

ANNUAL REPORT

2011



شركة الراية العالمية العقارية
AL-RAYA GLOBAL REAL ESTATE CO. W.P.A.



Consolidated financial statements and independent auditor's report
Al Raya Global Real Estate Company – KSC (Closed)
and Subsidiaries
Kuwait
31 December 2011

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Independent auditor's report

To the Shareholders of
Al Raya Global Real Estate Company – KSC (Closed)
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Al Raya Global Real Estate Company – Kuwait Shareholding Company (Closed) 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.

Auditor's 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 auditor's 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 auditor's consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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


Independent auditor's report

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Al Raya Global Real Estate 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 Parent Company and the consolidated financial statements, together with the contents of the report of the Parent 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 Parent 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 Parent 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 Parent Company.



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

Kuwait
15 April 2012

Consolidated statement of income

For the year ended 31 December 2011

	Notes	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Revenue			
Real estate rental income	8	434,671	268,309
Change in fair value of investment properties	10	165,811	(352,501)
(Loss)/gain on sale/exchange of investment properties		(140,000)	341,207
Net gain on investments at fair value through statement of income		11,268	145,594
Loss on sale of available for sale investments		(1,479)	-
Dividend income		-	13,973
Reversal of provision on cancellation of real estate deal		-	359,261
Profit from murabaha and other income		18,335	93,892
		488,606	869,735
Expenses and other charges			
Staff costs		(291,264)	(293,411)
General and administrative expenses		(82,516)	(95,224)
Depreciation and amortisation		(7,403)	(14,053)
Finance costs		(325,372)	(287,793)
Foreign exchange gain		845	2,934
Impairment in value of available for sale investments		(178,547)	(100,054)
		(884,257)	(787,601)
(Loss)/profit before Zakat		(395,651)	82,134
Provision for Zakat		(1,283)	(2,544)
(Loss)/profit for the year		(396,934)	79,590
Attributable to:			
Owners of the parent company		131,860	232,810
Non-controlling interests		(528,794)	(153,220)
		(396,934)	79,590
Basic and diluted earnings per share attributable to the owners of the parent company	9	0.66 Fils	1.16 Fils

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
(Loss)/profit for the year	(396,934)	79,590
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	(20,018)	(125,786)
Available for sale investments:		
- Net change in fair value of investments	(156,124)	(102,957)
- Transferred to consolidated statement of income on impairment	178,547	100,054
- Transferred to consolidated statement of income on disposal	72,599	-
Total other comprehensive income/(loss)	75,004	(128,689)
Total comprehensive loss for the year	(321,930)	(49,099)
Total comprehensive income/(loss) attributable to:		
Owners of the parent company	210,791	133,234
Non-controlling interests	(532,721)	(182,333)
	(321,930)	(49,099)

Consolidated statement of financial position

As of 31 December 2011

	Notes	31 Dec. 2011 KD	31 Dec. 2010 KD
Assets			
Non-current assets			
Furniture and equipment		3,309	7,475
Investment properties	10	19,770,952	19,707,998
Intangible assets		3,004	4,916
Available for sale investments	11	935,139	1,227,169
Total non-current assets		20,712,404	20,947,558
Current assets			
Accounts receivable and other assets	12	330,537	584,760
Investments at fair value through statement of income	13	5,711,953	5,828,282
Murabaha investment	14	1,017,560	865,000
Cash and bank balances	14	264,068	458,256
Total current assets		7,324,118	7,736,298
Total assets		28,036,522	28,683,856
Equity and liabilities			
Equity			
Share capital	15	20,000,000	20,000,000
Legal reserve	16	633,655	633,655
Voluntary reserve	16	621,979	621,979
Fair value reserve		(414,733)	(509,755)
Foreign currency translation reserve		(114,526)	(98,435)
Accumulated losses		(2,862,858)	(2,994,718)
Equity attributable to the owners of the parent company		17,863,517	17,652,726
Non-controlling interests		778,922	1,311,643
Total equity		18,642,439	18,964,369
Non-current liabilities			
Employee end of service indemnity		84,761	89,603
		84,761	89,603
Current liabilities			
Murabaha payable	17	5,500,000	5,000,000
Accounts payable and other liabilities	18	3,809,322	4,629,884
		9,309,322	9,629,884
Total liabilities		9,394,083	9,719,487
Total equity and liabilities		28,036,522	28,683,856

Anwar Bader Al-ghaith
Chairman

Manaf Abdulaziz Alhajeri
Vice Chairman

Consolidated statement of changes in equity

For the year ended 31 December 2011

	Attributable to the owners of the parent						Non-controlling interests	Total	
	Share capital KD	Legal reserve KD	Voluntary reserve KD	Fair value reserve KD	Foreign currency translation reserve KD	Accumulated losses KD	Sub-total KD	KD	KD
Balance at 1 January 2011	20,000,000	633,655	621,979	(509,755)	(98,435)	(2,994,718)	17,652,726	1,311,643	18,964,369
Profit/(loss) for the year	-	-	-	-	-	131,860	131,860	(528,794)	(396,934)
Other comprehensive income									
Available for sale investments									
- Net change in fair value of investment	-	-	-	(156,124)	-	-	(156,124)	-	(156,124)
- Transferred to consolidated statement of income on impairment	-	-	-	178,547	-	-	178,547	-	178,547
- Transferred to consolidated statement of income on disposal	-	-	-	72,599	-	-	72,599	-	72,599
Exchange difference arising on translation of foreign operation	-	-	-	-	(16,091)	-	(16,091)	(3,927)	(20,018)
Total comprehensive income/(loss) for the year	-	-	-	95,022	(16,091)	131,860	210,791	(532,721)	(321,930)
Balance at 31 December 2011	20,000,000	633,655	621,979	(414,733)	(114,526)	(2,862,858)	17,863,517	778,922	18,642,439

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2011

	Attributable to the owners of the parent						Sub-total KD	Non- controlling interests	Total
	Share capital KD	Legal reserve KD	Voluntary reserve KD	Fair value reserve KD	Foreign currency translation reserve KD	Retained earnings/ (accumulated losses) KD		KD	KD
Balance at 1 January 2010	20,000,000	633,655	621,979	(506,852)	(1,762)	(3,227,528)	17,519,492	1,493,976	19,013,468
Profit for the year	-	-	-	-	-	232,810	232,810	(153,220)	79,590
Other comprehensive income									
Available for sale investments									
- Net change in fair value of investment	-	-	-	(102,957)	-	-	(102,957)	-	(102,957)
- Transferred to consolidated statement of income on impairment	-	-	-	100,054	-	-	100,054	-	100,054
Exchange difference arising on translation of foreign operation	-	-	-	-	(96,673)	-	(96,673)	(29,113)	(125,786)
Total comprehensive (loss)/income for the year	-	-	-	(2,903)	(96,673)	232,810	133,234	(182,333)	(49,099)
Balance at 31 December 2010	20,000,000	633,655	621,979	(509,755)	(98,435)	(2,994,718)	17,652,726	1,311,643	18,964,369

Consolidated statement of cash flows

For the year ended 31 December 2011

	Note	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
OPERATING ACTIVITIES			
(Loss)/profit for the year		(396,934)	79,590
Adjustments for:			
Depreciation and amortisation		7,403	14,053
Provision for staff indemnity		24,195	18,998
Impairment in value of available for sale investments		178,547	100,054
Dividend income		-	(13,973)
Changes in fair value of investment properties		(165,811)	352,501
Loss/(gain) on sale/exchange of investment properties		140,000	(341,207)
Profit from murabaha		(18,335)	(29,402)
Loss on sale of available for sale investments		1,479	-
Finance cost		325,372	287,793
		95,916	468,407
Changes in operating assets and liabilities:			
Investments at fair value through statement of income		116,329	1,240,466
Accounts receivable and other assets		243,366	(420,336)
Accounts payable and other liabilities		(789,350)	289,372
Staff indemnity paid		(29,037)	-
Net cash (used in)/from operating activities		(362,776)	1,577,909
INVESTING ACTIVITIES			
Purchase of furniture and equipment		-	(383)
Purchase of investment properties		(2,268,406)	(3,893,207)
Proceeds from sale of investment properties		2,200,000	-
Acquisition of intangible assets		(1,325)	(983)
Proceeds from sale of available for sale investments		207,026	-
Dividend income received		-	13,973
Profit from murabaha received		29,192	6,852
Net cash from/(used in) investing activities		166,487	(3,873,748)
FINANCING ACTIVITIES			
Proceeds from Murabaha payable		500,000	1,500,000
Finance costs paid		(345,339)	(39,684)
Net cash from financing activities		154,661	1,460,316
Net decrease in cash and cash equivalents		(41,628)	(835,523)
Cash and cash equivalents at the beginning of the year	14	1,323,256	2,158,779
Cash and cash equivalents at the end of the year	14	1,281,628	1,323,256

Notes to the financial statements

31 December 2011

1 Incorporation and activities

Al Raya Global Real Estate Company – KSC (Closed) (the “parent company”) was incorporated in Kuwait on 3 July 2005 in accordance with the Commercial Companies Law as a closed Kuwaiti shareholding company.

The objectives of the parent company include all real estate activities for the company or third parties in accordance with Islamic Sharia'a. These include the following:

- Owning, buying and selling of land, real estate shares and other investments inside and outside Kuwait.
- Performing studies and consultancy services by qualified personnel in the real estate field.

In all cases the parent company is governed in all its activities by Islamic Sharia'a principles and decisions of Sharia'a board are obligatory to the parent company.

The group comprises the parent company and its subsidiaries. Details of subsidiary companies are set out in note 7.

The address of the parent company's registered office is PO Box 26283, Safat 13123, State of Kuwait.

These consolidated financial statements were authorised for issue by the parent company's board of directors on 15 April 2012 and are subject to the approval of the General Assembly of the shareholders.

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 income statement, financial assets available for sale and investment properties that have been measured at fair value.

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

The group has elected to present the “statement of comprehensive income” in two statements: the “statement of income” and a “statement of comprehensive income”.

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 but its adoption had no impact on the presentation of these financial statements.

Notes to the financial statements

31 December 2011

4 Changes in accounting policies (continued)

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.

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
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
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:

- Potentially reclassifiable to consolidated statement of income in a subsequent period, and
- 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.

4.2.2 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 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.

Notes to the financial statements

31 December 2011

4 Changes in accounting policies (continued)

4.2.4 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 being issued in phases and to date phase 1 has been issued. 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.

4.2.5 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.

4.2.6 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 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 (see note 7). 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 off, 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.

Changes in the group's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-

Notes to the financial statements

31 December 2011

5 Significant accounting policies (continued)

controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent company.

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 consolidated statement of income.

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 consolidated statement of income immediately.

5.3 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.

The group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

5.3.1 Rental income

Rental income arising from investment properties is accounted for on a straight line basis over the lease terms.

5.3.2 Gain on sale of investment properties

Gain on sale of investment properties is recognised when the significant risks and rewards of ownership of investment properties have passed to the buyer.

5.3.3 Dividend income

Dividend income is recognized when right to receive payment is established.

5.3.4 Murabaha and similar income

Murabaha and similar income is recognised on a time proportionate basis, taking into account the principal outstanding and the profit rate applicable.

5.4 Operating expenses

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

Notes to the financial statements

31 December 2011

5 Significant accounting policies (continued)

5.5 Finance costs

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

5.6 Property and equipment

5.6.1 Furniture and equipment

Furniture and equipment 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.

Furniture 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 of equipment. 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 furniture and equipment. The following useful lives are applied:

Furniture & fixtures	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 income statement.

5.7 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

5.7 Investment property (continued)

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in consolidated statement of income within change in fair value of investment property.

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

5.8 Intangible assets

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. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

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

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Notes to the financial statements

31 December 2011

5 Significant accounting policies (continued)

The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement. 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.

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

5.9 Impairment testing of non financial assets

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 discount 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.

5.10 Financial instruments

5.10.1 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 consolidated statement of income which are measured initially at fair value.

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 income statement.

Notes to the financial statements

31 December 2011

5 Significant accounting policies (continued)

5.10.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments 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*

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:

Murabaha investments

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. When the credit risk of the transaction is attributable to a financial institution, the amount due under Murabaha contracts is classified as a Murabaha investment. Whereas, when the credit risk of transaction is attributable to counterparties other than banks and financial institutions, the amount due is classified as Murabaha receivable.

Murabaha receivables which arise from the group's financing of long-term transactions on an Islamic basis are classified as Murabaha receivables originated by the group and are carried at the principal amount less provision for credit risks to meet any decline in value. Third party expenses such as legal fees, incurred in granting a Murabaha are treated as part of the cost of the transaction.

All Murabaha receivables are recognized when the legal right to control the use of the underlying asset is transferred to the customer.

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 and bank balances, together with other murabaha investments that are readily convertible into known amounts of cash within 90 days and 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 monitor 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, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Notes to the financial statements

31 December 2011

5 Significant accounting policies (continued)

5.10 Financial instruments (continued)

5.10.2 Classification and subsequent measurement of financial assets (continued)

Assets in this category are measured at fair value with gains or losses recognised in the consolidated 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 the consolidated 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 the consolidated 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 the consolidated 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 consolidated statement of income only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.10.3 Classification and subsequent measurement of financial liabilities

The group's financial liabilities include murabaha, trade and other payables.

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

Accounts payables

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

Murabaha payables

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

5.10.4 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 cost rate.

Notes to the financial statements

31 December 2011

5 Significant accounting policies (continued)

5.10 Financial instruments (continued)

5.10.5 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.

5.10.6 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.

5.10.7 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 22.

5.11 Equity, reserves and dividend payments

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

Statutory 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 Kuwaiti Dinars (KD)
- Fair value reserve – comprises gains and losses relating to available for sale financial assets

Accumulated losses/retained earnings includes all current and prior period retained losses/profits. 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.

5.12 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.

Notes to the financial statements

31 December 2011

5 Significant accounting policies (continued)

5.12 Provisions, contingent assets and contingent liabilities (continued)

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.

5.13 Foreign currency translation

5.13.1 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.

5.13.2 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 consolidated 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.

5.13.3 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 consolidated statement of income and are recognised as part of the gain or loss on disposal.

5.14 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 company makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The company's obligations are limited to these contributions, which are expensed when due.

5.15 Taxation

5.15.1 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.

5.15.2 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.

Notes to the financial statements

31 December 2011

5 Significant accounting policies (continued)

5.15.2 *Kuwait Foundation for the Advancement of Sciences (KFAS) (continued)*

For the year ended 31 December 2011, the parent company has no liability towards KFAS due to accumulated losses incurred. Under the KFAS regulation no carry forward of losses to the future years nor any carry back to prior years is permitted.

5.15.3 *Taxation on overseas subsidiaries*

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

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.

6.1 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 fair value through income statement 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 fair value through consolidated 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 *Classification of real estate*

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

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

The group classifies property as property under development if it is acquired with the intention of development.

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

6.1.3 *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.

Notes to the financial statements

31 December 2011

6 Significant management judgements and estimation uncertainty (continued)

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 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.

6.2.2 Fair value of financial instruments

Management apply 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 22).

7 Subsidiary companies

Details of subsidiaries are set out below:

	Country of incorporation	Percentage ownership		Principal activities
		31 Dec. 2011	31 Dec. 2010	
Al Raya Global Real Estate Company – WLL	Jordan	50%	50%	Real estate activities
Al Raya Al Ahlia Real Estate Company – WLL	Kuwait	97%	97%	Real estate activities
Al Raya Regional Real Estate Company – WLL	Kuwait	97%	97%	Real estate activities
Bait Al Raya Real Estate Company – WLL	Saudi Arabia	100%	100%	Real estate activities

8 Real estate rental income

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Rental income	522,119	297,378
Direct expenses	(87,448)	(29,069)
	434,671	268,309

9 Basic and diluted earnings per share attributable to the owners of the parent company

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to the owners of the parent company by the weighted average number of shares as follows:

	Year ended 31 Dec. 2011	Year ended 31 Dec. 2010
Profit for the year attributable to the owners of the parent company (KD)	131,860	232,810
Weighted average number of shares outstanding	200,000,000	200,000,000
Basic and diluted earnings per share	0.66 Fils	1.16 Fils

Notes to the financial statements

31 December 2011

10 Investment properties

	31 Dec. 2011 KD	31 Dec. 2010 KD
At 1 January	19,707,998	16,015,733
Additions	2,268,406	4,925,154
Disposal/exchange of investment properties	(2,200,000)	(1,031,947)
(Loss)/gain on sale/exchange of investment properties	(140,000)	341,207
Change in fair value	165,811	(352,501)
Foreign currency translation adjustment	(31,263)	(189,648)
	19,770,952	19,707,998

Certain investment properties with a carrying value of KD4,885,825 (31 December 2010: KD4,717,500) are mortgaged against Murabaha payable (note 17).

11 Available for sale investments

	31 Dec. 2011 KD	31 Dec. 2010 KD
Local quoted equity shares	7,935	11,040
Unquoted equity shares	586,650	765,196
Local unquoted fund	340,554	450,933
	935,139	1,227,169

Investment in unquoted shares amounting to KD586,650 (2010: KD765,196) are carried at cost less impairment due to unpredictable nature of future cash flows and unavailability of financial information to arrive at a reliable measure of fair value.

Fair value of local unquoted fund is estimated by discounting future cash flows using certain discount rates for the term of each cash flow arising from the unquoted managed fund. The fund is managed by a related party.

During the year, the group recognised an impairment loss of KD178,547 (2010: KD100,054). Management has performed an analysis of the underlying investments which indicate that there is no further impairment.

The investment in unquoted fund amounting KD340,554 (31 December 2010: KD450,933) is pledged against Murabaha payable (note 17).

12 Accounts receivable and other assets

	31 Dec. 2011 KD	31 Dec. 2010 KD
Accrued revenue	43,172	44,083
Receivables arising on sale of investment	259,928	522,180
Prepayments and other receivable	23,918	14,978
Due from related party	3,519	3,519
	330,537	584,760

The carrying values of the financial assets included above approximate their fair values and are due within one year. The accounts receivable and other assets have been reviewed for impairment which indicates no provision is required.

Notes to the financial statements

31 December 2011

13 Investments at fair value through statement of income

	31 Dec. 2011 KD	31 Dec. 2010 KD
Designated on initial recognition:		
Local investment portfolio	959,644	1,067,320
Unquoted equity securities	4,635,073	4,643,808
Unquoted fund	117,236	117,154
	5,711,953	5,828,282

Investment in local portfolio is carried at net asset value provided by the portfolio managers due to the nature of this investment. Management believes the net asset value provided by the portfolio manager represents the best estimate of fair value for this investment.

Fair values of investment in unquoted equity securities and unquoted fund have been estimated by discounting future cash flows using certain discount rates for the term of each cash flows arising from these financial assets.

14 Cash and cash equivalents

	31 Dec. 2011 KD	31 Dec. 2010 KD
Murabaha investment	1,017,560	865,000
Cash and bank balances	264,068	458,256
	1,281,628	1,323,256

Murabaha investment, with a related party, amounting KD1,017,560 (2010: KD865,000) is pledged against murabaha payable (note 17). Murabaha investment yield profit at an average rate of 1.73% (2010: 2.4%) per annum and mature within 90 days from the date of deposit.

15 Share capital

	Authorised		Issued and fully paid	
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
Shares of KD0.100 each	200,000,000	200,000,000	200,000,000	200,000,000

16 Reserves

In accordance with the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year before KFAS, Zakat and directors' remuneration is to be 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.

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.

In accordance with the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year before KFAS, Zakat and directors' remuneration is to be transferred to the voluntary reserve. 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.

No transfer is required in a year in which the parent company has incurred a loss or where cumulative losses exist.

Notes to the financial statements

31 December 2011

17 Murabaha payable

Islamic financing obtained from local financial institution (a related parties) carry effective profit rate of 5.3% (31 December 2010: 6.5%). This financing is secured by way of mortgage of certain investment properties, available for sale investments and Murabaha investment (notes 10, 11 and 14).

18 Accounts payable and other liabilities

	31 Dec. 2011 KD	31 Dec. 2010 KD
Accounts payable	14,377	18,398
Accrued and other liabilities	399,019	438,571
Payable on purchase of investment properties	3,395,926	4,172,915
	3,809,322	4,629,884

Payable on purchase of investment properties includes KD3,176,756 (31 December 2010: KD3,122,110) payable to a non-controlling shareholder of the subsidiary in Jordan for partly financing purchase of investment property (land). No profit is charged on this amount and it is repayable on demand.

Payable on purchase of investment properties amounting to KD219,169 (31 December 2010: KD245,066) is secured by way of mortgage of certain investment properties with a carrying value of KD437,630 (31 December 2010: KD485,580).

19 General assembly

The directors did not propose dividend for the year ended 31 December 2010.

The consolidated financial statements of the group for the year ended 31 December 2010 were approved by the General Assembly held on 11 May 2011, and did not declare any dividend for the year ended 31 December 2010.

20 Related party transactions

These represent transactions made, in the ordinary course of business, with related parties i.e. directors and major shareholders and companies of which they are principal shareholders. Management approves prices and terms of these transactions.

Transactions with related parties included in the consolidated information are as follows:

	31 Dec. 2011 KD	31 Dec. 2010 KD
Amounts included in consolidated statement of financial position:		
Purchase of investment properties (major shareholders)	860,000	1,060,000
Available for sale investments (major shareholders)	340,554	450,933
Cash and cash equivalents (major shareholders)	1,261,664	1,146,704
Receivable and prepayment (major shareholders)	3,519	3,519
Murabaha payable (major shareholders)	5,000,000	5,000,000
Transactions included in consolidated statement of income:		
Profit on murabaha investment (major shareholders)	18,335	29,402
Finance cost (major shareholders)	283,646	264,378
Key management compensation:		
Salaries and other short term benefits	119,165	138,200
Termination benefits	7,916	8,600
	127,081	146,800

Notes to the financial statements

31 December 2011

21 Risk management objectives and policies

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

The parent company's board of directors are ultimately responsible for the overall risk management and for approving risk strategies and principles. The group's risk management focuses on actively securing the group's short to medium term cash flows by minimizing the potential adverse effects on the group's financial performance. Long term financial investments are managed to generate lasting returns.

The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

21.1 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 and the Middle Eastern countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, UAE Dirham and Jordan Dinar. 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:

	31 Dec. 2011 KD	31 Dec. 2010 KD
US Dollar	5,697,438	4,916,836
Jordan Dinar	4,843,995	5,847,997
UAE Dirham	6,572,128	4,990,284
Others	855,650	1,256,828

The foreign currency sensitivity is determined based on US Dollars: 3% (2010: 5%), Jordan Dinar 2% (2010: 5%), UAE Dirham 2% (2010: 5%) and other 5% (2010: 5%) increase or decrease in exchange rates. There has been no change during the year in the methods and assumptions used in the preparation of the sensitivity analysis.

If the Kuwaiti Dinar had strengthened or 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	
	31 Dec. 2011 KD	31 Dec. 2010 KD
US Dollar	± 170,923	± 245,842
Jordan Dinar	± 96,880	± 292,400
UAE Dirham	± 131,443	± 249,514
Others	± 42,783	± 62,841

Notes to the financial statements

31 December 2011

21 Risk management objectives and policies (continued)

21.1 Market risk (continued)

a) Foreign currency risk (continued)

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) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The group is exposed to profit rate risk with respect to Murabaha investments and murabaha payable. An increase or decrease by 1% (2010: 1%) in the effective profit rate would result in decrease/increase of profit for the year by KD44,824 (2010: KD41,350).

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 sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. There have been no changes during the year in the method and assumptions used in preparing the sensitive analysis.

If equity prices had been 5% (2010: 5%) higher/lower the effect on the loss for the year and equity 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	± 285,598	± 291,414	-	-
Available for sale investments	-	-	± 46,757	± 61,358

21.2 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:

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31 December 2011

21 Risk management objectives and policies (continued)

21.2 Credit risk (continued)

	31 Dec. 2011 KD	31 Dec. 2010 KD
Accounts receivable and other assets	330,537	584,760
Murabaha investments	1,017,560	865,000
Cash and bank balances	264,068	458,256
	1,612,165	1,908,016

Bank balances and Murabaha investments are maintained with high credit quality financial institutions. Management believes the net receivable balances are neither past due nor impaired.

21.3 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 regular basis.

The table below summarises the maturity profile of the group's liabilities using undiscounted cash flows.

	Up to 1 month KD	1-3 months KD	3-12 months KD	Over 1 year KD	Total KD
31 December 2011:					
Liabilities					
Provision for staff indemnity	-	-	-	84,761	84,761
Murabaha payable	-	4,217,800	1,582,500	-	5,800,300
Accounts payable and other liabilities	-	252,646	3,556,676	-	3,809,322
	-	4,470,446	5,139,176	84,761	9,694,383
31 December 2010:					
Liabilities					
Provision for staff indemnity	-	-	-	89,603	89,603
Murabaha payable	-	3,727,500	1,597,500	-	5,325,000
Accounts payable and other liabilities	-	1,101,448	3,528,436	-	4,629,884
	-	4,828,948	5,125,936	89,603	10,044,487

Notes to the financial statements

31 December 2011

22 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	
	Carrying amount KD	Fair value KD	Carrying amount KD	Fair value KD
Available for sale investments	586,650	348,489	765,196	461,973
Accounts receivable and other assets	330,537	-	584,760	-
Investments at fair value through statement of income	-	5,711,953	-	5,828,282
Cash and cash equivalents	1,281,628	-	1,323,256	-
	2,198,815	6,060,442	2,673,212	6,290,255
Murabaha payable	5,500,000	-	5,000,000	-
Accounts payable and other liabilities	3,809,322	-	4,629,884	-
	9,309,322	-	9,629,884	-

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.

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

	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2011					
Investments at fair value through statement of income					
Designated on initial recognition:					
Local investment portfolio	b	-	-	959,644	959,644
Unquoted equity securities	b	-	-	4,635,073	4,635,073
Unquoted funds	b	-	-	117,236	117,236
Available for sale investments:					
Local quoted shares	a	7,935	-	-	7,935
Local unquoted fund	b	-	-	340,554	340,554
Net fair value		7,935	-	6,052,507	6,060,442

Notes to the financial statements

31 December 2011

22 Summary of financial assets and liabilities by category (continued)

Financial instruments measured at fair value (continued)

	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2010					
Investments at fair value through statement of income					
Designated on initial recognition:					
Local investment portfolio	b	-	-	1,067,320	1,067,320
Unquoted equity securities	b	-	-	4,643,808	4,643,808
Unquoted funds	b	-	-	117,154	117,154
Available for sale investments:					
Local quoted shares	a	11,040	-	-	11,040
Local unquoted fund	b	-	-	450,933	450,933
Net fair value		11,040	-	6,279,215	6,290,255

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.

b) Unquoted investments

The financial statements include holdings in unlisted securities, portfolio and fund, 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.

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:

	31 Dec. 2011		31 Dec. 2010	
	Investments at fair value KD	Available for sale investments KD	Investments at fair value KD	Available for sale investments KD
Opening balance	5,828,282	450,933	7,068,748	435,206
Gains or losses recognised in:				
- Statement of income	11,268	(1,479)	145,594	-
- Other comprehensive income	-	98,126	-	15,727
Sales	(127,597)	(207,026)	(1,386,060)	-
Closing balance	5,711,953	340,554	5,828,282	450,933

Notes to the financial statements

31 December 2011

22 Summary of financial assets and liabilities by category (continued)

Level 3 fair value measurements (continued)

Gains or losses recognised in the consolidated statement of income (as above) for the year are included in net gain on investment at fair value through statement of income and realised loss on sale of available for sale investment and impairment loss on available for sale investments accounts.

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.

There have been no transfers into or out of level 3 during the year.

23 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 excluding fair value and foreign currency translation reserves, amounting to KD18,392,776 (2010: KD18,260,916). 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.