

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2011**



Ernst & Young  
Al Aiban, Al Osaimi & Partners  
P.O. Box 74 Safat  
13001 Safat, Kuwait  
Baitak Tower, 18-21st Floor  
Safat Square  
Ahmed Al Jaber Street  
Tel : 2245 2B80/2295 5000  
Fax: 2245 6419  
Email: kuwait@kw.ev.com



**BAKER TILLY  
KUWAIT**

**Dr. Saud Al-humaidi & Partners  
Public Accountants**  
P.O.Box 1486 Safat,13015 Kuwait  
Sharq Area, Omar Bin Khattab Street  
Shawafat Bldg, Block No. 5, 1<sup>st</sup> Floor  
Tel : 22442333 / 22443222  
Fax : 22461225  
[www.bakertillykuwait.com](http://www.bakertillykuwait.com)

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

### **Report on the Financial Statements**

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 (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C. (CLOSED)  
(continued)***Opinion*

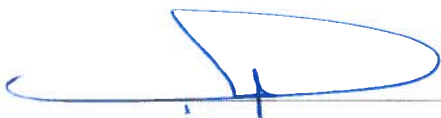
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion above, we draw attention to Note 7 to the consolidated financial statements, which describes the uncertainty relating to the approval to be obtained from the civil aviation authority for the lease of the Sheikh Saa'd terminal and its impact on the recoverable amount of an intangible asset.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Group 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 2011 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  
DR. SAUD AL-HUMAIDI & PARTNERS  
MEMBER OF BAKER TILLY INTERNATIONAL

29 January 2012

Kuwait

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

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	<i>Notes</i>	<b>2011 KD</b>	<b>2010 KD</b>
Revenues		10,937,279	11,355,436
Operating costs		(4,530,460)	(6,142,868)
<b>GROSS PROFIT</b>		<b>6,406,819</b>	<b>5,212,568</b>
Realised gain on sale of associates	8	10,000	-
Realised loss on sale of financial assets available for sale		(236,996)	(10,709)
Interest income		269,561	178,155
Dividend income		6,385	7,620
Share of results of associates	8	(31,182)	(107,790)
Other income	3	924,209	553,547
Impairment loss on projects under construction	5	(79,979)	(325,178)
Impairment loss on financial assets available for sale	9	(13,945)	(65,916)
Impairment loss on receivables and other assets		-	(219,210)
Impairment loss on amount due from related parties	18	(3,086,713)	-
General and administrative expenses		(1,649,895)	(1,532,505)
Depreciation	6	(237,976)	(205,509)
Finance costs		(131,654)	(176,175)
<b>PROFIT FOR THE YEAR BEFORE BOARD OF DIRECTORS' REMUNERATION, CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST) AND ZAKAT</b>		<b>2,148,634</b>	<b>3,308,898</b>
Board of directors' remuneration		(25,000)	(50,000)
Contribution to KFAS		(21,329)	(31,816)
NLST		(60,784)	(103,228)
Zakat		(22,692)	(41,292)
<b>PROFIT FOR THE YEAR</b>		<b>2,018,829</b>	<b>3,082,562</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company		2,273,316	3,276,961
Non controlling interest		(254,487)	(194,399)
		<b>2,018,829</b>	<b>3,082,562</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	4	<b>29 Fils</b>	<b>42 Fils</b>

The attached notes 1 to 25 form part of these consolidated financial statements.

United Projects Company For Aviation Services K.S.C. (Closed) and Subsidiaries  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
<b>Profit for the year</b>	<b>2,018,829</b>	<b>3,082,562</b>
<b>Other comprehensive income:</b>		
Financial assets available for sale:		
- Net fair value loss	<b>(157,601)</b>	<b>(57,826)</b>
- Net transfer to consolidated income statement	<b>250,941</b>	<b>76,625</b>
<b>Other comprehensive income for the year</b>	<b>93,340</b>	<b>18,799</b>
<b>Total comprehensive income for the year</b>	<b>2,112,169</b>	<b>3,101,361</b>
<b>Attributable to:</b>		
Equity holders of the Parent Company	<b>2,366,656</b>	<b>3,295,760</b>
Non controlling interest	<b>(254,487)</b>	<b>(194,399)</b>
	<b>2,112,169</b>	<b>3,101,361</b>


The attached notes 1 to 25 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 KD	2010 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Projects under construction	5	-	79,979
Property and equipment	6	657,952	704,739
Intangible assets	7	25,050,594	27,830,943
Investment in associates	8	62,500	794,616
Financial assets available for sale	9	1,632,172	1,420,308
		<u>27,403,218</u>	<u>30,830,585</u>
<b>Current assets</b>			
Receivables and other assets	10	1,211,438	1,309,993
Due from related parties	18	1,354,284	3,736,205
Cash and bank balances	11	12,001,617	6,986,615
		<u>14,567,339</u>	<u>12,032,813</u>
<b>TOTAL ASSETS</b>		<u>41,970,557</u>	<u>42,863,398</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	8,250,000	8,250,000
Share premium	12	10,500,000	10,500,000
Statutory reserve	13	2,664,513	2,424,057
Voluntary reserve	14	2,664,513	2,424,057
Treasury shares	15	(1,349,532)	(1,402,436)
Treasury shares reserve		903	3,156
Other reserve		(260,978)	(260,978)
Cumulative changes in fair values		267,218	173,878
Retained earnings		8,649,424	9,217,420
		<u>31,386,061</u>	<u>31,329,154</u>
<b>Equity attributable to equity holders of the Parent Company</b>		<u>31,386,061</u>	<u>31,329,154</u>
Non controlling interest		2,774,924	3,029,411
		<u>34,160,985</u>	<u>34,358,565</u>
<b>Total equity</b>		<u>34,160,985</u>	<u>34,358,565</u>
<b>Non-current liabilities</b>			
Term loans	16	950,000	1,500,000
Employees' end of service benefits		308,647	275,438
		<u>1,258,647</u>	<u>1,775,438</u>
<b>Current liabilities</b>			
Bank overdraft	11	84,731	182,012
Term loans	16	800,000	1,050,000
Due to related parties	18	672,225	541,843
Accounts payable and other liabilities	17	4,993,969	4,955,540
		<u>6,550,925</u>	<u>6,729,395</u>
<b>Total liabilities</b>		<u>7,809,572</u>	<u>8,504,833</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>41,970,557</u>	<u>42,863,398</u>

  
Salem Abdulredha Safar  
Chairman

  
Majed Essa Al Ajeel  
Vice Chairman and Chief Executive Officer

The attached notes 1 to 25 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

OPERATING ACTIVITIES	Notes	2011 KD	2010 KD
Profit for the year		2,018,829	3,082,562
Adjustments for:			
Realised gain on sale of associates		(10,000)	-
Realised loss on sale of financial assets available for sale		236,996	10,709
Interest income		(269,561)	(178,155)
Dividend income		(6,385)	(7,620)
Share of results of associates	8	31,182	107,790
Impairment loss on projects under construction	5	79,979	325,178
Impairment loss on financial assets available for sale	9	13,945	65,916
Impairment loss on receivables and other assets		-	219,210
Impairment loss of due from related parties	18	3,086,713	-
Gain on sale of property and equipment		(12,500)	-
Provision for employees' end of service benefits		46,948	82,869
Depreciation and amortisation		3,018,325	4,105,820
Finance costs		131,654	176,175
		<u>8,366,125</u>	<u>7,990,454</u>
Working capital changes:			
Receivables and other assets		85,010	(343,689)
Due from related parties		(704,792)	(2,874,520)
Due to related parties		130,382	226,328
Accounts payable and other liabilities		38,429	(760,066)
Cash from operations		<u>7,915,154</u>	<u>4,238,507</u>
Employees' end of service benefits paid		(13,738)	(1,399)
Net cash from operating activities		<u>7,901,416</u>	<u>4,237,108</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of financial assets available for sale		(692,082)	(1,419,338)
Proceeds from sale of financial assets available for sale		322,438	365,072
Investment in an associates		(82,500)	-
Proceeds from sale of associates		793,434	-
Purchase of property and equipment	6	(191,189)	(49,492)
Proceeds on sale of property and equipment		12,500	-
Additions to intangible assets	7	-	(260,540)
Interest income received		283,284	171,886
Dividend income received		6,385	7,620
Net cash from (used in) investing activities		<u>452,270</u>	<u>(1,184,792)</u>
<b>FINANCING ACTIVITIES</b>			
Sale of treasury shares		115,251	-
Purchase of treasury shares		(64,600)	(357,450)
Repayment of term loans		(800,000)	(2,150,000)
Dividend paid		(2,360,400)	(2,766,750)
Finance costs paid		(131,654)	(176,175)
Increase in share capital of a subsidiary company		-	100,000
Net cash used in financing activities		<u>(3,241,403)</u>	<u>(5,350,375)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>5,112,283</u>	<u>(2,298,059)</u>
Cash and cash equivalents at the beginning of the year		6,804,603	9,102,662
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	11	<u><u>11,916,886</u></u>	<u><u>6,804,603</u></u>

The attached notes 1 to 25 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

For the year ended 31 December 2011

Attributable to equity holders of the Parent Company

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Other reserve KD	Cumulative changes in fair values KD	Retained earnings KD	Sub total KD	Non controlling interest KD	Total KD
As at 1 January 2011	8,250,000	10,500,000	2,424,057	2,424,057	(1,402,436)	3,156	(260,978)	173,878	9,217,420	31,329,154	3,029,411	34,358,565
Profit (loss) for the year	-	-	-	-	-	-	-	-	2,273,316	2,273,316	(254,487)	2,018,829
Other comprehensive income	-	-	-	-	-	-	-	93,340	-	93,340	-	93,340
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	93,340	2,273,316	2,366,656	(254,487)	2,112,169
Dividends paid (Note 12)	-	-	-	-	-	-	-	-	(2,360,400)	(2,360,400)	-	(2,360,400)
Purchase of treasury shares	-	-	-	-	(64,600)	-	-	-	-	(64,600)	-	(64,600)
Sale of treasury shares	-	-	-	-	117,504	(2,253)	-	-	-	115,251	-	115,251
Transfer to reserves	-	-	240,456	240,456	-	-	-	-	(480,912)	-	-	-
<b>As at 31 December 2011</b>	<b>8,250,000</b>	<b>10,500,000</b>	<b>2,664,513</b>	<b>2,664,513</b>	<b>(1,349,532)</b>	<b>903</b>	<b>(260,978)</b>	<b>267,218</b>	<b>8,649,424</b>	<b>31,386,061</b>	<b>2,774,924</b>	<b>34,160,985</b>
As at 1 January 2010	8,250,000	10,500,000	2,070,546	2,070,546	(1,044,986)	3,156	-	155,079	9,414,231	31,418,572	2,862,832	34,281,404
Profit (loss) for the year	-	-	-	-	-	-	-	-	3,276,961	3,276,961	(194,399)	3,082,562
Other comprehensive income	-	-	-	-	-	-	-	18,799	-	18,799	-	18,799
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	18,799	3,276,961	3,295,760	(194,399)	3,101,361
Purchase of treasury shares	-	-	-	-	(357,450)	-	-	-	-	(357,450)	-	(357,450)
Dividends paid (Note 12)	-	-	-	-	-	-	-	-	(2,887,500)	(2,887,500)	-	(2,887,500)
Dividends adjustment on treasury shares (Note 12)	-	-	-	-	-	-	-	-	120,750	120,750	-	120,750
Transfer to reserves	-	-	353,511	353,511	-	-	-	-	(707,022)	-	-	-
Change in ownership of a subsidiary	-	-	-	-	-	-	(260,978)	-	-	(260,978)	360,978	100,000
<b>As at 31 December 2010</b>	<b>8,250,000</b>	<b>10,500,000</b>	<b>2,424,057</b>	<b>2,424,057</b>	<b>(1,402,436)</b>	<b>3,156</b>	<b>(260,978)</b>	<b>173,878</b>	<b>9,217,420</b>	<b>31,329,154</b>	<b>3,029,411</b>	<b>34,358,565</b>

The attached notes 1 to 25 form part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

**1 ACTIVITIES**

The consolidated financial statements of United Projects Company for Aviation Services K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2011 were authorised for issue by the board of directors on 29 January 2012.

The Parent Company 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.

The Group comprises the Parent Company as described above and its two subsidiary companies, namely, United National For Aviation Services Company W.L.L. and Royal Aviation K.S.C. (Closed) [formerly Jet Aviation Company K.S.C. (Closed)].

The Parent Company's shares are listed on the Kuwait Stock Exchange.

The Parent Company is a subsidiary of Kuwait National Airways K.S.C. (the "Ultimate Parent Company").

**2 SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared under the historical cost basis, except for financial assets available for sale that have been measured at fair value. The consolidated financial statements are presented in Kuwaiti Dinars ("KD") being the functional currency of the Parent Company.

**Statement of compliance**

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

**Changes in accounting policy and disclosures**

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following amended IASB Standards and new International Financial Reporting Interpretations Committee ("IFRIC") Interpretations:

*IFRS 7: Financial Instruments: Disclosures (Amendment) (effective 1 January 2011)*

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

*IAS 1: Presentation of Financial Statements (Amendment) (effective 1 January 2011)*

The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in the statement of changes in equity.

*IAS 24: Related party (Amendment) (effective 1 January 2011)*

The amendment clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Changes in accounting policy and disclosures (continued)**

*IAS 32: Financial Instruments: Presentation (Amendment) (effective 1 February 2010)*

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

*IFRIC Interpretation 19: Extinguishing financial liabilities with equity instrument (effective 1 July 2010)*

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in consolidated income statement.

The adoption of the above mentioned amendments did not have any impact on the financial position or performance of the Group.

**Standards issued but not yet effective**

The following new and amended IASB Standards have been issued but not yet mandatory, and have not been adopted by the Group:

*IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment) (effective 1 July 2012)*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to consolidated income statement at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

*IAS 27: Separate Financial Statements (Amendment) (effective 1 January 2013)*

As a consequence of the new IFRS 10: Consolidated Financial Statements and IFRS 12: Disclosure of Involvement with Other Entities, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

*IAS 28: Investments in Associates and Joint Ventures (Amendment) (effective 1 January 2013)*

As a consequence of the new IFRS 11: Joint Arrangements and IFRS 12: Disclosure of Involvement with Other Entities, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

*IFRS 3: Business Combinations (Amendment) (effective 1 July 2011)*

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

*IFRS 7: Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (Amendment) (effective 1 July 2011)*

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards issued but not yet effective (continued)**

*IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2015)*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39: Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

*IFRS 10: Consolidated Financial Statements (effective 1 January 2013)*

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

*IFRS 11: Joint Arrangements (effective 1 January 2013)*

IFRS 11 replaces IAS 31: Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

*IFRS 12: Disclosure of Involvement with Other Entities (effective 1 January 2013)*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

*IFRS 13: Fair Value Measurement (effective 1 January 2013)*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

Additional disclosures will be made in the consolidated financial statements when these Standards become effective.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

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 when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non controlling interest even if that results in a deficit balance.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of consolidation (continued)**

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

The subsidiaries of the Group are as follows:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Ownership %</i>	
			<i>2011</i>	<i>2010</i>
Royal Aviation Company K.S.C. (Closed)	Kuwait	Management and services	66.57	66.57
United National For Aviation Services Company W.L.L.	Kuwait	Management and services	51.00	51.00

**Business combinations and goodwill**

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in consolidated income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non controlling interest over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated income statement.

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is valued at the fair value of the consideration received. The following recognition criteria must also be met before revenue is recognised:

*Rental income*

Rental income is recognised, when earned, on a time apportionment basis.

*Car park fees*

Car park fees are recognised when cash is received.

*Interest income*

Interest income is recorded using the effective interest rate method.

*Dividend income*

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

**Finance costs**

Finance costs that are directly attributable to a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Other finance costs are calculated and recognised on a time proportionate basis taking into account the outstanding balance payable and applicable interest rate.

**Taxation**

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

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

*National Labour Support Tax (NLST)*

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

*Zakat*

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

**Dividends on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

**Projects under construction**

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

The carrying value of these projects is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment**

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

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

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

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

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

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The estimated useful lives of intangible assets are as follows:

Commercial complex of Kuwait International Airport	20 years
Discovery Mall	4.5 years
Sheikh Saa'd Terminal	16 years

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at 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 are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment in associates**

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

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the share of results of associates. Where there has been a change recognised directly in other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and associates are eliminated to the extent of the interest in the associate.

The Group's share of result of associates is shown on the face of the consolidated income statement. This is the profit attributable to equity holders of the associate.

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

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

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

**Financial assets**

***Initial recognition and measurement***

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

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include financial assets available for sale, receivables and other assets, due from related parties and cash and bank balances. As at 31 December 2011, the Group has neither held to maturity investments nor financial assets at fair value through profit or loss.

***Subsequent measurement***

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

***Financial assets available for sale***

Financial assets available for sale include equity and debt securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets (continued)**

*Subsequent measurement (continued)*

*Financial assets available for sale (continued)*

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated income statement. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its financial assets available for sale in the near term is appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available for sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to consolidated income statement over the remaining life of the investment using the effective interest rate method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated income statement.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group does not have any loans. Receivables include trade accounts receivable which are stated at original invoice amount less impairment, if any. An estimate for impairment is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

*Derecognition of financial assets*

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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



**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets (continued)**

*Impairment of financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets available for sale*

For financial asset available for sale, the Group assesses at each reporting date whether there is an objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets (continued)**

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

***Financial assets carried at amortised cost (continued)***

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

***Impairment of non-financial assets***

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include term loans, bank overdrafts and accounts payable and other liabilities. As at 31 December 2011, the Group did not have any financial liabilities at fair value through profit or loss.

***Subsequent measurement***

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

***Term loans***

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method (EIR) method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the consolidated income statement.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial liabilities (continued)**

***Subsequent measurement (continued)***

***Accounts payable and other liabilities***

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

***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

**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.

**Offsetting**

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

**Fair value**

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 25.

**Cash and cash equivalents**

Cash and cash equivalents in the consolidated statement of financial position comprise cash in hand and at banks, cash held by portfolio manager and time deposits with an original maturity of upto three months.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdraft.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Treasury shares**

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in treasury share reserve to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to the reserves. 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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Other reserve**

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

**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.

**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 reporting date. All differences are taken to the consolidated income statement.

**Segment information**

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

**Significant accounting judgments, estimates and assumptions**

*Judgments*

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

*Impairment of equity financial assets available for sale*

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

*Estimates and assumptions*

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

*Useful lives of property and equipment*

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

*Fair value of financial instruments*

Where the fair value of financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Significant accounting judgments, estimates and assumptions (continued)**

*Estimates and assumptions (continued)*

*Impairment of trade accounts receivable*

An estimate of the collectible amount of trade accounts receivable 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.

*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 OTHER INCOME**

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Miscellaneous income	349,202	209,032
Other service income	575,007	344,515
	<u>924,209</u>	<u>553,547</u>

Miscellaneous income mainly comprises income earned from cancellation of rental contracts by tenants within the period of the rental agreement.

Other service income mainly comprises income earned from advertisement space rented, and other services rendered to tenants.

**4 BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share are calculated by dividing profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares, less treasury shares, outstanding during the year, as follows:

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Profit for the year attributable to equity holders of the Parent Company	2,273,316	3,276,961
	<b>Shares</b>	<b>Shares</b>
Weighted average number of ordinary shares, less treasury shares, outstanding during the year	78,795,589	78,909,808
	<b>Fils</b>	<b>Fils</b>
Basic and diluted earnings per share	<u>29</u>	<u>42</u>

The Parent Company has no dilutive potential shares.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

**5 PROJECTS UNDER CONSTRUCTION**

Projects under construction represent cost of work in respect of various projects undertaken by the Group.

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
As at 1 January	<b>79,979</b>	405,157
Impairment loss on projects under construction	<b>(79,979)</b>	(325,178)
As at 31 December	<u>-</u>	<u>79,979</u>

During the year ended 31 December 2011, an amount of KD 79,979 (2010: KD 325,178) was considered as impairment loss on projects under construction related to capitalised amount in prior years which will not be recovered.

**6 PROPERTY AND EQUIPMENT**

	<i>Office building KD</i>	<i>Furniture and fixtures KD</i>	<i>Computers KD</i>	<i>Vehicles KD</i>	<i>Tools and equipment KD</i>	<i>Total KD</i>
<b>Cost:</b>						
As at 1 January 2011	319,659	406,900	86,097	67,296	466,646	1,346,598
Additions	-	146,399	-	44,790	-	191,189
Disposals	-	-	-	(19,251)	-	(19,251)
As at 31 December 2011	<u>319,659</u>	<u>553,299</u>	<u>86,097</u>	<u>92,835</u>	<u>466,646</u>	<u>1,518,536</u>
<b>Depreciation:</b>						
As at 1 January 2011	52,300	293,802	55,209	41,414	199,134	641,859
Depreciation charge for the year	26,590	84,310	16,560	17,084	93,432	237,976
Disposals	-	-	-	(19,251)	-	(19,251)
As at 31 December 2011	<u>78,890</u>	<u>378,112</u>	<u>71,769</u>	<u>39,247</u>	<u>292,566</u>	<u>860,584</u>
<b>Net book value:</b>						
As at 31 December 2011	<u>240,769</u>	<u>175,187</u>	<u>14,328</u>	<u>53,588</u>	<u>174,080</u>	<u>657,952</u>
<b>Cost:</b>						
As at 1 January 2010	314,759	394,656	83,749	37,296	466,646	1,297,106
Additions	4,900	12,244	2,348	30,000	-	49,492
As at 31 December 2010	<u>319,659</u>	<u>406,900</u>	<u>86,097</u>	<u>67,296</u>	<u>466,646</u>	<u>1,346,598</u>
<b>Depreciation:</b>						
As at 1 January 2010	25,754	226,975	34,594	31,172	117,855	436,350
Depreciation charge for the year	26,546	66,827	20,615	10,242	81,279	205,509
As at 31 December 2010	<u>52,300</u>	<u>293,802</u>	<u>55,209</u>	<u>41,414</u>	<u>199,134</u>	<u>641,859</u>
<b>Net book value:</b>						
As at 31 December 2010	<u>267,359</u>	<u>113,098</u>	<u>30,888</u>	<u>25,882</u>	<u>267,512</u>	<u>704,739</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

7 INTANGIBLE ASSETS

Intangible assets represent cost incurred on the construction of the Discovery Mall, Sheikh Saa'd Terminal, car park and commercial complex of Kuwait International airport, on built own and transfer (BOT) basis.

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
<b>Cost:</b>		
As at 1 January	41,187,865	40,927,325
Additions	-	260,540
As at 31 December	<u>41,187,865</u>	<u>41,187,865</u>
<b>Amortisation:</b>		
As at 1 January	13,356,922	9,456,611
Amortisation charge for the year	2,780,349	3,900,311
As at 31 December	<u>16,137,271</u>	<u>13,356,922</u>
<b>Net carrying amount:</b>		
As at 31 December	<u>25,050,594</u>	<u>27,830,943</u>

The amortisation charge for the year is included in operating costs.

7 INTANGIBLE ASSETS (continued)

Intangible assets amounting to KD 8,804,604 representing cost (carrying amount of KD 4,323,544) incurred on the construction of Discovery Mall was being amortised over a period of four years. During the year, the Group received a three year extension for the right to use the Mall. The current year's amortisation is therefore computed based on the revised expected useful life of the Mall.

Intangible assets amounting to KD 12,734,282 represent the cost (carrying amount of KD 9,784,289) of a BOT project for the construction of Sheikh Saa'd Terminal (the "terminal") with the Directorate of Civil Aviation for a 10 year period, renewable for another 6 years. This terminal was being used by the Ultimate Parent Company for its airline operations. For the year, revenues amounting to KD 300,000 (2010: KD 400,000) were generated from providing services to the Ultimate Parent Company. However, during the year, the Ultimate Parent Company ceased operations and, consequently, the terminal's traffic has significantly reduced. The management of the Group has initiated discussions with alternative carriers in Kuwait to increase the utilisation of this terminal by seeking to lease the terminal to other operators. Based on these discussions, the management is confident that it will be able to increase the utilisation for the terminal and, therefore, believes that the carrying amount of intangible assets for this terminal will be recovered from future operations. The management has not yet obtained the permission of the civil aviation authority to lease the terminal to alternate carriers, but has applied for permission in this regard. The management is confident that the approval to lease the terminal to alternate carriers will be obtained.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

**8 INVESTMENT IN ASSOCIATES**

The associates of the Group are as follows:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Ownership %</i>		<i>Carrying value</i>	
			<i>2011</i>	<i>2010</i>	<i>2011 KD</i>	<i>2010 KD</i>
Kuwait United Facilities Management Company W.L.L. ("KUFM") *	Kuwait	Real estate and project management	-	20	-	309,803
Kuwait United Construction Management Company W.L.L. ("KUCM") *	Kuwait	Construction	-	50	-	90,414
Spirit Real Estate Company K.S.C (Closed) ("SREC") **	Kuwait	Real estate	-	25	-	394,399
Jadi Inflight Catering Services Company ("JICS") ***	Kuwait	Aviation catering	25	-	62,500	-
					<u>62,500</u>	<u>794,616</u>

\* During the year, the Group sold its investment in KUFM and KUCM realising an aggregate gain of KD 10,000.

\*\* During the year, SREC issued share capital to which the Group did not subscribe. As a result, the Group's ownership interest in SREC decreased from 25% to 14.59%, resulting in loss of significant influence over SREC. Therefore, from the date of loss of significant influence, the Group reclassified its investment in SREC to financial assets available for sale at their carrying value of KD 392,044 (Note 9).

\*\*\* During the year, the Group acquired 25% equity interest in JICS. The company is not yet operational, and, therefore, the investment is carried at cost.

**9 FINANCIAL ASSETS AVAILABLE FOR SALE**

	<i>2011 KD</i>	<i>2010 KD</i>
Unquoted equity and debt securities	1,394,881	1,217,031
Managed portfolios of quoted equity securities	237,291	203,277
	<u>1,632,172</u>	<u>1,420,308</u>

Unquoted equity and debt securities in managed portfolio amounting to KD 1,002,837 (2010: KD 1,217,031) are fair valued by the portfolio manager.

Included under financial assets available for sale are unquoted equity securities amounting to KD 392,044 (2010: Nil) that are carried at cost, less impairment if any, since the fair value cannot be reliably estimated.

Based on the significant decline in the fair value of certain quoted equity securities and in light of the global financial crisis, management has taken an impairment loss of KD 13,945 (2010: KD 65,916) on these investments.

Financial assets available for sale are pledged as security against term loans (Note 16).



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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

**10 RECEIVABLES AND OTHER ASSETS**

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
<b>Gross receivables and other assets:</b>		
Trade receivables	1,302,061	1,415,918
Prepayments	40,002	74,586
Other assets	239,967	190,081
<b>Less:</b>		
Impairment loss	(370,592)	(370,592)
	<u>1,211,438</u>	<u>1,309,993</u>

**11 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents in the consolidated statement of cash flows consist of the following consolidated statement of financial position amounts:

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Cash and bank balances	12,001,617	6,986,615
Bank overdraft	(84,731)	(182,012)
	<u>11,916,886</u>	<u>6,804,603</u>

Included in cash and bank balances are bank deposits of KD 11,750,000 (2010: KD 6,650,000) with a commercial bank in Kuwait. These bank deposits are denominated in KD, are short term in nature and carry an effective interest rate which ranges between 0.88% to 2.88% (2010: 1.25 % to 2.65 %) per annum.

Bank overdraft carries interest ranging between 1.7% to 2.3% (2010: 1.7% to 2.3%) per annum over the Central Bank of Kuwait discount rate.

**12 SHARE CAPITAL, SHARE PREMIUM AND DIVIDENDS**

**a) Share Capital**

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Authorised, issued and fully paid in cash (82,500,000 shares of 100 fils each)	<u>8,250,000</u>	<u>8,250,000</u>

**b) Share Premium**

The share premium is not available for distribution.

**c) Dividends**

On 13 March 2011, the Annual General Assembly Meeting of the Parent Company's shareholders approved cash dividends of 30 fils per share (excluding treasury shares) for the year ended 31 December 2010 totaling KD 2,360,400 (2009: cash dividends of 35 fils per share (excluding treasury shares) totaling KD 2,766,750).

**13 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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

14 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.

15 TREASURY SHARES

	2011	2010
Number of treasury shares	3,700,000	3,820,000
Percentage of issued shares (%)	4%	5%
Market value (KD)	1,110,000	1,470,700

Reserves equivalent to the cost of the treasury shares held are not available for distribution.

16 TERM LOANS

31 December 2011:	KD	<i>Effective interest rate</i>	<i>Maturity</i>
<i>Non-current liabilities</i>			
Term loan	950,000	Central Bank of Kuwait discount rate plus 3% per annum, quarterly payments	September 2013
<i>Current liabilities</i>			
Term loan	800,000	Central Bank of Kuwait discount rate plus 2.5% per annum	February 2012
31 December 2010:			
<i>Non-current liabilities</i>			
Term loan	1,500,000	Central Bank of Kuwait discount rate plus 3% per annum, quarterly payments	September 2013
<i>Current liabilities</i>			
Term loan	1,050,000	Central Bank of Kuwait discount rate plus 2.5% per annum	February 2011

Term loans amounting to of KD 1,750,000 are secured by shares of a subsidiary, Royal Aviation K.S.C. (Closed), and financial assets available for sale (Note 9).

17 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2011 KD	2010 KD
Due to contractors and suppliers	1,586,823	995,890
Retentions	54,684	795,934
Accrued expenses	403,771	214,421
Tenant deposits	2,414,782	2,244,728
Provision for staff leave	100,828	86,200
Other payables	433,081	618,367
	<u>4,993,969</u>	<u>4,955,540</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

**18 RELATED PARTY TRANSACTIONS**

Related parties represent the Ultimate Parent Company, associates, 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.

Balances and transactions with related parties are as follows:

	<i>Ultimate Parent Company KD</i>	<i>Other related parties KD</i>	<i>31 December 2011 KD</i>	<i>31 December 2010 KD</i>
<b>Consolidated income statement:</b>				
Revenues	266,532	122,805	389,337	367,688
Interest income	-	269,561	269,561	178,155
Share of results of associates	-	(31,182)	(31,182)	(107,790)
Other income	81,905	33,339	115,224	-
Impairment loss on amount due from related parties	3,086,713	-	3,086,713	-
General and administrative expenses	-	(5,675)	(5,675)	(28,687)
Finance costs	-	131,654	131,654	(176,175)

	<i>Ultimate Parent Company KD</i>	<i>Other related parties KD</i>	<i>31 December 2011 KD</i>	<i>31 December 2010 KD</i>
<b>Consolidated statement of financial position:</b>				
Due from related parties	366,803	987,481	1,354,284	3,736,205
Cash and bank balances	-	11,916,886	11,916,886	6,804,603
Term loans	-	1,750,000	1,750,000	2,550,000
Due to related parties	45,000	627,225	672,225	541,843

Financial assets available for sale (Note 9) amounting to KD 1,240,128 (2010: KD 1,420,308) are managed by a related party.

**Compensation of key management personnel**

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

	<i>2011 KD</i>	<i>2010 KD</i>
Short-term benefits	213,280	317,873
Employees' end of service benefits	16,154	25,158
	<u>229,434</u>	<u>343,031</u>

**19 COMMITMENTS**

The Discovery Mall, car park and commercial complex of Kuwait International Airport (Note 7) are constructed on a leased land for which an annual lease payment of KD 690,888 (2010: KD 690,888) has been made. The lease payments for the future periods are as follows:

	<i>2011 KD</i>	<i>2010 KD</i>
Not later than 5 years	3,418,440	3,084,552
Later than 5 years	3,247,216	3,720,000
	<u>6,665,656</u>	<u>6,804,552</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

20 CONTINGENCIES

As at 31 December 2011, the Group had contingent liabilities, amounting to KD 322,240 (2010: KD 356,550), in respect of bank guarantees (issued by the Group's bankers) arising in the ordinary course of business from which it is anticipated that no material liabilities will arise,

21 PROPOSED DIVIDEND

The board of directors of the Parent Company proposed a cash dividend of KD 0.030 (2010: cash dividend of KD 0.030) per share. This proposal is subject to the approval of the shareholders of the Parent Company in the Annual General Meeting. These dividends have not been accounted for in these consolidated financial statements.

22 SEGMENTAL INFORMATION

For management purposes, the Group is organised in two operating segments "investments" and "rental and other services operations" as follows:

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, taxation is managed on a Group basis and is not allocated to operating segments.

	<i>Investments</i>		<i>Rental and other services operations</i>		<i>Total</i>	
	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Segment revenues	<u>244,764</u>	<u>77,985</u>	<u>11,861,488</u>	<u>11,908,983</u>	<u>12,106,252</u>	<u>11,986,968</u>
Segment profit	<u>3,823</u>	<u>1,360</u>	<u>2,144,811</u>	<u>3,307,538</u>	<u>2,148,634</u>	<u>3,308,898</u>
Unallocated expenses					<u>(129,805)</u>	<u>(226,336)</u>
Profit for the year					<u>2,018,829</u>	<u>3,082,562</u>
Depreciation and amortisation	<u>-</u>	<u>-</u>	<u>(3,018,325)</u>	<u>(4,105,820)</u>	<u>(3,018,325)</u>	<u>(4,105,820)</u>

	<i>Investments</i>		<i>Rental and other services operations</i>		<i>Total</i>	
	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Assets	<u>13,696,289</u>	<u>9,201,539</u>	<u>28,274,268</u>	<u>33,661,859</u>	<u>41,970,557</u>	<u>42,863,398</u>
Liabilities	<u>-</u>	<u>-</u>	<u>7,809,572</u>	<u>8,504,833</u>	<u>7,809,572</u>	<u>8,504,833</u>
Commitments	<u>-</u>	<u>-</u>	<u>6,665,656</u>	<u>6,804,552</u>	<u>6,665,656</u>	<u>6,804,552</u>

All of the Group's operations are in Kuwait.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

### 23 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into interest rate risk, currency risk and equity price risk. The Group is also exposed to operational risks.

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its bank balances and receivables.

The maximum credit exposure is equal to the carrying amount of outstanding receivables and bank balances.

#### Receivables and other assets

The Group limits its credit risk with respect to customers/tenants by setting credit limits for individual customers/tenants, monitoring outstanding receivables, holding rent deposits and limiting transactions with specific counterparties.

Other than amount due from tenants which was substantially received subsequent to the year end, there is no significant concentration of credit risk within the Group.

#### Cash and cash equivalents

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

#### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash & cash equivalents, and readily marketable securities.

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 2011	<i>On demand KD</i>	<i>Within 3 months KD</i>	<i>3 – 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
<b>LIABILITIES</b>					
Bank overdraft	-	84,731	-	-	84,731
Term loans	-	202,750	633,000	1,084,979	1,920,729
Due to related parties	672,225	-	-	-	672,225
Accounts payable and other liabilities	-	1,667,242	1,095,305	2,231,149	4,993,696
	<u>672,225</u>	<u>1,954,723</u>	<u>1,728,305</u>	<u>3,316,128</u>	<u>7,671,381</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

**23 RISK MANAGEMENT (continued)**

**Liquidity risk (continued)**

31 December 2010	<i>On demand KD</i>	<i>Within 3 months KD</i>	<i>3 – 12 Months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
<b>LIABILITIES</b>					
Bank overdraft	-	182,315	2,730	-	185,045
Term loans	-	1,065,625	33,750	1,578,750	2,678,125
Due to related parties	541,843	-	-	-	541,843
Accounts payable and other liabilities	-	210,967	1,791,824	2,952,749	4,955,540
	<b>541843</b>	<b>1,458,907</b>	<b>1,828,304</b>	<b>4,531,499</b>	<b>8,360,553</b>
Commitments	-	172,722	518,166	2,619,552	3,310,440

**Market risk**

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

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

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. 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 11 and 16.

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

	<i>Increase (decrease) in basis points</i>	<i>Effect on profit before board of directors' remuneration, Zakat, KFAS &amp; NLST KD</i>
<b>2011</b>		
<b>KD</b>	<b>+25</b>	<b>67,146</b>
2010		
KD	+25	50,136

A decrease in interest rate would have the opposite effect on profit for the year.

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 2011.

*Currency risk*

The Group is not exposed to significant currency risk as a significant portion of the Group's assets and liabilities are denominated in KD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

**23 RISK MANAGEMENT (continued)**

**Market risk (continued)**

*Equity price risk*

Equity price risk arises from changes in 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 Group also has unquoted equity investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated income statement will be impacted. The Group is not materially exposed to equity price risk.

**Operational risk**

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

**24 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 shareholders' value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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

The Group monitors capital using a leverage ratio, which is net debt divided by equity attributable to equity holders of the Parent Company. The Group's policy is to keep the gearing ratio less than 30%. The Group includes within net debt, term loans, due to related parties and accounts payable and other liabilities, less cash and cash equivalents.

	<i>2011</i>	<i>2010</i>
	<i>KD</i>	<i>KD</i>
Term loans	1,750,000	2,550,000
Due to related parties	672,225	541,843
Accounts payables and other liabilities	4,993,969	4,955,540
Less: cash and cash equivalents	<u>(11,916,886)</u>	<u>(6,804,603)</u>
<b>Net debt</b>	<b><u>(4,500,692)</u></b>	<b><u>1,242,780</u></b>
<b>Equity attributable to equity holders of the Parent Company</b>	<b><u>31,386,061</u></b>	<b><u>31,329,154</u></b>
Gearing ratio (%)	<u>-</u>	<u>3.97</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

**25 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and financial liabilities.

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

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

**Fair value hierarchy**

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

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

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

**Assets measured at fair value**

	<i>Level 1</i> <i>KD</i>	<i>Level 2</i> <i>KD</i>	<i>Level 3</i> <i>KD</i>	<i>Total</i> <i>KD</i>
<b>31 December 2011</b>				
Financial assets available for sale (Note 9)	237,291	-	1,002,837	1,240,128
<b>31 December 2010</b>				
Financial assets available for sale (Note 9)	203,277	-	1,217,031	1,420,308

During the reporting period ending 31 December 2011, there were no transfers between Level 1 and Level 2 fair value hierarchy, and no transfers into and out of Level 3 fair value hierarchy.