



الشركة العربية العقارية  
Al-Arabiya Real Estate Company

# ANNUAL REPORT 2006

30  
YEARS  
OF ACHIEVEMENTS



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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**  
The Crown Prince of The State of Kuwait



His Highness  
**Sheikh Naser Al-Mohammad Al-Ahmad Al-Sabah**  
The Prime Minister of The State of Kuwait



الشركة العربية العقارية  
Al-Arabiya Real Estate Company

We Think, Build and Develop

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**Emad Jawad Bukhamseen**  
Chairman & Managing Director

**Adnan Abdalnabei Al-Mussa**  
Vice Chairman

**Dr. Anwar Ali Al-Naqei**  
Board Member

**Tawfeeq Shamlan Al-Bahar**  
Board Member

**Abdulla Abdul Samad Maarafi**  
Board Member

**Dr. Haidar Hasan Al-Juma**

Board Advisor

**Mufeed M. A. Abdal**

General Manager

**Richard Dagher**

Division Manager

Finance / Legal / Administration

**George Bekhit**

Division Manager - Operation

**Eng. Ragia M. El-Menoufi**

Technical Department Manager

**Mohammad Riad Al-Shawwa**

Marketing Manager

In the name of God, Most Gracious, Most Merciful

Dear shareholders,

I have the pleasure to welcome all of you in the name of the Board members and Al-Arabiya Real Estate Company, while we will be reviewing together the major company achievements for the year ending 31/12/2006.

The year 2006 marked our 30<sup>th</sup> anniversary of establishing the company. During this year, Al-Arabiya realized several real estate and investments achievements, in which it accommodated for the extended aspirations in advanced positioning in selecting major projects in the stable real estate markets of the GCC, and the Middle East Countries.

**The company advanced on a solid track, to confirm such position on the local and regional levels by adopting strategic planning, based on the following main focal points:**

- 1- Establish and enhance the operational income using the following instruments:
  - Managing the company's active and under expansion assets.
  - Follow up on existing projects that are in the final stages of completion, and embarked on the operational progress.
  - Targeting new potential projects locally and regionally wether through ownership acquisition or (B.O.T.), and/or (P. P.) schemes.
- 2- The company designed and developed a strategic activity plan for the next Five years, taking in consideration the real estate growth rates of the local and regional markets, in parallel with the development plan set for both the financial and human resource divisions to achieve the growth objective.
- 3- Restructure of assets in both real estate and investment segments, while sustaining various investment directions and diversifying the distribution of risks.
- 4- Restructure of financing resources based on cost reduction and capitalizing the profit margin.
- 5- Placing the company's organization structure in the light of the general objectives, and continue with the strategies, policies, and regulations for all company's functions.

**Change of Trademark:**

A new commercial logo and trademark has been set for the company, to accommodate the main aim of the strategic expansion in the real estate both locally and regionally.

Following, we will present the achievements in both the local and regional segments:

**First: Local Achievements:**

The company's local achievements focused on projects under construction that realized effective developments with essential aspects characterized such projects as a major step that will reflect on expected profit and operational gain ratio as follows:

Starting From	Estimated Annual Returns	The Project
September/ 2007	KD 900,000	(Holiday Inn (2nd Phase
November/ 2007	KD 1,600,000	Al-Arabiya Tower
February/ 2008	KD 375,000	Farwaniya Tower
November/ 2009	KD 3,000,000	Crystal Tower



### Purchase of Commercial Complex:

The Company has invested in purchasing a commercial complex located in a prime location in the heart of Kuwait city at the commercial area on Al-Souq Al-Jadeed St. (Abdullah Al-Salem St.), the building consist of 4 floors, containing 70 offices and shops.

### Arab Investment Company:

Al-Arabiya Real Estate Company participated in the establishment of the Arab Investment Company, with a share of 15% of its capital, which is valued at KD 2,250,000. This establishment will become the investment front and support for all the activities undertaken in the local real estate and investment markets.

### Second: Regional Achievements:

The year 2006 witnessed a noticeable diversity in the company's investment, which included the local market, the GCC, and the Arab countries.

Sustaining the company's ambitions and to consolidate its policies toward regional expansion into new countries in the area, in implementation of Board's policy for continuous growth in company's operations by involvement in various major investment projects to establish regional basis and solid presence in number of Arab counties that offer investment opportunities with attractive commercial laws and regulations.

### The House of Business Real Estate Company

Al-Arabiya Real Estate Company finalized during the last quarter of 2006, the establishment of the "House of Business Real Estate Company" as a limited private partnership company. In which Al-Arabiya shall have 25% of the companies shares equally divided with a group of strategic partnerships such as "Eqarqat.com" of UAE, Arab Real Estate Development Company, and the Taameer Jordan Real Estate., both are Jordanian companies.

The headquarters of the new company shall be in Amman; the capital of the Kingdom of the Jordanian Hashemite, with a privilege to open branches inside the kingdom and abroad.

This new establishment will focus on real estate business in Jordan and the neighboring countries, and shall perform various types of real estate operations such as purchase, sell, and investment.

### Summary:

The executive strategic steps taken by the Board of Directors together with the corporeal developments had great effect on company's financial results by the end of 2006.

This translated realization in profits reached the amount of KD 3,585,162, as it realized total returns of KD 9,143,614 and expenses of KD 5,558,452 as well as most current results reflect positive and good returns especially in the following related matters:

Reference	2006 (KD million)	2005 (KD million)	Increase %
Assets	108.7	93.1	16.52
Shareholders equity	71.3	60.7	17.54
Lands under development	24.4	11.5	118.89
Real estate investments	16.2	12.8	26.59

Dear Shareholders ....

On this occasion, I would extend on your behalf my appreciation to all Al-Arabiya Real Estate Company employees for their exerted fruitful efforts during the past period, to elevate the company's abilities and capabilities to participate in the operations of continued growth and activation of our national economy.

We may not forget the government and non-government institutions that provided us with support during that period, wishing them all the success and prosperity under the directives of His Highness the Amir Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah and the Crown Prince, His Highness Sheikh Nawaf Al-Ahmed Al-Sabah, and the Government presided by His Highness Sheikh Nasser Al-Mohamed Al-Ahmed Al-Sabah.

Chairman & Managing Director

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

We have audited the accompanying financial statements of Arab Real Estate Company K.S.C. (the "Company"), which comprise the balance sheet as at 31 December 2006 and the related statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed below, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Parent Company's management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

The financial information of Rotana Hotel Al Sharjah (United Arab Emirates) and Holiday Inn "Kuwait" included in these financial statements are based on their management accounts and have not been audited. Their total assets are KD 1,573,677 as of 31 December 2006 and net profits are KD 1,261,122 for the year then ended (31 December 2005: KD 1,007,241 and KD 760,273 respectively).

### **Qualified Opinion**

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had the financial information referred to in the preceding paragraph been audited, the financial statements


present fairly, in all material respects the financial position of the Company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Other Matters**

The financial statements for the year ended 31 December 2005 have been audited by other auditors, who issued an unqualified audit report dated 11 March 2006.

#### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of accounts have been kept by the Company, and the financial statements, together with the contents of the report of the Board of Directors, are in accordance therewith. We further report that we obtained the information that we required for the purpose of our audit; and that the financial statements incorporate all information that is required by Commercial Companies Law of 1960, as amended, and by the Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2006 that might have had a material effect on the business of the Company or on its financial position, except that Company holds certain investments in shares in contradiction to its objectives, and that, as mentioned in Note 12 to these financial statements, a portion of the capital increase has been paid using the credit current account of a shareholder.



**Bader A. Al-Wazzan**  
Licence No. 62A  
Price waterhouse Coopers



**Nasser Abdullah Al Muqait**  
Licence No. 9A  
Al Ahli Bureau

(All amounts in Kuwaiti Dinar)

	Note	2006	2005 (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	13,217,631	13,011,170
Properties under development	4	24,419,186	11,156,141
Advance payments for purchase of lands		4,399,675	884,410
Investment properties	5	16,193,959	12,792,073
Investment in associates	6	21,144,335	22,291,475
Investment in an unconsolidated subsidiary	7	-	1,950,420
Available for sale investments	8	5,024,157	3,793,836
		<u>84,398,943</u>	<u>65,879,525</u>
<b>Current assets</b>			
Properties and lands held for trading	9	1,077,746	8,334,765
Inventories		26,396	31,316
Trade and other receivables	10	660,447	1,351,524
Due from related parties	24	2,502,693	3,192,013
Investments at fair value through profit or loss	11	19,348,125	13,993,204
Cash and cash equivalents		702,337	533,634
		<u>24,317,744</u>	<u>27,436,456</u>
<b>Total assets</b>		<u>108,716,687</u>	<u>93,315,981</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	46,244,443	38,537,036
Share premium		5,614,733	2,146,400
Treasury shares	13	(1,228,585)	(814,025)
Gain on sale of treasury shares		934,353	1,021,353
Statutory reserve	14	3,356,964	2,983,241
Voluntary reserve	15	3,356,964	2,983,241
Foreign currency translation reserve		-	(2,663)
Company's share in an associate's reserves		220,536	8,279
Retained earnings		12,826,920	13,821,765
		<u>71,326,328</u>	<u>60,684,627</u>
<b>Non-current liabilities</b>			
Bonds	16	20,000,000	20,000,000
Loans and bank facilities	17	5,903,077	7,899,994
Post employment benefits		179,818	127,342
		<u>26,082,895</u>	<u>28,027,336</u>
<b>Current liabilities</b>			
Trade and other payables	18	2,969,011	2,582,819
Due to related parties	24	2,589,890	26,210
Dividend payables		751,646	580,816
Loans and bank facilities	17	4,996,917	1,414,173
		<u>11,307,464</u>	<u>4,604,018</u>
<b>Total liabilities</b>		<u>37,390,359</u>	<u>32,631,354</u>
<b>Total equity and liabilities</b>		<u>108,716,687</u>	<u>93,315,981</u>

The accompanying notes form an integral part of these financial statements.

**Emad Jawad Bukhamseen**  
Chairman and Managing Director

**Adnan Abdalnabei Al-Mussa**  
Vice Chairman

## STATEMENT OF INCOME

For the year ended at 31 December 2006

(All amounts in Kuwaiti Dinar)

	Note	2006	2005 (Restated)
Net income from properties		1,551,933	1,067,701
Net income from hotels		1,261,122	760,273
Gain on sale of investment properties		-	2,893,640
Losses from disposal of investment properties		(234,209)	-
Gain from investments at fair value through profit or loss	19	4,642,677	3,434,501
Other operating income		365,473	535,069
General and administrative expenses		(395,163)	(451,018)
Staff costs	20	(645,510)	(431,061)
Depreciation and amortization		(1,036,683)	(660,689)
Impairment of properties under development		(201,287)	-
Operating profit		5,308,353	7,148,416
Company's share of results of an unconsolidated subsidiary		-	353,431
Company's share of associates' results		(294,291)	1,677,429
Loss on sale of a subsidiary	7	(238,420)	-
Gain on sale of an associate		51,670	-
Gain on sale of available for sale investments		1,270,739	131,413
Impairment of available for sale investments		(125,479)	-
Gain on sale of intangible assets		-	1,355,370
Finance costs		(2,210,492)	(1,949,643)
Foreign currency exchange		(24,852)	(31,732)
Board of Directors' remuneration		(25,000)	(35,000)
Contribution to Kuwait Foundation for the Advancement of Sciences		(33,635)	(62,025)
National Labour Support Tax		(93,431)	(152,637)
<b>Net profit for the year</b>		<b>3,585,162</b>	<b>8,435,022</b>
<b>Earnings per share (fils)</b>	21	<b>7.90</b>	<b>21.31</b>

The accompanying notes form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

For the year ended at 31 December 2006

(All amounts in Kuwaiti Dinar)

	Share Capital	Share premium	Treasury Shares	Gain on sale of treasury shares	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Company's share in an associate's reserves	Retained earnings	Total
<b>Balance as at 1 January 2005</b>	35,848,406	2,146,400	(1,543,445)	463,623	2,099,356	2,099,356	-	-	9,694,264	50,807,960
Company's share in an associate's reserves	-	-	-	-	-	-	(2,663)	8,279	148,879	154,495
Net profit recognized directly in equity	-	-	-	-	-	-	(2,663)	8,279	148,879	154,495
Net profit for the year (restated)	-	-	-	-	-	-	-	-	8,435,022	8,435,022
Total recognized profit for the year	-	-	-	-	-	-	(2,663)	8,279	8,583,901	8,589,517
Bonus shares at 7.5%	2,688,630	-	-	-	-	-	-	-	(2,688,630)	-
Purchase of treasury shares	-	-	(1,869,000)	-	-	-	-	-	-	(1,869,000)
Sale of treasury shares	-	-	2,598,420	557,730	-	-	-	-	-	3,156,150
Transfers to reserves	-	-	-	-	883,885	883,885	-	-	(1,767,770)	-
<b>Balance as at 31 December 2005</b>	38,537,036	2,146,400	(814,025)	1,021,353	2,983,241	2,983,241	(2,663)	8,279	13,821,765	60,684,627
<b>Balance as at 1 January 2006, as Previously reported</b>	38,537,036	2,146,400	(814,025)	1,021,353	2,983,241	2,983,241	(2,663)	8,279	13,975,931	60,838,793
Prior year adjustments (note 22)	-	-	-	-	-	-	-	-	(154,166)	(154,166)
<b>Balance as at 1 January 2006 (restated)</b>	38,537,036	2,146,400	(814,025)	1,021,353	2,983,241	2,983,241	(2,663)	8,279	13,821,765	60,684,627
Company's share in an associate's reserves	-	-	-	-	-	-	2,663	211,090	-	211,090
Sale of an associate	-	-	-	-	-	-	2,663	1,167	-	3,830
Net profit recognized directly in equity	-	-	-	-	-	-	2,663	212,257	-	214,920
Net profit for the year	-	-	-	-	-	-	-	-	3,585,162	3,585,162
Total recognized profit for the year	-	-	-	-	-	-	2,663	212,257	3,585,162	3,800,082
Bonus shares at 5%	1,926,852	-	-	-	-	-	-	-	(1,926,852)	-
Capital increase	5,780,555	3,468,333	-	-	-	-	-	-	-	9,248,888
Cash dividends at 5%	-	-	-	-	-	-	-	-	(1,905,709)	(1,905,709)
Purchase of treasury shares	-	-	(798,680)	-	-	-	-	-	-	(798,680)
Sale of treasury shares	-	-	384,120	(87,000)	-	-	-	-	-	297,120
Transfers to reserves	-	-	-	-	373,723	373,723	-	-	(747,446)	-
<b>Balance as at 31 December 2006</b>	46,244,443	5,614,733	(1,228,585)	934,353	3,356,964	3,356,964	-	220,536	12,826,920	71,326,328

The accompanying notes form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

For the year ended at 31 December 2006

(All amounts in Kuwaiti Dinar)

	2006	2005 (Restated)
<b>Cash flows from operating activities</b>		
Net profit for the year	3,585,162	8,435,022
<b>Adjustments:</b>		
Depreciation and amortization	1,036,683	660,689
Gain from sale of property, plant and equipment	(3,960)	-
Increase / reverse of Impairment of properties under development	201,287	(204,500)
Gain from sale of investment properties	-	(2,893,640)
Reverse of impairment of lands and properties held for trading	-	(61,250)
Losses from disposal of investment properties	234,209	-
Company's share of associates' results	294,291	(1,677,429)
Gain on sale of an associate	(51,670)	-
Company's share of profit from an unconsolidated subsidiary	-	(353,431)
Loss from sale of an unconsolidated subsidiary	238,420	-
Impairment of available for sale investments	125,479	-
Gain on sale of available for sale investments	(1,259,744)	(131,413)
Gain from investments at fair value through profit or loss	(4,642,677)	(2,465,587)
Gain on sale of intangible assets	-	(1,355,370)
Dividends income	-	(300,929)
Finance costs	2,210,492	1,949,643
Operating profit before changes in working capital	1,967,972	1,601,805
Properties and lands held for trading	(1,012,944)	-
Inventories	4,920	(5,119)
Trade and other receivables	709,077	(911,411)
Due from related parties	4,651,320	437,827
Investments at fair value through profit or loss	(712,244)	(1,741,829)
Post employment benefits	52,476	23,919
Trade and other payables	386,192	955,320
Due to related parties	313,680	(37,437)
Net cash generated from operating activities	6,360,449	323,075
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(315,492)	(3,545,712)
Acquisition of properties under development	(5,136,178)	(1,594,798)
Advance payments for purchase of lands	(3,515,265)	(884,410)
Acquisition of investment properties	(4,635,978)	(1,127,386)
Proceeds from sale of investment properties	-	966,038
Proceeds from sale of an associate	457,550	-
Proceeds from sale of share of unconsolidated subsidiary	-	422,851
Acquisition of available for sale investments	(860,000)	(1,333,243)
Proceeds from sale of available for sale investments	763,944	226,905
Proceeds from sale of intangible assets	-	1,780,370
Dividends income received	661,889	960,857
Net cash used in investing activities	(12,579,530)	(4,128,528)
<b>Cash flows from financing activities</b>		
Proceeds from capital increase	9,248,888	-
Purchase of treasury shares	(798,680)	(1,869,000)
Proceeds from sale of treasury shares	297,120	3,156,150
Net proceeds from loans	1,585,827	2,314,167
Finance costs paid	(2,210,492)	(1,949,643)
Cash dividends paid	(1,734,879)	-
Net cash generated from financing activities	6,387,784	1,651,674
<b>Net increase/ (decrease) in cash and cash equivalents</b>	168,703	(2,153,779)
<b>Cash and cash equivalents at the beginning of the year</b>	533,634	2,687,413
<b>Cash and cash equivalents at the end of the year</b>	702,337	533,634

The accompanying notes form an integral part of these financial statements.

## 1. Incorporation and Activities

Arab Real Estate Company is a Kuwaiti Shareholding Company (Closed) incorporated in the State of Kuwait on 21 June 1976 and is listed in the Kuwait Stock Exchange. The Company's registered head office is located at Al-Sharq, Ahmed Al-Jaber Street, Emad Commercial Center, Kuwait.

The Company is primarily engaged in the following activities:

- Carrying out various real estate commercial activities such as purchase and sale of investments in land and properties and managing properties for others.
- Undertaking various construction activities and sub activities thereto in favour of the Company or other parties in the public and private sectors including separate houses, buildings and housing complexes.
- Undertaking contracting activities and trading in all materials related to construction or required for it.
- Set up commercial markets and tourism, sport and entertainment facilities.
- The Company may have interest or participate with entities that carry out similar activities or those that can assist the Company in achieving its objectives inside Kuwait and abroad and it may purchase or affiliate these entities.
- Managing real estate portfolios for the Company only and investment in the shares and projects of other companies whose activities are similar to the Company's activities.
- Establishing and managing real estate investment funds only.
- Owning local and international shares and bonds of companies whose activities are similar to the Company's activities.
- Constructing, acquiring and managing hotels and all tourism activities.
- All maintenance activities including maintenance and performing civil, mechanical, electrical, elevators, plumbing, phone and air conditioning activities to guarantee maintaining buildings and their safety and undertaking contracting related to above activities for the properties owned by the Company only.
- Preparing studies and providing consultancy in all types of investment properties sector and undertaking, managing and utilizing all types of properties provided that the required terms are met counterparties.
- Use the available financial surplus of the Company for investment in financial and real estates portfolios managed by specialized companies.
- Purchase and sale of the shares of companies whose activities are similar and integral to the Company's activities.

Certain investments of the Company are not in accordance with the stated activities of thereof - Notes (6, 8 and 11).

The financial information of Rotana Hotel Al Sharjah (United Arab Emirates) and Holiday Inn "Kuwait" included in these financial statements are based on their management accounts and have not been audited or reviewed. Their total assets are KD 1,573,677 as of 31 December 2006 and net profits are KD 1,261,122 for the year then ended (31 December 2005: KD 1,007,241 and KD 760,273 respectively)

These financial statements were approved for issue by the Board of Directors of the Company on 24 March 2007. The General Assembly of shareholders has the authority to amend these financial statements after issuance.

## 2. Basis of preparation

The following are the accounting policies used in preparation of these financial statements. These policies are consistently used for the presented years.

### 2.1 Basis of preparation

These financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS). These financial statements are prepared under the historical cost basis, as modified the fair value of investment at fair value through profit or loss and available for sale investments.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 28.

### Issues of International Financial Reporting Standards and interoperations of the Committee on the Interpretation of International Standards for Financial Reports

#### Amendments and interpretations applicable for the financial year ended 31 December 2006

The Company has adopted the revisions and interpretations relating to its activities, the most important of which is the revised IAS 39: Financial Instruments – Recognition and Measurement. There is no material impact on the Company's financial statements as a result of implementation of this revised IAS.

#### Amendments and interpretations not yet applicable

These are:

- IFRS (7): Financial Instruments – Disclosures
- IAS (1): Presentation of Financial Statements - Capital Disclosures
- IFRIC Interpretation (10): Interim Financial Reporting and Impairment Losses
- IFRIC Interpretation (11): Group and Treasury Shares transactions

These revisions and interpretations shall be adopted from the next financial year and are expected to have no impact at the time of adoption.

### 2.2 Foreign currency translation

The functional currency of the Company is the Kuwaiti Dinar. Foreign currency transactions are translated at the rates of exchange prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange prevailing at the balance sheet date. Resultant gains or losses are taken to the statement of income.

### 2.3 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight line basis over the estimated useful lives. The Company's management periodically reviews the useful lives of property and equipment. Any resultant changes are recognized in the statement of income on a retroactive basis.

The useful lives of property and equipment are estimated as follows:

	<u>Estimated useful lives (Years)</u>
Hotel buildings	20
Hotel furniture and fixtures	10
Company furniture and fixtures	4
Vehicles	3

Gains or losses from sale of property and equipment are recorded in the statement of income, as the difference between the selling price and net book value of such assets at the sale date.

#### **2.4 Land and properties under development**

Lands and properties under development are stated at cost including development costs. At completion of development process, they are either classified as investment properties, lands and properties held for trading, or properties and equipment for the Company's self-occupation, depending on the management's intention regarding the future use of these lands and properties.

#### **2.5 Investment properties**

Investment properties held by the Company for capital appreciation or renting out to others are recorded under non-current assets. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on investment properties on a straight line basis over their estimated useful lives.

#### **2.6 Impairment of non-financial assets**

The assets with indefinite useful lives, which are not amortized, are tested annually for impairment. The depreciated or amortized assets are reviewed annually for impairment when there is an indication that the carrying value is not recoverable. Impairment losses are recognized when the asset's carrying value is greater than the net realizable value, which is determined as the fair value of the asset less the higher of selling cost and value in use. Impairment losses are recognized in the statement of income in the period in which they arise.

#### **2.7 Investment in associates**

Associated companies are those entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights indicate that the significant influence exist.

Investments in associates are accounted for by the equity method of accounting. The investment is initially recorded at cost. The investment balance includes any goodwill less impairment loss (if any).

The Company's share of its associates' post acquisition profits or losses is recognised in the statement of income, and its share of post acquisition movements in reserve is recognised in equity.

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

The goodwill arising from acquisition of an associate is recognised in the investment in associates. Goodwill is tested annually for impairment and recorded at cost less impairment losses.

## 2.8 Financial instruments - recognition and de-recognition, classification and measurement

In the normal course of business, the Company uses financial instruments, principally cash and cash equivalents, investment at fair value through profit or loss, available for sale investments, trade and other receivables, trade and other payables, bonds, loans and bank facilities.

### Recognition and de-recognition

A financial asset or a financial liability is recognized when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized at the settlement date, on which the Company receive or deliver the asset.

A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset expire, or when the Company has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

### Classification and measurement

The Company determines the appropriate classification of its financial assets on the purchase date based on the purpose of acquisition. The Company classifies financial assets as "investments at fair value through profit or loss", "available for sale" and "loans and receivables". All financial liabilities are classified as financial liabilities "other than at fair value through profit or loss".

All financial assets are initially measured at fair value (plus transaction costs if not classified in the financial instruments at fair value through profit or loss).

### Investments at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired for sale in short term.

A financial asset is classified as at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy.

A financial asset is classified as at fair value through profit or loss if acquired if so designated by management and its performance evaluated at fair value in accordance with documented risk management and investment strategy approved by the management.

The financial assets classified as investments at fair value through profit or loss are subsequently measured and carried at fair value. Unrealized gains and losses from change in fair value are carried in the statement of income.

### Loans and receivables

These are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortized cost using the effective yield method less provision for impairment.

### **Available for sale**

These are represented in investments held for indefinite period and classified as available for sale and not included as other financial assets under the above-mentioned categories.

These are subsequently measured and carried at fair value. Any resultant gains or losses from change in fair value of available for sale investments are directly taken to change in fair value reserve in equity, other than the losses from impairment. When the "available for sale" asset is disposed of, the related accumulated fair value adjustments are transferred to the statement of income.

### **Financial liabilities**

Financial liabilities other than at fair value through profit or loss are subsequently measured and carried at amortized cost using the effective yield method.

### **Fair value**

The fair value of quoted instruments is based on quoted closing bid prices. If the market for a financial asset is not active or the financial instrument is unquoted, fair value is derived from recent arm's length transactions, discounted cash flow analysis, other valuation techniques commonly used by market participants or determined with reference to market values of similar instruments. The fair value of financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Equity investments, for which there is no reliable estimate for their fair values, are carried at cost less provision for impairment.

### **Impairment of financial assets**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, this impairment is recognized in the statement of income.

A provision is made for impairment of loans and receivables if there is an objective evidence that the Company would not be able to collect all the amounts receivable. The amount of provision is the difference between the book value and the realizable value, being the present value of the expected future cash flows discounted at the effective interest rate. Impairment losses are taken to the statement of income.

### **2.9 Lands and properties held for trading**

Lands and properties acquired for sale are classified as lands and properties held for trading and carried at the lower of cost and net realizable value. The net realizable value is the estimated selling price less the costs estimated to complete sale.

### **2.10 Inventory**

Inventory is stated at the lower of cost and net realizable value. Cost is determined on the average cost basis. Net realizable value is the estimated selling price less the estimated cost of completion.

### **2.11 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and at banks, and time deposits that mature within three months from the date of placement.

## 2.12 Treasury Shares

The cost of the Company's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends and rights issues. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

## 2.13 Post employment benefits

The Company is liable under Kuwaiti Labor Law, to make payments to the employees for post employment benefits through defined benefits plan. Such payment is made on a lump sum basis at the end of an employee's service. This liability is unfunded and has been computed as the amount payable as a result of involuntary termination of the Company's employees on the balance sheet date. The Company expects this method to produce a reliable approximation of the present value of this obligation.

## 2.14 Provisions for liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle this obligation and a reliable estimate of the amount can be made.

## 2.15 Revenue recognition

- Gains and losses from sale of financial investment, investment properties, and lands and properties held for trading are recognized in the statement of income at completion of sale.
- Income from renting investment properties are recognised on an accrual basis.
- Dividends are recognised when the right to receive such payments is established.
- Interest income is recognized on a time proportion basis.

## 2.16 Accounting for leases

### Where the Company is the lessor

Assets leased for others under operating leases, other than investment properties, are included in property and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognised on a straight-line basis over the lease term.

### Where the Company is the lessee

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases.

Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

## 2.17 Finance costs

Finance costs that are directly attributable to the acquisition of a qualifying asset are capitalized as part of the cost of that asset. Capitalization of borrowing costs is suspended during the long terms in which there is an obstacle against the actual development. Capitalization is discontinued when all the activities necessary to bring the asset to its intended operating use are completed. Other borrowing costs are recognised as expenses in the period in which they have been incurred.

### 3. Property, plant and equipment

	Rotana Hotel building (Sharjah)	Holiday Inn Hotel building (Kuwait)	Hotel furniture and fixtures	Company furniture and fixtures	Vehicles	Total
<b>Cost</b>						
As at 1 January 2006	3,823,761	8,870,000	1,941,225	113,256	56,000	14,804,242
Additions	-	178,265	51,201	66,666	19,360	315,492
Transferred from properties under development	-	683,721	-	-	-	683,721
Disposals	-	-	-	-	(18,000)	(18,000)
As at 31 December 2006	3,823,761	9,731,986	1,992,426	179,922	57,360	15,785,455
<b>Accumulated depreciation</b>						
As at 1 January 2006	908,849	60,022	707,396	104,485	12,320	1,793,072
Depreciation	158,111	403,266	196,584	5,549	15,202	778,712
Disposals	-	-	-	-	(3,960)	(3,960)
As at 31 December 2006	1,066,960	463,288	903,980	110,034	23,562	2,567,824
<b>Net book value</b>						
As at 31 December 2006	2,756,801	9,268,698	1,088,446	69,888	33,798	13,217,631
As at 31 December 2005	2,914,912	8,809,978	1,233,829	8,771	43,680	13,011,170

The Holiday Inn building (Kuwait), with a book value of KD 9,268,698 as at 31 December 2006 (31 December 2005: KD 8,809,978) is pledged in favor of a local bank against loans and bank facilities (Note 17).

### 4. Properties under development

	2006	2005
Balance at the beginning of the year	11,156,141	13,783,362
Additions	5,136,178	1,594,798
Transferred from investment properties	770,000	6,753,297
Transferred from lands and properties held for trading	8,269,963	-
Transferred to property, plant and equipment	(683,721)	(6,080,425)
Transferred to investment properties (note 5)	(28,088)	(5,096,993)
(Impairment)/ Impairment reversal	(201,287)	204,500
Disposals	-	(2,398)
Balance at the end of the year	24,419,186	11,156,141

Certain properties under development amounting to KD 5,405,962 as at 31 December 2006 (31 December 2005: KD 5,130,131) are mortgaged in favor of a local Bank against loans and bank facilities (Note 17). Furthermore, certain properties under development amounting to KD 5,893,899 as at 31 December 2006 (31 December 2005: KD 3,000,000) are mortgaged in favor of a local investment company against issued bonds during year 2003 (Note 16).

## 5. Investment properties

	Lands	Buildings	Total
Cost			
As at 1 January 2006	6,452,588	7,338,071	13,790,659
Additions during the year *	3,000,000	1,635,978	4,635,978
Disposals during the year	-	(246,534)	(246,534)
Transferred from properties under development (note 4)	-	28,088	28,088
Transferred to properties under development	(770,000)	-	(770,000)
As at 31 December 2006	8,682,588	8,755,603	17,438,191
Depreciation as at 1 January 2006	-	998,586	998,586
Depreciation for the year	-	257,971	257,971
Disposals during the year	-	(12,325)	(12,325)
Accumulated depreciation as at 31 December 2006	-	1,244,232	1,244,232
Net as at 31 December 2006	8,682,588	7,511,371	16,193,959
Net as at 31 December 2005	6,452,588	6,339,485	12,792,073

\* Additions during the year include an amount of KD 4,500,000 representing value of a building purchased from a related party. Value of the property is recorded as per an unregistered contract.

- Certain investment properties with a carrying amount of KD 3,177,146 as at 31 December 2006 (31 December 2005: KD 3,258,055) are pledged in favor of local investment company against bonds issued during year 2003 (Note 16). Furthermore, certain investment properties with a carrying amount of KD 1,012,799 as at 31 December 2006 (31 December 2005: KD Nil) are pledged in favor of local bank against loans and bank facilities (Note 17).
- The fair value of investment properties is KD 21,200,000 as at 31 December 2006 (31 December 2005: KD18,949,470).

## 6. Investment in associates

	2006	2005
Kuwait National Cinema Company	21,144,335	21,889,424
Gulf Mineral Water and Processing Industries Company	-	402,051
	21,144,335	22,291,475

On 18 July 2006, the Company sold its share in Gulfa Mineral Water and Processing Industries Company P.L.C. in United Arab Emirates with an amount of KD 457,550.

The Company's share in Kuwait National Cinema Company is 17.19% and is classified as an associate according to significant representation in Board of Directors of associate Company.

The following are total assets, liabilities, revenues and net profit / (loss) of associate companies:

	Assets	Liabilities	Revenues	Net profit(loss)
As at 31 December 2006				
Kuwait National Cinema Company	51,231,095	9,585,741	17,386,521	8,256,120
As at 31 December 2005				
Kuwait National Cinema Company	35,828,412	5,177,353	20,732,457	10,527,666
Gulfa Mineral Water and Processing Industries Company	2,108,142	1,294,700	2,604,771	(151,772)

Investment in associates includes goodwill of KD 6,618,263 as at 31 December 2006.

The market value of investment in Kuwait National Cinema Company amounted to KD 13,899,666 as at 31 December 2006 (31 December 2005: KD 14,296,801).

The Company's investment in Kuwait National Cinema Company includes mortgaged shares against issued bonds with carrying amount of KD 19,167,268 as at 31 December 2006 (31 December 2005: KD 13,843,254) (note 16).

Investments in associates are not in accordance with the Company's activities.

#### 7. Investment in an unconsolidated subsidiary

During the year, the Company sold its investment in subsidiary to a related party with an amount of KD 1,712,000, which is presented under due from related parties. Sale of subsidiary is excluded from statement of cash flows, as it is a non-cash transaction.

#### 8. Available for sale investments

	2006	2005
Quoted shares	5,024,157	3,624,620
Investment portfolio	-	169,216
	<u>5,024,157</u>	<u>3,793,836</u>

Unquoted available for sale investments include investments in companies recently established of KD 2,250,000 as at 31 December 2006 (31 December 2005: Nil), accordingly these investments carried at cost.

Also unquoted available for sale investments include investments carried at cost less impairment loss since there is no available market value for these investments. Cost and impairment loss for these investments amounted to KD 3,361,602 and KD587,445 respectively as at 31 December 2006 (31 December 2005:KD 4,255,802 and KD 461,966 respectively).

Certain available for sale investments with a carrying value of KD 1,752,817 as at 31 December 2006 (31 December 2005: KD 2,381,146) are not in accordance with the Company's activities.

**9. Lands and properties held for trading**

	2006	2005
Cost as at 1 January 2006	10,033,567	10,033,567
Additions during the year *	1,012,944	-
Transferred to properties under development	(8,269,963)	-
Cost as at 31 December	2,776,548	10,033,567
Provision for impairment	(1,698,802)	(1,698,802)
	1,077,746	8,334,765

\* Additions during the year include an amount of KD 964,255 representing value of a plot of land purchased from a related party as per an unregistered contract.

**10. Trade and other receivables**

	2006	2005 (restated)
Trade receivables	450,633	634,382
Staff receivables	3,101	5,991
Accrued revenue	27,770	30,630
Prepaid expenses	143,450	41,405
Amounts under settlements to purchase investments	6,000	215,000
Other receivables	29,493	424,116
	660,447	1,351,524

**11. Investments at fair value through profit or loss**

	2006	2005
Local quoted shares	15,559,283	12,485,920
Foreign quoted shares	3,788,842	1,507,284
	19,348,125	13,993,204

- Investments at fair value through profit or loss as at 31 December 2006 include investments with a carrying amount of KD 833,495 (31 December 2005: KD 614,400) which are mortgaged in favour of one of local banks against loans and bank facilities (Note 17).

- Investments at fair value through profit or loss as at 31 December 2006 includes investments with a carrying amount of KD 10,077,599 (31 December 2005: KD 8,320,000) which are mortgaged against bonds, (Note 16).

- Investments at fair value through profit or loss amounting to KD 19,321,992 as at 31 December 2006 (31 December 2005: KD 13,792,204); not in accordance with the Company's activities.

## 12. Share capital

On 22 April 2006, Company's General Assembly approved the following:

- Issue of bonus shares of 5% of the paid up capital (19,268,518 shares) equal to 5 shares for every 100 shares.
- Issue of 57,805,554 shares of 100 fils per share (with a total par value of KD 5,780,555) at a premium of 60 fils each (totaling KD 3,468,333).

Subscription in the capital increase and share premium has been made in cash with total amount of KD 3,441,176 and KD 2,064,706 respectively. An amount of KD 2,339,379 of the capital increase and an amount of KD 1,403,627 of share premium have been settled using the credit current account of one of a shareholder.

This increase was registered in the Commercial Register on 19 June 2006.

Accordingly, issued and paid up capital are as follows:

	2006	2005
Issued share capital	46,244,443	38,537,036
Number of shares (share)	462,444,433	385,370,361
Nominal value (fils)	100	100
Paid up capital	46,244,443	38,537,036

## 13. Treasury shares

	2006	2005
Number of shares (share)	7,200,109	3,868,675
Percentage to issued shares	% 1.56	% 1
Cost	1,228,585	814,025
Market value	1,008,015	928,482

## 14. Statutory reserve

In accordance with commercial Companies law of 1960, as amended and the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to the statutory reserve. The Company may resolve to discontinue such annual transfers when the statutory reserve reaches 50% of the paid up capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up capital to be made in years when accumulated profits are not sufficient for the payment of such dividend.

## 15. Voluntary reserve

As required by the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to the voluntary reserve. The General Assembly may resolve to discontinue such transfer based on a proposal by the board of directors. There is no restriction on distribution of voluntary reserve.

## 16. Bonds

The balance of KD 20,000,000 as at 31 December 2006 is represented in the bonds for public offering during 2003 allotted to two tranches; the first tranche amounted to KD 10,000,000 with a par value of KD 5,000 and fixed interest rate of 5.75% payable semiannually, and the second tranche amounted to KD 10,000,000 with a par value of KD 5,000 and floating interest rate of 1.75% over Central Bank of Kuwait discount rate payable semiannually. These bonds mature after 5 years from the issuance date.

The bonds issued are guarantee by:

	2006	2005
Properties under development (note 4)	5,893,899	3,000,000
Investment properties (note 5)	3,177,146	3,258,055
Investments in associates (note 6)	19,167,268	13,843,254
Investments at fair value through profit or loss (note 11)	10,077,599	8,320,000
	<u>38,315,912</u>	<u>28,421,309</u>

### 17. Loans and bank facilities

	2006	2005
Current portion	4,996,917	1,414,173
Non-current portion	5,903,077	7,899,994
	<u>10,899,994</u>	<u>9,314,167</u>

Loans and bank facilities are granted by one of the local banks at annual interest rate of 2.75% to 3.25% over the Central Bank of Kuwait discount rate (31 December 2005: 2.75% to 3.25%).

These loans were granted against pledging property, plant and equipment, properties under development, investment properties and investments at fair value through profit or loss (Notes 3, 4, 5 and 11).

### 18. Trade and other payables

	2006	2005
Trade payables	995,587	842,836
Issuance fees	-	93,605
Accrued expenses and leaves	619,344	427,222
Kuwait Foundation for the Advancement of Science	284,170	320,535
National Labor Support Tax	730,591	637,160
Directors remunerations	50,000	35,000
Deferred revenue	202,123	9,200
Other payables	87,196	217,261
	<u>2,969,011</u>	<u>2,582,819</u>

### 19. Gain from investments at fair value through profit or loss

	2006	2005
Trading profit	159,547	667,985
Change in fair value	4,435,701	2,465,587
Cash dividends	47,429	300,929
	<u>4,642,677</u>	<u>3,434,501</u>

## 20. Labor Costs

	2006	2005
Wages and salaries	410,410	258,097
Staff indemnity and leaves	102,301	57,931
Others	132,799	115,033
	645,510	431,061
Number of staff (staff)	30	25

## 21. Earnings per share

	2006	2005(restated)
Net profit for the year	3,585,162	8,435,022
Weight average number of outstanding shares (share)	454,087,546	395,877,236
Earnings per share (fils)	7.90	21.31

According to the requirements of IAS (33) "Earnings per share", earnings per share have been recalculated for the year ended 31 December 2005 as a result of bonus shares issuance and the right issuance during the year ended 31 December 2006 (Note 12).

## 22. Prior year adjustments

During 2005, the Company capitalized pre-establishment costs of a hotel owned by the Company amounting to KD 154,166 under trade and other receivables instead of the statement of income. During 2006, the Company corrected this error and restated the comparative figures, which resulted in:

- Balance of trade and other receivables has been decreased by KD 154,166 as at 31 December 2005.
- Net profit for the year ended 31 December 2005 has been decreased by KD 154,166 and the retained earnings as at 31 December 2005 has been decreased by the same amount.
- Earnings per share for the year ended 31 December 2005 have been decreased by 0.39 fils.

## 23. Dividend

On 22 April 2006, the General Assembly for shareholders approved the following dividend for the year ended 31 December 2005:

- Cash dividends of 5% of the share capital (5 fils for every share).
- Issue of bonus shares of 5 % of the paid up capital (5 shares for every 100 shares) (Note 12).

The Board of Directors has not proposed any dividends for the year ended 31 December 2006.

**24. Related party transactions**

Parties are considered as related parties when they exercise significant influence over the other party including making financial and operating decisions. In the ordinary course of business, the Company has entered into various significant transactions with related parties (shareholders and the companies in which they own principal interests and the Company's senior management).

Details of the principal related party transactions are as follows:

	2006	2005
<b>Statement of income</b>		
Rental expenses	40,800	32,300
Gain from sale of investment properties	-	2,893,640
Gain from sale of available for sale investments	1,105,000	-
Loss from sale of a subsidiary	238,420	-
<b>Key management compensation</b>		
Salaries	132,000	78,000
Benefits	150,000	35,000
Other benefits	9,300	9,300
<b>Balance sheet</b>		
Investment properties	4,500,000	-
Lands and properties held for trading	964,755	-
Due from related parties	2,502,693	3,192,013
Due to related parties	2,589,890	26,210

**25. Segment information**

Segment information is presented in respect of the Company's activities. The primary form for the activities segments are based on the Company's management structure and internal reporting system.

**Primary segment information**

The financial information about the commercial activity segments is as follows:

	Real Estate Division		Hotel Division		Total	
	2006	2005(restated)	2006	2005(restated)	2006	2005(restated)
Segment revenues	1,663,453	1,247,825	5,010,847	3,308,039	6,674,300	4,555,864
Segment costs	(111,520)	(180,124)	(3,749,725)	(2,547,766)	(3,861,245)	(2,727,890)
Segment results	1,551,933	1,067,701	1,261,122	760,273	2,813,055	1,827,974
Allocated expenses	(278,722)	(303,970)	(757,961)	(356,719)	(1,036,683)	(660,689)
Unallocated expenses					(4,521,769)	(3,113,116)
Unallocated revenues					6,330,559	10,380,853
Net profit					3,585,162	8,435,022

**Geographical segments:**

The Company operates its activities primarily in State of Kuwait. Some assets and liabilities are located middle-east countries. Total of such assets and liabilities are KD 7,441,468 and KD 319,398 respectively as at 31 December 2006 (31 December 2005: KD 502,588 and KD 347,002 respectively).

**26. Contingent liabilities and capital commitments**

	31 December 2006	31 December 2005
Uncalled capital of investments	-	2,475,000
Letters of guarantee	6,518,200	3,040,543
Capital commitments for purchase of lands	3,558,848	7,958,523
Capital commitments for properties under development	7,300,000	5,250,000

**27. Financial risks Management**

The Company is exposed to several financial risks including change in market rates of equity and debt instruments, as well as return rates. Risks are managed as per the policies approved by the Board of Directors.

**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 financial assets exposed to credit risks are preliminarily receivables, which are stated net of doubtful debts. The Company minimizes this risk by extending credit for short term period.

**Interest rate risk**

This risk arises from fluctuations of the financial instruments due to the changes in interest rates. The Company is exposed to fluctuations in interest rates with respect to the interest bearing assets and liabilities, which are mainly deposits, loans and bank facilities, and bonds. The Company minimizes this risk by placing deposits for short terms, and borrowing at varying interest rates.

**Foreign exchange risks**

This risk arises from fluctuation in the fair values of the future cash flows due to change in foreign currency exchange rates. The majority of the Company's transactions are in Kuwaiti Dinar. The Company is not exposed foreign currency risks, as the Kuwaiti Dinar is pegged against US Dollar.

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its financial commitments. The management minimizes this risk through dealing with entities of sound financial positions and balancing the maturities of financial assets with financial liabilities.

**Fair value**

Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values of the financial instruments carried at amortized cost do not significantly differ from their carrying values at the balance sheet date.

## 28. Significant accounting judgments and estimates

In accordance with the accounting policies contained in IFRS and adopted by the Company, management is required to make the following judgments and estimations that may affect the carrying values of assets and liabilities.

### Estimates and Judgments

#### Classification of investments

On acquisition of an investment, management has to decide whether it should be classified as carried at fair value through profit or loss, available for sale or as loans and receivables. In making that judgment the Company considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the statement of income or directly in equity.

#### Impairment

At each balance sheet date, management assesses, whether there is any indication that available for sale investment may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

At each balance sheet date, management assesses, whether there is any indication that inventories, and property and equipment may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

#### Sources of estimation uncertainty

#### Fair values- unquoted securities investments

The valuation techniques for unquoted equity investments and identifiable assets, liabilities and contingent liabilities arising in a business combination make use of estimates such as future cash flows, discount factors, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

#### Accounts receivable

The Company reviews the doubtful debts in regular basis for impairment to be recognized in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the amount of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

#### Useful life of property plant and equipment

The Company management determines the useful lives and the depreciation of the property and equipment. The management increase the depreciation cost when the estimated useful lives decrease less than before estimated. Management writes off or writes back the cost of old absolute or non strategic assets which are disposed or sold.

## 29. Comparative figures

Certain comparative figures are reclassified to conform to current period presentation. The comparative figures have been restated to reflect prior year adjustments (Note 22).