Annual Report

2011

AREF

مجموعة عارف الاستثمارية

AREF Investment Group

www.arefgroup.com

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Brief

AREF Investment Group is a Kuwaiti closed shareholding company listed on the Kuwait Stock Exchange. Established in 1975, with a share capital of KD 106 million (approx. USD 363 million), the Company is monitored by the Central Bank of Kuwait and the Capital Market Authority. AREF is considered to be amongst the leading investment institutions in the region focusing on investments in various sectors and activities. This is achieved through developing and nurturing local, regional and international partnerships.

AREF along with it's affiliates and subsidiary companies, form a conglomerate of holding companies that are diversified in various sectors. This generates synergy whereby any area of specialty is covered under the leadership of a holding company to form a powerful team capable of conceiving, planning and executing projects in growing regional markets.

Sector wise, AREF and its affiliates have investments in the following sectors: Investment, Banking and Finance, Energy, Logistic Services (including Aviation, Sea and River Transportation), Real Estate Investment, and the Public Services sector which includes Health, Educational and IT services.

Board of Directors

Mr. Mohammad Al-Omar
Chairman

Mr. Emad Al-Thaqeb
Vice chairman

Mr. Mohmammad Al-Qassar
Board Member

Mr. Adnan Al-Wazzan
Board Member

Mr. Shaheen Al-Ghanim
Board Member

Mr. Khaled Al-Shamlan
Board Member

Mr. Mansour Bu-Obaid
Board Member

Management Report

The board of directors of AREF Investment Group is pleased to provide its 2011 annual report and the financial statements for the period ended on 31/12/2011.

Dear shareholders,
On behalf of the board of directors, we are pleased to present to you our company's 37th annual report which highlights the most prominent strategic activities and developments during 2011. The report covers the operating results of the financial year ended December 31, 2011, while presenting significant achievements and updates on sectors such as the financial, administrative, strategic and legal sectors. In addition, the role of the internal committees emanating from the Board has been initiated, particularly the internal audit committee which comes in line with the requirements of the Central Bank of Kuwait and the Corporate governance laws. As you may know, the past year was not an easy one, for there was a fear of another recession in the global economy when the debt crisis moved from the private financial sector to become a sovereign debt crisis. There are still risks of a recession in the world economy.

In brief, AREF is not far from the surrounding economic conditions and impacts of the global financial crisis, due to its interaction with various investment activities in many countries. This led the Board of Directors to define strategies and policies for the next phases most of which focus on the following:

1- Organizing the group's financial and legal positions to protect its' assets on the contractual side

2- Laying out a business strategy and plan suitable for the transitional and future stages of the group

3- Decreasing administrative and operational costs and expenses without having adverse effects on the performance of assets

4- Following up intensely with the collection of debts, and rescheduling part of them when necessary in order to protect the shareholders' interests

5- Supporting affiliates and subsidiaries in prioritizing and arranging their financial positions and assisting them to overcome the financial crisis

6- Appointing local and international law firms to follow up the judicial and legal procedures.

Further, the Company took significant steps to apply recommendations of the comprehensive plan submitted by the executive management which had undertaken a detailed study with some assistance from Oliver Wyman, an international consultancy firm. These studies were made to restructure and shield the company's assets from the financial and legal perspective.

In addition, AREF worked on exiting from assets that are not classified among its' fundamental assets that serve its' core business. Also, exits were to be made from assets that are considered highly risky in countries that are politically or economically instable. In general, expenses of assets have been cut in order to realize better returns on the medium run.

During the previous period, the executive management have strived to take all legal measures to tackle the shortcomings related to some of the group's investments in order to protect these assets. Despite the critical economic and political conditions around the world, especially in countries where most of the Group's assets are located, and despite the volume of legal, financial and administrative problems associated with these assets, AREF, was able to achieve substantial results within a short period.

The Board of directors together with the executive management made major amendments to the organizational structure of the group and made financial and administrative reforms in compliance to the corporate governance regulations and in compliance to the regulations of the Central Bank of Kuwait , the Capital Markets Authority, and in compliance to the laws of the Ministry of Commerce & Industry.

In this respect we would like to remind our esteemed shareholders that AREF has restructured its debts with banks and financial institutions in November 2010 for a period of five years with a total Murabaha of KD 290,601,470 million. The Group was able to make its first payment in accordance to the restructuring agreement which confirms business continuity of the Group and its commitment to meet its targets which are in line with its strategy and its restructuring plan developed with Oliver Wyman in order to achieve the best results for the Company, its shareholders and its creditors alike. AREF Investment Group had signed an agreement with Oliver Wyman which called for the international consulting firm to assist AREF with refining its approach to asset restructuring. The Group has also successfully solved the problems related to bank guarantees and letters of guarantee granted to its affiliates and subsidiaries.

Sudan Government reacquisition of the Group's stake in Sudan Air

In 2011, AREF Investment Group signed an agreement with Sudan Government to re-acquire the Group's share in Sudan Airways with an amount of USD 125 million with instalments ending in 2015 where the first payment was made with an amount of 15 million. This was considered one of the major challenges that faced the Board of Directors and the executive management.

Exiting from AREF Energy Holding Company

The group managed exit from part of its share in AREF Energy Holding Company in December 2011 in favour of Development Enterprises Holding co where 29% of its shares had been sold for KD 29.1 million (received in full). We expect full exit from the group in 2012.

Legal Perspective:

Dear shareholders,

As you are aware the general assembly of the company which was held on 2/6/2010 and denied the article that releases the previous board members from their responsibilities, due to financial losses sustained by the company.

Therefore, AREF's management sincerely took the responsibility to raise the company and protect it from any legal or other impediments for the purpose of serving the company and its shareholders.

In light of what has been mentioned in the article of releasing the former board for the financial year ended on 31/12/2009, the Central Bank of Kuwait formed an inspection team that moved to the company's premises. Based on the principle of transparency, honesty, and commitment with the supervisory authority, the management provided the team with all facilities and documentation available to facilitate their work. The team concluded its work with a report that includes a narrative and detailed facts indicating the financial, administrative and legal violations.

To ensure the credibility of such violations and whether it will be followed by other violations, the management hired a law firm in Kuwait to handle and follow up with related legal aspect, as well as two audit firms, one local and another international. The latter was hired to provide its services in forensic accounting. Accordingly, a team has been formed comprising of lawyers and advisors that cover the legal side, and comprising of auditors and forensic accountants. The team also comprises and headed by members of AREF's executive management. As a result, the legal team, auditors, and consultants forensic accounting, provided their reports on transactions and financial remittances that include criminal suspicions that entails the Board's obligation to submit reports to the attorney general, based on the fact that the company's funds are public funds pursuant to Law No. 1 of 1993 on protection of public funds. All these complaints are pending investigations; therefore, the Board of Directors would like to apologize to the shareholders for not being able to discuss in details and disclose the confidentiality of investigations conducted by public prosecution as such disclosure constitutes legal violation. However, both the Board of Directors and the executive management hereby confirm their commitment to expend all their efforts to assist the judicial authorities to perform the task they are entrusted with justly. The board will keep the shareholders updated whenever the public prosecution office allows the disclosure of such information.

In conclusion, we would like to extend our utmost thanks for the support you gave the company in its efforts towards excellence, hoping it will achieve your aspirations. Also, we would like to take this opportunity to thank all AREF staff for their outstanding efforts to achieve best results that will benefit the company and its shareholders.

Sharia Report

AREF INVESTMENT GROUP SHAREHOLDERS,

We have reviewed and approved the policies and products used, along with contracts related to the transactions, carried out by AREF Investment Group during the financial year ended December 31, 2011. We have also made the necessary revision in order to give our opinion, on whether AREF was compliant to the principles and regulations of Islamic Sharia through our fatwa and directives.

The Sharia Board also reviewed and approved the forms of contracts and agreements after obtaining information we believed was necessary in order to issue our opinion. Through Sharia supervision, random samples of transactions carried out by the Group with shareholders investors, and other entities, were reviewed. Also, periodic reports were submitted to the Sharia Board on audits and onsite visits regarding work procedures and its application of Fatwa and decisions made by the Sharia Board. .

We have obtained all the required information and clarifications that were necessary to provide us with evidence confirming AREF's compliance with the Islamic Sharia rules and regulations in all transactions examined by the Sharia Supervisory Board.

Through our procedures we have concluded the following:

1. All contracts and transactions made by AREF Investment Group in the financial year ended December 31,2011 were compliant with the Islamic Sharia laws, and were in accordance with the decisions and recommendations of the Sharia Supervisory Board

2. Calculation of Zakat was made in accordance with the Islamic Sharia laws, and in accordance to the decisions and recommendations of the Sharia Supervisory Board.

Sharia Supervisory Board

Financial Index

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Burgan– International Accountants

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AREF INVESTMENT GROUP S.A.K. (CLOSED)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Aref Investment Group S.A.K. (Closed) (the "Parent Company") and its Subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 the Parent Company's 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.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AREF INVESTMENT GROUP S.A.K. (CLOSED) (CONTINUED)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

EMPHASIS OF MATTER

Without qualifying our opinion above, we draw attention to Note 2 to the consolidated financial statements, which states that the Group has incurred a loss of KD 51,412,223 for the year ended 31 December 2011 (2010: KD 136,197,938) and as at that date, the Group has accumulated losses of KD 233,045,945 (2010: KD 190,446,995) which exceeds 75% of paid up share capital (including share premium). These conditions, along with other matters set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Notwithstanding the above facts, the consolidated financial statements have been prepared under the going concern concept as the management of the Parent Company has initiated certain actions, detailed in Note 2, to meet the obligations, as they fall due.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the 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, as amended, and by the Parent Company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2011.

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

ALI A. AL-HASAWI
LICENCE NO. 30 A
RÖDL MIDDLE EAST
BURGAN - INTERNATIONAL ACCOUNTANTS

22 October 2012
Kuwait

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
Operating revenues	4	**11,125,372**	17,850,035
Islamic finance income		**3,884,227**	3,151,070
Income from ijarah assets		**283,987**	272,101
Net gain (loss) on financial assets at fair value through income statement	13	**481,653**	(6,143,064)
Gain on sale of financial assets available for sale		**1,326,204**	956,357
Income from financial assets held to maturity		**575,575**	533,573
Fair valuation loss on investment properties	16	**(3,126,014)**	(2,346,811)
Rental income from investment properties		**3,002,945**	2,911,918
Gain on sale of investment properties		**486,088**	314,087
Share of results of associates	17	**(7,201,191)**	(20,647,564)
Loss on sale of investment in a subsidiary		**-**	(10,713)
Fair valuation gain on loss on control	7	**6,268,572**	-
Dividend income		**160,514**	92,529
Other income	5	**803,616**	1,470,202
INCOME		**18,071,548**	(1,596,280)
Operating costs	4	**9,292,646**	17,183,035
Islamic finance costs		**15,427,980**	16,335,029
Staff salaries and benefits		**5,583,987**	5,563,861
General and administration expenses		**6,106,952**	7,887,611
Foreign exchange loss		**(2,736)**	3,775,121
Net impairment losses	6	**16,776,114**	70,536,725
Write down of real estate development projects to net realisable value	11	**-**	11,699,688
Depreciation and amortisation	18 & 20	**877,760**	5,885,445
Loss on sale of property and equipment		**-**	1,677,731
EXPENSES		**54,062,703**	140,544,246
Loss from continuing operations		**(35,991,155)**	(142,140,526)
(Loss) gain from discontinued operations	7	**(15,368,926)**	5,942,588

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
LOSS BEFORE TAXATION		**(51,360,081)**	(136,197,938)
Taxation on foreign subsidiaries	7	**(52,142)**	-
LOSS FOR THE YEAR		**(51,412,223)**	(136,197,938)
Attributable to			
Equity holders of the Parent Company		**(42,598,950)**	(110,991,904)
Non-controlling interests		**(8,813,273)**	(25,206,034)
		(51,412,223)	(136,197,938)
Basic and diluted loss per share attributable to equity holders of the Parent Company	8	**(40) fils**	(105) fils
Basic and diluted loss per share from continuing operations attributable to equity holders of the Parent Company	8	**(35) fils**	(109) fils

The attached notes 1 to 33 from part of these consolidated financial statement

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
Loss for the year		**(51,412,223)**	(136,197,938)
Other comprehensive (loss) income			
Exchange differences on translation of foreign operations		**(4,064,902)**	1,583,007
Impairment loss on financial assets available for sale transferred to consolidated income statement		**931,768**	1,712,564
Change in fair value of financial assets available for sale		**2,159,985**	(945,284)
Share of other comprehensive income of associates	17	**(501,944)**	182,749
Other comprehensive loss for the year		**(1,475,093)**	(998,476)
Total comprehensive loss for the year		**(52,887,316)**	(137,196,414)
Attributable to:			
Equity holders of the Parent Company		**(43,348,181)**	(112,532,414)
Non-controlling interests		**(9,539,135)**	(24,664,000)
		(52,887,316)	(137,196,414)

The attached notes 1 to 30 from part of these consolidated financial statement

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
ASSETS			
Cash and bank balances	9	**21,590,183**	38,281,117
Islamic finance receivables	10	**42,133,201**	41,001,189
Inventories		**904,271**	3,339,827
Real estate development projects	11	**34,311,430**	37,066,885
Accounts receivable and other assets	12	**26,328,264**	43,511,812
Financial assets at fair value through income statement	13	**11,996,099**	35,674,877
Financial assets available for sale	14	**55,847,235**	56,361,630
Financial assets held to maturity	15	**7,055,255**	8,937,613
Investment properties	16	**55,442,481**	67,773,811
Investment in associates	17	**73,339,364**	94,658,089
Property and equipment	18	**12,070,968**	36,269,786
Goodwill	19	**725,996**	21,349,070
Intangible assets	20	**101,768**	3,312,648
Non-current asset held for sale	7	**43,732,585**	-
TOTAL ASSETS		**385,579,100**	487,538,354
LIABILITIES AND EQUITY			
LIABILITIES			
Islamic finance payables	21	**324,760,573**	335,179,066
Accounts payable and other liabilities	22	**41,586,034**	63,483,338
TOTAL LIABILITIES		**366,346,607**	398,662,404
EQUITY			
Share capital	23	**106,129,148**	106,129,148
Share premium	23	**132,661,436**	132,661,436
Treasury shares	23	**(371,450)**	(371,450)
Statutory reserve	23	**17,056,997**	17,056,997
Voluntary reserve		**455,751**	455,751
Other reserve		**-**	(209,057)
Cumulative changes in fair values		**2,436,553**	(153,256)
Foreign currency translation reserve		**(7,373,106)**	(4,034,066)
Accumulated losses		**(233,045,945)**	(190,446,995)
Equity attributable to equity holders of the Parent Company		**17,949,384**	61,088,508
Non-controlling interests		**1,283,109**	27,787,442
TOTAL EQUITY		**19,232,493**	88,875,950
TOTAL LIABILITIES AND EQUITY		**385,579,100**	487,538,354

Mohammed Khalifa Al-Adsani
Chief Executive Officer

The attached notes 1 to 30 from part of these consolidated financial statement

	Attributable to equity holders of the Parent Company					
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves
	KD	KD	KD	KD	KD	
Balance at 1 January 2010	106,129,148	132,661,436	(371,450)	17,056,997	455,751	(209,057)
Loss for the year	-	-	-	-	-	-
Other comprehensive income (loss) for the year	-	-	-	-	-	-
Total comprehensive income (loss) for the year	-	-	-	-	-	-
Arising on disposal of a subsidiary	-		-	-	-	209,057
Balance at 31 December 2011	**106,129,148**	**132,661,436**	**(371,450)**	**17,056,997**	**455,751**	-

The attached notes 1 to 30 from part of these consolidated financial statement

Attributable to equity holders of the Parent Company				Non-controlling interests	Total equity
Cumulative changes in fair values	Foreign currency translation reserve	Accumulated losses	Sub total		
KD	KD	KD	KD	KD	KD
(153,256)	(4,034,066)	(190,446,995)	61,088,508	27,787,442	88,875,950
-	-	(42,598,950)	(42,598,950)	(8,813,273)	(51,412,223)
2,589,809	(3,339,040)	-	(749,231)	725,862	(1,475,093)
2,589,809	(3,339,040)	(42,598,950)	(43,348,181)	(9,539,135)	(52,887,316)
-	-	-	209,057	(16,965,198)	(16,756,141)
2,436,553	**(7,373,106)**	**(233,045,945)**	**17,949,384**	**1,283,109**	**19,232,493**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to equity holders of the Parent Company					
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves
	KD	KD	KD	KD	KD	
Balance as at 1 January 2010	106,129,148	132,661,436	(371,450)	17,056,997	455,751	
Loss for the year	-	-	-	-	-	
Other comprehensive (loss) income for the year	-	-	-	-	-	
Total comprehensive (loss income for the year	-	-	-	-	-	
Net effect of accounting for existing interest on the successive share purchase of associates	-	-	-	-	-	
Acquisition of non-controlling interest	-	-	-	-	-	
Loss of control without sale	-	-	-	-	-	
Adjustment on part disposal of a subsidiary without loss of control	-	-	-	-	-	(209,057)
Balance as at 31 December 2010	106,129,148	132,661,436	(371,450)	17,056,997	455,751	(209,057)

The attached notes 1 to 30 from part of these consolidated financial statement

Attributable to equity holders of the Parent Company				Non-controlling interests	Total equity
Cumulative changes in fair values	Foreign currency translation reserve	Accumulated losses	Sub total		
KD	KD	KD	KD	KD	KD
(739,413)	(1,909,025)	(79,158,860)	174,124,584	35,720,847	209,845,431
-	-	(110,991,904)	(110,991,904)	(25,206,034)	(136,197,938)
584,531	(2,125,041)	-	(1,540,510)	(542,034)	(998,476)
584,531	2,125,041)	(110,991,904)	(112,532,414)	(24,664,000)	(137,196,414)
-	-	(296,231)	(296,231)	-	(296,231)
-	-	-	-	19,640,428	19,640,428
-	-	-	-	(3,468,684)	(3,468,684)
1,626	-	-	(207,431)	558,851	351,420
(153,256)	(4,034,066)	(190,446,995)	61,088,508	27,787,442	88,875,950

Aref Investment Group S.A.K. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
OPERATING ACTIVITIES			
Loss for the year from continuing operations		**(36,043,297)**	(142,140,526)
Loss for the year from discontinued operations		**(15,368,926)**	5,942,588
Adjustments for:		**(51,412,223)**	(136,197,938)
Dividend income		**(160,514)**	(66,529)
Gain on sale of financial assets available for sale		**(1,326,204)**	-
Fair valuation loss on investment properties		**3,126,014**	1,400,571
Share of results of associates		**7,201,191**	21,869,071
Gain on sale of investment in subsidiary	7	**(4,333,704)**	-
Fair valuation gain on loss on control	7	**(6,268,572)**	-
Gain on sale of exploration assets		**-**	(25,074,149)
Islamic finance costs		**15,427,980**	17,640,888
Depreciation and amortisation		**1,349,951**	5,983,243
Net impairment losses		**16,776,114**	73,026,053
Write down of real estate development projects to net realisable values		**-**	11,699,688
Loss on sale of property and equipment		**-**	1,677,731
Taxation on foreign subsidiaries		**52,142**	7,861,936
		(19,567,825)	20,179,435
Changes in operating assets and liabilities:			
Islamic finance receivables		**(11,222,379)**	8,567,543
Inventories		**2,435,556**	1,666,532
Real estate development projects		**2,755,455**	799,157
Accounts receivables and other assets		**14,998,695**	14,535,394
Financial assets at fair value through income statement		**23,678,778**	6,070,264
Investment properties		**2,679,630**	11,016,930
Accounts payable and other liabilities		**21,949,446**	14,537,191
NET CASH FROM OPERATING ACTIVITIES		**6,191,536**	7,939,194

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
INVESTING ACTIVITIES			
Investment in associates		**986,378**	(1,674,921)
Dividend received from associates		**605,612**	762,371
Other dividends received		**160,514**	66,529
Net disposal (purchase) of property and equipment		**7,039,888**	11,775,337
Financial assets held till maturity		**1,882,358**	1,204,019
Cash inflow on acquisition of a subsidiary		**-**	5,189,408
Cash outflow on derecognition of investment in a subsidiary		**-**	(2,919,080)
Net movement in financial assets available for sale		**165,245**	(5,976,746)
Net sale (purchase) of exploration assets		**-**	35,140,192
Net movement in wakala deposits		**1,800,000**	(1,800,000)
Net movement in escrow and other restricted accounts		**1,558,788**	750,932
Net cash inflow on discontinued operation		**4,192,647**	351,420
Net cash from investing activities		**18,391,430**	42,869,461
FINANCING ACTIVITIES			
Net movement in Islamic finance payables		**(12,488,531)**	(33,438,086)
Islamic finance cost paid		**(13,357,942)**	(25,124,551)
Net cash (used in) from financing activities		**(25,846,473)**	(14,994,169)
Foreign currency translation adjustment		**314,433**	2,449,291
Foreign currency translation adjustment		**(13,332,146)**	13,139,226
Cash and cash equivalents at 1 January		**34,436,409**	21,297,183
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**21,104,263**	34,436,409

1. CORPORATE INFORMATION

The consolidated financial statements of Aref Investment Group S.A.K. (Closed), (the "Parent Company") and its Subsidiaries (together the "Group") were authorised for issue in accordance with a resolution of the Parent Company's board of directors on 22 October 2012. The general assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements.

The Parent Company is a Kuwaiti Shareholding Closed Company incorporated and registered in the State of Kuwait, and is listed on the Kuwait Stock Exchange. The registered office is at Floor 47, Arraya Tower 2, Sharq, Abdulaziz Al-Sager St., Kuwait City.

The principal activities of the Group are explained in Note 26. All activities are conducted in accordance with Islamic Sharee'a as approved by the Parent Company's Fatwa and Shareea'a Supervisory Board.

The Parent Company is a subsidiary of Kuwait Finance House (the "Ultimate Parent Company") a registered Islamic bank with the Central Bank of Kuwait and its shares are listed on the Kuwait Stock Exchange.

The Annual General Assembly of the shareholders of the Parent Company has not yet been held for the year ended 31 December 2010. The Annual General Assembly has the power to amend the consolidated financial statements as at 31 December 2010 and consequently, may have an impact on the current year consolidated financial statements.

2. FUNDAMENTAL ACCOUNTING CONCEPT

The Group has incurred a loss of KD 51,412,223 for the year ended 31 December 2011 (2010: KD 136,197,938) and as at that date, the Group has accumulated losses of KD 233,045,945 (2010: KD 190,446,995) which exceeds 75% of paid up share capital (including share premium). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Notwithstanding the above facts, the consolidated financial statements have been prepared under the going concern concept as the management of the Parent Company has initiated certain actions, as follows, to meet the obligations, as they fall due.

a On 10 November 2010, the Parent Company entered into a new Murabaha agreement with a syndicate of banks and financial institutions with certain terms and conditions (Note 21).

b During the year, the Group sold its equity interest in Sudan Airways Ltd to the Government of Sudan for a total consideration of USD 125 million (equivalent to KD 35 million). Of the total sale consideration, the Parent Company has received USD 15 million (equivalent to KD 4.2 million) on signing of the sale agreement and agreed to receive the remaining balance over the period of 4 years. Income/gain arising will also be recognised over this period. Further, the balance of the consideration amount is secured by a bank guarantee from the Central Bank of Sudan.

c The management of the Parent Company has constituted task groups to actively manage and generate cash flows from the assets of the Group to ensure Group's obligations are met, as they fall due. Subsequent to the reporting date, following steps have been taken by the management of Parent Company to generate sufficient cash flows:

- The Parent Company has obtained necessary regulatory approvals to sell the remaining equity interest of 43.52% in Aref Energy Holding Company K.S.C. (Closed) ("AEH") to Development Enterprise Holding Company K.S.C. (Closed) ("DEH") and the management of Parent Company anticipates concluding the sale transaction by end of July 2012.

- The Parent Company has sold one of the assets in logistics segment and realised the sale consideration of USD 20 million (equivalent to KD 5.6 million) upon the execution of the sale agreement.

- The Board of Directors of the Parent Company has approved to sell certain investments and realise cash during the year 2012.

- The Parent Company is in negotiation with some of the debtors to realise the dues that are fully provided for; either by way of restructuring or by acquisition of certain assets.

d The Parent Company has obtained necessary approvals from Capital Markets Authority to offset the accumulated losses as at 31 December 2011 amounting to KD 233,045,945 in the order of voluntary reserve (KD 455,751), statutory reserve (KD 17,056,997), share premium (net of treasury shares) (KD 132,289,986) and by reduction of share capital (KD 83,243,211). However, this is subject to the approval from Ministry of Commerce and shareholders of the Parent Company.

Had the going concern basis not been used, adjustments would be made relating to the recoverability of recorded asset amounts, or to the amounts of liabilities to reflect the fact the Group may be required to realise its assets and extinguish its liabilities other than in the normal course of business, at amounts different from those stated in the consolidated financial statements.

3.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the International Accounting Standard (IAS) 39 requirement for a collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of assets.

The consolidated financial statements are prepared under the historical cost convention as modified for the revaluation at fair value of financial assets carried at fair value through income statement, financial assets available for sale, investment properties and profit rate swaps. The consolidated financial statements are presented in Kuwaiti Dinars, which is also the functional currency of the Parent Company.

3.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (collectively the "Group") as at 31 December 2011. Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefit from its activities.

3.2 BASIS OF CONSOLIDATION (continued)

Subsidiaries are fully consolidated from the date of acquisition being the date on which the Group obtains control, and continue to be consolidated until the date the control ceases. The financial statements of the subsidiaries are prepared for same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the net assets (excluding goodwill) of consolidated subsidiaries not attributable directly, or indirectly, to the equity holders of the Parent Company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity.

- Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.
- A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
  - Derecognises the assets (including goodwill) and liabilities of the subsidiary
  - Derecognises the carrying amount of any non-controlling interest
  - Derecognises the cumulative translation differences recorded in equity
  - Recognises the fair value of the consideration received
  - Recognises the fair value of any investment retained
  - Recognises any surplus or deficit in profit or loss
  - Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

3.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following issued, revised and amended IASB Standards and International Financial Reporting Interpretation Committee ("IFRIC") interpretations adopted by the Group during the year:

IAS 24: Related party disclosures (effective for annual periods beginning on or after 1 January 2011).

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

3.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IAS 32: Financial Instruments: Presentation – Classification of Rights Issues (Amendment) (effective for annual periods beginning on or after 1 February 2010)

The amendment to IAS 32 alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no impact on the financial position or performance of the Group because the Group does not have these type of instruments.

Improvement to IFRSs (issued in May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- IFRS 7 Financial Instruments: Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income may be either in the statement of changes in equity or in the notes to the financial statements.

Other relevant amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations- Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination.

- IAS 27 Consolidated and Separate Financial Statements- applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.

3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

New and revised International Accounting Standards Board ("IASB") standards, relevant to the Group, issued but not yet effective:

The following IASB Standards, relevant to the Group, have been issued but are not yet mandatory, and have not yet been adopted by the Group:

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not

3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected in the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management of the Parent Company to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by the Parent Company, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Ventures.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment is deemed to have no impact on the consolidated financial statements of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

FRS 12 Disclosure of Involvement in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group does not present separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

The Group, however, expects no material impact from the adoption of the above amended or new standards on its financial position or performance. Additional disclosures will be made in the consolidated financial statements when these standards and Interpretations become effective.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates.

The following specific recognition criteria must also be met before revenue is recognised.

Contract revenue

Revenue and profits from long-term contracts are calculated in accordance with the percentage of completion method of accounting. Such contracts generally extend for periods in excess of one year. Under this method the amount of revenue and profit from construction contracts is measured by reference to the percentage of actual costs incurred to date to the estimated total costs for each contract applied to the estimated contract profit, and reduced by the proportion of profit previously recognised. Profit is only recognised when the

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

contract reaches a point where the ultimate profit can be estimated with reasonable certainty. During the early stages of a contract, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable; hence no profit is recognised. Claims and variation orders are only included in the determination of contract profit when negotiations have reached an advanced stage such that it is probable they will be approved by contract owners and can be reliably measured. Anticipated losses on contracts are recognised in full as soon as they become foreseen.

Airline revenues

Revenues from passenger and cargo sales are recognised as operating revenues when transportation services are provided. The value of tickets sold but not utilised is classified as advances received.

Rendering of services

Revenue from service contracts is recognized on the percentage of completion method.

Revenue from sale of real estate development projects

Revenue from sale of real estate development projects is recognised when significant risks and rewards of ownership of the real estate passes to the buyer and the amount of revenue can be measured reliably.

Islamic finance income

Income from murabaha and ijara is recognized on a weighted time apportionment basis.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the term of the lease.

Dividend income

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

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Fee income

Fee earned for the provision of services over a period of time are accrued over that period. These fees include management fees, consultancy fees and promotion fees. Fee income is recognised when specific services are rendered.

Taxation

National Labour Support Tax (NLST)

The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Parent Company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the 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.

Zakat

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

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.

Financial assets and liabilities

Initial recognition and measurement

The Group classifies its financial assets and liabilities as "financial assets carried at fair value through income statement" "Islamic finance receivables", "accounts receivable", "financial assets available for sale", "held to maturity investments" and "financial liabilities other than at fair value through income statement". The Group determines the classification of financial assets and liabilities at initial recognition.

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

All financial assets and liabilities are recognised initially at fair value plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

Subsequent measurement

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

Financial assets carried at fair value through income statement

Financial assets carried at fair value through income statement includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in consolidated income statement. Financial assets are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Dividend income is recorded in the consolidated income statement when right to the payment has been established. Profit rate swaps are categorized as held for trading.

After initial recognition, financial assets carried at fair value through income statement are remeasured at fair value with all changes in fair value recognised in the consolidated income statement.

Islamic finance receivables

Islamic finance receivables are financial assets originated by the Group and principally comprise murabaha and ijarah receivables. These are stated at amortized cost, using the effective profit rate method, less impairment losses, if any.

Murabaha receivables

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.

Ijara receivables

Ijara is an Islamic transaction involving the purchase and immediate lease of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Ijara receivables are stated at the aggregate of the minimum lease payments due, net of any deferred income.

Accounts receivable

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounts receivable include trade accounts receivable which are stated at original invoice amount less a provision for any uncollectible amount. An estimate for doubtful debts is made when recovery of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Subsequent measurement (continued)

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective profit rate method. The effective profit rate amortisation is disclosed separately in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement under finance costs.

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are neither classified as receivables nor classified as financial assets carried at fair value through income statement. Financial assets available for sale includes debt securities (i.e. sukouk), which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, financial assets available for sale are measured at fair value with gains and losses being recognised as a separate component of other comprehensive income until the financial asset is derecognised or until the financial asset is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the consolidated income statement. Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Financial liabilities

Financial liabilities comprises of murabaha, istisna's and accounts payable and other liabilities and are measured as financial liabilities other than at fair value through profit and loss.

Murabaha payable

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

Istisna'a payable

Istisna'a payable is an Islamic transaction involving the financing of development project on cost plus agreed profit basis. The amounts due are settled in accordance with the development agreement. The finance cost incurred on these payables is capitalised to the cost of the project for which liabilities are incurred.

Accounts payables and other liabilities

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

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Subsequent measurement (continued)

Fair value

The fair value of financial assets and liabilities traded in recognised financial markets is their quoted market price, based on the current bid price. For all other financial assets or liabilities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current fair value of another instrument that is substantially the same; recent arm's length market transactions or discounted cash flow analysis or other valuation methods. The fair value of profit rate swaps is the equivalent of the unrealised gain or loss from marking to market the profit rate swaps using prevailing market inputs or internal pricing models.

Amortised cost

This is computed using the effective profit 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 profit rate.

Derecognition of financial instruments

Financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. When continuing involvement takes the form of a written and / or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Subsequent measurement (continued)

different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Offsetting

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

Cash and cash equivalents

For purposes of the consolidated cash flow statement, cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

Impairment of financial assets

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

Impairment is determined as follows:

- for assets carried at fair value, impairment is the difference between cost and fair value;
- for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective profit rate and;
- for assets carried at cost, impairment is the difference between actual cost and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For non equity financial assets the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. For available for sale equity financial assets, the investment is written down and subsequent increases are reflected as cumulative changes in fair value through other comprehensive income.

In addition, a provision is made to cover impairment for specific Group of assets where there is a measurable decrease in estimated future cash flows.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Profit rate swaps

The Group uses profit rate swaps as derivative.

Profit rate swap instruments (“the instruments”) are measured at their fair value. The fair value of these instruments includes unrealised gain or (loss) from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. The resultant gains and (losses) from profit rate swaps are taken directly to the consolidated income statement.

Inventories and real estate development projects

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

incurred on completion and disposal.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as lessee

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

A leased asset is depreciated on a straight line basis over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

Group as lessor

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

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

Gains or losses on the disposal of investment properties determined as the difference between net disposal proceeds and the carrying value of the asset is recognised in the consolidated income statement in the period of derecognition.

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 and equipment up to the date of change in use.

Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. Distributions received from an associate reduce the carrying value of the investment. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the Group, using consistent accounting policies.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of results of associate' in the consolidated income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. 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.

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property and equipment as follows:

• Buildings	12-14 years
• Aircraft and engines	20 years (residual value 27%)
• Furniture and fixtures	2-7 years
• Heavy equipment	4-10 years

Depreciation on separately identified significant components of aircraft is computed based on actual usage over the life of these components. Major overhaul expenditure is depreciated over the shorter of the period to the next major overhaul or lease term or useful life of the asset concerned.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

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

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

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets (other than goodwill and exploration assets) are carried at cost less any accumulated amortisation that is recognised on a straight line basis over their useful lives and any accumulated impairment losses. Internally generated intangible assets excluding capitalised developmental costs are not capitalised and expenditure is reflected in 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 is reviewed at least at the end of each reporting period. 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 are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible assets. The intangible assets with finite lives are amortised over a period of 6-10 years.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life 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.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit, even when the group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated income statement.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group conducts internal reviews annually or more frequently if events or changes in circumstances indicate that, the intangible assets and property and equipment are impaired. If any indication of impairment exists an estimates of the asset's recoverable amount is calculated. An asset's recoverable amount is determined as the higher of an asset's cash-generating unit's fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets.

If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the consolidated income statement and the asset is written down to its recoverable amount. Impairment losses of continuing operations are recognised in consolidated income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amounts.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

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

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of stock dividend increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Foreign currency translation

The Group's consolidated financial statements are presented in Kuwaiti Dinars, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Transactions and balances

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in the consolidated statement of comprehensive income, foreign exchange differences are recognised directly in the consolidated statement of comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated income statement are recognised in the consolidated income statement.

Group companies

The assets and liabilities of foreign operations are translated into Kuwaiti Dinars at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employees' end of service benefits

Provision is made for amounts payable to employees as per the Group's policy, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment. The Group also contributes to the government defined contribution plan for its Kuwaiti employees in accordance with the legal requirements in the State of Kuwait.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary assets

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

Contingencies

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

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

Segment reporting

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Parent Company to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

Significant accounting judgments, estimates and assumptions

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

The most significant use of judgements and estimates are as follows:

Classification of financial instruments

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

Fair values of assets and liabilities including intangible assets

Considerable judgement by management is required in the estimation of the fair value of the assets including intangible assets with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments, estimates and assumptions (continued)

Valuation of unquoted equity investments

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

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

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

Impairment of financial assets available for sale

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments is impaired. In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost.

Impairment losses on Islamic finance receivables

The Group reviews its problem Islamic finance receivables on a periodic basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment losses of accounts receivable

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

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments, estimates and assumptions (continued)

Impairment of goodwill

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

Useful lives of property and equipment and intangible assets

Management assigns useful lives and residual values to property and equipment and intangible assets based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Estimated cost and profit on uncompleted contracts

Revenue from installation contracts is measured by reference to the percentage of costs incurred to the estimated total costs for each contract applied to the estimated contract revenue, and reduced by the proportion of revenue previously recognised. This requires the management to use judgement in the estimation of the total cost expected to complete each contract. Profit on uncompleted contracts is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. This requires the Parent Company's management to determine the level at which reasonable estimates can be reached.

4. OPERATING REVENUES AND COSTS

	2011	2010
	KD	KD
OPERATING REVENUES		
Airline revenue	**2,741,814**	1,363,020
Revenue from information technology and related services	**1,230,742**	2,018,553
Revenue on sale of real estate development project	**7,152,816**	14,468,462
	11,125,372	17,850,035
OPERATING COSTS		
Airline cost	**1,978,706**	4,198,211
Cost of sale of information technology and related services	**603,760**	985,491
Cost of sale of real estate development project	**6,710,180**	11,999,333
	9,292,646	17,183,035

5. OTHER INCOME

	2011 KD	2010 KD
Fee from fiduciary activities	**148,879**	842,941
Other income	**654,737**	627,261
	803,616	1,470,202

6. NET IMPAIRMENT LOSSES

	2011 KD	2010 KD
Impairment of islamic finance receivable (Note 10)	**10,090,367**	14,483,397
(Write back) Impairment of trade receivables and other assets	**(2,605,576)**	32,696,022
Impairment of financial asset available for sale (Note 14)	**4,767,107**	9,727,716
Impairment of investment in associates (Note 17)	**3,813,767**	5,058,777
Impairment of property and equipment (Note 18)	**-**	3,000,000
Impairment of goodwill (Note 19)	**314,652**	5,570,813
Impairment of intangible assets (Note 20)	**395,797**	-
	16,776,114	70,536,725

7. DISCONTINUED OPERATIONS

On 28 December 2011, the Group sold 29% equity interest in AEH to DEH, a subsidiary of the Ultimate Parent Company for a sale consideration of KD 29,145,000, realising a gain of KD 4,333,704. On disposal, the Group reclassified the remaining equity interest of 43.52% as an investment in associates classified as non-current asset held for sale in accordance with IFRS 5: Non – current Assets Held for Sale and Discontinued Operations as at 31 December 2011 since the management of the Parent Company has committed to a plan to sell the remaining equity interest in AEH subject to regulatory approvals. The initial measurement upon reclassification as investment in associates was at fair value amounting to KD 43,732,585 determined based on latest significant transaction and accordingly, the Group has recognised an unrealised gain of KD 6,268,572.

Since the Group lost control prior to 31 December 2011, related assets and liabilities are not included in the consolidated statement of financial position as at 31 December 2011

7. DISCONTINUED OPERATIONS (continued)

The results of discontinued operations are presented below:

	2011	2010		
	KD	KD		
	Energy and allied services	Energy and allied services	Logistics	Total
Operating revenues	**12,452,678**	22,377,838	16,137,110	38,514,948
Fair valuation gain on investment properties	-	946,240	-	946,240
Rental income from investment properties	**86,862**	564,636	-	564,636
Share of results of associates	**(229,166)**	(1,221,507)	-	(1,221,507)
Gain on sale of exploration assets	**-**	25,074,149	-	25,074,149
Dividend Income	**900,000**	-	-	-
Other income	**173,516**	962,836	-	962,836
INCOME	**13,383,890**	48,704,192	16,137,110	64,841,302
Operating costs	**15,351,098**	22,075,703	12,090,795	34,166,498
Islamic finance cost	**170,115**	1,305,859	-	1,305,859
Staff salaries and benefits	**1,064,695**	1,725,244	4,033,883	5,759,127
General and administration expenses	**1,231,160**	2,288,793	4,495,350	6,784,143
Foreign exchange loss (gain)	**285,141**	(282,435)	-	(282,435)
Impairment losses	**57,838**	2,489,328	-	2,489,328
Depreciation and amortisation	**97,797**	97,798	-	97,798
Impairment loss recognised on the remeasurement of fair value less costs to sell	**9,332,435**	-	-	-
Transfer of foreign currency translation reserves to consolidated income statement	**5,508,364**	-	-	-
Taxation	**137,877**	8,278,396		8,278,396
(Write back) provision for board of directors' remuneration	**(150,000)**	300,000		300,000
EXPENSES	**33,086,520**	38,278,686	20,620,028	58,898,714
Net (loss) profit for the year from discontinued operations	**(19,702,630)**	10,425,506	(4,482,918)	5,942,588
Gain on disposal of discontinued operations	**4,333,704**			
(Loss) profit for the year from discontinued operations	**(15,368,926)**	10,425,506	(4,482,918)	5,942,588

7. DISCONTINUED OPERATIONS (continued)

During the previous year ended 31 December 2010, the Group lost financial and operational control over one of its subsidiaries, Sudan Airways Limited (Sudan Airways), incorporated in Sudan, and accordingly the Board of Directors of the Parent Company have approved for de-consolidation of the subsidiary effective 01 October 2010. As a result the Group classified the carrying value of investment in Sudan Airways as 'Financial assets available for sale'. Based on the financial information available, the Parent Company's management has impaired the total carrying value of the investment as at 31 December 2010.

	2011	2010
	Fils	Fils
(Loss) earnings per share from discontinued operation:		
Basic and diluted – attributable to equity holders of the Parent Company	**(5)**	4
Net cash flow from discontinued operation:	**KD**	KD
Consideration received	**29,145,000**	-
Less: net cash disposed off with the discontinued operation	**(24,952,353)**	-
	4,192,647	-

The net cash flows incurred by the discontinued operation are as follows:

	KD	KD
Operating activities	**1,813,560**	(1,851,231)
Investing activities	**(6,436,104)**	31,895,081
Financing activities	**(7,368,600)**	(10,135,950)
Net cash (outflow) inflow	**(11,991,144)**	19,907,900

8. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss for the year attributable to the equity holders' of the Parent Company by the weighted average number of shares outstanding less treasury shares during the year as follows:

	2011	2010
	KD	KD
Loss for the year attributable to the equity holders of the Parent Company	**(42,598,950)**	(110,991,904)
	Shares	Shares
Number of weighted average shares outstanding:		
Weighted average number of paid up shares	**1,061,291,484**	1,061,291,484
Weighted average number of treasury shares	**(1,010,000)**	(1,010,000)
Weighted average number of outstanding shares during the year	**1,060,281,484**	1,060,281,484
Basic and diluted loss per share	**(40) fils**	(105) fils
Basic and diluted loss per share from continuing operations		
Loss for the year attributable to the equity holders of the Parent company (KD)	**(42,598,950)**	(110,991,904)
(Loss) profit for the year from discontinued operations attributable to the equity holders of the Parent company (KD)	**(5,354,538)**	4,692,872
Loss for the year attributable to the equity holders of the Parent Company from continuing operations (KD)	**(37,244,412)**	(115,684,776)
Weighted average number of outstanding shares during the year	**1,060,281,484**	1,060,281,484
Basic and diluted loss per share from continuing operations	**(35) fils**	(109) fils

9. CASH AND CASH EQUIVALENTS

	2011	**2010**
	KD	**KD**
Cash and balances with banks in bank accounts	**17,141,343**	31,759,361
Placements with financial institutions	**3,962,920**	4,477,048
Balances in escrow and other restricted accounts	**485,920**	2,044,708
Cash and bank balances	**21,590,183**	38,281,117
Less: balances in escrow and other restricted accounts	**(485,920)**	(2,044,708)
Less: wakala deposits with original maturity more than 3 months	**-**	(1,800,000)
Cash and cash equivalents in the consolidated cash flow statement	**21,104,263**	34,436,409

9. CASH AND CASH EQUIVALENTS (continued)

Balances in escrow and other restricted accounts represent lien amounts marked by the banks as security against letter of credit and letter of guarantee issued by the banks. Further, wakala deposits with original maturity of more than 3 months as at 31 December 2010 KD 963,838 that represent margin deposits that were held as security against the same letter of guarantees.

Placements with financial institutions represent highly liquid funds with original maturity of less than 3 months and carry average effective profit rate of 3.6% (2010: 2.89%) per annum.

10. ISLAMIC FINANCE RECEIVABLES

	2011 KD	2010 KD
Gross amount	**102,990,646**	90,352,894
Less: deferred profit	**(3,746,044)**	(2,330,671)
	99,244,602	88,022,223
Less: impairment loss (see below)	**(57,111,401)**	(47,021,034)
	42,133,201	41,001,189

Islamic finance receivables have fixed profit rates and are in the range as follows:

	2011 %	2010 %
Kuwaiti Dinar	**6– 8**	6-8
United States Dollars	**5 -8**	5-8

Movement in impairment loss is as follows:

	2011 KD	2010 KD
At 1 January	**47,021,034**	32,537,637
Charge for the year (Note 6)	**15,758,468**	14,483,397
Write back for the year (Note 6)	**(5,668,101)**	-
At 31 December	**57,111,401**	47,021,034

10. ISLAMIC FINANCE RECEIVABLES (continued)

The analysis of provisions set out above is based on the requirements of the Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, a minimum general provision of 1% (2010: 1%) for cash facilities and 0.5% (2010: 0.5%) for non cash facilities has been made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

11. REAL ESTATE DEVELOPMENT PROJECTS

Real estate development projects with carrying value of KD 13,600,022 (2010: KD 14,012,871) are pledged against Istisna'a payable (Note 21).

During the year ended 31 December 2010, the Group had written down KD 11,699,688 on real estate development projects based on the independent valuations available as at 31 December 2010.

12. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2011	2010
	KD	KD
Trade receivables	**12,775,950**	29,777,141
Amount due from related parties (Note 25)	**4,588,099**	3,819,364
Ijara assets	**2,134,158**	2,260,707
Other receivables	**6,830,057**	7,654,600
	26,328,264	43,511,812

Other receivables include KD 5,212,230 (2010: KD Nil) due from sale of an investment secured by a guarantee from the Central Bank of Sudan.

13. FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

	2011	2010
	KD	KD
Designated		
- Quoted equity securities	**11,996,099**	11,374,877
- Unquoted equity securities	**-**	24,300,000
	11,996,099	35,674,877

13. FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

Net gain (loss) on financial assets carried at fair value through income statement

	2011 KD	2010 KD
Realised (loss) gain from financial assets at fair value through income statement	**(66,575)**	24,621
Unrealised gain (loss) from financial assets at fair value through income statement	**548,228**	(6,167,685)
	481,653	(6,143,064)

14. FINANCIAL ASSETS AVAILABLE FOR SALE

	2011 KD	2010 KD
Quoted equity securities	**51,184**	673,600
Unquoted equity securities	**29,777,209**	30,833,585
Managed funds (unquoted)	**12,009,429**	15,462,329
Quoted and unquoted sukuk	**14,009,413**	9,392,116
	55,847,235	56,361,630

At 31 December 2011, financial assets available for sale (unquoted equities and managed funds) amounting to KD 12,258,897 (2010: KD 22,762,884) were carried at cost as the nature of these investments is such that a reasonable estimate of fair value can only be determined when the individual investments are realised or disposed off. Management has performed a review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments. Based on the latest available financial information, management is of the view that no additional impairment provision is required as at 31 December 2011 in respect of these investments other than impairment loss of KD 4,767,107 (2010: KD 9,727,716) (Note 6) already recorded.

15 FINANCIAL ASSETS HELD TO MATURITY

Held to maturity investments represents investment in corporate bonds with tenure of 7 to 10 years. The bonds carry an effective profit rate in the range of 1.75% to 9.5% (2010: 1.75% to 9.5%) per annum.

16. INVESTMENT PROPERTIES

	2011 KD	2010 KD
At 1 January	**67,773,811**	67,526,471
Arising on acquisition of a subsidiary	**-**	6,872,634
Addition	**-**	8,274,947
Disposal on loss of control over subsidiary	**(5,647,680)**	-
Disposal	**(2,679,630)**	(11,296,988)
Change in fair value	**(3,126,014)**	(2,346,811)
Change in fair value relating to discontinued operations (Note 7)	**-**	946,240
Foreign exchange adjustment	**(878,006)**	(2,202,682)
At 31 December	**55,442,481**	67,773,811

The fair value of investment properties has been determined on the basis of valuations performed by accredited independent valuators using acceptable methods of valuation such as sales comparison, income capitalization or property market value. The aggregate fair value of investment properties as at 31 December 2011 based on valuation from independent valuators is approximately KD 64,049,836. Due to the current market conditions and its impact on real estate the management of the Parent Company has prudently used its judgment and arrived at the fair value disclosed in the table above.

Investment properties with aggregate carrying value of KD 26,034,586 (2010: KD 31,390,226) are mortgaged to a bank against murabaha finance amounting to KD 22,947,258 (2010: KD 28,654,529) as disclosed in Note 22. In addition, rental incomes from these properties are assigned to the same bank.

17. INVESTMENT IN ASSOCIATES

	2011 KD	2010 KD
Opening balance	**94,658,089**	131,633,664
Additions	**-**	2,971,713
Arising on acquisition of a subsidiary	**-**	1,561,680
Reclassified from financial assets available for sale	**-**	5,268,962
Reclassified as investment in a subsidiary	**-**	(15,890,980)
Reclassified on loss of control over subsidiary	**(4,710,907)**	-
Disposals	**(986,378)**	(1,296,792)
Share of results of associates	**(7,201,191)**	(20,647,564)
Share of results of associates relating to discontinued operations (Note 7)	**-**	(1,221,507)
Dividends received	**(605,612)**	(762,371)

17. INVESTMENT IN ASSOCIATES (continued)

Foreign currency translation adjustment	**(3,498,926)**	(1,717,190)
Impairment loss (Note 6)	**(3,813,767)**	(5,058,777)
Cumulative change in fair value recognised directly in other comprehensive income	**(501,944)**	(182,749)
	73,339,364	94,658,089

Summarised financial information of associates:

	2011 KD	2010 KD
Share of associate's statement of financial position:		
Total assets	**161,697,497**	177,669,197
Total liabilities	**90,521,753**	89,040,184
Share of associate's revenue and results:		
Gross revenue	**11,260,645**	12,307,512
Group share of results for the year	**(7,201,191)**	(21,869,071)

Investment in associates includes quoted associates with a carrying value of KD 33,046,613 (2010: KD 42,537,373) having a market value of KD 10,594,016 (2010: KD 16,597,300). As at the reporting date, the Group performed an impairment test on its investment in associates which resulted in the recognition of impairment loss of KD 3,813,767 (2010: KD 5,058,777) in the consolidated income statement.

The carrying amount of investment in associates includes goodwill of KD 2,163,620 after impairment and foreign currency adjustment (2010: KD 6,029,076).

Disposal during the year

During the year, the Group has received KD 986,378 (31 December 2010: KD 1,296,792) in the form of capital redemption from certain funds which are accounted for as investment in associates.

Details of investment in associates are as follows:

17. INVESTMENT IN ASSOCIATES (continued)

	Effective interest in equity	
	2011	**2010**
	%	**%**
Name of the companies		
Munsha'at Real Estate Projects Co. K.S.C. (Closed)	**25.21**	25.21
United Capital Bank	**42.96**	42.96
Sokouk Holding Company K.S.C. (Closed)	**48.88**	48.88
Halic Financial Kiralama A.S.	**40.00**	40.00
Grand Lake Co. for Fishing (S.A.K.)	**25.00**	25.00
Marmarah for Investment Counselling and Trading Company	**25.00**	25.00
Wafra / Aref Re Equity Company Limited	**50.00**	50.00
CommVest Ijara I Company	**20.36**	20.36
Qitaf GCC Real Estate	**42.52**	42.52
Wafra/Aref International Value-added real estate Fund II	**33.33**	33.33
Microlink Solution Berhard	**20.00**	20.00
Eastern Networks BVI	**34.40**	34.40
Maritime Tanker and Shipping Company K.S.C (Closed)	**29.00**	29.00
Athman Investment Company K.S.C (Closed)	**23.64**	23.64
Gulf Africa Holding Company K.S.C (Closed)	**50.00**	50.00
Sudan River Transport Company	**34.13**	34.13
Napa El Hamra for Touristic Development	**50.00**	50.00
Al Neil Al Azraq for Building & Construction	**40.00**	40.00
Jiaxing World Education Holding Company Ltd.	**45.00**	45.00
Synergy Corporation Consulting Company K.S.C.C.	**29.40**	29.40
Prolific Systems and Technologies Pvt. Ltd.	**45.00**	45.00
Alpha Lease & Finance Holding Company B.S.C. (C)	**30.00**	30.00
Synfuels International, Inc.*	**-**	25.00
Al Dindir Petroleum International Company Limited*	**-**	50.00
Resource Development Group*	**-**	50.00
Kitara OFIL Limited*	**-**	36.36

* These were the associates of AEH which has been disclosed as non-current asset held for sale.

18. PROPERTY AND EQUIPMENT

	Land	Buildings	Aircraft and engines	Furniture and fixtures	Heavy equipment	Work in progress	Total
	KD	KD	KD	KD	KD	KD	KD
Cost							
At 1 January 2011	2,217,550	1,551,661	24,308,100	3,306,976	19,865,668	118,397	51,368,352
Additions	843,765	695,352	-	189,027	742,088	-	2,470,232
Disposal	-	-	(11,525,441)	(113,490)	-	-	(11,638,931)
Disposal on loss of control over subsidiary (Note 7)	(1,989,160)	(945,682)	-	(221,916)	(19,578,122)	(118,397)	(22,853,277)
Foreign currency translation adjustment	(2,276)	-	-	(5,131)	(127)	-	(7,534)
At 31 December 2011	**1,069,879**	**1,301,331**	**12,782,659**	**3,155,466**	**1,029,507**	**-**	**19,338,842**
Depreciation							
At 1 January 2011	94,387	293,042	6,292,743	1,475,683	6,942,711	-	15,098,566
Depreciation charge for the year	31,124	13,724	472,192	765,973	54,883	-	1,337,896
Relating to disposals	-	-	(2,128,811)				(2,128,811)
Relating to disposal on loss of control over subsidiary (Note 7)	(114,664)	(119,271)	-	(38,710)	(6,763,335)	-	(7,035,980)
Foreign currency translation adjustment	(471)	-	-	(3,319)	(7)	-	(3,797)
At 31 December 2011	**10,376**	**187,495**	**4,636,124**	**2,199,627**	**234,252**	**-**	**7,267,874**
Net carrying amount at 31 December 2011	**1,059,503**	**1,113,836**	**8,146,535**	**955,839**	**795,255**	**-**	**12,070,968**

18. PROPERTY AND EQUIPMENT (continued)

Depreciation charge for the year is allocated as follows:

	2011 KD	2010 KD
Operating costs	**472,191**	5,619,219
General and administration expenses	**865,705**	1,011,906
	1,337,896	6,631,125

	Land KD	Buildings KD	Aircraft and engines KD	Furniture and fixtures KD	Heavy equipment KD	Work in progress KD	Total KD
Cost							
At 1 January 2010	10,599,225	6,076,887	53,976,056	5,826,426	22,664,948	114,584	99,258,126
Arising on acquisition of subsidiaries	279,779	-	-	666,918	12,145	-	958,842
Additions	313	-	-	300,537	1,037,190	8,811	1,346,851
Disposal	(610,917)	-	(14,430,933)	(526,743)	(695,768)	-	(16,264,361)
Discontinued operation	(7,979,223)	(4,401,743)	(15,237,023)	(2,944,177)	(1,633,925)	-	(32,196,091)
Foreign currency translation adjustment	(71,627)	(123,483)	-	(15,985)	(1,518,922)	(4,998)	(1,735,015)
At 31 December 2010	**2,217,550**	**1,551,661**	**24,308,100**	**3,306,976**	**19,865,668**	**118,397**	**51,368,352**
Depreciation							
At 1 January 2010	113,218	555,144	6,495,402	1,671,438	7,228,300	-	16,063,502
Depreciation charge for the year	56,845	265,730	1,862,729	625,408	3,820,413	-	6,631,125
Impairment loss	-	-	3,000,000	-	-	-	3,000,000
Relating to disposals	(69,161)	-	(617,753)	(202,343)	(574,985)	-	(1,464,242)
Discontinued operation	-	(512,335)	(4,447,635)	(613,405)	(2,651,894)	-	(8,225,269)
Foreign currency translation adjustment	(6,515)	(15,497)	-	(5,415)	(879,123)	-	(906,550)
At 31 December 2010	94,387	293,042	6,292,743	1,475,683	6,942,711	-	15,098,566
Net carrying amount at 31 December 2010	**2,123,163**	**1,258,619**	**18,015,357**	**1,831,293**	**12,922,957**	**118,397**	**36,269,786**

19. GOODWILL

	2011 KD	2010 KD
At 1 January	**21,349,070**	29,549,450
Reclassified from investment in associates	**-**	438,675
Impairment loss (Note 6)	**(314,652)**	(8,178,317)
Disposal on loss of control over subsidiary	**(20,308,422)**	(72,217)
Foreign currency translation adjustment	**-**	(388,521)
At 31 December	**725,996**	21,349,070

The carrying amount of goodwill allocated to each cash-generating unit is disclosed under segment information (Note 26).

20. INTANGIBLE ASSETS

	2011 KD	2010 KD
At 1 January	**3,312,648**	8,286,603
Disposal on loss of control over subsidiary	**(2,804,362)**	-
Impairment loss (Note 6)	**(395,797)**	-
Amortisation	**(12,055)**	(4,873,539)
Amortisation relating to discontinued operations (Note 7)	**-**	(97,798)
Foreign currency translation adjustment	**1,334**	(2,618)
At 31 December	**101,768**	3,312,648

21. ISLAMIC FINANCE PAYABLES

	2011 KD	2010 KD
Murabaha payable	**321,211,950**	331,862,677
Istisna'a payable	**3,548,623**	3,316,389
	324,760,573	335,179,066

21. ISLAMIC FINANCE PAYABLES (continued)

The average profit rate of Islamic finance payables is as follows:

	Profit rate per annum			
	2011	2010	2011	2010
Currency	%	%	KD	KD
Kuwaiti Dinar	**5**	5-7	**292,671,506**	296,596,074
Euro	**Euribor + 115 points**	Euribor + 115 points	**19,689,235**	24,139,871
Great Britain Pound	**5**	5	**5,420,020**	7,111,839
United States Dollar	**3**	-	**1,267,455**	-
Moroccan Dinar	**6-7**	6-7	**3,548,623**	3,316,389
Others	**3 – 13.8**	3 – 13.8	**2,163,734**	4,014,893
			324,760,573	335,179,066

Murabaha payable equivalent to KD 22,947,258 (2010: KD 28,654,529) is secured against investment properties (Note 16).

Istisna'a payable is secured against real estate development projects (Note 11).

The key terms of the murabaha agreement entered with a syndicate of banks and financial institution for an principal amount of KD 290,601,470 outstanding as at 31 December 2011 are as follows:

- The facility is secured by a first mortgage on all assets of the Parent Company.
- In case the value of the secured assets falls below 75% of the outstanding facility amount (at any stage) the Parent Company may be required to pledge additional security.
- The valuation exercise shall be carried out once a year.
- The facility shall attract a profit payment at discount rates applicable for Kuwaiti Dinar as fixed by the Central Bank of Kuwait on the appropriate dates as increased by a pre agreed margin.
- The facility imposes certain conditions in terms of disposal of assets, dividend distribution by the Parent Company and use of the proceeds of its divestments of any of its assets or realisation of its receivables. It also imposes conditions on the Parent Company to disclose information about its operations and financial position periodically.
- Parent Company cannot make any acquisition of, or investment in, any assets or shares other than acquisitions or investments made in the ordinary course of business of the Group provided that the purchaser can meet certain conditions as set forth in the murabaha agreement.
- Parent Company cannot materially change the general nature of business.
- Other than in the ordinary course of business, Parent Company will not provide indemnity, guarantee or counter indemnity to any third party other than within its Group without the prior written consent of the participants.

21. ISLAMIC FINANCE PAYABLES (continued)

The facility is repayable as follows:

Repayment schedule	Principal Amount
November 2012	40,650,000
May 2013	54,200,000
May 2014	78,530,423
May 2015	117,221,047
	290,601,470

22. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2011 KD	2010 KD
Trade payable	**11,709,791**	18,639,067
Staff related provisions	**1,151,258**	2,395,286
Due to related parties (Note 25)	**2,883,416**	1,710,018
Advances received against real estate development project	**18,788,608**	17,184,687
Other advances received	**-**	3,715,712
Other payables	**7,052,961**	15,143,491
Payable against finance lease to an associate	**-**	4,695,077
	41,586,034	63,483,338

23. SHARE CAPITAL AND RESERVES

a) The authorised, issued and fully paid share capital comprises 1,061,291,484 shares (2010: 1,061,291,484 shares) of 100 fils each, paid in cash.

b) The balance in the share premium account is not available for distribution.

c) In accordance with the Law of Commercial Companies no transfer has been made to statutory reserve, since the Parent Company has incurred losses for the year.

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

23. SHARE CAPITAL AND RESERVES (continued)

e) As at 31 December 2011, the Group held 1,010,000 (2010: 1,010,000) of its own shares equivalent to 0.10 per cent (2010: 0.10 per cent) of the total issued share capital at the reporting date. The management has not disclosed market value of the treasury shares as the Parent Company's shares are suspended from trading on the Kuwait Stock Exchange as at 31 December 2011. The market value of treasury shares based on the last trade price dated 31 March 2011 was KD 52,520 (2010: KD 61,610).

As at 31 December 2011, the accumulated losses of the Group have exceeded the paid up share capital of the Parent Company. In order to comply with the Commercial Companies Law of 1960, as amended, the Board of Directors of the Parent Company have proposed to set off the accumulated losses to the extent of balance in the order of voluntary reserve, statutory reserve, share premium (net of treasury shares) and share capital so as to bring the accumulated losses down to KD Nil.

This proposal to offset the accumulated losses as at 31 December 2011 has been approved by the Capital Markets Authority and is subject to the approval of Ministry of Commerce and Industry and the shareholders of the Parent Company.

24. COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2011, the Group had a maximum commitment on capital expenditures related to financial assets available for sale, real estate development projects, investment in subsidiaries and property and equipment aggregating to KD 3,691,991 (2010: KD 9,665,464) extending beyond one accounting period. The amount of capital commitment may be reduced by participation of other investors.

As at 31 December 2011, the Group also had contingent liabilities in respect of outstanding letters of guarantees amounting to KD Nil (31 December 2010: KD 11,490,926) from which it is anticipated that no material liabilities will arise.

25. RELATED PARTY TRANSACTIONS

The Group enters into transactions with the Utimate Parent Company, associates, major shareholders, directors and key management, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties (other related parties) in the ordinary course of business. The terms of these transactions are approved by the Group's management. Transactions with related parties are as follows:

	Ultimate Parent Company	Associates	Directors and key management	Other related parties	**Total 2011**	Total 2010
	KD	KD	KD	KD	**KD**	KD
Consolidated statement of financial position						
Cash and bank balances	8,206,905	59,157	-	-	**8,266,062**	26,215,572
Islamic finance receivables	-	2,015,602	-	13,647,830	**15,663,432**	18,931,929
Financial assets held to maturity	-	-	-	2,650,120	**2,650,120**	-
Accounts receivable and other assets (Note 12)	1,737,289	986,086	1,456,131	408,593	**4,588,099**	3,819,364
Islamic finance payables	211,588,368	-	-	15,106,849	**226,695,217**	230,881,823
Accounts payable and other liabilities (Note 22)	-	693,164	617,328	1,572,924	**2,883,416**	1,710,018
Consolidated income statement						
Islamic finance income	-	141,154	-	-	**141,154**	1,342,635
Income from financial assets held to maturity	-	-	-	63,087	**63,087**	-
Other income	-	-	225,000	-	**225,000**	-
Finance costs	10,496,999	-	-	750,000	**11,246,999**	12,130,814
Gain on sale of investment in subsidiary	-	-	-	4,333,704	**4,333,704**	-
General and administration expenses	-	-	-	100,000	**100,000**	1,530,996
Impairment loss on other assets	-	651,810	-	475,000	**1,126,810**	-
Impairment loss on Islamic finance receivables	-	15,758,468	-	-	**15,758,468**	4,341,699
Loss on sale of property and equipment	-	-	-	-	**-**	1,607,980
Other transactions during the year						
Sale of aircrafts (classified as property and equipment)	-	-	-	-	**-**	12,234,600
Sale of investment in subsidiary (Note 7)	-	-	-	29,145,000	**29,145,000**	-

25. RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

	2011 KD	2010 KD
Salaries and short-term employee benefits	**1,947,420**	1,443,441
Termination benefits	**255,206**	125,408
Discontinued operations	**690,009**	710,465
	2,892,635	2,279,314

The principal subsidiaries included in consolidated financial statements are as follows:

	Effective equity interest as at 31 December	
	2011	2010
Directly held		
Energy and allied services		
Rakayya Holding Company K.S.C. (Closed) ("Rakayya")	**99.99%**	99.99%
Aref Ahlea Trading Company W.L.L.	**99.99%**	99.99%
Aref Mustaraka Trading Company W.L.L.	**99.99%**	99.99%
Athman Mustaraka Trading Company W.L.L.	**99.99%**	99.99%
Athman Ahlea Trading Company W.L.L.	**99.99%**	99.99%
Real estate		
Aref Real Estate Company K.S.C. (Closed)	**99.99%**	99.99%
Aref Euro Real Estate S.A.S. (incorporated in France)	**85.00%**	85.00%
Al Hambra Town Faisalabad (Private) Limited (incorporated in Pakistan)	**81.25%**	81.25%
Al Lamar Holding Company K.S.C. (Closed) ("Lamar")	**49.04%**	49.04%
AREF Real Estate Projects S.A.R.L. (incorporated in Morocco)	**70.80%**	70.80%
Aref Moroccan Value Added Investment Company S.A.R.L (incorporated in Morocco)	**85.40%**	85.40%
Aref Real Estate Projects Co. S.A.R.L (incorporated in Morocco)	**100%**	100%
Aref Real Estate Company S.A.R.L (incorporated in Morocco)	**100%**	100%
Aref Real Estate Development Company S.A.R.L (incorporated in Morocco)	**100%**	100%
Aref Moroccan Real Estate Company S.A.R.L (incorporated in Morocco)	**80.00%**	80.00%
Aref Moroccan Real Estate Development Company S.A.R.L (incorporated in Morocco)	**100%**	100%
Fera Investment Group (Holding) S.A.L. (incorporated in Lebanon) ("Fera")	**100%**	100%
Logistics		
Rubban Holding Company K.S.C. (Closed) ("Rubban)	**99.99%**	99.99%

25. RELATED PARTY TRANSACTIONS (continued)

Others			
Technology World Company K.S.C. (Closed) ("TWC")	**99.75%**		99.75%
Qadra Islamia General Trading Company W.L.L	**99.99%**		99.99%
Saham Holding Company K.S.C. (Closed)	**99.99%**		99.99%
Mashref Holding Company K.S.C. (Closed)	**99.99%**		99.99%
Al Adha Holding Company K.S.C. (Closed)	**99.99%**		99.99%
Qadra Al Watania General Trading Company W.L.L.	**99.99%**		99.99%
Qadra Central General Trading Company W.L.L.	**99.99%**		99.99%
Al-Joud Islamic General Trading Company W.L.L.	**99.99%**		99.99%
Al Qadra Mustaraka General Trading Company W.L.L.	**99.99%**		99.99%
Qadra Al Aqelamia General Trading Company W.L.L.	**99.99%**	99.99%	
Al Qadra Mesharia Trading Company W.L.L.	**99.99%**		99.99%
Al Qadra Gulf Trading Company W.L.L.	**99.99%**	99.99%	
Qadra Al Moatamad General Trading Company W.L.L.	**99.99%**		99.99%
Qadra Arabia General Trading Company W.L.L.	**99.99%**		99.99%
Financial services			
Elaf Bank B.S.C. (C) (incorporated in Bahrain) ("Elaf")	**62.50%**	62.50%	
Held through Lamar			
Mena for Agriculture Projects L.L.C. (incorporated in Egypt)	**95.00%**	95.00%	
Mena City Center S.A.E. (incorporated in Egypt)	**96.00%**	96.00%	
Mena Resorts S.A.E. (incorporated in Egypt)	**98.00%**	98.00%	
Mena for Touristic Development & Investment S.A.E. (incorporated in Egypt)	**50.58%**	50.58%	
Hay Al-Mal Real Estate Company Limited (incorporated in Sudan)	**100%**	100%	
Mena Touristic & Real Estate Investment Company E.S.C. (incorporated in Egypt)	**50.58%**	50.58%	
American Higher Education Development Corporation C.I.) Limited (incorporated in Cayman Islands)	**69.95%**	69.95%	
Asia Human Capital Holding Company Limited (incorporated in Hong Kong)	**100%**	100%	
Asia Vocational Training Company (incorporated in Mauritius)	**100%**	100%	
SOS services Bureau (incorporated in United Arab Emirates)	**100%**	100%	
Specialised Overseas Services Limited Liability Company (incorporated in United Arab Emirates)	**100%**	100%	
SOS Company for recruitment of Human Resources W.L.L	**99.99%**	99.99%	
Qualitas Consulting and Training Company K.S.C.C	**99.99%**	99.99%	
Universal Knowledge Solution – UKS- FZ LLC (incorporated in United Arab Emirates)	**100%**	100%	
Universal Knowledge Solution – SAL- (UKS) (incorporated in Lebanon)	**100%**	100%	

25. RELATED PARTY TRANSACTIONS (continued)

Held through Elaf		
Elaf Bahrain Real Estate Company B.S.C (C) (incorporated in Bahrain)	**100%**	100%
Elaf Corporate Services Limited (incorporated in British Virgin Islands)	**100%**	100%
Sokouk Exchange Centre –Tadawul Holding W.L.L. (incorporated in Bahrain)	**100%**	100%
Held through Rubban		
Aref Marine Tanker Company K.S.C. (Closed)	**99.99%**	99.99%
Horizon Aviation General Trading and Contracting Company W.L.L.	**60.00%**	60.00%
Rubban Airways Company Limited (incorporated in Saudi Arabia)	**80.00%**	80.00%
Held through TWC		
Unisol Company Limited (incorporated in Sudan)	**100%**	100%
Investment World for Development and Technology (incorporated in Jordan)	**51.00%**	51.00%
Incube General Trading Company W.L.L.	**99.99%**	99.99%
Held through Rakayya		
Aref Arabia General Trading Company W.L.L	**99.99%**	99.99%
Aref International General Trading Company W.L.L.	**99.99%**	99.99%
Held through Fera		
Amchit Beach Hotel S.A.L (incorporated in Lebanon)	**100%**	100%
Amchit Beach Club S.A.L (incorporated in Lebanon)	**100%**	100%
Amchit Beach Resort S.A.L (incorporated in Lebanon)	**100%**	100%

Real Estate SPVs

Gotts Holdings Ltd.

Baker Street Holdings Ltd.

City Height Holding Limited

Emarati Holdings Ltd.

Wellington Holdings Ltd.

All subsidiaries are incorporated in Kuwait except otherwise stated. All the SPV's are incorporated in Island of Guernsey. Each SPV has a wholly owned subsidiary in Guernsey (that is beneficially held by the SPV) in which the real estate asset and related debt are held.

The shares in the SPVs and their subsidiaries are held in the name of nominees on behalf of the Parent Company. The nominees have confirmed in writing that the Parent Company is the beneficial owner of the shares in the SPV's. Further, certain subsidiaries of the Group have been consolidated based on contractual rights.

26. SEGMENTAL INFORMATION

Primary segment information

For management reporting purpose the Group is organised into business verticals as follows:

Financial services – Investments in entities that operate the business of Banking and Finance (including financial services) in accordance with the principles of Islamic Shari'a.

Energy and allied services – Investments in entities or assets engaged in the business of Exploration and Production (E&P) of oil and gas, entities developing new technologies in oil and gas sector, oil field services and allied infrastructure business.

Logistics – Investments in entities or assets engaged in the business of transportation of people and goods either by air, surface or water and allied services.

Real estate – Investments in real estate companies and properties either by way of purchase, sale, development and renting of residential and commercial properties (including land and land development) in various geographical locations.

Islamic finance – The range of Islamic products and services rendered by the Group to its customers either by way of financing or advisory activities relating to Islamic finance and dealing in range of Islamic financing products.

The liabilities (primarily Islamic finance payables), other than segment specific, and common expenses are apportioned on the basis of the total assets of each of the segments.

For the year ended 31 December 2011	**Financial services**	**Energy and allied services ***	**Logistics Logistic**	**Real estate**	**Islamic finance**	**Others**	**Total**
	KD	**KD**	**KD**	**KD**	**KD**	**KD**	**KD**
Segment revenue	1,543,930	6,268,572	2,855,506	(537,621)	3,884,227	4,056,934	18,071,548
Segment results before taxation							
Results from continuing operations	(6,200,166)	3,825,888	(1,611,754)	(39,303,513)	6,867,939	378,309	(36,043,297)
Results from discontinued operations	-	(15,368,926)	-	-	-	-	(15,368,926)
	(6,200,166)	(11,543,038)	(1,611,754)	(39,303,513)	6,867,939	378,309	(51,412,223)
As at 31 December 2011							
Assets and liabilities							
Segment assets	57,218,643	-	23,030,273	174,627,418	48,059,952	38,910,229	341,846,515

26. SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2011	Financial services	Energy and allied services *	Logistics Logistic	Real estate	Islamic finance	Others	Total
	KD	KD	KD	KD	KD	KD	KD
Non-current asset held for sale	-	43,732,585					43,732,585
Total assets	57,218,643	43,732,585	23,030,273	174,627,418	48,059,952	38,910,229	385,579,100
Segment liabilities	47,409,256	36,235,206	21,160,561	183,678,197	39,820,702	38,042,685	366,346,607

During the year the Group sold 29% equity interest in AEH resulting in the loss of control (Note 7).

For the year ended 31 December 2010	Financial services	Energy and allied services	Logistics Logistic	Real estate	Islamic finance	Others	Total
	KD	KD	KD	KD	KD	KD	KD
Segment revenue	3,199,222	(1,510,876)	1,721,035	(1,720,885)	3,151,070	(6,435,846)	(1,596,280)
Segment results before taxation							
Results from continuing operations	(6,574,881)	2,805,262	(13,250,429)	(95,929,812)	(867,206)	(20,461,524)	(134,278,590)
Results from discontinued operations	-	10,425,506	(4,482,918)	-	-	-	5,942,588
Segment results before taxation	(6,574,881)	13,230,768	(17,733,347)	(95,929,812)	(867,206)	(20,461,524)	(128,336,002)
As at 31 December 2010							
Assets and liabilities							
Segment assets	66,858,539	95,996,687	29,672,482	192,575,497	79,282,306	23,152,843	487,538,354
Segment liabilities	43,330,581	79,244,204	21,026,268	182,067,964	49,084,729	23,908,658	398,662,404

26. SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2011	Financial services	Energy and allied services	Logistics	Real estate	Islamic finance	Others	Total
	KD	KD	KD	KD	KD	KD	KD
Other segmental information							
Purchase of property and equipment	-	-	-	1,539,118	-	931,114	2,470,232
Depreciation	199,676	-	48,909	609,799	-	479,513	1,337,897
Amortisation of intangibles	-	-	-	-	-	12,055	12,055
Impairment losses	3,758,875	-	-	17,793,126	(5,668,101)	892,214	16,776,114
Goodwill	438,675	-	251,437	-	-	35,884	725,996
Commitments	-	-	-	2,780,776	911,215	-	3,691,991

For the year ended 31 December 2010							
Other segmental information							
Purchase of property and equipment	-	1,162,769	-	-	-	184,082	1,346,851
Depreciation	154,208	3,928,838	1,109,854	173,770	-	1,264,455	6,631,125
Amortisation of intangibles	-	-	-	4,873,539	-	-	4,873,539
Impairment losses	4,384,620	-	6,003,843	51,478,465	-	8,669,797	70,536,725
Goodwill	438,675	20,281,423	251,437	-	-	377,535	21,349,070
Commitments	-	6,743461	-	2,922,003	-	-	9,665,464

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Secondary segment information

The Group operates in different geographical areas. A geographical analysis based on location of non -current assets (non financial assets) for continuing operations is as follows:

	Non- current assets		*Segment revenue*	
	2011	2010	**2011**	2010
	KD	KD	**KD**	KD
Geographical areas:				
Kuwait	**10,071,034**	44,786,155	**2,552,572**	(19,913,916)
Rest of Middle East and North Africa	**4,856,403**	27,357,803	**9,945,427**	14,426,927
Europe	**26,034,587**	31,390,226	**2,262,778**	3,472,354
Others	**27,379,189**	25,171,131	**3,310,771**	418,355
	68,341,213	128,705,315	**18,071,548**	(1,596,280)

Non-current assets for this purpose consist of investment properties, property, plant and equipment, goodwill and intangible assets.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, Islamic finance receivables, financial assets carried at fair value through income statement, financial assets available for sale, financial assets held to maturity and certain accounts receivable. Financial liabilities consist of Islamic finance payables and certain accounts payable and other liabilities.

Fair values of all financial instruments, except for certain financial assets available for sale that are carried at cost (Note 14), are not materially different from their carrying values. The methodologies and assumptions used to determine fair values of financial instruments is described in fair value section of Note 3: Significant Accounting Policies.

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

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

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

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

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	Level: 1	Level: 2	Level: 3	Total fair value
31 December 2011				
Financial assets at fair value through income statement				
Quoted securities	11,996,099	-	-	11,996,099
Financial assets available for sale:				
Quoted securities	51,184	-	-	51,184
Unquoted securities	-	-	29,777,210	29,777,210
Managed funds (unquoted)	-	-	12,009,429	12,009,429
Sukouk	12,672,608	-	1,336,805	14,009,413
	24,719,891	-	**43,123,444**	**67,843,335**
31 December 2010				
Financial assets at fair value through income statement				
Quoted securities	11,374,877	-	-	11,374,877
Unquoted securities	-	-	24,300,000	24,300,000
Financial assets available for sale:				
Quoted securities	673,600	-	-	673,600
Unquoted securities	-	-	9,217,546	9,217,546
Managed funds (unquoted)	-	-	14,315,484	14,315,484
Sukouk	8,365,029	-	1,027,087	9,392,116
	20,413,506	-	48,860,117	69,273,623
Financial liabilities at fair value				
Profit rate swaps	-	1,937,571	-	1,937,571

During the year, there have been no transfers between the fair value hierarchies.

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined based on contractual maturity except for financial assets carried at fair value through income statement, financial assets available for sale, investment properties, other assets, investment in associates and other liabilities which are based on management's estimate of liquidation / settlement of those financial assets / liabilities.

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The maturity profile of assets and liabilities at 31 December are as follows:

2011	Up to 3 month KD	4 – 12 month KD	Over 1 year KD	Total KD
ASSETS				
Cash and bank balances	21,104,263	-	485,920	**21,590,183**
Islamic finance receivables	16,464,994	2,620,643	23,047,564	**42,133,201**
Inventories	-	904,271	-	**904,271**
Real estate development projects	857,786	2,573,357	30,880,287	**34,311,430**
Accounts receivable and other assets	2,844,718	2,453,630	21,029,916	**26,328,264**
Financial assets at fair value through income statement	656,009	1,940,979	9,399,111	**11,996,099**
Financial assets available for sale	906,620	5,604,096	49,336,519	**55,847,235**
Financial assets held to maturity	-	-	7,055,255	**7,055,255**
Investment properties	-	19,891,676	35,550,805	**55,442,481**
Investment in associates	-	-	73,339,364	**73,339,364**
Property and equipment	-	-	12,070,968	**12,070,968**
Goodwill	-	-	725,996	**725,996**
Intangible assets	-	-	101,768	**101,768**
Non-current asset held for sale	-	43,732,585	-	**43,732,585**
TOTAL ASSETS	**42,834,390**	**79,721,237**	**263,023,473**	**385,579,100**
LIABILITIES				
Islamic finance payables	4,816,078	67,434,366	252,510,129	**324,760,573**
Accounts payable and other liabilities	2,232,956	16,645,417	22,707,661	**41,586,034**
TOTAL LIABILITIES	**7,049,034**	**84,079,783**	**275,217,790**	**366,346,607**
COMMITMENTS	840,386	27,245	2,824,360	**3,691,991**

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

2010	Up to 3 month KD	4 – 12 month KD	Over 1 year KD	Total KD
ASSETS				
Cash and bank balances	34,436,409	3,844,708	-	38,281,117
Islamic finance receivables	21,892,264	4,565,563	14,543,362	41,001,189
Inventories	-	3,339,827	-	3,339,827
Real estate development projects	2,000,000	6,000,000	29,066,885	37,066,885
Accounts receivable and other assets	5,733,014	35,865,148	1,913,650	43,511,812
Financial assets at fair value through income statement	-	29,567,642	6,107,235	35,674,877
Financial assets available for sale	-	6,260,877	50,100,753	56,361,630
Financial assets held to maturity	-	-	8,937,613	8,937,613
Investment properties	-	25,163,550	42,610,261	67,773,811
Investment in associates	-	12,965,753	81,692,336	94,658,089
Property and equipment	-	-	36,269,786	36,269,786
Goodwill	-	-	21,349,070	21,349,070
Intangible assets	-	-	3,312,648	3,312,648
TOTAL ASSETS	64,061,687	127,573,068	295,903,599	487,538,354
LIABILITIES				
Islamic finance payables	-	35,475,665	299,703,401	335,179,066
Accounts payable and other liabilities	2,647,396	49,314,071	11,521,871	63,483,338
TOTAL LIABILITIES	2,647,396	84,789,736	311,225,272	398,662,404
COMMITMENTS	-	1,491,825	8,173,639	9,665,464

29. RISK MANAGEMENT

Risk is inherent in the Group’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group’s continuing profitability.

Each subsidiary of the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management Committees such as Credit / Investment Committee and (in the case of major subsidiaries) Asset Liability Committee (ALCO), or equivalent, with responsibilities generally analogous to the Group’s committees.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group’s strategic planning process. The Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

29. RISK MANAGEMENT (continued)

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The operations of certain Group subsidiaries are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the banking companies to meet unforeseen liabilities as these arise.

The Group classifies the risks faced as part of its monitoring and controlling activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified categories of risks. The categories of risks are:

A. Risks arising from financial instruments:
i. Credit risk which includes default risk of clients and counterparties
ii. Liquidity risk
iii. Market risk which includes profit rate, foreign exchange and equity price risks
iv. Prepayment risk

B. Other risk - Operational risk which includes risks due to operational failures

Derivative transactions result, to varying degrees, in credit as well as market risks.
Market risk arises as profit rates, foreign exchange rates and equity prices fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Group has established appropriate procedures and limits approved by the Board of Directors

29.1 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. Financial assets subject to credit risk consist principally of bank balances, Islamic finance receivables, trade receivables and certain other assets. The Group's bank balances are placed with financial institutions having high credit ratings. Islamic finance receivables are presented net of impairment losses. The Group manages credit risk by setting limits for individual borrowers and Group of borrowers and for geographical and industry segments. The Group also monitors credit exposures and continually assesses the creditworthiness of counterparties.

Gross maximum exposure to credit risk

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The Group's policy is to grant Islamic finance receivables to customers after assessing their credit worthiness. Customers with high credit worthiness are granted murabaha without any collateral. Collateral is taken from other customers except from Group companies (for which the management does not believe to have any significant credit risk exposure). Short term murabaha and other asset balances are monitored on an ongoing basis with the result that the Group's exposure to credit risk is not significant.

29. RISK MANAGEMENT (continued)

29.1 CREDIT RISK (continued)

Gross maximum exposure to credit risk (continued)

The table below shows the maximum exposure to credit risk for the financial assets, without taking account of any collateral and other credit enhancements. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2011 KD	2010 KD
Bank balances	**21,590,183**	38,254,191
Islamic finance receivables	**42,133,201**	41,001,189
Trade receivable and other assets	**26,328,264**	39,665,018
Financial assets available for sale	**14,009,413**	9,392,116
Financial assets held to maturity	**7,055,255**	8,937,613
Gross maximum credit risk exposure before credit risk mitigation	**111,116,316**	137,250,127

The exposures set above are based on net carrying amounts as reported in the consolidated statement of financial position.

Collateral and other credit enhancements

While granting Islamic finance, management analyses the financial strength and credit worthiness of the counter parties and where necessary obtains security in the form of quoted shares, unquoted shares and real estate properties. Facilities granted to affiliated companies are unsecured.

Management monitors the market value of collateral and requests additional collateral, if required. The Group has a right to sell the collateral in case of default by the borrower in accordance with the agreements entered with the borrowers. The Group has an obligation to return the collateral on the settlement of the Islamic finance receivables.

The Group obtained unquoted investments as collateral against certain Islamic finance receivables as at 31 December 2011. However, the valuation of these unquoted investments was in progress as at the reporting date and has not been completed upto the date of these consolidated financial statements.

The fair value of collateral that the Group holds at 31 December 2010 amounts to KD 5,892,799 on Islamic finance receivables carried at KD 4,691,219.

Risk concentration of the maximum exposure to credit risk

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

29. RISK MANAGEMENT (continued)

29.1 CREDIT RISK (continued)

Risk concentration of the maximum exposure to credit risk (continued)

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

	2011 Assets KD	2010 Assets KD
Geographic region:		
Kuwait	**45,961,398**	61,888,069
Rest of Middle East and North Africa	**24,302,740**	60,153,151
Europe	**3,975,276**	4,911,946
Others	**36,876,902**	10,296,961
	111,116,316	137,250,127

	2011 Assets KD	2010 Assets KD
Industry sector:		
Trading and manufacturing	**19,741,480**	9,422,290
Banks and financial institutions	**40,539,415**	47,805,012
Construction and real estate	**22,181,003**	65,240,795
Other	**28,654,418**	14,782,030
	111,116,316	137,250,127

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The five largest Islamic finance receivables outstanding as a percentage of gross Islamic finance receivables as at 31 December 2011 are 90% (2010: 84%).

Credit quality of financial assets that are neither past due nor impaired

Neither internal credit grading system nor external credit grades are used by the Group.

Analysis of financial assets past due but not impaired

As at 31 December 2011, the Group had no financial assets that were past due but not impaired.

Analysis of impaired financial assets

Financial assets amounting to KD 119,881,255 (2010: KD 105,618,454) were impaired with impairment losses amounting to KD 119,881,255 (2010: KD 97,707,237).

29. RISK MANAGEMENT (continued)

29.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages this risk by active cash flow management and undrawn limits with banks and financial institutions and generation of funds from its operations.

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

31 December 2011	**Within 3 months KD**	**3 to 12 months KD**	**1 to 5 years KD**	**Total KD**
Islamic finance payables	4,816,078	74,759,115	274,356,182	353,931,375
Account payables and other liabilities	2,232,956	16,645,417	22,707,661	41,586,034
TOTAL LIABILITIES	**7,049,034**	**91,404,532**	**297,063,843**	**395,517,409**

31 December 2010	Within 3 months KD	3 to 12 months KD	1 to 5 years KD	Total KD
Islamic finance payables	5,843,973	41,964,763	299,939,788	347,748,524
Account payables and other liabilities	2,647,396	49,314,071	11,521,871	63,483,338
TOTAL LIABILITIES	**8,491,369**	**91,278,834**	**311,461,659**	**411,231,862**

29.3 MARKET RISK

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

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

29.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates of Islamic financial instruments will affect future profitability of the Group. Profit rate risk is managed by the treasury department of the Parent Company. The Group is not significantly exposed to profit rate risk as a result of mismatches of profit rate repricing of assets and liabilities since it does not own significant floating rate Islamic financial assets and Islamic financial liabilities that could have a material impact on the Group's profit before taxes.

29. RISK MANAGEMENT (continued)

29.3.2 Currency risk

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

The management monitors on a regular basis to ensure positions are maintained within established limits.

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

	Increase in currency rate by 5 %			
	Effect on other comprehensive income		Effect on results before tax	
	2011	2010	2011	2010
	KD	KD	KD	KD
United State Dollar	**490,595**	2,560,727	**708,813**	4,751,110
Pound Sterling	**78,922**	610,135	**(38,488)**	(252,250)
Euro	**5,753**	9,072	**(8,640)**	338
Moroccan Dinar	**135,043**	665,800	**(42,626)**	(181,634)
Sudanese Pounds	**100,005**	2,135,552	**3,329**	17,986

29.3.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. The Group manages the risk by focusing on the long term holding of equity assets, keeping its exposure at an acceptable level and by continuously monitoring the markets.

The effect on profit / loss (as a result of a change in the fair value of financial assets carried at fair value through income statement at 31 December 2011) due to a 5% change in regional market indices, with all other variables held constant is KD 187,271 (2010: KD 140,691).

29.3.4 Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on Islamic finance income is not material after taking in to account the effect of any prepayment penalties.

29.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from the failures in operational process, people and system that supports operational processes. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by Risk management. Risk management ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Group risk management.

30. CAPITAL MANAGEMENT

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

No changes were made in the objectives, policies or processes during the years end 31 December 2011 and 31 December 2010.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, which is total debt divided by total equity attributable to Parent Company. The Group includes within total debt, profit bearing muharabha payables and deferred profit (till the date of next renewal) thereon. The Group's policy is to keep the gearing ratio less than 2.5 times of share holder's equity. However, due to decline in shareholders' equity resulting from net losses, the Group's leverage increased to 20.70 times (2010: 6.73 times).

	2011	2010
	KD	KD
Profit bearing Islamic finance payables	**324,760,573**	335,179,066
Deferred profit thereon	**5,175,095**	12,569,458
Accounts payable and other liabilities	**41,586,034**	63,483,338
Total debt	**371,521,702**	411,231,862
Equity attributable to the equity holders of the Parent Company	**17,949,384**	61,088,508
Gearing ratio	**20.70**	6.73

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AREF Investment Group