 are as follows:
- Telecommunication
- Investments

The revenues and profits generated by the group from segments are summarised as follows:

	Telecommunication		Investments		Total	
	31 Dec. 2011 KD	31 Dec. 2010 KD	31 Dec. 2011 KD	31 Dec. 2010 KD	31 Dec. 2011 KD	31 Dec 2010 KD
Year ended 31 December:						
Segment revenue	**11,871,993**	11,201,868	**(8,498,973)**	(10,130,033)	**3,373,020**	1,071,835
Segment profit/(loss)	**1,398,220**	1,297,419	**(17,086,529)**	(13,481,974)	**(15,688,309)**	(12,184,555)
Profit /(loss) for the year	**1,398,220**	1,297,419	**(17,086,529)**	(13,481,974)	**(15,688,309)**	(12,184,555)
As at 31 December:						
Total segment assets	**15,693,739**	14,513,158	**110,580,080**	139,975,086	**126,273,819**	154,488,244
Total segment liabilities	**11,719,558**	11,937,197	**49,329,246**	50,326,788	**61,048,804**	62,263,985

30. Risk management objectives and policies

The group's principal financial liabilities comprise bank overdrafts, term loans and payables and other liabilities. The main purpose of these financial liabilities is to raise finance for group operations. The group has various financial assets such as receivables and other assets, cash and bank balances and investment securities.

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

The parent company's board of directors is ultimately responsible to set out policies and strategies for management of risks.

The group does not use derivative financial instruments.

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

30.1 Market risk

a) Foreign currency risk

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

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

The group had the following significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

	Financial assets		Financial liabilities	
	31 Dec. 2011	31 Dec. 2010	**31 Dec. 2011**	31 Dec. 2010
	KD	KD	**KD**	KD
US Dollar	**10,351,534**	14,518,743	**25,986,886**	26,341,409
UAE Dirham	**7,592**	141,253	**-**	-
Euro	**872,107**	1,026,008	**-**	-
ZAR	**221,301**	596,686	**-**	-

The foreign currency sensitivity is determined on the following assumptions:

	Exchange rate sensitivity %	
	31 Dec. 2011	31 Dec. 2010
US Dollar	**1.08%**	1.33%
UAE Dirham	**1.15%**	1.33%
Euro	**3.75%**	9.04%
ZAR	**20.42%**	9.88%

The above percentages have been determined based on the average market volatility in exchange rates in the previous twelve months. There has been no change during the year in the methods and assumptions used in the preparation of the sensitivity analysis.

30. Risk management objectives and policies (continued)

30.1 Market risk (continued)

a) Foreign currency risk (continued)

If the Kuwaiti Dinar had strengthened/weakened against the foreign currencies assuming the above sensitivity, then this would have the following impact on the profit for the year and equity:

	Profit for the year		Equity	
	31 Dec. 2011	31 Dec. 2010	**31 Dec. 2011**	31 Dec. 2010
	KD	KD	**KD**	KD
US Dollar	**± 264,196**	± 318,709	**± 95,334**	± 161,468
UAE Dirham	**-**	± 1,688	**± 87**	± 191
Euro	**± 32,704**	± 92,751	**-**	-
ZAR	**± 4**	± 42	**± 45,186**	± 58,910

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

b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk with respect to short term deposits, bank overdrafts and borrowings. The risk is managed by the group by monitoring regularly to ensure positions are maintained within established limits.

The group does not have any off balance sheet financial instruments which are used to manage the interest rate risk.

The following table illustrates the sensitivity of the profit for the year to a reasonable possible change in interest rates with effect from the beginning of the year. Based on observation of current market conditions it has been assumed that a reasonable possible change in the interest rates would be +1% and -1% (2010: +1% and -1% basis points) for LIBOR and +1% and -1% (2010: +1% and -1%) for Kuwaiti Dinar interest rates. The calculation is based on the group's financial instruments held at each financial position date. All other variables are held constant. There is no impact on group's equity. There has been no change during the year in the methods and assumptions used in the preparation of the sensitivity analysis.

	Increase in interest rate		**Decrease in interest rate**	
	31 Dec. 2011	31 Dec. 2010	**31 Dec. 2011**	31 Dec. 2010
	KD	KD	**KD**	KD
Profit for the year	**(391,622)**	(439,376)	**391,622**	439,376

30. Risk management objectives and policies (continued)

30.1 Market risk (continued)

c) Price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through statement of income or available for sale investments.

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

The equity price risk sensitivity is determined on the following assumptions:

	31 Dec. 2011	31 Dec. 2010
Kuwait market	16%	1%
London market	7%	13%
USA market	5%	9%
South Africa market	29%	10%
Dubai market	19%	2%

The above percentages have been determined based on basis of average market movements during the year. The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The analysis reflects the impact of negative changes to equity prices in accordance with the above mentioned equity price sensitivity assumptions.

	Profit for the year		Equity	
	31 Dec. 2011 KD	31 Dec. 2010 KD	31 Dec. 2011 KD	31 Dec. 2010 KD
Investments at fair value through statement of income	342,680	173,184	-	-
Available for sale investments	-	-	3,886,388	1,610,246

If equity price risk sensitivity had been equal and opposite to the above percentages, the effect on the profit for the year and equity for the years ended 31 December 2011 and 2010 would have been as follows:

	Profit for the year		Equity	
	31 Dec. 2011 KD	31 Dec. 2010 KD	31 Dec. 2011 KD	31 Dec. 2010 KD
Investments at fair value through statement of income	(342,680)	(173,184)	-	-
Available for sale investments	-	-	(3,886,388)	(1,610,246)

30. Risk management objectives and policies (continued)

30.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate. The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the financial position date, as summarized below:

	31 Dec. 2011 KD	31 Dec. 2010 KD
Receivables and other assets (Note 16)	7,707,135	13,644,212
Short term deposits	753,543	250,905
Bank balances	785,738	796,908
	9,246,416	14,692,025

The group continuously monitors defaults of customers and other counterparties, identified either individually or as a group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The group's policy is to deal only with creditworthy counterparties. The group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality other than those disclosed in note 16.

The credit risk for bank balances and short term deposits is considered negligible, since the counterparties are financial institutions with high credit quality.

30.3 Liquidity risk

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

The table below summarises the maturity profile of the group's financial liabilities. The maturities of financial liabilities have been determined on the basis of the remaining period from the financial position date to the contractual maturity date.

	Upto 3 months KD	3-12 months KD	Over 1 year KD	Total KD
31 December 2011				
Liabilities				
Term loans	7,604,113	10,278,413	13,674,250	31,556,776
Payables and other liabilities	4,677,208	16,070,723	-	20,747,931
Advances from customers	-	4,729,178	-	4,729,178
Bank overdrafts	-	2,987,242	-	2,987,242
	12,281,321	34,065,556	13,674,250	60,021,127
31 December 2010				
Liabilities				
Term loans	420,000	12,428,462	22,969,526	35,817,988
Payables and other liabilities	1,929,111	16,827,885	-	18,756,996
Advances from customers	-	3,745,250	-	3,745,250
Bank overdrafts	-	2,998,771	-	2,998,771
	2,349,111	36,000,368	22,969,526	61,319,005

30. Risk management objectives and policies (continued)

30.3 Liquidity risk (continued)

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

	Upto 3 months	3-12 months	Over 1 year	Total
	KD	KD	KD	KD
31 December 2011				
Financial liabilities				
Term loans	**7,914,719**	**11,259,912**	**15,390,028**	**34,564,659**
Payables and other liabilities	**4,793,708**	**16,274,207**	**-**	**21,067,915**
Advances from customers	**-**	**4,729,178**	**-**	**4,729,178**
Bank overdrafts	**37,341**	**3,099,263**	**-**	**3,136,604**
	12,745,768	**35,362,560**	**15,390,028**	**63,498,356**
31 December 2010				
Financial liabilities				
Term loans	432,600	14,015,836	25,491,012	39,939,448
Payables and other liabilities	1,932,105	17,111,030	-	19,043,135
Advances from customers	-	3,745,250	-	3,745,250
Bank overdrafts	37,485	3,111,225	-	3,148,710
	2,402,190	37,983,341	25,491,012	65,876,543

31. Summary of financial assets and liabilities by category

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

	31 Dec. 2011	31 Dec. 2010
	KD	KD
Financial assets:		
Available for sale investments	**28,738,922**	57,081,754
Available for sale investments – at cost	**1,438,842**	1,438,842
Receivables and other assets (note 16)	**7,707,135**	13,644,212
Investments at fair value through statement of income	**2,651,235**	4,786,095
Short term deposits	**753,543**	250,905
Balances with banks and other financial institutions	**785,738**	796,908
	42,075,415	77,998,716
Financial liabilities:		
Term loans	**31,556,776**	35,817,988
Payables and other liabilities	**20,747,931**	18,756,996
Advances from customers	**4,729,178**	3,745,250
Bank overdrafts	**2,987,242**	2,998,771
	60,021,127	61,319,005

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the group's management, except for certain available for sale investments which are carried at cost for reasons specified in Note 15 to the consolidated financial statements, the carrying amounts of financial assets and liabilities as at 31 December 2011 and 2010 approximate their fair values.

31. Summary of financial assets and liabilities by category (continued)

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

	31 Dec. 2011		31 Dec. 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	KD	KD	KD	KD
Balances with banks and other financial institutions	**785,738**	**-**	796,908	-
Short term deposits	**753,543**	**-**	250,905	-
Receivables and other assets	**8,194,718**	**-**	14,043,124	-
Investments at fair value through statement of income	**-**	**2,651,235**	-	4,786,095
Available for sale investments	**1,438,842**	**28,738,922**	1,438,842	57,081,754
	11,172,841	**31,390,157**	16,529,779	61,867,849
Term loans	**31,556,776**	**-**	35,817,988	-
Payables and other liabilities	**20,747,931**	**-**	18,756,996	-
Advances from customers	**4,729,178**	**-**	3,745,250	-
Bank overdrafts	**2,987,242**	**-**	2,998,771	-
	60,021,127	**-**	61,319,005	-

Financial instruments measured at fair value

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

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

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

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

31. Summary of financial assets and liabilities by category (continued)

Financial instruments measured at fair value (continued)

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

31 December 2011

	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investments at fair value through statement of income					
Held for trading					
Local quoted shares	a	170,653	-	-	170,653
Designated on initial recognition					
Unquoted investments	b	-	-	912,135	912,135
Investment portfolios	c	1,568,447	-	-	1,568,447
Available for sale investments					
Investment portfolios	c	3,502,017	-	-	3,502,017
Quoted investments	a	130,500	-	-	130,500
Equity participations	d	-	1,263,704	23,842,701	25,106,405
Net fair value		5,371,617	1,263,704	24,754,836	31,390,157

31 December 2010

	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investments at fair value through statement of income					
Held for trading					
Local quoted shares	a	37,499	-	-	37,499
Designated on initial recognition					
Unquoted investments	b	-	-	1,066,037	1,066,037
Investment portfolios	c	3,682,559	-	-	3,682,559
Available for sale investments					
Investment portfolios	c	8,367,635	-	-	8,367,635
Quoted investments	a	17,543,844	-	-	17,543,844
Equity participations	d	-	1,648,791	29,521,484	31,170,275
Net fair value		29,631,537	1,648,791	30,587,521	61,867,849

There have been no significant transfers between levels 1 and 2 during the reporting period.

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Quoted securities

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

31. Summary of financial assets and liabilities by category (continued)

Measurement at fair value (continued)

b) Unquoted securities

The financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

c) Investment portfolios

The underlying investments of investment portfolios primarily comprise of local and foreign securities whose fair value has been determined by reference to their quoted bid prices at the reporting date.

d) Equity participations

Equity participations are investments with the objective of future medium and long-term capital growth.

e) Financial liabilities

The group does not have any financial liabilities at fair value.

Level 3 fair value measurements

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

	Unquoted securities			
	31 Dec. 2011		31 Dec. 2010	
	Investment at fair value KD	Available for sale investments KD	Investment at fair value KD	Available for sale investments KD
Opening balance	1,066,037	29,521,484	2,006,459	29,404,168
Gains or losses recognised in:				
– Statement of income	(153,902)	-	170,655	6,398
– Other comprehensive income	-	(5,678,783)	-	77,500
Sales	-	-	(1,111,077)	(176,582)
Addition during the year	-	-	-	210,000
Closing balance	912,135	23,842,701	1,066,037	29,521,484

Gains or losses recognised in the statement of income (as above) for the year are included in the loss on sale of available for sale investments account.

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in statement of income, total assets or total liabilities or total equity.

32. Capital management objectives

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

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

Consistent with others in the industry, the group monitors capital on the basis of the net debt to equity ratio.

The net debt consists of the following:

	31 Dec. 2011 KD	31 Dec. 2010 KD
Term loans	**31,556,776**	35,817,988
Due to associates and other related parties (note 24)	**7,818,088**	5,522,750
Add: Cash and cash equivalents (note 26)	**1,447,961**	1,950,958
Net debt	**40,822,825**	43,291,696
Equity	**65,225,015**	92,224,259

This ratio is calculated as net debt divided by equity as follows:

	31 Dec. 2011 KD	31 Dec. 2010 KD
Net debt	**40,822,825**	43,291,696
Equity	**65,225,015**	92,224,259
Net debt to equity ratio	**63%**	47%

33. Contingent liabilities

At 31 December 2011, the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD991,152 (2010: KD992,268).

34. Capital commitments

At the financial position date the group had capital commitments of KD752,040 (2010 : KD897,627) towards purchase of investments.

35. Comparative amounts

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