

**Afkar Holding Company K.S.C. (Holding)  
and Subsidiary**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2010**

Afkar Holding Company K.S.C. (Holding) and Subsidiary

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2010

	<i>Notes</i>	<b>31 December 2010 KD</b>	<i>31 December 2009 KD</i>
Sales		<b>1,243,981</b>	1,153,650
Cost of sales		<b>(708,895)</b>	(670,696)
<b>Gross profit</b>		<b>535,086</b>	482,954
Tawarruq receivables income		<b>16,749</b>	99,745
Dividend income		<b>132,300</b>	41,401
Share of results of associates	5	<b>287,327</b>	375,123
Realised loss on sale of financial assets available for sale		<b>(21,844)</b>	-
Other income (expenses)		<b>17,070</b>	(6,446)
Impairment loss of financial assets available for sale	6	<b>(89,767)</b>	(406,488)
Staff costs		<b>(398,580)</b>	(478,126)
Administrative expenses		<b>(393,243)</b>	(402,760)
Finance costs		<b>(45,687)</b>	(29,464)
<b>PROFIT (LOSS) BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), ZAKAT AND BOARD OF DIRECTORS' REMUNERATION</b>		<b>39,411</b>	(324,061)
Contribution to KFAS		<b>(1,558)</b>	(1,464)
Zakat		<b>(1,799)</b>	(1,247)
Board of Directors' remuneration		<b>(5,000)</b>	(26,000)
<b>PROFIT (LOSS) FOR THE YEAR</b>		<b>31,054</b>	(352,772)
<b>Attributable to:</b>			
Equity holders of the parent company		<b>(51,322)</b>	(418,171)
Non-controlling interests		<b>82,376</b>	65,399
		<b>31,054</b>	(352,772)

The attached notes 1 to 20 form part of these consolidated financial statements.

Afkar Holding Company K.S.C. (Holding) and Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	<i>Notes</i>	<b>31 December 2010 KD</b>	<i>31 December 2009 KD</i>
<b>Profit (loss) for the year</b>		<b>31,054</b>	(352,772)
<b>Other comprehensive (loss) income:</b>			
Financial assets available for sale			
- Change in fair values		(335,842)	80,426
- Transfer to consolidated statement of income on sale		21,844	-
- Transfer to consolidated statement of income on impairment	6	89,767	406,488
- Foreign currency translation adjustments	5	(116,869)	37,270
Other comprehensive income for the year included directly in equity		<b>(341,100)</b>	524,184
<b>Total comprehensive (loss) income for the year</b>		<b>(310,046)</b>	171,412
<b>Attributable to:</b>			
Equity holders of the parent company		(310,046)	171,412
Non-controlling interests		-	-
		<b>(310,046)</b>	171,412

The attached notes 1 to 20 form part of these consolidated financial statements.

Afkar Holding Company K.S.C. (Holding) and Subsidiary  
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 At 31 December 2010

	<i>Notes</i>	<i>31 December 2010 KD</i>	<i>31 December 2009 KD</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill		182,721	182,721
Property and equipment	4	341,707	386,152
Investment in associates	5	5,261,459	5,271,783
Financial assets available for sale	6	9,513,870	6,520,973
Leasehold prepayment		100,625	108,125
		<u>15,400,382</u>	<u>12,469,754</u>
<b>Current assets</b>			
Inventories	7	131,548	164,208
Other assets	8	506,016	515,098
Tawarruq receivables	9	-	3,204,483
Cash and cash equivalents	10	465,074	202,285
		<u>1,102,638</u>	<u>4,086,074</u>
<b>TOTAL ASSETS</b>		<u><u>16,503,020</u></u>	<u><u>16,555,828</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	11	15,500,000	15,500,000
Statutory reserve	12	25,367	25,367
Cumulative changes in fair values		820,035	1,044,266
Foreign currency translation reserve		(87,755)	29,114
Accumulated losses		(867,228)	(815,906)
<b>Equity attributable to equity holders of the parent company</b>		<u>15,390,419</u>	<u>15,782,841</u>
Non-controlling interests		318,720	261,344
<b>Total equity</b>		<u>15,709,139</u>	<u>16,044,185</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Term loan	13	55,000	75,000
Employees' end of service benefits		104,951	133,856
		<u>159,951</u>	<u>208,856</u>
<b>Current liabilities</b>			
Current portion of term loan	13	20,000	50,000
Other liabilities	14	194,866	252,787
Wakala payable	15	419,064	-
		<u>633,930</u>	<u>302,787</u>
<b>TOTAL LIABILITIES</b>		<u>793,881</u>	<u>511,643</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>16,503,020</u></u>	<u><u>16,555,828</u></u>

Adwan Mohammad Al Adwani  
 (Chairman)

Waleed Al Rowaih  
 (Vice Chairman)

The attached notes 1 to 20 form part of these consolidated financial statements.

# Afkar Holding Company K.S.C. (Holding) and Subsidiary

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	<i>Notes</i>	<b>31 December 2010 KD</b>	<b>31 December 2009 KD</b>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>31,054</b>	(352,772)
Adjustments for:			
Dividend income		<b>(132,300)</b>	(41,401)
Share of results of associates	5	<b>(287,327)</b>	(375,123)
Realised loss on sale of financial assets available for sale		<b>21,844</b>	-
Impairment loss of financial assets available for sale	6	<b>89,767</b>	406,488
Finance costs		<b>45,687</b>	29,464
Depreciation	4	<b>89,009</b>	86,525
Amortisation of leasehold prepayments		<b>7,500</b>	7,500
Provision for employees' end of service benefits		<b>39,384</b>	48,784
		<b>(95,382)</b>	(190,535)
Working capital adjustments:			
Inventories		<b>32,660</b>	29,581
Other assets		<b>9,082</b>	(378,440)
Tawarruq receivables		<b>3,204,483</b>	1,521,219
Other liabilities		<b>(57,921)</b>	21,666
Cash from operations		<b>3,092,922</b>	1,003,491
Finance costs paid		<b>(30,356)</b>	(29,464)
Employees' end of service benefits paid		<b>(68,289)</b>	(567)
Net cash from operating activities		<b>2,994,277</b>	973,460
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	4	<b>(44,564)</b>	(42,945)
Proceeds from sale of property and equipment		<b>-</b>	2,522
Purchase of investment in associates	5	<b>-</b>	(419,563)
Proceeds on liquidation of investment in an associate	5	<b>77,253</b>	-
Financial assets available for sale		<b>(3,328,739)</b>	(430,208)
Dividend income received from an associate	5	<b>103,529</b>	48,293
Dividend income received		<b>132,300</b>	41,401
Net cash used in investing activities		<b>(3,060,221)</b>	(800,500)
<b>FINANCING ACTIVITIES</b>			
Wakala payable obtained		<b>403,733</b>	-
Term loan settled		<b>(50,000)</b>	(50,000)
Net movement in non-controlling interests		<b>(25,000)</b>	(786)
Net cash from (used in) financing activities		<b>328,733</b>	(50,786)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>262,789</b>	122,174
Cash and cash equivalents at the beginning of the year		<b>202,285</b>	80,111
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	10	<b>465,074</b>	202,285

The attached notes 1 to 20 form part of these consolidated financial statements.

Afkar Holding Company K.S.C. (Holding) and Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	<i>Share capital KD</i>	<i>Statutory reserve KD</i>	<i>Cumulative changes in fair values KD</i>	<i>Foreign currency translation reserve KD</i>	<i>Accumulated losses KD</i>	<i>Sub-total KD</i>	<i>Non-controlling interests KD</i>	<i>Total KD</i>
Balance at 1 January 2010	15,500,000	25,367	1,044,266	29,114	(815,906)	15,782,841	261,344	16,044,185
(Loss) profit for the year	-	-	-	-	(51,322)	(51,322)	82,376	31,054
Other comprehensive loss	-	-	(224,231)	(116,869)	-	(341,100)	-	(341,100)
Total comprehensive (loss) income for the year	-	-	(224,231)	(116,869)	(51,322)	(392,422)	82,376	(310,046)
Dividends distribution to non-controlling interests	-	-	-	-	-	-	(25,000)	(25,000)
<b>Balance at 31 December 2010</b>	<b>15,500,000</b>	<b>25,367</b>	<b>820,035</b>	<b>(87,755)</b>	<b>(867,228)</b>	<b>15,390,419</b>	<b>318,720</b>	<b>15,709,139</b>
Balance at 1 January 2009	15,500,000	25,367	557,352	(8,156)	(397,735)	15,676,828	196,731	15,873,559
(Loss) profit for the year	-	-	-	-	(418,171)	(418,171)	65,399	(352,772)
Other comprehensive income (loss)	-	-	486,914	37,270	-	524,184	-	524,184
Total comprehensive income (loss) for the year	-	-	486,914	37,270	(418,171)	106,013	65,399	171,412
Net movement in non-controlling interests	-	-	-	-	-	-	(786)	(786)
Balance at 31 December 2009	15,500,000	25,367	1,044,266	29,114	(815,906)	15,782,841	261,344	16,044,185

The attached notes 1 to 20 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

The consolidated financial statements of Afkar Holding Company K.S.C. (Closed) (the “parent company”) and its subsidiary (the “group) for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 13 April 2011.

Afkar Holding Company K.S.C. (Holding) is a Kuwaiti closed shareholding company incorporated in Kuwait on 16 April 2006 under the Commercial Companies Law No. 15 of 1960 and amendments thereto.

The parent company is primarily engaged in investments in the local and international markets in accordance with the Islamic Sharee’a.

The parent company’s registered head office is at Dar Al-Awadi Tower, Sharq, Kuwait City, P.O. Box 1802 Safat, 13019 Safat, Kuwait.

### 2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets available for sale that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is also the functional currency of the parent company.

### 2.2 BASIS OF CONSOLIDATION

#### **Basis of consolidation from 1 January 2010**

The consolidated financial statements comprise the financial statements of the parent company and its subsidiary, for the year ended 31 December 2010.

Subsidiary is fully consolidated from the date of acquisition, being the date on which the group obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the 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.

Losses within a subsidiary are attributed to the non-controlling interest 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 transaction 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 parents share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

## 2.2 BASIS OF CONSOLIDATION (continued)

### Basis of consolidation prior to 1 January 2010

Certain the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders
- Upon loss of control, the group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

The subsidiary of the group is as follows:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Interest in equity %</i>		<i>Principal activities</i>
		<i>2010</i>	<i>2009</i>	
Light Food Company K.S.C. (Closed)	Kuwait	50	50	Production of light food and drinks

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following newly amended IFRS effective as of 1 January 2010 and the newly incorporated policy for "Wakala payable" during the year.

The adoption of the new policies and standards is described below:

### *Wakala payable*

Wakala payables represent amounts payable on a deferred settlement basis for financial assets purchased under wakala arrangements. Wakala payables are 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.

### *IFRS 3: Business Combinations (Revised) (IFRS 3R)*

IFRS 3R introduces significant changes in the accounting for business combinations occurring after the effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages.

### *IAS 27: Consolidated and separate financial statements (Revised) (IAS 27R)*

IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

### *Improvements to IFRSs*

In May 2008 and April 2009, the IASB issued 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.

- IAS 7: Statement of Cash Flows
- IAS 36: Impairment of Assets

### *IAS 7: Statement of Cash Flows*

States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

### *IAS 36: Impairment of Assets*

The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the group.

## 2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new/amended IASB Standards relevant to the group have been issued as at 31 December 2010 but are not yet mandatory, and have not yet been early adopted by the group:

### *IFRS 9: Financial Instruments - Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### *IAS 24: Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

### *Improvements to IFRSs (issued in May 2010)*

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below:

- IFRS 3 Business Combinations
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements

The application of these standards will be made in the consolidated financial statements when these standards become effective and are not expected to have a material impact on the consolidated financial statements of the group.

## 2.5 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 or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

#### *Sales*

Revenue from sales is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

#### *Tawarruq receivables income*

Tawarruq receivables income is recognised on a time proportion basis so as to yield a constant rate of return based on the net balance outstanding.

#### *Dividend income*

Dividend is recognised when the group's right to receive payment is established.

### KFAS and Zakat

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and Zakat represents levies/taxes imposed on the parent entity at the flat percentage of net profits less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent taxation/levy regulations no carry forward of losses is permitted and there are no significant differences between the tax/levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

#### *Tax/statutory levy*

Contribution to KFAS

Zakat

#### *Rate*

1.0% of net profit less permitted deductions

1.0% of net profit less permitted deductions

For 2010, the parent company has no liability towards KFAS, NLST and Zakat due to losses incurred. Under the KFAS, NLST and Zakat regulations, no carry forward of losses to the future years or any carry back of prior year is permitted.

### Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

- Buildings 20 years
- Motor vehicles and equipment 3-10 years
- Furniture and fixture 3-5 years
- Computers 5 years
- Tools and equipment 5 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Investment in associates**

The group's investment in its associate is accounted for using the equity method. An associate is an entity in which the group has significant influence.

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. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of income reflects the 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 the consolidated statement of other comprehensive income. 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 share of profit of an associate is shown on the face of the statement of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the group. Where necessary, adjustments are made to bring the accounting policies in line with those of the group.

After application of the equity method, the group determines whether it is necessary to recognise an impairment loss on the group's investment in its associate. 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 associates in the consolidated statement of income.

Upon loss of significant influence over the associate, the group measures and recognises any retaining 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 retaining investment and proceeds from disposal is recognised in profit or loss.

### **Financial instruments – initial recognition and subsequent measurement**

#### **(i) Financial assets**

##### ***Initial recognition and measurement***

Financial assets within scope of IAS 39 are classified as financial assets at fair value through income statement, loans and receivables, held to maturity investments or financial assets available for sale, as appropriate. The group determines the classification of its financial assets at initial recognition.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the group commits to purchase or sell the asset.

The group's financial assets include financial assets available for sale, tawarruq receivables and cash and cash equivalents.

##### ***Subsequent measurement***

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

##### **Available for sale financial investments**

Available for sale financial investments include equity and debt securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Subsequent measurement (continued)*

#### **Available for sale financial investments (continued)**

After initial measurement, available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

#### **Tawarruq receivables**

Tawarruq receivables represent amounts receivable on a deferred settlement basis for commodities sold under mudaraba arrangements. Tawarruq receivables are stated at the gross amount of the receivable, net of deferred profit receivable and provision for impairment.

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

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand and at banks and time deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and at banks, and short-term deposits with original maturities of three months or less.

#### **(ii) Derecognition**

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

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

In that case, the group 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 group 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 group could be required to repay.

#### **(iii) Impairment of financial assets**

The group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is 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 debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest 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 arrears or economic conditions that correlate with defaults.

#### **Financial assets available for sale**

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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments – initial recognition and subsequent measurement (continued)

#### (iii) *Impairment of financial assets (continued)*

##### *Financial assets available for sale (continued)*

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. ‘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 – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

#### (iv) *Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in case of loans and borrowings, plus directly attributable transactions costs.

The group’s financial liabilities include term loan and other liabilities and wakala payable.

##### **Subsequent measurement**

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

##### *Term loan*

Term loan is carried in the consolidated statement of financial position at the principal amount.

##### *Other liabilities*

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

##### **Derecognition**

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 consolidated statement of income.

#### (v) *Offsetting of financial instruments*

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments – initial recognition and subsequent measurement (continued)

#### (vi) 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 (bid price), 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; 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.

#### Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and 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. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

#### Other assets

Other assets are stated at their face value less impairment losses or provision for doubtful accounts.

#### Leasehold prepayments

Represent prepayments for the right of use of operating leasehold land. These are amortised over the useful life of the leasehold land.

#### Inventories

Inventories are valued at the lower of cost and net realisable value after making allowances for any slow moving obsolete or damaged items. Cost of inventories is based on weighted average principle, and includes expenditure incurred in acquitting the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### Foreign currencies

Transactions in foreign currencies are initially recorded by the 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments – initial recognition and subsequent measurement (continued)

#### Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated to Kuwaiti Dinars using the exchange rates at the date when the fair value is determined.

Exchange differences arising from the parent company's investments in associates whose functional currencies are different from the parent company are taken to a separate reserve within the consolidated statement of changes in equity.

## 3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of the reporting period. 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 future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Classification of investments*

Management decides on acquisition of investments whether they should be classified as investments carried at fair value through income statement or financial assets available for sale.

The management classifies investments as carried at fair value through income statement if they are acquired primarily for the purpose of short term profit making and the fair value of those investments can be reliably determined.

All other investments are classified as available for sale.

#### *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;
- earnings multiple technique; or
- other valuation models.

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

#### *Impairment of investments*

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

#### *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 a value in use amount requires management 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.

**3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

*Impairment provision of receivables and tawarruq finances*

An estimate of the collectible amount of receivables and tawarruq finances 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.

*Useful lives of property and equipment*

The parent company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

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**4 PROPERTY AND EQUIPMENT**

	<i>Buildings KD</i>	<i>Motor vehicles and equipment KD</i>	<i>Furniture and fixture KD</i>	<i>Computers KD</i>	<i>Tools and equipment KD</i>	<i>Spare parts KD</i>	<i>Total KD</i>
<b>Cost:</b>							
Balance at 1 January 2010	78,750	371,668	103,861	32,043	43,462	16,467	646,251
Additions	-	27,544	6,053	1,160	4,687	5,120	44,564
Balance at 31 December 2010	<u>78,750</u>	<u>399,212</u>	<u>109,914</u>	<u>33,203</u>	<u>48,149</u>	<u>21,587</u>	<u>690,815</u>
<b>Depreciation:</b>							
Balance at 1 January 2010	22,135	167,988	28,126	11,137	30,713	-	260,099
Charge for the year	4,156	49,236	20,815	7,182	7,620	-	89,009
Balance at 31 December 2010	<u>26,291</u>	<u>217,224</u>	<u>48,941</u>	<u>18,319</u>	<u>38,333</u>	<u>-</u>	<u>349,108</u>
<b>Net book value at 31 December 2010</b>	<b><u>52,459</u></b>	<b><u>181,988</u></b>	<b><u>60,973</u></b>	<b><u>14,884</u></b>	<b><u>9,816</u></b>	<b><u>21,587</u></b>	<b><u>341,707</u></b>
Net book value at 31 December 2009	<u>56,615</u>	<u>203,680</u>	<u>75,735</u>	<u>20,906</u>	<u>12,749</u>	<u>16,467</u>	<u>386,152</u>

# Afkar Holding Company K.S.C. (Closed) and Subsidiary

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### 5 INVESTMENT IN ASSOCIATES

The group's associates consist of the following entities:

	Country of incorporation	Percentage of ownership		2010 KD	2009 KD
		2010	2009		
Gulf Industrial Development Company S.S.C.C.	Kingdom of Saudi Arabia	28%	28%	3,811,333	3,678,721
Hayat Factory for Fruit drinks and Bottled Water Company Limited	Kingdom of Saudi Arabia	15%	15%	1,253,207	1,323,009
Packing Material Company W.L.L.	Kingdom of Saudi Arabia	15%	15%	196,919	192,800
Afkar Gulf Company Q.S.C.	State of Qatar	-	49%	-	77,253
				<u>5,261,459</u>	<u>5,271,783</u>

During the year, the associated company "Afkar Gulf Company Q.S.C." was liquidated before commencing its operation.

Associates are unquoted companies. Goodwill included in the carrying value of the investment in the associated companies amounted to KD 319,525 (2009: KD 319,525).

Movement during the year is as follows:

	2010 KD	2009 KD
Carrying value at 1 January	5,271,783	4,488,120
Additions	-	419,563
Share of results	287,327	375,123
Foreign currency translation adjustment	(116,869)	37,270
Proceeds on liquidation of an investment in associate	(77,253)	-
Dividends received	(103,529)	(48,293)
Carrying value at 31 December	<u>5,261,459</u>	<u>5,271,783</u>

The following table illustrates summarised information of the group's investment in associates:

	2010 KD	2009 KD
<b>Share of associates' statement of financial position:</b>		
Assets	5,677,273	6,477,102
Liabilities	735,339	1,524,844
Net assets	4,941,934	4,952,258
Goodwill	319,525	319,525
	<u>5,261,459</u>	<u>5,271,783</u>
<b>Share of associates' revenues and results:</b>		
Revenues	3,177,009	2,647,320
Results	287,327	375,123

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### 6 FINANCIAL ASSETS AVAILABLE FOR SALE

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Quoted securities	<b>3,724,501</b>	507,373
Unquoted securities	<b>4,233,209</b>	4,316,763
Unquoted funds	<b>1,556,160</b>	1,696,837
	<b><u>9,513,870</u></b>	<b><u>6,520,973</u></b>

At 31 December 2010, certain unquoted investments amounting to KD 561,708 (2009: KD 561,708) were carried at cost due to the non availability of quoted market prices or other reliable measures of their fair values. Since these investments are unquoted, a reasonable estimate of fair value can only be determined when the individual investments are realised. Management is of the opinion that there has been no impairment in value of these investments.

At the reporting date, gross financial assets available for sale were KD 9,603,637 (2009: KD 6,927,461), and impairment loss was KD 89,767 (2009: KD 406,488).

### 7 INVENTORIES

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Packing materials	<b>45,294</b>	53,645
Raw materials	<b>65,538</b>	77,152
Finished goods	<b>8,225</b>	8,698
Other production materials	<b>13,254</b>	13,075
Goods in transit	<b>368</b>	12,769
	<b><u>132,679</u></b>	<u>165,339</u>
Less: Provision for slow moving items	<b>(1,131)</b>	(1,131)
	<b><u>131,548</u></b>	<u>164,208</u>

### 8 OTHER ASSETS

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Trade receivables	<b>144,153</b>	133,343
Prepayments	<b>32,288</b>	32,118
Staff receivables	<b>6,865</b>	6,968
Other receivables	<b>150</b>	150
Amounts due from related parties (Note 16)	<b>322,560</b>	342,519
	<b><u>506,016</u></b>	<u>515,098</u>

As at 31 December 2010, the group had a provision against its trade receivables of KD 1,064 (2009: KD 1,064).

As at 31 December, the ageing of unimpaired trade receivables is as follows:

	<i>Total</i> <i>KD</i>	<i>Neither past due</i> <i>nor impaired</i> <i>KD</i>	<i>Past due but not impaired</i>			
			<i>&lt; 30 days</i> <i>KD</i>	<i>30 – 60</i> <i>days</i> <i>KD</i>	<i>60 – 90</i> <i>days</i> <i>KD</i>	<i>90 – 365</i> <i>days</i> <i>KD</i>
<b>2010</b>	<b>144,153</b>	<b>46,253</b>	<b>26,498</b>	<b>44,986</b>	<b>14,310</b>	<b>12,106</b>
2009	133,343	45,610	23,625	19,553	11,384	33,171

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Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the group to obtain collateral over receivables.

#### 9 TAWARRUQ RECEIVABLES

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Gross amount	-	3,208,966
Less: deferred income	-	(4,483)
	<u>-</u>	<u>3,204,483</u>

Average profit rate attributable to the matured tawarruq receivables during the year was 1.8% per annum (2009: 2% per annum).

#### 10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated cash flow statement consist of the following amounts:

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Bank balances	<b>340,074</b>	127,285
Short-term deposit	<b>125,000</b>	75,000
	<u><b>465,074</b></u>	<u>202,285</u>

Short-term deposit represents a deposit with a local bank which is denominated in Kuwaiti Dinar, with an effective profit rate of 1.5% (2009: 1.5%) per annum.

#### 11 SHARE CAPITAL

	<i>Authorised</i>	<i>Issued and fully paid</i>	<i>Authorised</i>	<i>Issued and fully paid</i>
	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
300,000,000 shares of 100 fils each	<u><b>30,000,000</b></u>	<u><b>15,500,000</b></u>	<u>30,000,000</u>	<u>15,500,000</u>

#### 12 STATUTORY RESERVE

As required by the Law of Commercial Companies and the parent company's articles of association, 10% of the profit for the year should be transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve exceeds 50% of paid up share capital. No transfer has been made this year due to loss incurred.

#### 13 TERM LOAN

Term loan represents a facility of KD 175,000 obtained by the subsidiary company "Light Food Company K.S.C. (closed)" from a local bank. The facility is secured against the subsidiary company's properties, buildings, equipment and inventories. This loan is subject to an interest rate of 3.5% per annum and is repayable on instalments, maturing on 15 December 2012.

The carrying value of the loan at the end of the year is as follows:

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**13 TERM LOAN (continued)**

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Non-current portion	55,000	75,000
Current portion	20,000	50,000
Balance at 31 December	<u>75,000</u>	<u>125,000</u>

**14 OTHER LIABILITIES**

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Trade payables and other credit balances	191,509	250,076
Provision for KFAS	1,558	1,247
Zakat payable	1,799	1,464
	<u>194,866</u>	<u>252,787</u>

**15 WAKALA PAYABLE**

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Gross amount	431,994	-
Less: deferred cost	(12,930)	-
	<u>419,064</u>	<u>-</u>

The average cost rate attributable to wakala payable during the year was 7% per annum (2009: Nil per annum).

**16 RELATED PARTY TRANSACTIONS**

These represent transactions with certain parties (major shareholders, directors and executive officers of the parent company, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence) entered into by the parent company in the ordinary course of business. Pricing policies and terms of these transactions are approved by the parent company's management.

**Balances included in the consolidated statement of financial position are as follows:**

	<i>Associates</i> <i>KD</i>	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Amounts due from related parties (Note 8)	322,560	322,560	342,519

Amounts due from related parties are interest free and are receivable on demand.

There were no material related party transactions during the year (2009: KD Nil).

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### Compensation of key management personnel:

The remuneration of directors and other members of key management during the year were as follows:

	<i>31 December 2010 KD</i>	<i>31 December 2009 KD</i>
Salaries and other short term benefits	<b>120,503</b>	140,138

## 17 FINANCE RISK MANAGEMENT OBJECTIVES AND POLICIES

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 and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into interest rate risk, foreign currency risk and equity price risk. It is also subject to operating risks. The management of the group reviews and agrees policies for managing each of these risks which are summarised below:

### 17.1 CREDIT RISK

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The group manages credit risk by setting limits for individual counter-parties, monitors credit exposures, and continually assesses the creditworthiness of counterparties, with the result that the Group's exposure to bad debts is not significant and the aggregate value of transactions concluded is spread amongst approved counterparties.

#### *Gross maximum exposure to 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. Management of the parent company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The maximum credit risk is limited to amounts appearing on the consolidated statement of financial position.

<b>BY CLASS OF FINANCIAL ASSETS</b>	<i>Gross maximum exposure 2010 KD</i>	<i>Gross maximum exposure 2009 KD</i>
Leasehold prepayments	<b>100,625</b>	108,125
Other assets	<b>506,016</b>	515,098
Tawarruq receivables	-	3,204,483
Cash and cash equivalents	<b>465,074</b>	202,285
<b>Gross maximum credit risk exposure before consideration of credit risk mitigation</b>	<b><u>1,071,715</u></b>	<b><u>4,029,991</u></b>

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

#### *Collateral and other credit enhancements*

It is not the practice of group to obtain collateral over receivables.

#### *Risk concentration of the maximum exposure to credit risk*

Concentrations arise 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.

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The group's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the following geographical region:

### 17 FINANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 17.1 CREDIT RISK (continued)

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

At 31 December 2010	<i>Kuwait KD</i>	<i>Rest of the Middle East KD</i>	<i>Total KD</i>
Leasehold prepayments	100,625	-	100,625
Other assets	183,456	322,560	506,016
Tawarruq receivables	-	-	-
Cash and cash equivalents	465,074	-	465,074
	<u>749,155</u>	<u>322,560</u>	<u>1,071,715</u>

  

At 31 December 2009	<i>Kuwait KD</i>	<i>Rest of the Middle East KD</i>	<i>Total KD</i>
Leasehold prepayments	108,125	-	108,125
Other assets	172,579	342,519	515,098
Tawarruq receivables	3,204,483	-	3,204,483
Cash and cash equivalents	202,285	-	202,285
	<u>3,687,472</u>	<u>342,519</u>	<u>4,029,991</u>

The group's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sector:

	<i>2010 KD</i>	<i>2009 KD</i>
Banks and financial institutions	465,074	3,406,768
Others	606,641	623,223
	<u>1,071,715</u>	<u>4,029,991</u>

##### *Analysis of financial assets past due but not impaired*

The group does not have any past due but not impaired financial assets at 31 December 2010, except for certain financial assets available for sale amounting to KD 89,767 which were impaired during the year (2009: KD 406,488).

#### 17.2 LIQUIDITY RISK

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

The table below summarises the maturity profile of the group's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately and are included in less than 1 year.

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**17 FINANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**17.2 LIQUIDITY RISK (continued)**

The liquidity profile of financial liabilities is as follows:

<b>As at 31 December 2010</b>	<i>Less than 1 year</i>	<i>More than 1 year</i>	<i>Total</i>
Term loan	20,116	58,850	78,966
Employees' end of service benefits	-	104,951	104,951
Other liabilities	194,866	-	194,866
Wakala payable	431,994	-	431,994
<b>Total liabilities</b>	<b>646,976</b>	<b>163,801</b>	<b>810,777</b>
<b>As at 31 December 2009</b>	<i>Less than 1 year</i>	<i>More than 1 year</i>	<i>Total</i>
Term loan	55,250	82,875	138,125
Employees' end of service benefits	-	133,856	133,856
Other liabilities	252,787	-	252,787
<b>Total liabilities</b>	<b>308,037</b>	<b>216,731</b>	<b>524,768</b>

**17.3 MARKET RISK**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as profit rates, foreign currency exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments 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.

**17.3.1 Profit rate risk**

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The group is not significantly exposed to profit rate risk on its profit bearing assets and liabilities (tawarruq receivables, short-term deposits, term loan and wakala payable) as a result of reasonably possible changes in profit rates since profit bearing assets and liabilities are all fixed rate.

**17.3.2 Foreign currency risk**

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

Foreign currency risk is managed on the basis of limits determined by management and a continuous assessment of the group's open positions, current and expected exchange rate movements.

The table below indicates the group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Kuwaiti Dinar (KD) currency rate against the Saudi Riyal (SAR) with all other variables held constant, on the statement of income (due to the fair value of currency sensitive monetary assets and liabilities) and other comprehensive income.

**17 FINANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**17.3 MARKET RISK (continued)**

**17.3.2 Foreign currency risk (continued)**

	<i>Change in Variables (+/-)</i>	<i>2010</i>		<i>2009</i>	
		<i>Impact on consolidated statement of income KD</i>	<i>Impact on other comprehensive income KD</i>	<i>Impact on consolidated statement of income KD</i>	<i>Impact on other comprehensive income KD</i>
SAR	5%	31,872	204,989	16,128	241,667

**17.3.3 Equity price risk**

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the parent company. The equity price risk exposure arises from the group's investment in unquoted financial assets available for sale. The group manages this through diversification of investments in terms of industry concentration. All quoted investments are listed on the Kuwait Stock Exchange.

The effect on equity (as a result of a change in the fair value of financial assets available for sale) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

<i>Market indices</i>	<i>Change in equity price % (+/-)</i>	<i>Effect on other comprehensive income</i>	
		<i>2010 KD</i>	<i>2009 KD</i>
Kuwait	5%	472,044	297,877

Sensitivity to equity price movements will be on symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

**17.4 OPERATIONAL RISK**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

**18 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.

No changes were made in the objectives, policies or processes during the year ended 31 December 2010 and the period ended 31 December 2009. Capital comprises share capital, statutory reserve, cumulative changes in fair values reserve, foreign currency translation reserve, accumulated losses and non-controlling interests, and is measured at KD 15,709,139 (2009: KD 16,044,185).

# Afkar Holding Company K.S.C. (Closed) and Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 19 CONTINGENCIES

At 31 December 2010, there is a commitment in respect of financial assets available for sale for uncalled capital amounting to KD 562,200 (2009: KD 574,600).

### 20 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalent, financial assets available for sale and other assets. Financial liabilities consist of term loan, other liabilities and wakala payable.

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (Note 6), are not materially different from their carrying values. 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.

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

	<i>Level 1</i> <i>KD</i>	<i>Level 2</i> <i>KD</i>	<i>Level 3</i> <i>KD</i>	<i>Total</i> <i>KD</i>
<b>31 December 2010</b>				
<i>Financial assets available for sale:</i>				
Quoted securities	<b>3,724,501</b>	-	-	<b>3,724,501</b>
Unquoted securities	-	-	<b>3,671,501</b>	<b>3,671,501</b>
Unquoted managed funds	-	-	<b>1,556,160</b>	<b>1,556,160</b>
<b>Total</b>	<b>3,724,501</b>	-	<b>5,227,661</b>	<b>8,952,162</b>
<b>31 December 2009</b>				
<i>Financial assets available for sale:</i>				
Quoted securities	507,373	-	-	507,373
Unquoted securities	-	-	3,755,055	3,755,055
Unquoted managed funds	-	-	1,696,837	1,696,837
<b>Total</b>	<b>507,373</b>	-	<b>5,451,892</b>	<b>5,959,265</b>

**20 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets and liabilities which are recorded at fair value.

	<i>At 1 January 2010 KD</i>	<i>Net purchase /disposals KD</i>	<i>Loss recorded in other comprehensive income KD</i>	<i>At 31 December 2010 KD</i>
<i>Financial assets available for sale:</i>				
Unquoted securities	3,755,055	-	(83,554)	3,671,501
Unquoted managed funds	1,696,837	-	(140,677)	1,556,160
<b>Total</b>	<b>5,451,892</b>	<b>-</b>	<b>(224,231)</b>	<b>5,227,661</b>
	<i>At 1 January 2009 KD</i>	<i>Net purchase /disposals KD</i>	<i>Gain recorded in other comprehensive income KD</i>	<i>At 31 December 2009 KD</i>
<i>Financial assets available for sale:</i>				
Unquoted securities	3,707,352	-	47,703	3,755,055
Unquoted managed funds	827,418	431,625	437,794	1,696,837
<b>Total</b>	<b>4,534,770</b>	<b>431,625</b>	<b>485,497</b>	<b>5,451,892</b>

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