Financial statements and independent auditors' report

Ikarus Petroleum Industries Company – SAK (Closed)

Kuwait

31 December 2012

Financial statements and independent auditors' report

Ikarus Petroleum Industries Company – SAK (Closed)

Kuwait

31 December 2012

Contents

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Independent auditors' report

To the shareholders of
Ikarus Petroleum Industries Company – SAK (Closed)
Kuwait

Report on the Financial Statements

We have audited the accompanying financial statements of Ikarus Petroleum Industries Company – a Kuwaiti Shareholding Company (Closed), which comprise the statement of financial position as at 31 December 2012, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ikarus Petroleum Industries Company as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Matters

In our opinion, proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's board of directors relating to these 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 financial statements incorporate all information that is required by the Companies Law No. 25 of 2012 and by the Company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012 nor of the Company's articles of association, as amended, have occurred during the year ended 31 December 2012 that might have had a material effect on the business or financial position of the Company.

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

Abdullatif A.H. Al-Majid
(Licence No. 70-A)
of Parker Randall (Allied Accountants)

Kuwait
14 February 2013

Statement of income

	Note	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
Income			
Realised loss on sale of investments at fair value through profit or loss		-	(92,639)
Unrealised gain/(loss) on investments at fair value through profit or loss		337,510	(66,362)
Realised gain on sale of available for sale investments		3,578,717	8,924,031
Dividend income from available for sale investments		7,679,648	2,340,725
Dividend income from investments at fair value through profit or loss		144,953	138,050
Impairment in value of available for sale investments	9 d	-	(465,824)
Interest and other income		263,136	10,728
Net gain/(loss) from interest rate swap	22	14,315	(2,984)
Foreign exchange (loss)/gain		(297,330)	145,933
		11,720,949	10,931,658
Expenses and other charges			
Staff costs		522,218	526,009
Finance costs	7a	1,399,997	1,078,866
Other operating expenses		374,709	463,137
		2,296,924	2,068,012
Profit before KFAS, provision for Zakat , NLST and directors remuneration		9,424,025	8,863,646
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(84,816)	(79,773)
Provision for Zakat		(90,215)	(84,981)
Provision for National Labour Support Tax (NLST)		(227,738)	(214,865)
Board of directors remuneration		(72,500)	(72,500)
Profit for the year		8,948,756	8,411,527
Basic and diluted earnings per share	8	11.99 Fils	11.24 Fils

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IKARUS
Petroleum Industries K.S.C.C

The notes set out on pages 9 to 32 form an integral part of these financial statements.

Statement of comprehensive income

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
Profit for the year	**8,948,756**	8,411,527
Other comprehensive income:		
Available for sale investments:		
- Net change in fair value arising during the year	**(15,730,148)**	3,010,954
- Transferred to statement of income on impairment	**-**	465,824
- Transferred to statement of income on sale	**(4,457,102)**	(7,360,915)
Total other comprehensive loss for the year	**(20,187,250)**	(3,884,137)
Total comprehensive (loss)/income for the year	**(11,238,494)**	4,527,390

The notes set out on pages 9 to 32 form an integral part of these financial statements.

Statement of financial position

	Note	31 Dec. 2012 KD	31 Dec. 2011 KD
Assets			
Non-current assets			
Available for sale investments	9	**149,577,756**	169,140,205
Current assets			
Available for sale investments	9	**8,063,821**	7,214,954
Investments at fair value through profit or loss	10	**5,350,637**	5,013,127
Due from parent company	18	**5,153,751**	-
Accounts receivable and other assets		**65,298**	80,643
Cash and cash equivalents	11	**1,990,595**	794,075
Total current assets		**20,624,102**	13,102,799
Total assets		**170,201,858**	182,243,004
Equity and liabilities			
Equity			
Share capital	12	**75,000,000**	75,000,000
Treasury shares	13	**(611,443)**	(611,443)
Legal reserve	14	**5,218,070**	4,275,667
Voluntary reserve	14	**2,164,821**	2,164,821
Cumulative changes in fair value	14	**40,817,553**	61,004,803
Retained earnings		**9,324,655**	7,287,264
Total equity		**131,913,656**	149,121,112
Liabilities			
Current liabilities			
Due to parent company	18	**-**	99,445
Short term borrowings	15	**37,392,425**	32,080,400
Other liabilities	16	**895,777**	942,047
Total liabilities		**38,288,202**	33,121,892
Total equity and liabilities		**170,201,858**	182,243,004

Nader Hamad Sultan
Chairman

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IKARUS
Petroleum Industries K.S.C.C

Suhail Yousef Abograis
Director & CEO

The notes set out on pages 9 to 32 form an integral part of these financial statements.

Statement of changes in equity

	Share capital KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Cumulative changes in fair value KD	Retained earnings KD	Total KD
Balance as at 1 January 2012	75,000,000	(611,443)	4,275,667	2,164,821	61,004,803	7,287,264	149,121,112
Transaction with owners							
Dividend distribution (Note 19)	-	-	-	-	-	(5,968,962)	(5,968,962)
Total transaction with owners	-	-	-	-	-	(5,968,962)	(5,968,962)
Profit for the year	-	-	-	-	-	8,948,756	8,948,756
Other comprehensive income for the year	-	-	-	-	(20,187,250)	-	(20,187,250)
Total comprehensive income for the year	-	-	-	-	(20,187,250)	8,948,756	(11,238,494)
Transfer to reserve	-	-	942,403	-	-	(942,403)	-
Balance as at 31 December 2012	**75,000,000**	**(611,443)**	**5,218,070**	**2,164,821**	**40,817,553**	**9,324,655**	**131,913,656**

The notes set out on pages 9 to 32 form an integral part of these financial statements.

Statement of changes in equity

	Share capital KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Cumulative changes in fair value KD	Retained earnings KD	Total KD
Balance as at 1 January 2011	75,000,000	-	3,389,302	1,278,456	64,888,940	648,467	145,205,165
Transaction with owners							
Purchase of treasury shares	-	(611,443)	-	-	-	-	(611,443)
Total transaction with owners	-	(611,443)	-	-	-	-	(611,443)
Profit for the year	-	-	-	-	-	8,411,527	8,411,527
Other comprehensive income for the year	-	-	-	-	(3,884,137)	-	(3,884,137)
Total comprehensive income for the year	-	-	-	-	(3,884,137)	8,411,527	4,527,390
Transfer to reserves	-	-	886,365	886,365	-	(1,772,730)	-
Balance as at 31 December 2011	75,000,000	(611,443)	4,275,667	2,164,821	61,004,803	7,287,264	149,121,112

The notes set out on pages 9 to 32 form an integral part of these financial statements.

Statement of cash flows

	Note	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
OPERATING ACTIVITIES			
Profit before KFAS, provision for Zakat, NLST and directors' remuneration		9,424,025	8,863,646
Adjustments:			
Gain on sale of available for sale investments		(3,578,717)	(8,924,031)
Dividend income from available for sale investments		(7,679,648)	(2,478,775)
Impairment in value of available for sale investments		-	465,824
Net gain from interest rate swap		(14,315)	2,984
Interest income		(248,334)	(10,728)
Finance costs		1,399,997	1,078,866
Foreign exchange loss/(gain) on non-operating liabilities		312,025	(188,600)
		(384,967)	(1,190,814)
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		(337,510)	2,576,910
Accounts receivable and other assets		15,345	2,832,729
Due to/from parent company		(5,006,415)	(8,146)
Other liabilities		(39,441)	(48,380)
Net cash (used in)/from operations		(5,752,988)	4,162,299
KFAS paid		(109,081)	-
NLST paid		(84,981)	(108,384)
Zakat paid		(214,865)	(43,353)
Board of directors remuneration paid		(72,500)	-
Net cash (used in)/from operating activities		(6,234,415)	4,010,562
INVESTING ACTIVITIES			
Dividend income received from available for sale investments		7,679,648	2,478,775
Proceed from sale of available for sale investments		6,474,857	13,554,249
Purchase of available for sale investments		(4,369,807)	(16,272,978)
Interest received		1,553	10,728
Net cash from/(used in) investing activities		9,786,251	(229,226)
FINANCING ACTIVITIES			
Dividends paid		(5,906,978)	-
Finance cost paid		(1,339,911)	(1,078,866)
Loans obtained/(repaid)		5,000,000	(3,000,000)
Purchase of treasury shares		-	(611,443)
Net payments made in relation to the Interest rate swap		(108,427)	(85,080)
Net cash used in financing activities		(2,355,316)	(4,775,389)
Net increase/(decrease) in cash and cash equivalents		1,196,520	(994,053)
Cash and cash equivalents at beginning of the year		794,075	1,788,128
Cash and cash equivalents at end of the year	11	1,990,595	794,075

The notes set out on pages 9 to 32 form an integral part of these financial statements.

Notes to the financial statements

1 Incorporation and activities

Ikarus Petroleum Industries Company – SAK (Closed), ("the company") was incorporated on 1 February 1997 and listed on the Kuwait stock exchange on 14 April 2008. The company is a subsidiary of National Industries Company Holding – SAK "parent company". Its principal objective is to engage in chemical and petrochemical related activities and utilise excess funds in investing in securities portfolios managed by other specialised companies.

On 29 November 2012 the Companie Law No. (25) of 2012 was issued by an Amiri Decree. This law is to be implemented and was effective on the date of its publication in the Official Gazette. Companies already established at the time this law comes into effect shall adjust their circumstances in accordance with the provisions of the law within six months of it coming into force and as specified in the executive regulations.

The address of the company is Al-Qiblah Area – Part 6, Building 3 – Sheikh Salem Al-Ali Al-Subah Complex – Second Floor, Office No. 18.

The board of directors approved these financial statements for issue on 14 February 2013. The general assembly of the company's shareholders has the power to amend these financial statements after issuance.

2 Basis of preparation

The financial statements of the company have been prepared under historical cost convention except for financial assets at fair value through profit or loss, financial assets available for sale and derivatives that have been measured at fair value.

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

The Company has elected to present the "statement of comprehensive income" in two statements: the "statement of income" and a "statement of comprehensive income".

3 Statement of compliance

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

4 Changes in accounting policies

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

4.1 New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Company.

4.2 IASB Standards issued but not yet effective

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

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

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

Standard	*Effective for annual periods beginning*
IAS 1 Presentation of Financial Statements – amendment	1 July 2012
IFRS 9 Financial Instruments	1 January 2015
IFRS 13 Fair Value Measurement	1 January 2013
IAS 32 Financial Instruments: Presentation – amendments	1 January 2014
IFRS 7 Financial Instruments: Disclosures – amendments	1 January 2013
Annual Improvements 2009-2011	1 January 2013

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

a) Potentially reclassifiable to statement of income in a subsequent period, and
b) That will not be reclassified to statement of income subsequently.

The Company will change the current presentation of the statement of comprehensive income when the amendment becomes effective however, it will not affect the measurement or recognition of such items.

4.2.2 IFRS 9 Financial Instruments
The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues.

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

Management has yet to assess the impact that this amendment is likely to have on the financial statements of the Company. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

4.2.3 IFRS 13 Fair Value Measurement
IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Company's financial statements.

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.2.4 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the Company's financial statements from these Amendments.

4.2.5 Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the Company's financial statements from these Amendments.

4.2.6 Annual Improvements 2009-2011 (the Annual Improvements)
The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarised below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

Segment information for total assets and liabilities:

- clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed in interim financial statements if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

The Annual Improvements noted above are effective for annual periods beginning on or after 1 January 2013. Management does not anticipate a material impact on the Company's financial statements from these Amendments.

Notes to the financial statements (continued)

5 Summary of significant accounting policies

The significant accounting policies and measurement bases adopted in the preparation of the financial statements are summarised below:

5.1 Segment reporting

Operating segments are reported in manner consistent with the internal reporting provided to the chief operating decision maker. The direct operating decision makers who is responsible for allocating resources and assessing performance of the reporting segments, has been identified as the investment committee that makes the strategic decisions.

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

5.2 Revenue

Revenue arises from company's investment activities. It is measured by reference to the fair value of consideration received or receivables.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is made. The following specific recognition criteria should also be met before revenue is recognised;

5.2.1 Interest and similar income

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

5.2.2 Dividend income

Dividend income are recognised at the time the right to receive payment is established.

5.3 Operating expenses

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

5.4 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

5.5 Financial instruments

5.5.1 Recognition, initial measurement and derecognition

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

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

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

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

5.5 Financial instruments (continued)

5.5.1 Recognition, initial measurement and derecognition (continued)

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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

5.5.2 Classification and subsequent measurement of financial assets

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

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- available-for-sale (AFS) financial assets.

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

All income and expenses relating to financial assets that are recognised in profit or loss are presented in the statement of income under separate line item as "Unrealised gain/(loss) on investments at fair value through profit or loss", "Realised gain/(loss) on investments at fair value through profit or loss", "Gain on sale of investments", impairment in value of available for sale investments", "interest and other income", "foreign exchange gain/loss" and "Dividend income".

- ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Discounting is omitted where the effect of discounting is immaterial.

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

- *Loans and receivables (continued)*

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

The Company categorises loans and receivables into following categories:

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

- *Due from parent company, receivables and other financial assets*

Advances provided/received and other transactions with the parent company are recorded under "due from parent company".

Loans and receivables which are not categorised under any of the above are classified as "Receivables and other financial assets"

- ***Financial assets at* FVTPL**

Classification of investments as financial assets at FVTPL depends on how management monitor the performance of these investments. Investments at FVTPL are either "held for trading" or "designated" as such on initial recognition.

The Company classifies investments as trading if they are acquired principally for the purpose of selling or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of statement of income in the management accounts, they are as designated at FVTPL upon initial recognition.

All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. The company does not have any hedging instruments.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

- ***AFS financial assets***

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

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

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

- ***AFS financial assets (continued)***

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

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

AFS financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

5.5.3 Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include short term borrowings, due to parent company, derivative financial instruments and other liabilities.

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

- ***Financial liabilities other than at fair value through profit or loss(FVTPL)***

These are stated at amortised cost using effective interest rate method. The Company categorises financial liabilities other than at FVTPL into the following categories:

- *Short term borrowings*

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

- *Due to parent company and other financial liabilities (excluding derivatives)*

Liabilities are recognised for amounts to be paid in the future for services received, whether billed by the service provider or not, and classified under other financial liabilities. Advances received/provided and other transactions with the parent company are recorded under due to parent company. Financial liabilities other than at FVTPL which do not fall under borrowing or due to parent company are classified as "Other financial liabilities".

All interest-related charges related to borrowings and due to parent company are included within finance costs.

- ***Financial liabilities at fair value through profit or loss(FVTPL)***

Financial liabilities at FVTPL are either held for trading or designated as such on initial recognition.

Financial liabilities held for trading or designated at FVTPL, are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

The Company has not designated any financial liability as at FVTPL and does not have any financial liabilities held for trading other than the derivatives as noted below.

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

5.5.4 Derivative financial instruments

The company uses derivative financial instruments, such as interest rate swaps to mitigate its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at cost, being the fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using valuation quotes provided by financial institutions, based on prevailing market information. Derivatives are carried as trading financial assets under "other assets" when the fair value is positive and as trading financial liabilities under "other liabilities" when the fair value is negative. The company does not adopt hedge accounting, and any realised and unrealised (from changes in fair value) gain or losses are recognised in the statement of income.

5.5.5 Amortised cost of financial instruments

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

5.5.6 Trade and settlement date accounting

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

5.5.7 Offsetting of financial instruments

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

5.5.8 Fair value of financial instruments

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 20.2.

5.6 Equity, reserves and dividend payments

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

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

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

Retained earnings includes all current and prior period retained profits. All transactions with owners of the company are recorded separately within equity.

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

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

5.7 Treasury shares

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

When the treasury shares are reissued, gains are credited to a separate account in equity, (the "gain on sale of 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. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

5.8 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

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

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

5.9 Foreign currency translation

5.9.1 Functional and presentation currency

The financial statements are presented in currency Kuwait Dinar (KD) which is also the functional currency of the Company.

5.9.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the Company, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined. Translation difference on non-monetary asset classified as, "fair value through profit or loss" is reported as part of the fair value gain or loss in the statement of income and "available for sale" are reported as part of the cumulative change in fair value reserve within other comprehensive income.

5.10 End of service indemnity

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

Notes to the financial statements (continued)

5 Summary of significant accounting policies (continued)

5.10 End of service indemnity (continued)

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

5.11 Taxation

5.11.1 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Company. As per law, allowable deductions include, cash dividends from listed companies which are subjected to NLST.

5.11.2 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Accumulated losses brought forward can be deducted from the adjusted profit for the year when calculating the KFAS contribution for the year.

5.11.3 Zakat

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

6 Significant management judgments and estimation uncertainty

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

6.1 Significant management judgments

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

6.1.1 Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition. Such judgement determines whether it is subsequently measured at cost, amortised cost or at fair value and if the changes in fair value of instruments are reported in the statement of income or other comprehensive income.

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

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

Notes to the financial statements (continued)

6 Significant management judgments and estimation uncertainty (continued)

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

All other financial assets are classified as available for sale.

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

6.2.1 Impairment of available for sale equity investments
The Company treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, the company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. During the year the company recognised impairment losses of KD Nil (2011: KD465,824) against available for sale investments.

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

	2012 KD	2011 KD
Loans and receivables		
- Cash and cash equivalents and due from parent company (refer 7b)	277,831	(33,149)
Investments at fair value through profit or loss		
- Investments designated on initial recognition	482,463	(20,951)
Available for sale investments		
- Recognised directly in other comprehensive income	(20,187,250)	(3,884,137)
- Recognised directly in statement of income	6,801,263	3,903,841
- Recycled from other comprehensive income to statement of income		
On impairment	-	(465,824)
On sale	4,457,102	7,360,915
	(8,168,591)	6,860,695
Financial liabilities at amortised cost		
- Borrowings (refer 7a)	(1,712,022)	(890,266)
Financial liabilities at fair value through profit or loss		
- Net gain/(loss) from interest rate swap	14,315	(2,984)
	(9,866,298)	5,967,445
Net gain recognised in the statement of income	10,320,952	9,851,582
Net loss recognised directly in other comprehensive income	(20,187,250)	(3,884,137)
	(9,866,298)	5,967,445

Notes to the financial statements (continued)

7 Net gain or (loss) on financial assets and financial liabilities (continued)

	2012 KD	2011 KD
7a. Net loss on financial liabilities at amortised cost is arrived at as follows:		
– Finance costs – on short term borrowings	**1,399,997**	1,078,866
– Foreign exchange loss/(gain) on retranslation of short term borrowings, included under "Foreign exchange loss" in the statement of income	**312,025**	(188,600)
	1,712,022	890,266

7b. Net gain on cash and cash equivalents is arrived at after adjusting for foreign exchange losses of KD14,695 (2011: loss of KD42,677).

8 Basic and diluted earnings per share

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2012	2011
Profit for the year (KD)	**8,948,756**	8,411,527
Weighted average number of shares outstanding during the year (excluding treasury shares) - shares	**746,120,000**	748,416,986
Basic and diluted earnings per share	**11.99 Fils**	11.24 Fils

9 Available for sale investments

	2012 KD	2011 KD
Non-current		
Quoted shares		
- foreign	**118,887,544**	138,449,988
	118,887,544	138,449,988
Unquoted shares		
- local	**3,066,032**	3,066,032
- foreign	**27,624,180**	27,624,185
	30,690,212	30,690,217
	149,577,756	169,140,205
Current		
Quoted shares - local	**8,063,821**	7,214,954
Total	**157,641,577**	176,355,159

a. The local quoted shares at 31 December 2012 and 31 December 2011 represent the investments which were transferred from investments at fair value through profit or loss as of 1 July 2008. These investments are included in current assets where management intends to dispose of such investments within 12 months of the end of the reporting date. The local quoted shares represent investments in various sectors. Local quoted shares with a carrying value of KD6,943,495 (2011: KD6,264,663) are pledged against a short term loan facility from a local bank (refer note 15 b).

Notes to the financial statements (continued)

9 Available for sale investments (continued)

b. Foreign quoted shares mainly represent investment in quoted Saudi companies operating in the fields of chemicals and petrochemicals. Majority of these shares, with a carrying value of KD115,947,212 (2011: KD138,131,800) are held through two, 100% owned special purpose vehicles incorporated in the Kingdom of Bahrain solely to own these shares.

c. Investments in unquoted shares are stated at cost due to the non availability of quoted market prices or other reliable measures of its fair value. Management is not aware of any circumstances that would indicate impairment in the value of these investments. The local and foreign unquoted shares represent investments in a local unlisted company operating in the field of oil and gas and in Saudi unlisted companies operating in the field of petrochemical and related products respectively.

d. During the previous year, the company recognised an impairment loss of KD465,824 for certain local and foreign quoted investments, as the market value of these shares declined significantly below their costs.

10 Investments at fair value through profit or loss

	2012 KD	2011 KD
Designated on initial recognition :		
Quoted shares – local	**3,409,283**	3,015,012
Local money market funds	**1,941,354**	1,998,115
	5,350,637	5,013,127

a) Effect of reclassification
During 2008 as a result of adoption of the amendments to IAS 39 and IFRS 7 with effect from 1 July 2008 the company reclassified certain investments with a fair value of KD30,065,885 as at 1 July 2008 from "fair value through profit or loss" category to "available for sale" category. The fair value of the remaining reclassified investments as of 31 December 2012 amounted to KD8,063,821 (2011: KD7,214,954).

b) During October 2008, a local money market funds, in which the company has investments totaling to KD1,753,237 as at 31 December 2012 (2011: KD1,809,998), suspended redemption requests. Management has been informed by the manager of the fund that redemptions will be made depending on availability of liquid funds. The company's management considers this to be a situation arising from the current crisis in the global financial market and its impact on the local market. The investment has been fair valued based on the unaudited net asset value reported by the fund manager as of 31 December 2012. Therefore the company's management expects to realise these investments at not less than its carrying value.

c) Local quoted shares with a carrying value of KD3,409,283 (2011: KD3,015,012) are pledged against a short term loan facility from a local bank (refer note 15 b).

Notes to the financial statements (continued)

11 Cash and cash equivalents

	2012 KD	2011 KD
Cash and bank balances	**898,228**	260,600
Cash balances held with portfolio managers	**1,092,367**	33,475
Short term deposits	**-**	500,000
Cash and cash equivalents	**1,990,595**	794,075

12 Share capital

As of 31 December 2012, the authorised, issued and fully paid up share capital of the company comprised 750,000,000 shares of 100 fils each. (2011: 750,000,000 shares of 100 files each), all shares are paid in cash.

13 Treasury shares

	2012 KD	2011 KD
Number of shares	**3,880,000**	3,880,000
Percentage of issued shares	**0.5%**	0.5%
Market value (KD)	**605,280**	659,600
Cost (KD)	**611,443**	611,443

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

14 Reserves

14.1 Statutory and voluntary reserves

As required by the Commercial Companies Law and the company's articles of association, 10% of the profit before KFAS, NLST, Zakat and Directors' remuneration is transferred to the statutory reserve until the balance reaches 50% of the company's issued and paid-up capital. Any transfer to the statutory reserve thereafter is subject to approval of the general assembly. No transfer is required in a year when losses are made or where cumulative losses exist and any brought forward accumulated losses of the previous year are deducted from the above mentioned profit when calculating the required transfer.

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 distribution of a dividend of that amount.

In accordance with company's articles of association, a certain percentage of the profit before KFAS, NLST, Zakat and directors' remuneration, is to be transferred to the voluntary reserve at the discretion of the board of directors which is to be approved at the general assembly. No transfer is required in a year in which the company has incurred a loss or where cumulative losses exist and any brought forward accumulated losses of the previous year are deducted from the above mentioned profit when calculating the required transfer. For the year 2012 the board of directors propose not to transfer any amount to the voluntary reserve and this is subject to approval at the general assembly. There are no restrictions on distribution of general reserve.

Notes to the financial statements (continued)

14 Reserves (continued)

14.2 Cumulative changes in fair value

	2012 KD	2011 KD
Balance at 1 January	**61,004,803**	64,888,940
Net change in fair value arising during the year	**(15,730,148)**	3,010,954
Transferred to statement of income on impairment	**-**	465,824
Transferred to statement of income on sale of investments	**(4,457,102)**	(7,360,915)
Balance at 31 December	**40,817,553**	61,004,803

The reserve represents accumulated gains and losses arising from changes in fair value of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

15 Short term borrowings

	Effective interest rates %	2012 KD	2011 KD
Local bank – US Dollar –(a)	3.75%	**32,392,425**	32,080,400
Local bank – Kuwaiti Dinar – (b)	5%	**5,000,000**	-
		37,392,425	32,080,400

a) During the year, the company has principally agreed with the local bank to restructure its US Dollar loan equivalent to KD32,392,425 into a Kuwaiti Dinar secured long term loan amounting to KD14,000,000 and a US Dollar secured long term loan amounting to USD65,000,000. However, the process of identification and securitization of the required investment portfolio is currently underway and the loan is presently secured by a corporate guarantee from the parent company. The new term of the loans will be to be repaid over a 5 year period.

b) During the year company utilised KD5,000,000 from the KD8,000,000 loan facility from a local bank, which is secured against local investments with a fair value of KD10,352,778 (refer note 9a and 10b).

16 Other liabilities

	2012 KD	2011 KD
Fair value of interest rate swap (refer note 22)	**-**	122,742
KFAS, Zakat and NLST payable	**482,542**	488,700
Provision for staff incentives and other accrued expenses	**257,359**	226,099
Dividend payable	**61,984**	-
Others	**93,892**	104,506
	895,777	942,047

Notes to the financial statements (continued)

17 Segmental analysis

The company Operating Segments are determined based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to company profit or loss.

The company activities are concentrated in two main segments: Domestic (Kuwait) and International (Kingdom of Saudi Arabia). The following is the segments information, which conforms with the internal reporting presented to management:

	Domestic KD	International KD	Total KD
2012			
Segment income	**1,045,434**	**10,972,845**	**12,018,279**
Segment results	**148,507**	**10,972,845**	**11,121,352**
Less:			
Finance costs and foreign exchange loss			**(1,697,327)**
Profit before KFAS, provision for Zakat, NLST and Directors remuneration			**9,424,025**
Net change in fair value of available for sale investments recognised directly in other comprehensive income	**848,969**	**(21,036,219)**	**(20,187,250)**
Segment assets	**22,037,386**	**148,164,472**	**170,201,858**
Segment liabilities	**(895,777)**	**-**	**(895,777)**
Segment net assets	**21,141,609**	**148,164,472**	**169,306,081**
Borrowings and other unallocated liabilities			**(37,392,425)**
Net assets			**131,913,656**
2011			
Segment income	(181,439)	10,967,164	10,785,725
Segment results	(1,170,585)	10,967,164	9,796,579
Less:			
Finance costs net of foreign exchange gain			(932,933)
Profit before KFAS, provision for Zakat, NLST and Directors remuneration			8,863,646
Net change in fair value of available for sale investments recognised directly in other comprehensive income	(415,295)	(3,468,842)	(3,884,137)
Segment assets	16,071,587	166,171,417	182,243,004
Segment liabilities	(819,305)	-	(819,305)
Segment net assets	15,252,282	166,171,417	181,423,699
Short term borrowings and other unallocated liabilities			(32,302,587)
Net assets			149,121,112

18 Related party transactions

Related parties represent, the parent company, the company's directors and key management personnel of the company, and other related parties such as subsidiaries of the parent company (fellow subsidiaries), major shareholders and companies in which directors and key management personnel of the company are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the company's management.

Notes to the financial statements (continued)

18 Related party transactions (continued)

Details of significant related party balances and transactions are as follows:

	2012 KD	2011 KD
Statement of financial position		
Due from parent company (*)	5,153,751	-
Due to parent company	-	99,445
Statement of income		
Interest income - from the parent company (*)	246,781	-
Management and constancy fees (included in other operating expenses)	40,880	90,469
Compensation of key management personnel of the company:		
Short term employee benefits	195,350	225,725

* Due from parent company at 31 December 2012 includes a short term advance of KD5,000,000 at an interest rate of 5% per annum.

19 Dividend distribution

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the Company's board of directors propose a cash dividend of 12% (2011: 8%) equivalent to 12 Fils per share.

At the annual general meeting held on 23 April 2012, the shareholders approved a cash dividend of 8% or 8 fils per share amounting to KD5,968,962 for the year ended 31 December 2011. (Nil for the year ended 31 December 2010).

20 Summary of financial assets and liabilities by category

20.1 Categories of financial assets and liabilities

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

	2012 KD	2011 KD
Financial assets:		
Loans and receivables:		
• Cash and cash equivalents	1,990,595	794,075
• Accounts receivable and other assets	65,298	80,643
• Due from parent company	5,153,751	-
Investments at fair value through profit or loss (refer Note 10)	5,350,637	5,013,127
Available for sale investments (refer Note 9)	157,641,577	176,355,159
	170,201,858	182,243,004
Financial liabilities:		
At amortised cost:		
• Short term borrowings	37,392,425	32,080,400
• Due to parent company	-	99,445
• Other liabilities	895,777	819,305
At fair value:		
Fair value of interest rate swap	-	122,742
	38,288,202	33,121,892

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the company's management, except for certain available for sale investments which are carried at cost for reasons specified in Note 9 to the financial statements, the carrying amounts of financial assets and liabilities as at 31 December 2012 and 2011 approximate their fair values.

Notes to the financial statements (continued)

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

20.2 Fair value hierarchy for financial instruments measured at fair value

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

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

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

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

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

31 December 2012	Note	**Level 1** **KD**	**Level 2** **KD**	**Level 3** **KD**	**Total** **KD**
Assets at fair value					
Available for sale investments					
- Local quoted shares	a	**8,063,821**	**-**	**-**	**8,063,821**
- Foreign quoted shares	a	**118,887,544**	**-**	**-**	**118,887,544**
Investments at fair value through profit or loss					
- Local quoted shares	a	**3,409,283**	**-**	**-**	**3,409,283**
- Local money market funds	b	**-**	**1,941,354**	**-**	**1,941,354**
Total assets		**130,360,648**	**1,941,354**	**-**	**132,302,002**

31 December 2011	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Assets at fair value					
Available for sale investments					
- Local quoted shares	a	7,214,954	-	-	7,214,954
- Foreign quoted shares	a	138,449,988	-	-	138,449,988
Investments at fair value through profit or loss					
- Local quoted shares	a	3,015,012	-	-	3,015,012
- Local money market funds	b	-	1,998,115	-	1,998,115
Total assets		148,679,954	1,998,115	-	150,678,069
Liabilities at fair value					
Interest rate swap	c	-	122,742	-	122,742
Total Liabilities		-	122,742	-	122,742

There have been no significant transfer between level 1, level 2 and level 3 during the reporting period.

Notes to the financial statements (continued)

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

Measurement at fair value
The methods and valuation techniques used for the purpose of measuring fair value are as follows:.

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

b) Local money market funds
The underlying investments of these funds mainly comprise of local and foreign variable and fixed income monitory instruments including treasury bills, bonds and sukuk. The fair values of these funds have been determined based on latest net asset values reported by the investment managers.

c) Interest rate swaps
The interest rate swap has been entered into by the company to mitigate its risks associated with interest rate fluctuations on its USD borrowings. The fair value of the derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using valuation quotes provided by financial institutions, based on prevailing market information.

21 Risk management objectives and policies

The Company's principal financial liabilities comprise short term borrowings, due to parent company and other liabilities. The main purpose of these financial liabilities is to raise finance for the company's operations. The Company has various financial assets such as accounts receivable and other assets, due from parent company, cash and cash equivalents and investment securities which arise directly from operations.

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

The Company's management is ultimately responsible for management of risks and implements several measures from time to time to manage the risks discussed below.

The Company also enters into derivative transactions, primarily interest rate swaps. The purpose is to manage the interest rate risks arising from the Company's sources of finance. The Company's policy is not to trade in derivative financial instruments.

The financial risks to which the company is exposed to are described below.

21.1 Market risk

a) Foreign currency risk
The company mainly invests in Kuwait and Saudi Arabia. The company is exposed to changes in exchange rates mainly on its US Dollar, borrowings and Saudi Riyal bank balances and balances with portfolio managers. The company's financial position can be affected by the movement in the US Dollar and Saudi Riyal. To mitigate the company's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

Notes to the financial statements (continued)

21 Risk management objectives and policies (continued)

21.1 Market risk (continued)

a) Foreign currency risk (continued)

Foreign currency risk is managed by the company's management by regular assessment of the company's open positions.

The Company's net exposure to US Dollar and Saudi Riyal denominated monetary assets less monetary liabilities at the reporting date, translated into Kuwaiti Dinars at the closing rates are as follow:

	2012 KD	2011 KD
US Dollar	**(32,390,504)**	(32,210,553)
Saudi Riyal	**1,658,021**	-

If the Kuwaiti Dinar had strengthened against the US Dollar and Saudi Riyal by 5%, then this would have the following impact on the profit for the year. There is no impact on the company's equity.

	Profit/(loss) for the year	
	2012 **KD**	2011 KD
US Dollar	**1,619,525**	1,610,528
Saudi Riyal	**(82,901)**	-

If the Kuwaiti Dinar had weakened against the US Dollar and Saudi Riyal by 5%, then there would be an equal and opposite impact on the profit for the year, and the balances shown above would be negative.

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

b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability. The Company is exposed to interest rate risk on its KD short term deposits (refer note 11) and US dollar short term borrowings (refer note 15), which are primarily at floating interest rates based on either Central Bank of Kuwait discount rate or LIBOR. Positions are monitored on a regular basis by the company's management.

The following table illustrates the sensitivity of the profit for the year to a change of interest rate of +75 and -25 basis points for the year 2012 (2011 +75 and -25). The calculation is based on the company's financial instruments held at each reporting date. All other variables are held constant. There is no impact on company's equity.

	Increase in interest rates		Decrease in interest rates	
	2012 **KD**	2011 KD	**2012** **KD**	2011 KD
(Decrease)/increase in profit for the year	**(242,943)**	(236,853)	**80,981**	78,951

c) Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The company is exposed to equity price risk with respect to its listed equity investments, which are primarily located in Kuwait and the Kingdom of Saudi Arabia. Equity investments are classified either as investments carried at fair value through profit or loss or available for sale investments.

Notes to the financial statements (continued)

21 Risk management objectives and policies (continued)

21.1 Market risk (continued)

c) Equity price risk (continued)

To manage its price risk arising from investments in equity securities, the company monitors its portfolio and diversifies, where possible.

The equity price risk sensitivity is determined on the exposure to equity price risks at the reporting date. If equity prices had been 10% higher/lower, the effect on the profit for the year and equity for the years ended 31 December would have been as follows:

A positive number below indicates an increase in profit and the equity where the equity prices increase by 10%. All other variables are held constant.

	Profit for the year		Equity	
	2012 **KD**	2011 KD	**2012** **KD**	2011 KD
Investments at fair value through profit or loss	**340,928**	301,501	**-**	-
Available for sale investments	**-**	388,656	**12,695,137**	14,177,838
	340,928	690,157	**12,695,137**	14,177,838

For a 10% decrease in the equity prices there would be an equal and opposite impact on the losses for the years and other comprehensive income and the amounts shown above would be negative.

21.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company's credit policy and exposure to credit risk is monitored on an ongoing basis.

The company's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the reporting date, as summarized below:

	2012 **KD**	2011 KD
Cash and cash equivalents	**1,990,595**	794,075
Accounts receivable and other assets	**65,298**	80,643
Due from parent company	**5,153,751**	-
Investment at fair value through profit or loss (local money market funds)	**1,941,354**	1,998,115
	9,150,998	2,872,833

Except as stated in note 10b, none of the above financial assets are past due nor impaired. The company monitors defaults of customers and other counter parties, identified either individually or by company, and incorporate this information into its credit risk controls.

The company's policy is to deal only with creditworthy counterparties. The company's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

Notes to the financial statements (continued)

21 Risk management objectives and policies (continued)

21.2 Credit risk (continued)

None of the company's financial assets are secured by collateral or other credit enhancements.

The credit risk for cash and bank balances and short term deposits is considered negligible, since the counterparties are reputable financial institution with high credit quality. Information on other significant concentrations of credit risk is set out in note 21.3

21.3 Concentration of assets

The distribution of financial assets by geographic region as at 31 December 2012 and 2011 is as follows:

	Kuwait KD	Other Middle East countries KD	Total KD
At 31 December 2012			
Available for sale investments	**11,129,853**	**146,511,724**	**157,641,577**
Investments at fair value through profit or loss	**5,350,637**	**-**	**5,350,637**
Due from parent company	**5,153,751**	**-**	**5,153,751**
Accounts receivable and other assets	**65,298**	**-**	**65,298**
Cash and cash equivalents	**337,841**	**1,652,754**	**1,990,595**
	22,037,380	**148,164,478**	**170,201,858**
At 31 December 2011			
Available for sale investments	10,280,986	166,074,173	176,355,159
Investments at fair value through profit or loss	5,013,127	-	5,013,127
Accounts receivable and other assets	80,643	-	80,643
Cash and cash equivalents	696,831	97,244	794,075
	16,071,587	166,171,417	182,243,004

21.4 Liquidity risk

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

The table below summarises the contractual maturity of financial liabilities based on undiscounted cash flows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	1-5 Years KD	Total KD
31 December 2012					
Financial liabilities					
Short term borrowings (refer note 15)	**-**	**32,609,144**	**5,125,000**	**-**	**37,734,144**
Other liabilities	**-**	**-**	**895,777**	**-**	**895,777**
	-	**32,609,144**	**6,020,777**	**-**	**38,629,921**
31 December 2011					
Financial liabilities					
Short term borrowings	-	265,465	32,876,795	-	33,142,260
Other liabilities (excluding interest rate swap)	-	-	819,305	-	819,305
Interest rate swap	-	30,685	92,057	-	122,742
	-	296,150	33,788,157	-	34,084,307

(*) The client settles the quarterly payments on the interest rate swap on a net basis.

Notes to the financial statements (continued)

22 Derivative financial instrument

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments of the Company represent interest rate swaps.

The notional amounts and the fair value of the interest rates swaps at the reporting date based on the contractual maturity days are as follows:

	Notional amount		Negative fair value	
	2012	2011	**2012**	2011
	KD	KD	**KD**	KD
Interest rate swaps (denominated in US Dollars)	**Nil**	27,896,000	**Nil**	122,742

The above interest rate swap which was entered in 2008 represents a 4 year callable range accrual interest rate swap contract with a local bank and is based on 3 months LIBOR and was fully settled in September 2012.

The negative fair value of the interest rate swap as at 31 December 2011 amounted to KD122,742 and the changes in fair values were recognised in the statement of income and the corresponding liabilities under "other liabilities". During the year the company has made net payments totalling to KD108,427 thousand to the banks to settle the quarterly payments due on the interest rate swap.

23 Capital management objectives

The Company's capital management objective is to maximise shareholder value.

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

There were no changes in the Company's approach to capital management during the year as compared to the previous year. The capital structure of the Company consists of the following:

	2012	2011
	KD	KD
Short term - borrowings (refer note 15)	**37,392,425**	32,080,400
Due to parent company	**-**	99,445
Less: Cash and cash equivalents (refer note 11)	**(1,990,595)**	(794,075)
Net debt	**35,401,830**	31,385,770
Total equity	**131,913,656**	149,121,112
Total capital	**167,315,486**	180,506,882

Consistent with others in the industry the company monitors capital on the basis of the gearing ratio. The company's policy is to keep the gearing ratio within 70%.

Notes to the financial statements (continued)

23 Capital management objectives (continued)

This ratio is calculated as net debt divided by total capital as follows:

	2012 KD	2011 KD
Net debt	**35,401,830**	31,385,770
Total capital	**167,315,486**	180,506,882
Net debt to total capital ratio	**21.2%**	17.4%

24 Contingent liability

The company is exposed to a contingent liability relating bank guarantees of KD11,919 (2011: KD11,919).