

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING)  
AND ITS SUBSIDIARIES  
STATE OF KUWAIT**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
WITH  
INDEPENDENT AUDITORS' REPORT**

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STATE OF KUWAIT

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FOR THE YEAR ENDED DECEMBER 31, 2010  
WITH  
INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

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## INDEPENDENT AUDITORS' REPORT

The Shareholders  
Sokouk Holding Company - K.S.C. (Holding)  
State of Kuwait

### Auditors' report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Sokouk Holding Company - K.S.C. (Holding) (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sokouk Holding Company K.S.C. (Holding) as of December 31, 2010 and of its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 7 to the accompanying consolidated financial statements which describes the uncertainty relating to the amount due from the associate. Our opinion is not qualified in respect of this matter.

Report on other Legal and Regulatory Requirements

Also in our opinion, the consolidated financial statements include the disclosures required by the Commercial Companies Law and the Parent Company's Articles of Association and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Director's Report is in agreement with the Parent Company's books. According to the information available to us, there were no contraventions during the year ended December 31, 2010 of either the Commercial Companies Law or of the Parent Company's Articles of Association which might have materially affected the Group's financial position or results of its operations.

Ali Owaid Rukheyes  
Licence No. 72-A  
Member of the International Group  
of Accounting Firms

Dr. Shuaib A. Shuaib  
Licence No. 33-A  
RSM Albazie & Co.

State of Kuwait  
May 15, 2011

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2010**  
(All amounts are in Kuwaiti Dinars)

<u>ASSETS</u>	Note	2010	2009 (Restated)
Cash on hand and at banks	3	1,337,645	1,369,339
Accounts receivable and other debit balances	4	2,455,875	3,635,009
Sokouk utilization rights	5	5,504,484	7,284,200
Investments in Wakala	6	2,100,191	1,871,748
Due from related parties	7	27,375,429	43,557,520
Investments available for sale	8	9,081,204	9,965,122
Investment in associates	9	12,316,056	17,600,030
Investment property under development	10	13,702,313	16,453,439
Investment in joint venture	11	1,886,878	2,618,041
Property and equipment	12	1,445	31,312
Goodwill		-	1,312,029
Total assets		<u>75,761,520</u>	<u>105,697,789</u>
<u>LIABILITIES AND EQUITY</u>			
Liabilities:			
Accounts payable and other credit balances	13	2,459,264	5,065,518
Due to related parties	7	505,336	3,125,855
Murabaha payables	14	7,442,189	5,850,788
Provision for end of service indemnity	15	98,529	80,613
Total liabilities		<u>10,505,318</u>	<u>14,122,774</u>
Equity:			
Capital	16	100,000,000	100,000,000
Share premium	17	17,500,000	17,500,000
Statutory reserve	18	2,229,106	2,229,106
Voluntary reserve	19	2,229,106	2,229,106
Foreign currency translation adjustments		(55,911)	(9,137)
Cumulative changes in fair value		126,930	196,038
Effect of changes in associates' equity		(513,123)	(260,597)
Accumulated losses		<u>(57,407,995)</u>	<u>(31,405,696)</u>
Equity attributable to parent company's shareholders		<u>64,108,113</u>	<u>90,478,820</u>
Non-controlling interests		1,148,089	1,096,195
Total equity		<u>65,256,202</u>	<u>91,575,015</u>
Total liabilities and equity		<u>75,761,520</u>	<u>105,697,789</u>

The accompanying notes (1) to (34) form an integral part of the consolidated financial statements



Feras Fahad Al Bahar  
Chairman & Chief Executive Officer



Jassem Mohamed Al Duwaikh  
Vice Chairman

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
(All amounts are in Kuwaiti Dinars)

	Note	2010	2009
Other operating income	20	359,607	870,495
Expenses and charges:			
General and administrative	21	(851,580)	(1,040,118)
Depreciation and amortization	12	(5,538)	(36,148)
		<u>(857,118)</u>	<u>(1,076,266)</u>
Operating loss		(497,511)	(205,771)
Net investment (loss) income	22	(785,514)	312,011
Gain from investments in Wakala		123,442	127,882
Group's share of results from associates	9	(4,917,448)	(13,099,318)
Gain on sale of investment in an associate	9	-	8,839
Impairment loss of investment in an associate	9	-	(11,747,142)
Group's share of results from joint venture	11	(675,771)	46,590
Loss from sale of property and equipment		(15,160)	(8,912)
Property and Equipment written-off		-	(17,034)
Finance charges		(576,668)	(587,143)
Provision for doubtful debts	23	(11,516,205)	(2,410,800)
Provision for investment in Wakala	6	-	(2,600,002)
Impairment loss for Sokouk utilization rights	5	(1,821,050)	-
Change in fair value of investment property under development	10	(2,934,692)	-
Impairment loss for goodwill		(1,312,029)	-
Foreign currency exchange (loss) gain		(1,021,799)	1,385,891
Net loss for the year		<u>(25,950,405)</u>	<u>(28,794,909)</u>
Attributable to :			
Parent company's shareholders		(26,002,299)	(28,910,066)
Non-controlling interests		51,894	115,157
Net loss for the year		<u>(25,950,405)</u>	<u>(28,794,909)</u>
		<u>Fils</u>	<u>Fils</u>
Loss per share attributable to the equity holders of the parent company	27	<u>(26.00)</u>	<u>(28.91)</u>

The accompanying notes (1) to (34) form an integral part of the consolidated financial statements

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
 (All amounts are in Kuwaiti Dinars)

	Note	2010	2009
Net loss for the year		(25,950,405)	(28,794,909)
<b>Other comprehensive (loss) income:</b>			
Exchange differences on translating foreign operations		(46,774)	421,401
Investments available for sale	8	(69,108)	196,038
Change in associates' equity	9	(252,526)	549,023
Reversal of foreign currency translation reserve due to sale of investment in an associate		-	32,827
Reversal of change in associate's equity due to sale of investment in an associate		-	14,611
<b>Other comprehensive (loss) income for the year</b>		<b>(368,408)</b>	<b>1,213,900</b>
Total comprehensive loss for the year		<b>(26,318,813)</b>	<b>(27,581,009)</b>
Attributable to :			
Shareholders of the parent company		(26,370,707)	(27,696,166)
Non-controlling interests		51,894	115,157
Total comprehensive loss for the year		<b>(26,318,813)</b>	<b>(27,581,009)</b>

The accompanying notes (1) to (34) form an integral part of the consolidated financial statements

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
 (All amounts are in Kuwaiti Dinars)

	Equity attributable to the parent company's shareholders								Total equity attributable to the parent company's shareholders
	Capital	Share premium	Statutory reserve	Voluntary reserve	Foreign currency translation adjustments	Cumulative changes in fair value	Effect of changes in associates' equity	Accumulated losses	
Balance at December 31, 2008 (Restated)	100,000,000	17,500,000	2,229,106	2,229,106	(463,365)	-	(824,231)	(2,385,246)	118,285,370
Effect of correction of prior period error	-	-	-	-	-	-	-	(110,384)	(110,384)
Adjusted balance at December 31, 2008	100,000,000	17,500,000	2,229,106	2,229,106	(463,365)	196,038	(824,231)	(2,495,630)	118,174,986
Total comprehensive income (loss) for the year	-	-	-	-	454,228	196,038	563,634	(28,910,066)	(27,696,166)
Balance at December 31, 2009	100,000,000	17,500,000	2,229,106	2,229,106	(9,137)	(69,108)	(260,597)	(31,405,696)	90,478,820
Total comprehensive loss for the year	-	-	-	-	(46,774)	(69,108)	(252,526)	(26,002,299)	(26,370,707)
<b>Balance at December 31, 2010</b>	<b>100,000,000</b>	<b>17,500,000</b>	<b>2,229,106</b>	<b>2,229,106</b>	<b>(55,911)</b>	<b>126,930</b>	<b>(513,123)</b>	<b>(57,407,995)</b>	<b>64,108,113</b>

The accompanying notes (1) to (34) form an integral part of the consolidated financial statements



**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
(All amounts are in Kuwaiti Dinars)

	2010	2009
<b>Cash flows from operating activities:</b>		
Net loss for the year	(25,950,405)	(28,794,909)
Adjustments for:		
Depreciation and amortization	5,538	36,148
Loss from sale of property and equipment	15,160	8,912
Property and equipment written off	-	17,034
Dividend income	(29,296)	(68,280)
Realized gain from sale of investments available for sale	-	(243,731)
Impairment loss in value of investments available for sale	814,810	-
Gain from investments in Wakala	(123,442)	(127,882)
Group's share of results from associates	4,917,448	13,099,318
Gain on sale of investment in an associate	-	(8,839)
Impairment loss for investment in an associate	-	11,747,142
Group's share of results from joint venture	675,771	(46,590)
Finance charges	576,668	587,143
Provision for doubtful debts	11,516,205	2,410,800
Impairment loss for Sokouk utilization rights	1,821,050	-
Change in fair value of investment property under development	2,934,692	-
Impairment loss for goodwill	1,312,029	-
Provision for investment in Wakala	-	2,600,002
Provision for end of service indemnity	36,129	50,552
	<u>(1,477,643)</u>	<u>1,266,820</u>
Changes in operating assets and liabilities:		
Accounts receivable and other debit balances	1,137,800	965,505
Due from related parties	4,665,886	832,035
Accounts payable and other credit balances	(2,597,877)	(2,510,523)
Due to related parties	<u>(2,611,901)</u>	<u>(4,418,467)</u>
Cash used in operations	(883,735)	(3,864,630)
Payment for Zakat	(8,377)	(4,695)
Payment for end of service indemnity	<u>(18,213)</u>	<u>(51,094)</u>
Net cash used in operating activities	<u>(910,325)</u>	<u>(3,920,419)</u>
<b>Cash flows from investing activities:</b>		
Net paid for investments in Wakala	(105,001)	(257,572)
Paid for purchase of investments available for sale	-	(24,771)
Proceeds from sale of investments available for sale	-	1,982,573
Dividends received	29,296	68,280
Dividend received from an associate	114,000	-
Proceeds from sale of investment in associates	-	2,315,087
Paid for investment property under development	(183,566)	(2,315,896)
Proceeds from sale of property and equipment	9,169	600
Net cash (used in) generated from investing activities	<u>(136,102)</u>	<u>1,768,301</u>
<b>Cash flows from financing activities:</b>		
Net movement on Murabaha payables	1,014,733	1,210,270
Net cash generated from financing activities	<u>1,014,733</u>	<u>1,210,270</u>
Net decrease in cash on hand and at banks	(31,694)	(941,848)
Cash on hand and at banks at the beginning of the year	1,369,339	2,311,187
Cash on hand and at banks at the end of the year	<u>1,337,645</u>	<u>1,369,339</u>

The accompanying notes (1) to (34) form an integral part of the consolidated financial statements

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

(All amounts are in Kuwaiti Dinars)

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1. Incorporation and activities

Sokouk Holding Company – K.S.C. (Holding) “the parent company”, (previously known as Sokouk Real Estate Development Company – K.S.C. (Closed) and prior before as Al-Wasta Real Estate Development Company – K.S.C. (Closed)), is registered in the State of Kuwait and was incorporated and authenticated at the Ministry of Justice – Real Estate Registration and Authentication Department under Ref. No. 1909/Volume 1 on August 23, 1998 and registered on commercial register under Ref. No. 74323 dated August 29, 1998.

According to the memorandum issued by the Ministry of Commerce and Industry under Ref. No. 259/2005 dated August 29, 2005 and based on the extraordinary General Assembly held on August 28, 2005, it was approved and recorded in the commercial register the following:

1. Amending the 2<sup>nd</sup> item of the article of incorporation and the first item of the company's article of association to be as follows:

The company's name is: Sokouk Holding Company – K.S.C. (Holding).

2. Amending the 5<sup>th</sup> item of the article of incorporation and the 4<sup>th</sup> item of article of association attributable to main activities of the company would be as follows:

1. Ownership of shares of Kuwaiti or foreign shareholding companies or units in Kuwaiti or foreign limited liability companies, or establishing, managing, financing and sponsoring such companies.
2. Financing and sponsoring entities in which the Company has an ownership interest of not less than 20% of those entities.
3. Owning industrial rights such as patents, industrial trademarks, sponsoring foreign companies or any other related industrial rights and leasing such rights for the benefit of companies inside or outside State of Kuwait.
4. Ownership of movable assets or real estates required to pursue the Company's activities within the limits acceptable by law.
5. Utilizing available surplus funds by investing these funds in portfolios managed by specialized parties.

The Company shall have the right to have an interest or to take part in any manner with the authorities that practice similar operations, or that may help the Company to achieve its objectives inside and outside Kuwait. The Company shall also acquire these authorities or merge them with the Company. The objectives for which the Company was established shall be practiced according to Islamic Shari'a, and the Company shall not analyze the above objectives as it allows the Company directly or indirectly to deal in usury in the form of interest or any other form.

The parent company's registered address is P.O. Box 29110 – Safat – Postal code 13152 - State of Kuwait.

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The parent company was listed on Kuwait Stock Exchange on December 27, 2005.

The Group's number of employees is 18 as at December 31, 2010 (2009 - 22 employees).

The consolidated financial statements were authorized for issue by the Board of Directors on May 15, 2011. The shareholders' General Assembly has the power to amend the consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention, except that investments available for sale are stated at their fair value .

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of January 1, 2010.

Revised IFRS 3 Business Combinations (2008)

IFRS 3 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. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

Amended IAS 27 Consolidated and Separate Financial Statements (2008)

IAS 27 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. The changes by IFRS 3 and IAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interest.

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
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IFRIC 17, 'Distribution of non-cash assets to owners' (effective for annual periods beginning on or after on or after 1 July 2009).

The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby a Group distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The amendment did not result in a material impact on the Group's financial statements.

IAS 38 (amendment), 'Intangible Assets'.

The amendment is part of the IASB's annual improvements project published in April 2009 and the Group adopted IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment did not result in a material impact on the Group's financial statements.

IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'.

The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group has applied IFRS 5 (amendment) from January 1, 2010. It did not have a material impact on the Group's financial statements.

IAS 1 (amendment), 'Presentation of financial statements'.

The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the Group has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the Group could be required by the counterparty to settle in shares at any time. The Group has applied IAS 1 (amendment) from January 1, 2010. It did not have a material impact on the Group's financial statements.

IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'.

In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance did not have a material impact on the Group's financial statements.

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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IAS 7 Statement of Cash Flows:

The amendment is part of the IASB's annual improvements project published in April 2009. The amendment explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(u).

Standards and Interpretations issued but not effective

The following IASB Standard and Interpretation have been issued but are not yet effective, and have not yet been adopted by the Group:

IFRS 9 Financial Instruments:

The standard, which will be effective for annual periods beginning on or after January 1, 2013, specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified entirely based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories

Others

Amendments to IFRS 7 Disclosures  
IAS 24(revised in 2009)  
Amendments to IAS 32  
Amendments to IFRIC 14  
IFRIC 19

Transfers of Financials Assets  
Related Party Disclosures  
Classification of Rights Issues  
Prepayments of a Minimum Funding Requirement  
Extinguishing Financial Liabilities with Equity  
Instruments

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of Sokouk Holding Company - K.S.C. (Holding) and the following subsidiaries:

Subsidiaries	Country of incorporation	Percentage of holding %	
		2010	2009
Gulf Real Estate Development House Co. K.S.C. (Closed)	Kuwait	75	75
Sokouk Investment Advisory Co.	Cayman Island	100	100
Sokouk Real Estate Co.- K.S.C. (Closed)	Kuwait	100	100
Gulf Money House for Money Collection - W.L.L.	Kuwait	100	100
Sokouk Al Aqlemiya Trading Co.-W.L.L.	Kuwait	100	100
Sokouk Al Arabia Trading Co.-W.L.L.	Kuwait	100	100
Sokouk Al Oula Trading Co.-W.L.L.	Kuwait	100	100
Sokouk Al Kuwaitia Trading Co.-W.L.L.	Kuwait	100	100
Sokouk Al Islamia Trading Co.-W.L.L.	Kuwait	100	100

The consolidated financial statements includes also the financial statements of the following joint venture:

Joint venture	Country of incorporation	Percentage of holding %	
		2010	2009
Joint Venture Al-Salmiya Hotel Project	Kuwait	74.25	74.25

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the Non-controlling shareholder's share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

**SOKOUK HOLDING COMPANY - K.S.C. (HOLDING) AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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(All amounts are in Kuwaiti Dinars)

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A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to profit or loss.

c) Accounts receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective yield method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective yield rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of income.

d) Sokouk utilization rights

Sokouk utilization rights represent Sokouks that are held by the group either for trading purposes or to keep as long term investment, and are stated at cost less impairment loss in value (if any).

e) Wakala

Wakala represents an agreement whereby the Group gives certain amount of cash to another party to be invested according to specific conditions in return for certain fee. Investments in Wakala is stated at amortized cost using the effective yield method.

f) Investments

The Group classifies its investments in the following category: available for sale investments. The classification depends on the purpose for which the investment was acquired and is determined at initial recognition by the management.

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- Investments available for sale

Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the consolidated statement of financial position date.

Purchases and sales of investments are recognized on settlement date – the date on which an asset is delivered to or by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement.

After initial recognition, investments available for sale are subsequently carried at fair value. The fair values of quoted investments are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Unrealized gains and losses arising from changes in the fair value of investments available for sale are recognized in cumulative changes in fair value in the consolidated statement of comprehensive income.

Where investments available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When investments available for sale are disposed off or impaired, any prior fair value earlier reported in the other comprehensive income are transferred to the consolidated statement of income.

An investment (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the investment have expired; or the Group has transferred its rights to receive cash flows from the investment and either:

- (a) has transferred substantially all the risks and rewards of ownership of the investment, or
- (b) has neither transferred nor retained substantially all the risks and rewards of the investment, but has transferred control of the investment. Where the Group has retained control, it shall continue to recognize the investment to the extent of its continuing involvement in the investment.



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The Group assesses at each reporting period date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as investments available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for investments available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those investments previously recognized in the consolidated statement of comprehensive income – is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on available for sale equity instruments are not reversed through the consolidated statement of income.

g) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policy decisions. The consolidated financial statements include the Group's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of income.

h) Investment property under development

All projects costs are included in the capital work in progress till the date of its completion and preparation to be ready for use, at which date, it is reclassified as investment properties or fixed assets according to the intention of the Group's management.

i) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where a Group undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group reports its interests in jointly controlled entities using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investment.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of an associate.

Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

j) Property and equipment

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

Depreciation is computed on a straight-line basis over the estimated useful lives of these property and equipment as follows:

	<u>Years</u>
Furniture and fixtures	5
Computer equipment & softwares	3
Office equipment	3

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

k) Impairment of tangible and intangible assets excluding goodwill

At each date of the consolidated statement of financial position, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment losses is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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l) Goodwill

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investment in associates' in note 2(g).

Where there is an excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, the Group is required to reassess the identification and measurement of the net identifiable assets and measurement of the cost of the acquisition and recognize immediately in the consolidated statement of income any excess remaining after that re-measurement.

m) Accounts payable

Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective yield method.

n) Financial instruments

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash on hand and at banks, investments in wakala, receivables, due from related parties, investments available for sale, payables, due to related parties and murabaha payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

o) Provision for end of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the consolidated statement of financial position date and approximates the present value of the final obligation.

p) Share capital

Ordinary shares are classified as equity.

q) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of Sokouk and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

**Gain from investments in Wakala**

Gain from investment in Wakala is accounted for on a time proportion basis.

**Dividend income**

Dividend income is recognized when the group's right to receive payments is established.

**Gain on sale of investments**

Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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s) Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the end of the reporting period are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated statement of income for the period. Translation differences on non-monetary items such as equity investments which are classified as investments at fair value through income statement are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity investments classified as investments available for sale financial assets are included in "cumulative changes in fair value" in the consolidated statement of comprehensive income.

t) Contingencies

Contingent liabilities are not recognized but disclosed in the consolidated financial statements except when the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

u) Critical accounting judgments, estimates and assumptions

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

**Judgments**

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

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- (ii) Provision for doubtful debts  
The determination of the recoverability of the amount due from customers and the factors determining the impairment of the receivable involve significant judgment.

- (iii) Classification of investments  
On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at inception, provided their fair values can be reliably estimated. All other investments are classified as "available for sale".

- (iv) Impairment of investments  
The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, a significant or prolonged decline in the fair value below its cost; and the financial health of and short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The determination of what is "significant" or "prolonged" requires significant judgment.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimating uncertainty at the consolidated statement of financial position 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.

- (i) Fair value of unquoted equity investments  
If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.
- (ii) 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 asset or the cash-generating unit to which the goodwill is allocated. Estimating a value in use requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present-value of the cash-flows.

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(iii) Provision for doubtful debts

The extent of provision for doubtful debts involves estimation process. Provision for doubtful debts is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable are subject to management approval.

(iv) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

3. Cash on hand and at banks

	<u>2010</u>	<u>2009</u>
Cash on hand	528	522
Cash at portfolio manager	1,559	39,075
Cash at banks	1,335,558	1,329,742
	<u>1,337,645</u>	<u>1,369,339</u>

4. Accounts receivable and other debit balances

	<u>2010</u>	<u>2009</u> (Restated)
Trade receivables(a)	2,813,960	3,967,983
Less: Provision for doubtful debts (b)	(1,647,222)	(1,647,222)
	1,166,738	2,320,761
Staff receivables	5,204	4,258
Advance payments to contractors	328,586	329,402
Prepaid expenses	36,026	39,736
Accrued income	3,109	20,049
Refundable deposits	11,823	-
Other receivables	904,389	920,803
	<u>2,455,875</u>	<u>3,635,009</u>

The fair value of accounts receivable and other debit balances approximated their carrying value as at December 31, 2010.



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**a) Trade receivables**

Trade receivables that are less than a year past due are not considered impaired. As of December 31, 2010, trade receivables amounting to KD 218,738 (2009 - KD 159,818) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

	<u>2010</u>	<u>2009</u> (Restated)
1 to 6 months	107,015	74,621
7 to 12 months	96,219	324,648
Over 1 year	1,865,960	1,807,040
	<u>2,069,194</u>	<u>2,206,309</u>

As of December 31, 2010, trade receivables amounting to Nil (2009 - KD 600,000) were impaired and provided for. The amount of the provision was Nil as of December 31, 2010 (2009 - KD 1,647,222). The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations.

**b) Provision for doubtful debts**

The movement of the provision for doubtful debts accounts were as follows:

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	1,647,222	1,047,222
Provision for the year	-	600,000
Balance at the end of the year	<u>1,647,222</u>	<u>1,647,222</u>

Provisions, written off as uncollectible receivables and utilization of the provision for doubtful debts are included in the consolidated statement of income.

c) The other classes within accounts receivable and other debit balances do not contain impaired assets. The maximum exposure to credit risk at the date of consolidated financial statements is the fair value of each class of receivable mentioned above.

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Trade receivables are represented as follows:

<b><u>Current:</u></b>	<b>2010</b>	<b>2009</b> <b>(Restated)</b>
Trade receivables	<u>2,578,709</u>	2,315,823
Deferred profit	<u>(66,384)</u>	(198,017)
	<u>2,512,325</u>	<u>2,117,806</u>
<b><u>Non current:</u></b>		
Trade receivables	<u>334,993</u>	1,937,452
Deferred profit	<u>(33,358)</u>	(87,275)
	<u>301,635</u>	<u>1,850,177</u>
	<u>2,813,960</u>	<u>3,967,983</u>

The group preserves the deeds of the utilization rights that had been sold, as a guarantee of related amounts, and the deed is not transferred in the name of the buyer, until the settlement of the total amount.

5. Sokouk utilization rights

Sokouk utilization rights represent the subsidiary company's ownership of real estate sokouk related to Al-Qibla Tower (under development) in the Kingdom of Saudi Arabia. Sokouk are a certificate or deed that entitles its holder the right to utilize a specific real estate property for a specific duration of time per year over a determined number of years. This right is wholly owned by the Sokouk investor who is entitled to sell, grant, inherit or invest the Sokouk.

The movement during the year was as follows:

	<b>2010</b>	<b>2009</b>
Balance at the beginning of the year	<u>7,284,200</u>	7,284,200
Additions during the year	<u>41,334</u>	-
Impairment loss in value	<u>(1,821,050)</u>	-
Balance at the end of the year	<u>5,504,484</u>	<u>7,284,200</u>

6. Investments in Wakala

Investments in Wakala represent a Wakala investment contract with Kuwaiti Financial Institutions – related parties. Investments in Wakala earns an average variable rate of return from 6.5% to 7% (2009 – 8.5%) per annum.

Investments in Wakala are presented as follows:

	<b>2010</b>	<b>2009</b>
<b><u>Current:</u></b>		
Investments in Wakala	<u>5,408,138</u>	5,179,695
Provision for investment in Wakala	<u>(3,307,947)</u>	(3,307,947)
	<u>2,100,191</u>	<u>1,871,748</u>

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7. Related party balances and transactions

The Group has entered into various transactions with related parties, i.e. shareholders, key management personnel, associates, joint ventures and other related parties in the normal course of its business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. Significant related parties transactions and balances are as follows:

<u>Balances included in the consolidated statement of financial position:</u>	<u>2010</u>	<u>2009</u>
<b><u>Due from related parties</u></b>		
Due from associates	39,756,740	43,823,870
Due from joint ventures	470,460	977,516
Due from companies under common control	475,234	566,934
Provision for doubtful debts	<u>(13,327,005)</u>	<u>(1,810,800)</u>
Total due from related parties	<u>27,375,429</u>	<u>43,557,520</u>
Cash with portfolio manager	1,559	39,075
Investment available for sale managed by related parties	1,921,609	1,988,725
Investments in Wakala	2,100,191	1,871,748
<b><u>Due to related parties</u></b>		
Due to principal shareholders	505,336	361,935
Due to companies under common control	-	2,763,920
Total due to related parties	<u>505,336</u>	<u>3,125,855</u>
Murabaha payables	7,443,279	5,850,788

**Consolidated statement of financial position**

	<u>Current</u>	<u>Non current</u>	<u>2010</u>	<u>2009</u>
Due from related parties:				
Balance due	3,111,618	37,590,816	40,702,434	45,368,320
Provision for doubtful debts	-	<u>(13,327,005)</u>	<u>(13,327,005)</u>	<u>(1,810,800)</u>
Net due from related parties	<u>3,111,618</u>	<u>24,263,811</u>	<u>27,375,429</u>	<u>43,557,520</u>
Due to related parties	<u>505,336</u>	<u>-</u>	<u>505,336</u>	<u>3,125,855</u>

Due from / to related parties mainly result from purchase and sale of Sokouk utilization rights and investments.

Due from related parties includes an amount of USD 158,284,538 including a deferred revenue of USD 25,008,826, receivable from Munshaat Real Estate Company – K.S.C. (Closed) – associate - payable in five equal annual installments of USD 31,656,908 starting from January 1, 2010 up to January 1, 2014.

Due to Munshaat Real Estate Company – K.S.C. (Closed) inherent uncertainty relating to going concern (Note 9), during the year 2010, making a provision of KD 11,516,205 (2009 – KD 1,810,800). The total amount of the provision as at December 31, 2010 amounting to KD 13,327,005.

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	<u>2010</u>	<u>2009</u>
<b>Transactions included in the consolidated statement of income:</b>		
Other operating income	227,731	351,588
General and administrative expenses	(50,220)	-
Gain from investments in Wakala	123,442	127,882
Foreign currency exchange (loss) gain	(807,109)	1,331,080
Finance charges	(576,668)	(587,143)

	<u>2010</u>	<u>2009</u>
<b>Compensation to key management personnel:</b>		
Short term benefits	236,006	175,371
Termination benefits	20,888	15,227
	<u>256,894</u>	<u>190,598</u>

8. Investments available for sale

	<u>2010</u>	<u>2009</u>
<b>Quoted:</b>		
Investments in funds & portfolios	2,055,038	2,010,460
<b>Unquoted:</b>		
Equity securities	7,026,166	7,954,662
	<u>9,081,204</u>	<u>9,965,122</u>

Quoted securities available for sale include investments reclassified from investments held for trading amounting to KD 754,200 (2009 – KD 963,699).

Cumulative changes in fair value accounted in the statement of other comprehensive income as at December 31, 2010 amounted to KD (209,498) (2009 – KD 74,682).

The movement during the year is as follows:

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	9,965,122	5,978,746
Additions	-	24,771
Disposals	-	(1,738,842)
Transferred from investment in associates	-	5,504,409
Changes in fair value	(69,108)	196,038
Impairment loss in value	(814,810)	-
Balance at the end of the year	<u>9,081,204</u>	<u>9,965,122</u>

It was not possible to reliably measure the fair value of unquoted investments amounting to KD 7,026,166 (December 31, 2009 – KD 7,988,297) due to non-availability of a reliable method that could be used to determine the fair value of such investments. Accordingly, they were stated at their cost less impairment losses.

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Investments available for sale are denominated in the following currencies:

<u>Currency</u>	<u>2010</u>	<u>2009</u>
US Dollar	<b>6,221,420</b>	6,932,451
KD Dinar	<b>2,840,043</b>	3,010,934
EGP	<b>19,741</b>	21,737
	<b><u>9,081,204</u></b>	<u>9,965,122</u>

9. Investment in associates

The investment in associates consists of the following:

<u>Name of the associate</u>	<u>Country of Incorporation</u>	<u>Principal activities</u>	<u>Ownership percentage %</u>		<u>2010</u>	<u>2009</u>
			<u>2010</u>	<u>2009</u>		
Munshaat Real Estate Projects Company- K.S.C. (Closed)	Kuwait	Real estate	<b>27.67</b>	27.67	<b>10,932,044</b>	16,491,932
Mas Holding Company-K.S.C.	Kuwait	General trading	<b>40</b>	40	<b>1,384,012</b>	1,108,098
					<b><u>12,316,056</u></b>	<u>17,600,030</u>

The movement during the year was as follows:

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	<b>17,600,030</b>	49,346,631
Disposal of associates	-	(2,258,811)
Group's share of results from associates	<b>(4,917,448)</b>	(13,099,318)
Change in associates' equity	<b>(56,857)</b>	549,023
Change in associates' equity from prior year restatement	<b>(195,669)</b>	-
Dividend received from an associate	<b>(114,000)</b>	-
Foreign currency translation adjustments	-	314,056
Provision for impairment in value	-	(11,747,142)
Transferred to investments available for sale	-	(5,504,409)
Balance at the end of the year	<b><u>12,316,056</u></b>	<u>17,600,030</u>

The market value of the Investment in Munshaat Real Estate Projects Company – K.S.C. (Closed) at the consolidated statement of financial position date is KD 3,073,052 (2009 – KD 7,662,106).

The auditors' report for the consolidated financial statements of Munshaat Real Estate Projects Company – K.S.C. (Closed) for the year ended December 31, 2010 included an emphasis of matter relating to inherent uncertainty regarding continuation of going concern as follows:

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"The consolidated financial statements which indicates that the associate made a loss of KD 18,915,506 for the year ended December 31, 2010 and at that date has accumulated losses amounting to KD 17,175,729 and that the associate's current liabilities exceeded its current assets by KD 109,544,134 (2009 - KD 26,916,841). The associate is actively engaged with its lenders to restructure its entire debt obligations due to the default on the repayment of certain debt obligations and also the associate has agreed with the parent company, whose debt has been defaulted, for not pursue the collection of its outstanding dues until the associate completes the restructuring and rescheduling process."

The aggregate assets, liabilities, net assets, revenues and results of the following associates as of December 31, 2010 are as follows:

Name of the associate	Assets		Liabilities		Net Assets	
	2010	2009	2010	2009	2010	2009
Munshaat Real Estate Projects Company-K.S.C.(Closed)	210,719,596	225,861,324	169,847,926	164,996,468	40,871,670	60,864,856
MAS Holding Company - K.S.C.	13,577,127	14,980,155	9,897,411	11,922,835	3,679,716	3,057,320
	<u>224,296,723</u>	<u>240,841,479</u>	<u>179,745,337</u>	<u>176,919,303</u>	<u>44,551,386</u>	<u>63,922,176</u>

Name of the associate	Revenues		Results	
	2010	2009	2010	2009
Munshaat Real Estate Projects Company-K.S.C.(Closed)	13,890,166	7,940,937	(19,224,231)	(44,271,414)
MAS Holding Company - K.S.C.	3,538,438	3,451,765	1,004,266	772,008
	<u>17,428,604</u>	<u>11,392,702</u>	<u>(18,219,965)</u>	<u>(43,499,406)</u>

10. Investment property under development

	2010	2009
Balance at the beginning of the year	16,453,439	14,137,543
Additions during the year	183,566	2,315,896
Change in fair value	(2,934,692)	-
Balance at the end of the year	<u>13,702,313</u>	<u>16,453,439</u>

Borrowing cost amounting to KD 123,442 (2009 - KD 368,750) using a capitalization rate between 6% and 7.5% (2009 - 7% and 7.5%) had been capitalized.

11. Investment in Joint Venture

The investment in joint venture consists of the following:

Name of the joint venture	Country of Incorporation	Ownership Percentage		2010	2009
		2010	2009		
Joint Venture - Qitaf GCC	Kuwait	17.15	17.15	<u>1,886,878</u>	<u>2,618,041</u>

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The movement during the year was as follows:

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	2,618,041	2,474,608
Group's share of results from joint venture	(675,771)	46,590
Foreign currency translation adjustments	(55,392)	96,843
Balance at the end of the year	<u>1,886,878</u>	<u>2,618,041</u>

The aggregate assets, liabilities, net assets, revenues and results of the following Joint Venture as of December 31, 2010 are as follows:

Name of the joint venture	Assets		Liabilities		Net Assets	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Joint Venture – Qitaf GCC	13,489,639	18,050,478	2,487,431	2,777,804	11,002,208	15,272,674
	<u>13,489,639</u>	<u>18,050,478</u>	<u>2,487,431</u>	<u>2,777,804</u>	<u>11,002,208</u>	<u>15,272,674</u>

Name of the joint venture	Revenue		Results	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Joint Venture – Qitaf GCC	565,753	716,795	(3,940,354)	271,662
	<u>565,753</u>	<u>716,795</u>	<u>(3,940,354)</u>	<u>271,662</u>

**12. Property and equipment**

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	31,312	93,214
Disposals	(46,642)	(8,720)
Depreciation – related to disposals	22,313	-
Depreciation	(5,538)	(36,148)
Write-off	-	(17,034)
Balance at the end of the year	<u>1,445</u>	<u>31,312</u>

**13. Accounts payable and other credit balances**

	<u>2010</u>	<u>2009</u>
Due to contractors	1,454,500	1,582,704
Retention	619,476	618,659
Accrued staff leave	63,961	48,352
Excess capital increase payable	2,419	2,419
Other accrued expenses	17,221	18,332
Dividends payable	19,397	23,777
Zakat Payable	2,092	5,524
KFAS payable	6,130	4,226
Other payables	274,068	2,761,525
	<u>2,459,264</u>	<u>5,065,518</u>

There is no material difference between the fair value and the book value of accounts payable and other credit balances.

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14. Murabaha payables

The balance of Murabaha payables represent payments received from Islamic Financing Company – Related parties. Murabaha payables carry an annual average charge from 5% to 7.5% (2009 – 5% to 9%).

	<u>2010</u>	<u>2009</u>
Murabaha payables	7,587,173	6,080,369
Deferred expenses	(144,984)	(229,581)
	<u>7,442,189</u>	<u>5,850,788</u>

Murabaha payables are presented as follows:

	<u>2010</u>	<u>2009</u>
<b>Current:</b>		
Murabaha payables	<u>7,442,189</u>	<u>5,850,788</u>
	<u>7,442,189</u>	<u>5,850,788</u>

15. Provision for end of service indemnity

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	80,613	81,155
Charge for the year	36,129	50,552
Paid during the year	(18,213)	(51,094)
Balance at the end of the year	<u>98,529</u>	<u>80,613</u>

16. Capital

Authorized, issued and fully paid-up capital consist of 1,000,000,000 shares (2009 - 1,000,000,000 shares) of 100 fils each and all shares are in cash.

17. Share premium

This represents cash received in excess of the par value of the shares issued. Based on the capital increase approved by the ordinary shareholders' general assembly meeting held on September 30, 2007 and the extra ordinary shareholders' general assembly meeting held on October 22, 2007, the share premium amounted to KD 17,500,000. The share premium is not distributable except under specific circumstances as provided in Kuwait Commercial Companies Law.



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18. Statutory reserve

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association. No statutory reserve has been provided for the year ended December 31, 2010 due to group's losses incurred during the year.

19. Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. No voluntary reserve has been provided for the year ended December 31, 2010 due to group's losses incurred during the year.

20. Other operating income

	<u>2010</u>	<u>2009</u>
Gain from financing activities	128,501	413,069
Income from consulting services	-	258,888
Management fees	227,731	92,700
Others	3,375	105,838
	<u>359,607</u>	<u>870,495</u>

21. General and administrative expenses

	<u>2010</u>	<u>2009</u>
Salaries and wages	329,562	448,806
Bonus	1,100	6,700
Other employees' benefits and allowances	114,397	140,672
Other general and administrative expenses	406,521	443,940
	<u>851,580</u>	<u>1,040,118</u>

22. Net investment (loss) income

	<u>2010</u>	<u>2009</u>
Dividend income	29,296	68,280
Realized gain from sale of investments available for sale	-	243,731
Impairment loss in value of investment available for sale	(814,810)	-
	<u>(785,514)</u>	<u>312,011</u>

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23. Provision for doubtful debts

	<u>2010</u>	<u>2009</u>
Provision for trade receivables	-	600,000
Provision for due from related party	<u>11,516,205</u>	<u>1,810,800</u>
	<u>11,516,205</u>	<u>2,410,800</u>

24. Contribution to Zakat

Contribution to Zakat is calculated at 1% of the profit of the Parent Company after deducting its share of income from shareholding subsidiaries and associates in accordance with Ministry of Finance resolution No. 58/2007 effective December 10, 2007.

Contribution to Zakat has not been calculated for the year ended December 31, 2010 due to the group's losses incurred during the year.

25. Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit of the Parent Company after deducting its share of income from shareholding subsidiaries and associates and transfer to statutory reserve.

Contribution to KFAS has not been calculated for the year ended December 31, 2010 due to the group's losses incurred during the year.

26. National Labor Support Tax

National Labor Support Tax is calculated at 2.5% of the profit of the Parent Company after deducting its share of income from listed shareholding subsidiaries and associates and dividends from Kuwaiti listed shareholding companies.

National Labor Support Tax has not been calculated for the year ended December 31, 2010 due to the Group's losses incurred during the year.

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27. Loss per share

There are no potential dilutive ordinary shares. The information necessary to calculate basic loss per share based on the weighted average number of shares outstanding during the year was as follows:

	<u>2010</u>	<u>2009</u>
Net loss for the year attributable to equity holders of the parent company	<u>(26,002,299)</u>	<u>(28,910,066)</u>
	<u>Shares</u>	<u>Shares</u>
<u>Number of shares outstanding:</u>		
Number of issued shares at the beginning of the year	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Weighted average number of shares outstanding	<u>1,000,000,000</u>	<u>1,000,000,000</u>
	<u>Fils</u>	<u>Fils</u>
Loss per share	<u>(26.00)</u>	<u>(28.91)</u>

28. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash on hand and at banks, investments in wakala, receivables, due from related parties, investments available for sale, payables and murabaha payables and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

**a) Rate of return risk**

Financial instruments are subject to the risk of changes in value due to changes in the level of rate of return. The effective rate of return and the periods in which rate of return bearing financial assets and liabilities are repriced or mature are indicated in the respective notes. Currently the group has no exposure to such risk.

**b) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of receivables and investments in wakala. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of receivables, due from related parties, investments in wakala.

**c) Foreign currency risk**

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

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The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between USD, AED, SAR, QAR and Kuwaiti Dinar.

Year	Increase / (Decrease) against KD	Effect on consolidated statement of income	Effect on other comprehensive income
<b>2010</b>			
USD	±5%	±2,084,554	±104,185
AED	±5%	±1,719	-
SAR	±5%	±519	-
QAR	±5%	±306	-
<b>2009</b>			
USD	±5%	± 1,978,114	±420,008
AED	±5%	±3,508	-
SAR	±5%	±2,124	-
QAR	±5%	±75	-

**d) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in investments that are readily realizable.

**Maturity Table for financial liabilities**

**2010**

<u>Financial Liabilities</u>	<u>1 month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-3 years</u>	<u>Total</u>
Accounts payable and other credit balances	170,305	1,767,573	110,753	410,633	2,459,264
Due to related parties	-	-	505,336	-	505,336
Murabaha payables	2,099,886	141,933	5,200,370	-	7,442,189
<b>Total</b>	<b>2,270,191</b>	<b>1,909,506</b>	<b>5,816,459</b>	<b>410,633</b>	<b>10,406,789</b>

**2009**

<u>Financial Liabilities</u>	<u>1 month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-3 years</u>	<u>Total</u>
Accounts payable and other credit balances	2,509,913	1,870,108	353,087	332,410	5,065,518
Due to related parties	-	-	3,125,855	-	3,125,855
Murabaha payables	78,544	158,138	5,614,106	-	5,850,788
<b>Total</b>	<b>2,588,457</b>	<b>2,028,246</b>	<b>9,093,048</b>	<b>332,410</b>	<b>14,042,161</b>

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**e) Equity price risk**

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in equity securities classified as 'available for sale'.

The following table demonstrates the sensitivity to a reasonably possible change in equity indices as a result of change in the fair value of these investments, to which the Group had significant exposure at December 31, 2010:

	2010		2009	
	Change in equity price %	Effect on other comprehensive income	Change in equity price %	Effect on other comprehensive income
Funds	±5	±102,752	±5	±100,522

**Fair value of financial instruments**

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from current bid prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their carrying amounts, except that it was not possible to reliably measure the fair value of unquoted available-for-sale investments as indicated in Note 8.

Effective January 1, 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy: Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1). Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2). Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the group's financial assets that are measured at fair value at 31 December 2010.

	Level 1	
	2010	2009
Investments available for sale	2,055,038	2,010,480

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily traded equity investments classified as trading securities or available-for-sale.

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The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

**29. Capital risk management**

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stockholders and to maintain an optimal capital resources structure to reduce the cost of capital. In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash on hand and at banks. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

For the purpose of capital risk management, the total capital resources consist of the following components:

	<b>2010</b>	<b>2009</b> <b>(Restated)</b>
Murabaha Payables	<u>7,442,189</u>	<u>5,850,788</u>
Less : cash on hand and at banks	<u>(1,337,645)</u>	<u>(1,369,339)</u>
Net debt	<b>6,104,544</b>	<b>4,481,449</b>
Total equity	<u>65,256,202</u>	<u>91,575,015</u>
<b>Total capital resources</b>	<u><b>71,360,746</b></u>	<u><b>96,056,464</b></u>
<b>Gearing ratio</b>	<u><b>8.56%</b></u>	<u><b>4.67%</b></u>

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30. Capital commitments and contingent liabilities

The Group had capital commitments in respect of future capital expenditure related to the construction of a hotel in a joint venture and capital commitments in respect of construction cost in an associate, and contingent liabilities in respect of bank guaranties in an associate as follows:

	<u>2010</u>	<u>2009</u>
Capital commitments	<b>3,470,320</b>	3,526,141
Contingent liabilities	<b>7,181</b>	23,838
	<b><u>3,477,501</u></b>	<b><u>3,549,979</u></b>

31. General assembly

The Shareholders' General Assembly held on May 17, 2010 approved non-distribution of dividends for the year ended December 31, 2009.

32. Proposed dividend and bonus shares

The Board of Directors did not propose cash dividends or bonus shares for the year ended December 31, 2010. This proposal is subject to the approval of the shareholders' General Assembly.

33. Correction of prior year error

During 2007, the Group had recognized excess revenue in other operating income amounting to KD 110,384. Reversal accumulated losses has been increased and accounts receivable and other debit balances have been reduced during the year 2010 by the same amount.

34. Comparative figures

Certain of the prior year amounts have been reclassified to conform with the current year presentation.