

**UNITED PROJECTS COMPANY FOR  
AVIATION SERVICES K.S.C. (CLOSED)  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2007**

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C. (CLOSED)

We have audited the accompanying consolidated financial statements of United Projects Company for Aviation Services K.S.C. (Closed) ('the parent company') and its subsidiaries ('the group'), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' Responsibility for the Consolidated Financial Statements

The directors of the parent company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for 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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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C. (CLOSED)  
(continued)**

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out, and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the parent company or on its financial position.

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

  
DR. SAUD AL HUMAIDI  
LICENCE NO. 51 A  
AL-HUMAIIDI & PARTNERS  
INDEPENDENT MEMBER OF BAKER  
TILLY INTERNATIONAL

10 February 2008

Kuwait

United Projects Company For Aviation Services K.S.C.(Closed) and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year 31 December 2007

	<i>Notes</i>	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Revenues		6,602,145	6,089,512
Operating costs		<u>(2,170,455)</u>	<u>(2,025,351)</u>
<b>GROSS PROFIT</b>		<b>4,431,690</b>	<b>4,064,161</b>
Realised gain (loss) on sale of available for sale investments		3,847,464	(649,824)
Gain on part sale of a subsidiary	10	1,798,920	-
Interest income		562,911	37,346
Share of results of associates	8	(3,068)	2,553
Dividend income		18,703	131,610
Other income		182,515	833,734
Impairment loss on investment in associates	8	(250,000)	-
Distribution costs		(285,133)	(317,906)
General and administrative expenses		(1,289,496)	(799,375)
Depreciation		(36,817)	(40,750)
Finance costs		<u>(409,584)</u>	<u>(560,350)</u>
<b>PROFIT FOR THE YEAR BEFORE BOARD OF DIRECTORS' REMUNERATION, ZAKAT, CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES AND NATIONAL LABOUR SUPPORT TAX</b>		<b>8,568,105</b>	<b>2,701,199</b>
Board of directors' remuneration		(50,000)	(30,000)
Zakat		(5,234)	-
Contribution to Kuwait Foundation for the Advancement Of Sciences		(77,125)	(24,308)
National Labour Support Tax		<u>(213,682)</u>	<u>(64,233)</u>
<b>PROFIT FOR THE YEAR</b>	<b>3</b>	<b><u>8,222,064</u></b>	<b><u>2,582,658</u></b>
Attributable to:			
Equity holders of the parent company		8,219,955	2,582,400
Minority interests		<u>2,109</u>	<u>258</u>
		<b><u>8,222,064</u></b>	<b><u>2,582,658</u></b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>4</b>	<b><u>100.64 fils</u></b>	<b><u>31.37 fils</u></b>


The attached notes 1 to 27 form part of these consolidated financial statements.

# United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 KD	2006 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Projects under construction	5	15,680,182	7,415,713
Property and equipment	6	101,082	123,410
Intangible assets	7	14,659,410	15,564,793
Investments in associates	8	1,199,485	727,553
Available for sale investments	9	8,115,209	8,780,258
Goodwill	10	149,381	-
		<u>39,904,749</u>	<u>32,611,727</u>
<b>Current assets</b>			
Inventories		108,097	72,782
Receivables and other debit balances	11	501,460	4,882,491
Due from related parties	20	4,101	345,411
Cash and cash equivalents	12	2,429,691	214,391
		<u>3,043,349</u>	<u>5,515,075</u>
<b>TOTAL ASSETS</b>		<u><u>42,948,098</u></u>	<u><u>38,126,802</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	8,250,000	7,500,000
Share premium	13	10,500,000	10,500,000
Statutory reserve	14	1,456,658	600,058
Voluntary reserve	15	1,456,658	600,058
Treasury shares	16	(719,206)	(147,150)
Treasury shares reserve		3,156	-
Cumulative changes in fair values		810,144	(262,161)
Retained earnings		8,893,139	3,878,384
<b>Equity attributable to equity holders of the parent company</b>		<u>30,650,549</u>	<u>22,669,189</u>
Minority interests		1,777,592	302,392
<b>Total equity</b>		<u>32,428,141</u>	<u>22,971,581</u>
<b>Non-current liabilities</b>			
Term loans	17	4,800,000	5,580,000
Employees' end of service benefits	18	193,595	173,160
		<u>4,993,595</u>	<u>5,753,160</u>
<b>Current liabilities</b>			
Term loans	17	200,000	6,400,000
Due to related parties	20	60,130	68,032
Accounts payable and other credit balances	19	5,266,232	2,934,029
		<u>5,526,362</u>	<u>9,402,061</u>
<b>Total liabilities</b>		<u>10,519,957</u>	<u>15,155,221</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>42,948,098</u></u>	<u><u>38,126,802</u></u>

  
Majed Essa Al Ajeel  
Chairman

  
Faisal Mansour Sarkhoo  
Board Member

The attached notes 1 to 27 form part of these consolidated financial statements.

United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 KD	2006 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year attributable to equity shareholders of the parent company		8,219,955	2,582,400
Adjustments for:			
Depreciation and amortisation		1,017,393	1,017,380
Loss on sale on property and equipment		97	-
Share of results of associates	8	3,068	(2,553)
Provision for employees' end of service benefits	18	56,864	75,430
Realised (gain) loss on sale of available for sale investments		(3,847,464)	649,824
Impairment loss on investments in associates		250,000	-
Gain on part sale of a subsidiary		(1,798,920)	-
Finance costs		409,584	560,350
Interest income		(562,911)	(37,346)
Dividend income		(18,703)	(131,610)
		<u>3,728,963</u>	<u>4,713,875</u>
Changes in operating assets and liabilities:			
Inventories		(35,315)	(8,313)
Receivables and other debit balances		4,381,031	(4,644,123)
Due from related parties		341,310	(273,998)
Due to related parties		(7,902)	(373,361)
Accounts payable and other credit balances		2,485,827	85,322
Cash from (used in) operations		10,893,914	(500,598)
Employees' end of service benefits paid	18	(36,429)	(3,502)
Net cash from (used in) operating activities		<u>10,857,485</u>	<u>(504,100)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of available for sale investments		(14,138,263)	(10,479,747)
Proceeds from sale of available for sale investments		19,723,081	3,848,099
Additions to project under construction	5	(8,264,469)	(6,337,635)
Purchase of property and equipment	6	(15,037)	(27,997)
Proceeds on sale of property and equipment		451	-
Investment in associates		(725,000)	(625,000)
Interest income received		562,911	37,346
Dividend income received		18,703	131,610
Proceeds from part sale of a subsidiary	10	3,443,999	-
Payment for acquiring additional shares in a subsidiary	10	(350,000)	-
Additions to intangible assets	7	(75,193)	(159,517)
Net cash from (used in) investing activities		<u>181,183</u>	<u>(13,612,841)</u>
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares		(610,900)	(147,150)
Proceeds on sale of treasury shares		42,000	-
Repayment of term loans		(15,200,000)	(1,900,000)
Term loans obtained		8,220,000	6,380,000
Dividend paid		(763,800)	(698,800)
Finance costs paid		(541,408)	(582,196)
Net movement in minority interests		30,740	203,857
Net cash (used in) from financing activities		<u>(8,823,368)</u>	<u>3,255,711</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>2,215,300</b>	<b>(10,861,230)</b>
Cash and cash equivalents at the beginning of the year		214,391	11,075,621
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	12	<u><u>2,429,691</u></u>	<u><u>214,391</u></u>

The attached notes 1 to 27 form part of these consolidated financial statements.

United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 December 2007

	Attributable to equity holders of the parent company							Minority interests KD	Total KD	
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Cumulative changes in fair values KD	Retained earnings KD			Sub total KD
Balance at 1 January 2006	7,500,000	10,500,000	329,964	329,964	-	31,750	2,586,172	21,277,850	98,535	21,376,385
Net movement in fair value of available for sale investments during the year	-	-	-	-	-	(943,735)	-	(943,735)	-	(943,735)
Realised loss on available for sale investments transferred to consolidated income statement during the year	-	-	-	-	-	649,824	-	649,824	-	649,824
Total expense for the year recognised directly in equity	-	-	-	-	-	(293,911)	-	(293,911)	-	(293,911)
Profit for the year	-	-	-	-	-	-	2,582,400	2,582,400	258	2,582,658
Total income and expense for the year	-	-	-	-	-	(293,911)	2,582,400	2,288,489	258	2,288,747
Adjustment on increase in share capital of a subsidiary	-	-	-	-	-	-	-	-	203,599	203,599
Purchase of treasury shares	-	-	-	-	(147,150)	-	-	(147,150)	-	(147,150)
Dividend declared (Note 23)	-	-	-	-	-	-	(750,000)	(750,000)	-	(750,000)
Transfer to reserves	-	-	270,094	270,094	-	-	(540,188)	-	-	-
Balance at 31 December 2006	7,500,000	10,500,000	600,058	600,058	(147,150)	(262,161)	3,878,384	22,669,189	302,392	22,971,581

The attached notes 1 to 27 form part of these consolidated financial statements.

United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

At 31 December 2007

	Attributable to equity holders of the parent company							Minority interests KD	Total KD		
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Cumulative changes in fair values KD			Retained earnings KD	Sub total KD
Balance at 1 January 2007	7,500,000	10,500,000	600,058	600,058	(147,150)	-	(262,161)	3,878,384	22,669,189	302,392	22,971,581
Net movement in fair value of available for sale investments during the year	-	-	-	-	-	-	4,919,769	-	4,919,769	-	4,919,769
Realised gain on available for sale investments transferred to consolidated income statement during the year	-	-	-	-	-	-	(3,847,464)	-	(3,847,464)	-	(3,847,464)
Total income for the year recognised directly in equity	-	-	-	-	-	-	1,072,305	8,219,955	1,072,305	2,109	1,072,305
Profit for the year	-	-	-	-	-	-	-	8,219,955	8,219,955	2,109	8,222,064
Total income for the year	-	-	-	-	-	-	1,072,305	8,219,955	9,292,260	2,109	9,294,369
Adjustment on increase in share capital of A subsidiary	-	-	-	-	-	-	-	-	-	1,444,460	1,444,460
Adjustment on part sale of a subsidiary	-	-	-	-	-	-	-	-	-	28,631	28,631
Purchase of treasury shares	-	-	-	-	(610,900)	-	-	-	(610,900)	-	(610,900)
Sale of treasury shares	-	-	-	-	38,844	-	-	-	42,000	-	42,000
Issue of bonus shares (Note 23)	750,000	-	-	-	-	3,156	-	(750,000)	-	-	-
Dividend declared (Note 23)	-	-	-	-	-	-	-	(750,000)	(750,000)	-	(750,000)
Dividend adjustment on Treasury shares	-	-	-	-	-	-	-	8,000	8,000	-	8,000
Transfer to reserves	-	-	856,600	856,600	-	-	-	(1,713,200)	-	-	-
<b>Balance at 31 December 2007</b>	<b>8,250,000</b>	<b>10,500,000</b>	<b>1,456,658</b>	<b>1,456,658</b>	<b>(719,206)</b>	<b>3,156</b>	<b>810,144</b>	<b>8,893,139</b>	<b>30,650,549</b>	<b>1,777,592</b>	<b>32,428,141</b>



# United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 1 ACTIVITIES

The consolidated financial statements of United Projects Company for Aviation Services K.S.C. (Closed) (the parent company) and its subsidiaries (the group) for the year ended 31 December 2007 were authorised for issue by the board of directors on 10 February 2008.

United Projects Company for Aviation Services K.S.C. (Closed), was established as a closed Kuwaiti Shareholding Company on 4 December 2000 and its registered address is Fahed Al Salem Street, Al Abrar Tower, P.O. Box 27068 Safat 13131, State of Kuwait. The main objectives of the parent company are:

- Providing airplane ground and cleaning services and supply of water and other airplane supplies.
- Leasing out airplanes.
- Tourism, travel and cargo shipment services.
- Managing projects.
- Investing surplus funds in investment portfolios managed by specialised institutions.

The parent company has the right to participate with other firms, which operate in the same field or those, which would assist in achieving its objectives in Kuwait or abroad, and to purchase those firms or participate in their equity.

Details of the subsidiary companies are set out in note 2.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements have been presented in Kuwaiti Dinars.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments.

The group has adopted IFRS 7 'Financial Instruments: Disclosures' and amendments to IAS 1 'Presentation of Financial Statements' effective for the year ended 31 December 2007. This has resulted in amended and additional disclosures relating to financial instruments and associated risks, capital and capital management. In accordance with transitional requirements of the standards, the group has provided full comparative information.

#### **IASB Standard issued but not adopted**

The following International Accounting Standard Board (IASB) and International Financial Reporting Interpretation Committee (IFRIC) have been issued but are not yet effective and have not been adopted by the group yet:

IAS 1: Presentation of Financial Statements - Revised (effective 2009)

IFRS 8: Operating Segments (effective 2009)

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.

The accounting policies are consistent with those used in the previous year except as discussed in the following paragraphs;

# United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units.

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

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated income statement.

#### 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. The carrying amount of goodwill at 31 December 2007 was KD 149,381 (31 December 2006: Nil).

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company and its subsidiaries, as stated below:

Name of the company	Country of incorporation	Principal activity	Ownership	
			2007	2006
Kuwait United Construction Management Company W.L.L.	Kuwait	Construction	100%	100%
Royal Aviation Company K.S.C. (Closed) [formerly Jet Aviation Company K.S.C. (Closed)]	Kuwait	Management and services	55.75%	91.75%

The financial statements of the subsidiary companies are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All significant intra-group balances, transactions and unrealised profits are eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Minority interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent company's equity. Acquisitions of minority interests are 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 is recognised as goodwill.

#### Revenue recognition

Rental income is recognised, when earned, on a time apportionment basis. Car park fees are recognised when cash is received. Interest income is recognised as the interest accrues. Dividend income is recognised when the right to receive the dividend is established.

# United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Projects under construction

Projects under construction are carried at cost, which includes construction cost, assets, and other direct expenses and capitalised finance costs directly related to the project.

#### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Office building	over 10 years
Furniture and fixtures	over 3 to 5 years
Computers	over 3 to 5 years
Vehicles	over 3 to 5 years

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

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

#### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

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

#### Investments in associates

The group's investments in associates are accounted for under the equity method of accounting. These are entities over which the group exercises significant influence and which are neither subsidiaries nor joint ventures. Investments in associates are carried in the balance sheet at cost, plus post-acquisition changes in the group's share of net assets of the associates, less any impairment in value. The consolidated income statement reflects the group's share of results of its associates.

Unrealised profits and losses resulting from transactions between the group and its associates are eliminated to the extent of the group's interest in the associates.

#### Available for sale investments

Available for sale investments are recognised and derecognised, on a trade date basis, when the group becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available for sale investments are initially recorded at cost including transaction costs and subsequently measured at fair value, unless this cannot be reliably measured. Changes in fair value are reported as a separate component of equity. Upon impairment any loss, or upon derecognition any gain or loss, previously reported as "cumulative changes in fair values" within equity is included in the consolidated income statement for the period.

#### Inventories

Inventories are stated at cost less any impairment in value.

**United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2007

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Receivables**

Receivables are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

**Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

**Recognition and derecognition of financial assets and liabilities**

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised either when the group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset. A financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

**Cash and cash equivalents**

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash in hand and bank balances, net of outstanding bank overdrafts.

**Treasury shares**

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

**Term loans**

Term loans are carried on the balance sheet at their principal amounts. Instalments due within one year are shown as current liabilities. Interest is charged as an expense as it accrues, with unpaid amounts included in 'accounts payable and other credit balances'.

**Employees' end of service benefits**

The group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the group makes contributions to social security calculated as a percentage of the employees' salaries. The group's obligations are limited to these contributions, which are expensed when due.

**Accounts payable and other credit balances**

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

# United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement.

#### Trade and settlement date accounting

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

#### Fair values

For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

### 3 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	2007 KD	2006 KD
Staff costs included in:		
- Operating costs	763,534	659,944
- General and administrative expenses	567,588	425,907
	<u>1,331,122</u>	<u>1,085,851</u>
Rental-operating leases	<u>479,400</u>	<u>459,586</u>

### 4 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares), as follows:

	2007 KD	2006 KD
Profit for the year attributable to equity holders of the parent company	<u>8,219,955</u>	<u>2,582,400</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of ordinary shares (excluding treasury shares) outstanding during the year	<u>81,673,786</u>	<u>82,315,671</u>
Basic and diluted earnings per share	<u>100.64 fils</u>	<u>31.37 fils</u>

Basic and diluted earnings per share for the previous year presented have been restated for the bonus shares issued in 2007 (Note 23).

United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

**5 PROJECTS UNDER CONSTRUCTION**

Projects under construction represent cost of work in respect of various projects undertaken by the group during the year.

	2007 KD	2006 KD
Balance at 1 January	7,415,713	1,078,078
Additions	8,264,469	6,337,635
Balance at 31 December	<u>15,680,182</u>	<u>7,415,713</u>

Projects under construction include capitalised borrowing cost of KD 268,912 (2006: KD 24,681).

**6 PROPERTY AND EQUIPMENT**

	<i>Office building KD</i>	<i>Furniture and fixtures KD</i>	<i>Computers KD</i>	<i>Vehicles KD</i>	<i>Total KD</i>
Cost:					
At 1 January 2007	102,180	178,692	46,137	31,915	358,924
Additions	-	13,059	1,978	-	15,037
Disposals	-	-	(632)	-	(632)
At 31 December 2007	<u>102,180</u>	<u>191,751</u>	<u>47,483</u>	<u>31,915</u>	<u>373,329</u>
Depreciation:					
At 1 January 2007	25,254	153,553	41,910	14,797	235,514
Depreciation charge for the year	11,432	17,936	1,033	6,416	36,817
Relating to disposals	-	-	(84)	-	(84)
At 31 December 2007	<u>36,686</u>	<u>171,489</u>	<u>42,859</u>	<u>21,213</u>	<u>272,247</u>
Net carrying amount					
At 31 December 2007	<u>65,494</u>	<u>20,262</u>	<u>4,624</u>	<u>10,702</u>	<u>101,082</u>
At 31 December 2006	<u>76,926</u>	<u>25,139</u>	<u>4,227</u>	<u>17,118</u>	<u>123,410</u>

**7 INTANGIBLE ASSETS**

Intangible assets represent cost incurred on the construction of car park and commercial complex of Kuwait International airport, on built own and transfer (BOT) basis.

	KD
Cost:	
At 1 January 2007	19,289,503
Additions	75,193
At 31 December 2007	<u>19,364,696</u>
Amortisation:	
At 1 January 2007	3,724,710
Amortisation charge for the year	980,576
At 31 December 2007	<u>4,705,286</u>
Net carrying amount	
At 31 December 2007	<u>14,659,410</u>
At 31 December 2006	<u>15,564,793</u>

# United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 8 INVESTMENTS IN ASSOCIATES

The group has the following investments in associates:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Ownership</i>	
			<i>2007</i>	<i>2006</i>
United Boubyan Hospital K.S.C (Closed)	Kuwait	Hospital and medical services	20%	20%
Sporting Real Estate Company K.S.C (Closed)	Kuwait	Real estate	25%	25%

Both associates have not commenced operations as of 31 December 2007.

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

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Share of associates' balance sheets:		
Total assets	1,458,318	728,303
Total liabilities	(8,833)	(750)
Net assets	1,449,485	727,553
Less: Impairment loss on investments in associates	(250,000)	-
	<u>1,199,485</u>	<u>727,553</u>
Share of associates' revenues and results:		
Revenues	17,701	3,323
Results	(3,068)	2,553

### 9 AVAILABLE FOR SALE INVESTMENTS

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Managed portfolios (unquoted equity securities)	3,295,044	2,284,241
Other unquoted equity securities	45,908	5,145,908
Managed portfolios (quoted equity securities)	4,730,092	1,317,439
Other quoted equity securities	44,165	32,670
	<u>8,115,209</u>	<u>8,780,258</u>

Unquoted equity securities amounting to KD 45,908 (2006: KD 5,145,908) are carried at cost as there is no reliable means to determine the fair value. Management is not aware of any circumstances that would indicate any impairment in the value of these investments at the balance sheet date.

The fair values of unquoted equity securities included in managed portfolios are provided by the portfolio manager.

Movement in cumulative changes in fair values arising from available for sale investments are as follows:

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Net unrealised gain (loss)	4,919,769	(943,735)
Net realised (gain) loss reclassified to the consolidated income statement on disposal	(3,847,464)	649,824
	<u>1,072,305</u>	<u>(293,911)</u>

# United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 10 GOODWILL

As of 31 December 2006, the parent company had 91.75% equity stake in a subsidiary, Royal Aviation – Kuwait Entertainment Company (Closed) [formerly Jet Aviation Company K.S.C. (Closed)]. On 4 March 2007, the parent company sold 41% of its stake in this subsidiary to a counterparty for a net consideration of KD 3,443,999 and on the same date acquired 5% stake in this subsidiary from minority interests. As a result of the sale, the parent company realised a gain of KD 1,798,920 and its stake in this subsidiary reduced to 55.75%.

The fair value of assets and liabilities acquired are as follows:

	<i>KD</i>
Project under construction	6,144,786
Property and equipment	156
Available for sale investments	79
Accounts receivable other debit balances	65,661
Cash and cash equivalents	552,366
Term loans	(2,080,000)
Accounts payable and other credit balances	(670,659)
Net fair value of assets and liabilities	<u>4,012,389</u>
Net fair value of assets and liabilities attributable to the acquisition of 5% stake by parent company	200,619
Purchase consideration	<u>350,000</u>
Goodwill	<u>149,381</u>

### 11 RECEIVABLES AND OTHER DEBIT BALANCES

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Trade receivables	299,514	288,681
Advances to contractors and others	-	22,732
Prepayments	32,905	28,041
Other debit balances	169,041	43,037
Advance for purchase of equity investment (Note 17)	-	4,500,000
	<u>501,460</u>	<u>4,882,491</u>

In prior year, the parent company paid an advance of KD 4,500,000 for purchase of equity investment in Gulf Aviation Services Group W.L.L. which took place in the current year.

As at 31 December 2007, trade receivables at nominal value of KD 26,505 (2006: KD 21,963) were impaired.

Movement in the allowance of receivables were as follows:

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
At 1 January	19,727	22,200
Charge for the year	21,276	19,727
Amounts written off	(19,727)	(22,200)
At 31 December	<u>21,276</u>	<u>19,727</u>



United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

11 RECEIVABLES AND OTHER DEBIT BALANCES (continued)

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

	<i>Past due but not impaired</i>					<i>Total KD</i>
	<i>Neither past due nor impaired KD</i>	<i>30 to 60 days KD</i>	<i>60 to 90 days KD</i>	<i>90 to 120 days KD</i>	<i>&gt; 120 days KD</i>	
2007	78,830	59,499	36,736	16,066	103,154	294,285
2006	124,716	92,501	28,383	11,820	29,025	286,445

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 and therefore, they are unsecured.

12 CASH AND CASH EQUIVALENTS

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

	<i>2007 KD</i>	<i>2006 KD</i>
Bank balances and cash	2,445,625	225,135
Bank overdraft	(15,934)	(10,744)
	<u>2,429,691</u>	<u>214,391</u>

Included in bank balances and cash are bank deposits of KD 2,030,733 (2006: KD Nil) with a commercial bank in Kuwait. These are denominated in Kuwaiti Dinars, are short term in nature and carries an effective interest rate which ranges between 4% to 4.5% per annum (2006: Nil% per annum).

Bank overdraft carries an interest rate of 1.75% to 2.25% per annum (2006: 1.75% to 2.25% per annum) over the Central Bank of Kuwait discount rate.

13 SHARE CAPITAL AND SHARE PREMIUM

	<i>Authorised, issued and fully paid</i>	
	<i>2007 KD</i>	<i>2006 KD</i>
82,500,000 shares of 100 fils each	<u>8,250,000</u>	<u>7,500,000</u>

At the annual general meeting of the shareholders held on 26 March 2007, cash dividends of KD 0.010 per share (excluding treasury shares) totalling KD 742,000 (2006: KD 750,000) and bonus shares of 10% (2006: Nil) of paid up capital totalling 7,500,000 shares, were approved.

14 STATUTORY RESERVE

As required by the Law of Commercial Companies and the Articles of Association of the parent company, 10% of the profit for the year before Board of Directors' remuneration, zakat, contribution to Kuwait Foundation for the Advancement of Sciences and National Labour Support Tax has been transferred to statutory reserve. The parent company may resolve to discontinue such annual transfer when the total reserve equals 50% of paid up share capital.

United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

14 STATUTORY RESERVE (continued)

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in periods when accumulated profits are not sufficient for the payment of a dividend of that amount.

15 VOLUNTARY RESERVE

According to the parent company's Articles of Association, 10% of the profit for the year before Board of Directors' remuneration, zakat, contribution to Kuwait Foundation for the Advancement of Sciences and National Labour Support Tax has been transferred to the voluntary reserve. The voluntary reserve can only be distributed when approved by the shareholders' general assembly.

16 TREASURY SHARES

	2007	2006
Number of treasury shares (share)	1,770,000	360,000
Percentage of issued shares (%)	0.21 %	0.48 %
Market value (KD)	743,400	138,600

17 TERM LOANS

2007			
Currency	KD	Effective interest rate	Maturity
<i>Non-current liabilities</i>			
Kuwaiti Dinar	4,800,000	Central Bank of Kuwait discount rate plus 3% per annum	December 2014
<i>Current liabilities</i>			
Kuwaiti Dinar	200,000	Central Bank of Kuwait discount rate plus 3% per annum	December 2008
2006			
Currency	KD	Effective interest rate	Maturity
<i>Non-current liabilities</i>			
Kuwaiti Dinar	4,300,000	Central Bank of Kuwait discount rate plus 2% per annum	June 2009
Kuwaiti Dinar	1,280,000	Central Bank of Kuwait discount rate plus 3% per annum	December 2014
	5,580,000		
<i>Current liabilities</i>			
Kuwaiti Dinar	1,600,000	Central Bank of Kuwait discount rate plus 2% per annum	December 2007
Kuwaiti Dinar	300,000	Central Bank of Kuwait discount rate plus 2.5% per annum	March 2007
Kuwaiti Dinar	4,500,000	Central Bank of Kuwait discount rate plus 2.5% per annum	December 2007
	6,400,000		

United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

18 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the consolidated balance sheet are as follows:

	2007 KD	2006 KD
Provision as at 1 January	173,160	101,232
Provided during the year	56,864	75,430
End of service benefits paid	(36,429)	(3,502)
Provision as at 31 December	<u>193,595</u>	<u>173,160</u>

19 ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	2007 KD	2006 KD
Due to contractors and suppliers	2,075,705	773,960
Retentions	1,051,210	662,417
Accrued expenses	1,067,232	342,413
Tenant deposits	731,030	694,620
Provision for staff leave	77,384	68,711
Other credit balances	234,271	340,708
Dividend payable	29,400	51,200
	<u>5,266,232</u>	<u>2,934,029</u>

20 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the group's management.

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

	<i>Associates</i> KD	<i>Major shareholders</i> KD	<i>Other related parties</i> KD	<i>31 December 2007</i> KD	<i>31 December 2006</i> KD
Revenues	-	47,700	4,080	51,780	69,540
Interest income	-	526,712	36,199	562,911	37,346
Share of results of associates	(3,068)	-	-	(3,068)	2,553
Impairment loss on investments in associates	(250,000)	-	-	(250,000)	-
General and administration expenses	-	(129,985)	-	(129,985)	123,190

Balances with related parties included in the consolidated balance sheet are as follows:

	<i>Associates</i> KD	<i>Major Shareholders</i> KD	<i>Other related parties</i> KD	<i>31 December 2007</i> KD	<i>31 December 2006</i> KD
Investment in associates	1,199,485	-	-	1,199,485	727,553
Due from related parties	-	-	4,101	4,101	345,411
Cash and cash equivalents	-	335,083	2,091,195	2,426,278	208,223
Due to related parties	12,309	10,868	36,953	60,130	68,032
Term loans	-	-	5,000,000	5,000,000	7,480,000

Available for sale investments (Note 9) of KD 8,025,136 (2006: KD 3,601,680) are managed by a related party.

Amounts due from/to related parties are free of interest and are receivable/payable on demand.

# United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 20 RELATED PARTY TRANSACTIONS (continued)

#### Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2007 KD	2006 KD
Short-term benefits	135,668	203,435
Employees' end of service benefits	16,570	22,596
	<u>152,238</u>	<u>226,031</u>

### 21 COMMITMENTS

The group had capital commitments against projects under construction amounting to KD 4,000,000 (2006: KD 6,332,854) and investments in associates amounting to KD Nil (2006: KD 625,000).

The car park and commercial complex of Kuwait International Airport (Note 7) are constructed on a leased land for which an annual lease payment commitment of KD 465,000 (2006: KD 465,000) has been made. The lease payments for the future periods are as follows:

	2007 KD	2006 KD
Not later than 5 years	2,325,000	2,325,000
Later than 5 years	4,769,753	5,234,753
	<u>7,094,753</u>	<u>7,559,753</u>

### 22 CONTINGENCIES

At 31 December 2007 the group had contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 334,391 (2006: KD 2,804,246).

### 23 PROPOSED DIVIDEND AND BONUS SHARES

The board of directors of the parent company proposed a cash dividend of KD 0.035 (2006: bonus issue of 10% and cash dividend of KD 0.010) per share. This proposal is subject to the approval of the of the shareholders in the Annual General Meeting of the parent company. These dividends have not been accounted for in these consolidated financial statements.

United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 SEGMENTAL INFORMATION

The group's activities are in two primary segments, investments and project management and consultancy services.

	<i>Investments</i>		<i>Project management and consultancy services</i>		<i>Total</i>	
	2007 KD	2006 KD	2007 KD	2006 KD	2007 KD	2006 KD
Segment revenues	12,943,616	6,530,716	520,042	564,039	13,463,658	7,094,755
Segment profit	8,216,877	2,530,459	5,187	52,199	8,222,064	2,582,658
Assets	42,773,164	37,894,244	174,934	232,558	42,948,098	38,126,802
Liabilities	10,376,616	14,995,728	143,341	159,493	10,519,957	15,155,221
Depreciation and amortisation	1,017,393	1,017,380	-	-	1,017,393	1,017,380
Commitments	11,094,753	14,517,607	-	-	11,094,753	14,517,607

Both segments operations are in Kuwait.

United Projects Company For Aviation Services K.S.C. (Closed) and  
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At 31 December 2007

25 RISK MANAGEMENT

**Interest rate risk**

The group is exposed to interest rate risk on its interest bearing assets and liabilities mainly bank deposits, bank overdraft and term loans. The effective interest rates are disclosed in Notes 12 and 17.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the group's profit before board of directors' remuneration, zakat, KFAS and NLST for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2007.

	<i>Increase (decrease) In basis points</i>	<i>Effect on profit before board of directors' remuneration, zakat, KFAS &amp; NLST for the year KD</i>
2007		
KD	+25	(740)
KD	-25	740
2006		
KD	+25	(2,995)
KD	-25	2,995

**Equity price risk**

Equity price risk arises from changes in the fair values of equity investments. The group manages this through diversification of investments in terms of industry concentration. All of the group's quoted investments are listed on the Kuwait Stock Exchange.

The effect on equity (as a result of a change in the fair value of available for sale investments at 31 December 2007) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	<i>Change in equity price %</i>	<i>2007 Effect on equity KD</i>	<i>2006 Effect on equity KD</i>
Kuwait	+5	81,688	65,872
Other unquoted	+5	2,747	299

The decrease in equity price percentage will have the opposite effect in equity.

**Credit risk**

The group seeks to limit its credit risk with respect to customers/tenants by setting credit limits for individual customers/tenants, monitoring outstanding receivables and limiting transactions with specific counterparties.

The group limits its credit risk with regard to bank deposits by only dealing with reputable banks.

Credit risk is limited to the carrying values of financial assets in the balance sheet.

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At 31 December 2007

25 RISK MANAGEMENT (continued)

Liquidity risk

The group limits its liquidity risk by ensuring facilities from banks and related parties are available.

The table below summarises the maturity profile of the group's financial liabilities at 31 December based on contractual undiscounted payment obligations:

31 December 2007	Within 3 months KD	3 - 12 months KD	1 to 5 years KD	Total KD
<b>LIABILITIES</b>				
Term loans	-	215,193	5,364,641	5,579,834
Employees' end of service benefits	-	-	193,595	193,595
Due to related parties	60,130	-	-	60,130
Accounts payable and other credit balances	3,813,746	1,448,093	-	5,261,839
	<u>3,873,876</u>	<u>1,663,286</u>	<u>5,558,236</u>	<u>11,095,398</u>
31 December 2006	Within 3 months KD	3 - 12 Months KD	1 to 5 Years KD	Total KD
<b>LIABILITIES</b>				
Term loans	-	7,391,344	5,379,834	12,771,178
Employees' end of service benefits	-	-	173,160	173,160
Due to related parties	68,032	-	-	68,032
Accounts payable and other credit balances	574,941	1,367,744	-	1,942,685
	<u>642,973</u>	<u>8,759,088</u>	<u>5,552,994</u>	<u>14,955,055</u>

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 business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

Currency risk

The group is not exposed to significant currency risk as the significant portion of the group's assets and liabilities are denominated in Kuwaiti Dinars.

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, receivables, due from related parties and available for sale investments. Financial liabilities consist of term loans, payables and due to related parties.

The fair values of financial instruments, with the exception of certain available for sale investments carried at cost (see Note 9), are not materially different from their carrying values.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 27 ESTIMATION UNCERTAINTY AND JUDGEMENTS

The preparation of the 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. The group has used judgments and estimates principally in, but not limited to, the classification of investments, the determination of impairment provisions and the valuation of unquoted investments.

#### *Classification of investments*

The group decides on acquisition of investments whether they should be classified as available for sale investments or other categories of investment under IAS 39.

All investments are classified as available for sale investment.

#### *Impairment of available for sale 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 judgement.

#### *Impairment loss on investments in associates*

After application of the equity method, the group determines whether it is necessary to recognise an additional impairment loss of the group's investment in its associates. The group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in the consolidated income statement.

At the balance sheet date, investments in associates were KD 1,449,485 (2006: KD 727,553) and the impairment loss was KD 250,000 (2006: KD Nil).

#### *Impairment of receivables*

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

At the balance sheet date, gross trade receivables were KD 320,790 (2006: KD 308,408), and the provision for doubtful debts was KD 21,276 (2006: KD 19,727). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated income statement.

#### *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. The carrying amount of goodwill at 31 December 2007 was KD 149,381 (31 December 2006: Nil).

#### *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 ; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;

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