Oula Fuel Marketing Company K.S.C

# Annual Report 2007

His Highness Sheikh
**Sabah Al-Ahmad Al-Jaber Al-Sabah**
Amir of the State of Kuwait

His Highness Sheikh
**Nawaf Al-Ahmad Al-Jaber Al-Sabah**
Crown Prince of the State of Kuwait

His Highness Sheikh
**Nasser Al-Mohammad Al-Jaber Al-Sabah**
Prime Minister - State of Kuwait

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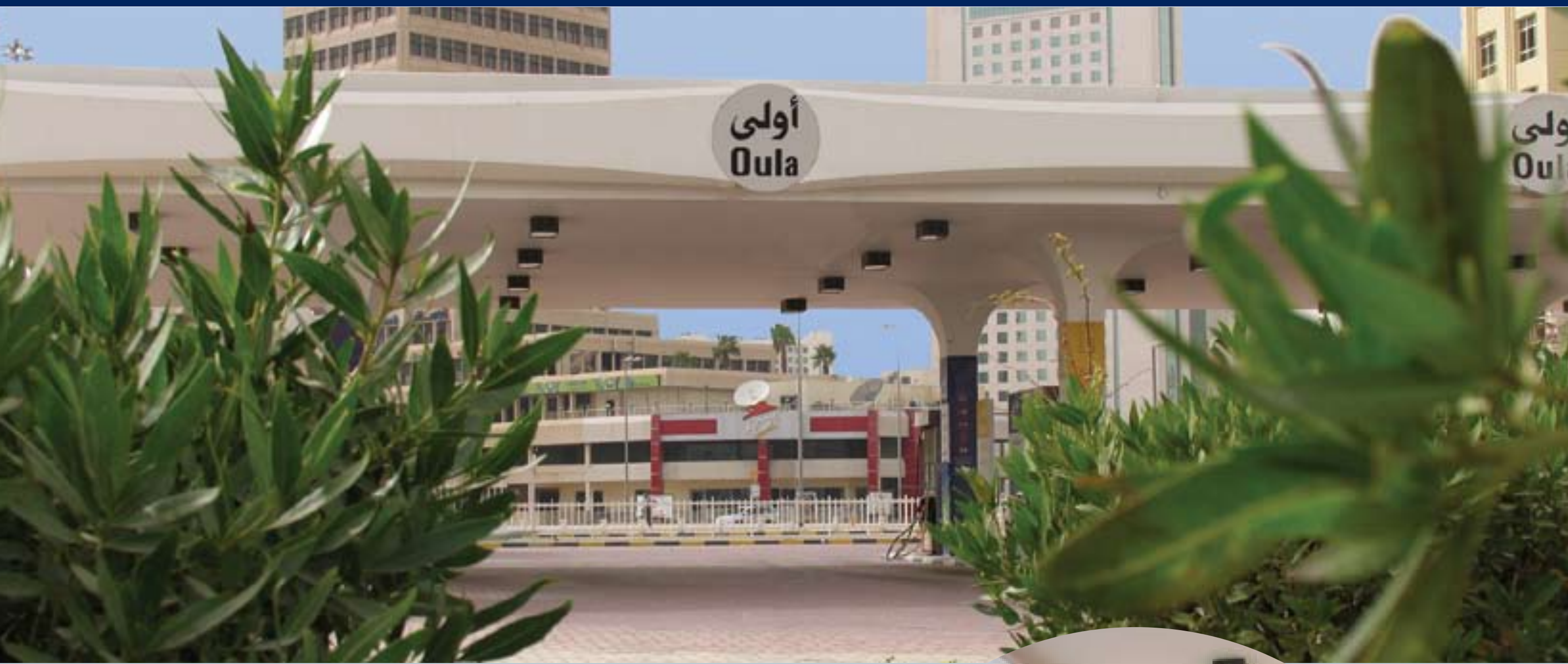
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# DIRECTORS MEMBERS - OULA FUEL MARKETING CO. K.S.C

1. Saud Abdul-Aziz Al-Babtain
   Chairman

2. Mahdi Mahmoud Haider
   Deputy Chairman

3. Abdulhadi Abdullah Busakher
   Managing Director

4. Mohannad Mohammad Al-Kharafi
   Board Member

5. Ahmad Abdul-Aziz Al-Ghannam
   Board Member

6. Mohammad Oqab Al-Khateeb
   Board Member

7. Mishari Ahmad Al-Obaid
   Board Member

8. Ahmad Ibrahim Al-Asfour
   Board Member

9. Ibrahim Ahmad Al-Khulaifi
   Board Member

## For the Financial Year Ended 31 December 2007

**Dear Shareholders:**

On behalf of the members of the board of directors, and myself, I am pleased to welcome you and present the Annual Report of Oula Fuel Marketing Company, highlighting the major achievements of the Company for the financial year ended 31 December 2007.

During the period, thanks to the efforts of all employees of your Company, Oula Fuel Marketing, we successfully managed to achieve a number of positive steps throughout the 40 stations, which ownership was fully transferred to our Company from Kuwait National Petroleum Company (KNPC) on 1/6/2005. Owing to the efficiency of the national staff members in your young Company, and in cooperation with KNPC and other governmental and private entities, the stations came into actual operation.

For the financial period ended 31 December 2007, our Company excellently performed, surpassing all expectations. In this context, I am delighted to review the Company's financial results and activities, and future projects.

Our Company realized total gross revenues of KD 10.988 million, posting a record net profit of KD 4.040 million, while expenses totaled KD 6.948 million. Total assets reached KD 51.109 million, and total shareholder's equity stood at KD 38.906 million, while total liabilities amounted to KD 12.203 million. As at 31 December 2007, earnings per share amounted to 13.48 Fils. In light of these results, the Board of Directors recommended a cash dividend of 10% of the nominal value of the share (10 Fils per share).

### Major Projects Implemented:

1. Connection of all stations and headquarters with a sophisticated and integrated electronic network.
2. Provision of ATMs.
3. Initiation of Customer Service Center on Hotline No. 800111.
4. Installation of POS system to accept cards, such as K-Net, Visa, MasterCard, American Express, Diners Club etc.

### Major Projects Planned include:

1. Provision of vehicle oil change and car wash services, as well as maintenance, repair, and technical check-up workshops.
2. Launching the first-of-kind prepaid and postpaid "oulaCard", through which we plan to provide innovative services in the near future, aiming at upgrading methods of fuel purchase

and other retail, corporate and government services.

3. Inaugurating a series of mini marts that allow our customers easy access to the various products.
4. Providing services via mobile phone, such as: bill payment, line purchase, mobile phone repair, etc.

Approval was obtained to allocate three new locations for the construction of modern, full-fledged service stations in Kabd, West Mishref, and East Shuaiba. With effect from July 2007, construction works commenced at Mubarak Al-Abdulla Station (West Mishref). The station features state-of-the-art architectural designs. We anticipate the works to complete in May 2008. Moreover, issuance of official construction licenses for Kabd and East Shuaiba stations is under way.

In conclusion, on behalf of the Board of Directors, I would like to take this opportunity to extend our thanks and appreciation to all government authorities, and private sector institutions, for their fruitful cooperation and constant support to our Company.

I would also like to extend our thanks to our shareholders for the confidence they vested in us, and would re-iterate our commitment to exert restless efforts towards realizing their interests, and growing their investments, in line with clear, accurate strategic plans.

I would also like to extend our thanks to all employees of the Company for their dedication, sincere efforts, and cooperation. We hope that our company's employees will put forth the best of their efforts towards achieving the Company's objectives in the best manner.

**Saud Abdul Aziz Al-Babtain**
**Chairman**

# Oula Fuel Marketing Company K.S.C
## and its subsidiary
### State of Kuwait

# Consolidated financial statements and independent auditors' report
# For the year ended 31 December 2007

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# Independent Auditors' Report

**to The shareholders of**
**Oula Fuel Marketing Company K.S.C.**
**State of Kuwait**

## Report on the Consolidated Financial Statements

We have audited the accompanying Consolidated Financial Statements of Oula Fuel Marketing Company K.S.C. ("the Parent Company") and its subsidiary (together referred to as "the Group") which comprise of the consolidated balance sheet as of 31 December 2007, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Consolidated Financial Statements

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

## Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Parent Company's 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.

## Opinion

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

## Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company, the inventory was duly carried out and the consolidated financial statements, together with the information given in the board of director's report agree with the books of account. 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 include the information required by the Commercial Companies Law of 1960 as amended, and by the Parent Company's Articles of Association. We have not become aware of any contravention during the year ended 31 December 2007, of the Commercial Companies Law of 1960, as amended, nor of the Parent Company's article of association, that would materially affect the Group's activities or its financial position.

**Ali A. Al Hasawi**
Licence No. 30 - (A)
BDO Burgan – International Accountants

**Qais M. Al-Nisf**
Licence No. 38 - (A)
of Moore Stephens Al-Nisf & Partners
Member Firm of Moore Stephens International

Kuwait, 9 March 2008

# CONSOLIDATED BALANCE SHEET
## As at 31 December 2007

| | Notes | 2007 KD | 2006 KD |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and Equipment | 3 | **2,127,164** | 952,617 |
| Available for sale investments | 4 | **2,739,500** | 210,000 |
| Intangible assets | 5 | **23,964,500** | 23,964,500 |
| | | **28,831,164** | 25,127,117 |
| **Current assets** | | | |
| Inventories | | **320,957** | 385,942 |
| Trade and other receivables | 6 | **1,324,218** | 1,970,439 |
| Time deposits | 7 | **16,308,056** | 20,722,969 |
| Cash and cash equivalents | 8 | **4,324,395** | 3,727,821 |
| | | **22,277,626** | 26,807,171 |
| **Total assets** | | **51,108,790** | 51,934,288 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 9 | **29,972,654** | 29,972,654 |
| Statutory reserve | 10 | **921,135** | 497,965 |
| Voluntary reserve | 11 | **921,135** | 497,965 |
| Fair value reserve | | **94,378** | - |
| Retained earnings | | **6,996,603** | 3,802,649 |
| Total equity | | **38,905,905** | 34,771,233 |
| **Non-current liabilities** | | | |
| Provision for staff indemnity | | **60,870** | 16,114 |
| | | **60,870** | 16,114 |
| **Current liabilities** | | | |
| Trade payables and other credit balances | 12 | **789,061** | 444,023 |
| Due to related parties | 17 | **11,352,954** | 16,702,918 |
| | | **12,142,015** | 17,146,941 |
| **Total liabilities** | | **12,202,885** | 17,163,055 |
| **Total equity and liabilities** | | **51,108,790** | 51,934,288 |

**Saud Abdulaziz Saud Al-Babtain**
Chairman

**Abdulhadi Busakher**
Managing Director

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF INCOME
## for the year ended 31 December 2007

| | Notes | 2007 | 2006 |
|---|---|---|---|
| | | **KD** | KD |
| Sales | | **73,948,983** | 75,170,786 |
| Cost of sales | | **(64,483,506)** | (65,548,926) |
| Operating expenses | 13 | **(4,810,128)** | (6,313,236) |
| Gross profit | | **4,655,349** | 3,308,624 |
| Loss on sale of available for sale investments | | **(203)** | - |
| Loss on disposal of property, plant and equipment | | **(61,535)** | - |
| Interest income | | **1,241,546** | 1,316,537 |
| Other income | | **280,812** | 229,389 |
| General and administrative expenses | 14 | **(1,884,268)** | (1,204,246) |
| **Profit for the year before contribution to KFAS, NLST, Zakat and Directors' remuneration** | | **4,231,701** | 3,650,304 |
| Kuwait Foundation for the Advancement of Sciences | | **(38,028)** | (32,853) |
| National Labor Support Tax ("NLST") | | **(105,793)** | (91,258) |
| Zakat | 15 | **(2,586)** | - |
| Board of Directors' remuneration | | **(45,000)** | (45,000) |
| Profit for the year | | **4,040,294** | 3,481,193 |
| **Earnings per share (basic and diluted)** | 16 | **13.48 Fils** | 11.61 Fils |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## for the year ended 31 December 2007

| | Share capital | Statutory reserve | Voluntary reserve | Fair value reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD | KD |
| **Balance at 1 January 2007** | **29,972,654** | **497,965** | **497,965** | **-** | **3,802,649** | **34,771,233** |
| Changes in fair value in available-for-sale investments | **-** | **-** | **-** | **94,378** | **-** | **94,378** |
| Income recognised directly in equity | **-** | **-** | **-** | **94,378** | **-** | **94,378** |
| Profit for the year | **-** | **-** | **-** | **-** | **4,040,294** | **4,040,294** |
| Total recognized income for the year | **-** | **-** | **-** | **94,378** | **4,040,294** | **4,134,672** |
| Transfer to reserves | **-** | **423,170** | **423,170** | **-** | **(846,340)** | **-** |
| **Balance at 31 December 2007** | **29,972,654** | **921,135** | **921,135** | **94,378** | **6,996,603** | **38,905,905** |
| **Balance at 1 January 2006** | 29,972,654 | 132,935 | 132,935 | - | 1,051,516 | 31,290,040 |
| Profit for the year | - | - | - | - | 3,481,193 | 3,481,193 |
| Transfer to reserves | - | 365,030 | 365,030 | - | (730,060) | - |
| **Balance at 31 December 2006** | 29,972,654 | 497,965 | 497,965 | - | 3,802,649 | 34,771,233 |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
## for the year ended 31 December 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | **KD** | KD |
| **Operating activities** | | | |
| Profit for the year | | **4,040,294** | 3,481,193 |
| Adjustments: | | | |
| Depreciation | | **215,580** | 1,781,905 |
| Losses on sale of available for sale investments | | **203** | - |
| Provision for staff indemnity | | **44,756** | 5,329 |
| Loss on disposal of property, plant and equipment | | **61,535** | - |
| Interest income | | **(1,241,546)** | (1,316,537) |
| Movement in working capital | | **3,120,822** | 3,951,890 |
| Inventories | | **64,985** | (40,616) |
| Trade and other receivables | | **736,221** | (1,596,941) |
| Trade payables and other credit balances | | **345,038** | (383,061) |
| Due to related parties | | **(5,349,964)** | (2,926,126) |
| Net cash used in operating activities | | **(1,082,898)** | (994,854) |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(1,451,662)** | (596,667) |
| Net paid for purchase of available for sale investments | | **(2,435,325)** | (210,000) |
| Time deposits | | **4,594,807** | (7,994,465) |
| Interest income received | | **971,652** | 1,059,306 |
| Net cash from / (used in) investing activities | | **1,679,472** | (7,741,826) |
| Net increase/(decrease) in cash and equivalents | | **596,574** | (8,736,680) |
| Cash and cash equivalent at the begining of the year | | **3,727,821** | 12,464,501 |
| **Cash and cash equivalent at the end of the year** | **8** | **4,324,395** | 3,727,821 |

The accompanying notes form an integral part of these consolidated financial statements.

## 1. INCORPORATION AND PRINCIPAL ACTIVITIES

Oula Fuel Marketing Company K.S.C ("the Parent Company") is a Kuwaiti shareholding company incorporated on 17 May 2004, as per the Amiri Decree No. 152, for the year 2004 and was registered under the commercial registration No. 40 on 17 May 2004.

The Group comprises the Parent Company and its subsidiary.Details of the subsidiaries are set out in Note 2.3.

The main objectives of the Parent Company are to provide the following services:

- Acquisition, holding, establishing, leasing, operating, and maintenance of petrol stations;
- Establishing, developing, operating and maintenance of customer service centers at fuel stations and to provide all car services including changing oil, car wash, maintenance workshop services and technical check-up;
- Provide filling and storing fuel;
- Shipment services and trading in the petroleum products by sale or purchase in bulk or retail; and
- Purchase, lease, acquisition, and sale of land and real estates in different locations in order to achieve the Company's objectives mentioned above.

The Parent Company's share was listed on the Kuwait Stock Exchange on 18 December 2006.

The head office of the Parent Company is located in Alqebla area, P.O. Box 29009, Safat 13151, State of Kuwait.

The consolidated financial statements of the Group for the year ended 31 December 2007 were authorized for issue by the board of directors on 9 March 2008 and are subject to the approval of the Annual General Assembly of the shareholders. The shareholders of the Parent Company have the power to amend these consolidated financial statements at the Annual General Assembly.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Statement of Compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

### 2.2 Basis of preparation

The consolidated financial statements are prepared on the historical cost or amortized cost basis except for measurement at fair value of available for sale of investments.

The consolidated financial statements have been presented in Kuwaiti Dinars which is the functional currency of the Parent Company.

The Group has adopted IFRS 7 Financial Instruments: Disclosures and the amendments to IAS 1: Presentation of Financial Statements effective for year ended 31 December 2007 which has resulted in amended and additional disclosures relating to financial instruments and associated risks and capital management. The principal accounting policies are set out below:

### 2.3 Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary ("the group").Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of a subsidiary so as to obtain benefits from its activities. The financial statements of subsidiaries, other than those which are held with a view to disposal within twelve months are included in the consolidated financial statements on a line by line basis from the date that control effectively commences until the date that control effectively ceases. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Minority interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

During the year, the Group has established a subsidiary which is set out as follows:

| Name of Subsidiaries | Shareholding (%) | Country of incorporation |
|---|---|---|
| Oula National Market Services K.S.C. (Closed) | 100% | State of Kuwait |

### 2.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the parent company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated statement of income.

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on prospective basis. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in consolidated statement of income in the period in which they occur.

### 2.6 Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated impairment losses. The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and tested for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

If the carrying value of the intangible asset is more than the recoverable amount, the intangible asset is considered impaired and is written down to its recoverable amount.

The excess of carrying value over recoverable amount is recognised in the consolidated statement of income.

## 2. SIGNIFICANT ACCOUNTING POLICIES - Continued

### 2.7 Impairment of tangible and intangible assets

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Group assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years.

Impairment losses are recognized immediately in the consolidated statement of income.

### 2.8 Investments

#### 2.8.1 Available for sale investments

Available for sale investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition.

After initial recognition, available for sale investments are remeasured at fair value except for investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

Unrealized gain or loss on remeasurement of available for sale investments to fair value is recognised directly in equity in "fair value reserve" account until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. Exchange gain or loss on monetary available for sale investments is recognised in the consolidated statement of income.

#### 2.8.2 Fair value

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the valuation techniques commonly used by market participants.

#### 2.8.3 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase/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.

### 2.9 Inventories

Inventories are stated at the lower of weighted average cost and net realizable value.

### 2.10 Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future cash flows, discounted at original interest rates and any impairment loss is recognised in the consolidated statement of income. A loss is recognised in the consolidated statement of income when a financial asset is impaired. In respect of available for sale investments, any increases in fair value subsequent to an impairment loss is recognised directly in equity.

### 2.11 Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### 2.12 Provision for staff indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

### 2.13 Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost less provision of impairment losses.

### 2.14 Related party transactions

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by the such parties.

All related party transactions are conducted on an arm's length basis and are approved by management.

### 2.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## 2. SIGNIFICANT ACCOUNTING POLICIES - Continued

### 2.15 Revenue recognition - Continued

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Dividend income from investments is recognised when the equity Group's right to receive payment has been established.

### 2.16 Leasing

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 2.17 De-recognition of financial assets and financial liabilities

#### 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 where:

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

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.

#### Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where 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 de-recognition of the original liability and the recognition of a new liability.

### 2.18 Foreign currency translation

Foreign currency transactions are recorded in Kuwaiti Dinars at the rates of exchange prevailing at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated to Kuwaiti Dinars at the rate of exchange prevailing on the consolidated balance sheet date. Resulting gains or losses on exchange are recorded as part of the results for the year.

Non-monetary assets and liabilities denominated in foreign currency, which are stated at historical cost, are recorded at the exchange rate ruling at the date of transaction. Non monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to KD at the foreign exchange rates ruling at the dates that the values were determined.

### 2.19 Financial instruments

Financial instruments are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

### 2.20 Financial liabilities

All financial liabilities are initially measured at cost and are subsequently measured at amortized cost.

### 2.21 Dividends

Dividends are recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the shareholders.

### 2.22 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services, business segment or providing products or services within a particular economic environment, geographical segment, where it is subject to risks and rewards that are different from other segments.

### 2.23 Significant accounting judgements and estimation uncertainty

#### Accounting judgements

In the process of applying the Group's accounting policies, management has used judgments in the consolidated financial statements.

#### Impairment of investments

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgement. In addition, the group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

#### Investment classification

Management decides on acquisition of an investment whether it should be classified as held for trading, at fair value through statement of income, or available for sale.

Classification of investments as investments at fair value through statement of income depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as at fair value through statement of income. All other investments are classified as available for sale.

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated balance sheet 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:

#### Valuation of unquoted equity investments

Valuation of unquoted equity instrument is normally based on one of the following recent arm's length market transactions:

- Fair value of other similar instruments
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.

## 2. SIGNIFICANT ACCOUNTING POLICIES - Continued

### 2.23 Significant accounting judgements and estimation uncertainty - Continued

- other valuation models.

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

### 2.24 Standards issued but not yet effective

The following standards and interpretations which have been issued but are not yet effective are applicable to the group.

IFRS 8: 'Operating Segments' which replaces IAS 14 'Segment Reporting' is effective for annual periods beginning on or after 1 January 2009. This standard would amend the disclosures of the Company's operating segments, products, services and geographical areas in which it operates.

This standard has not been applied in these consolidated financial statements and the Group intends to comply with this standard from its effective date.

IAS 1 'Presentation of Financial Statements' (revised) effective for the accounting periods beginning on or after 1 January 2009 would impact the presentation of the consolidated financial statements to enhance the usefulness of the information presented.

The revisions to IAS 23: Borrowing Costs, will have no impact on the group's accounting policies. The principal change to the Standard, which was to eliminate the previously available option to expense all borrowing costs when incurred, will have no impact on the consolidated financial statements.

## 3. PROPERTY, PLANT AND EQUIPMENT

| | Fuel stations | Furniture and decoration | Computers | Machinery & equipment | Projects under construction | Total |
|---|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD | KD |
| **Cost** | | | | | | |
| Balance at 1 January 2006 | 3,858,000 | 119,275 | 191,534 | 29,765 | 141,449 | 4,340,023 |
| Additions | - | 24,730 | 44,058 | 159,143 | 376,911 | 604,842 |
| Deletions | - | - | - | - | - | - |
| Balance at 1 January 2007 | **3,858,000** | **144,005** | **235,592** | **188,908** | **518,360** | **4,944,865** |
| Additions | **-** | **-** | **181,390** | **-** | **1,270,272** | **1,451,662** |
| Disposals | **-** | **-** | **(93,000)** | **-** | **-** | **(93,000)** |
| Transferred from projects in progress | **-** | **-** | **245,689** | **-** | **(245,689)** | **-** |
| Balance at 31 December 2007 | **3,858,000** | **144,005** | **569,671** | **188,908** | **1,542,943** | **6,303,527** |
| **Accumulated depreciation** | | | | | | |
| Balance at 1 January 2006 | **2,189,299** | **4,976** | **13,809** | **2,259** | **-** | **2,210,343** |
| Charge for the year | **1,668,660** | **33,509** | **54,672** | **25,064** | **-** | **1,781,905** |
| Balance at 1 January 2007 | **3,857,959** | **38,485** | **68,481** | **27,323** | **-** | **3,992,248** |
| Charge for the year | **-** | **36,002** | **132,350** | **47,228** | **-** | **215,580** |
| Relating to disposals | **-** | **-** | **(31,465)** | **-** | **-** | **(31,465)** |
| Balance at 31 December 2007 | **3,857,959** | **74,487** | **169,366** | **74,551** | **-** | **4,176,363** |
| **Carrying amount** | | | | | | |
| As at 31 December 2007 | **41** | **69,518** | **400,305** | **114,357** | **1,542,943** | **2,127,164** |
| As at 31 December 2006 | 41 | 105,520 | 167,111 | 161,585 | 518,360 | 952,617 |
| Rate of depreciation per annum | 6.67% | 25% | 25% | 25% | | |

Fuel stations are erected on land leased from the Government of Kuwait for 3 years and is renewable when the lease expires. The depreciation charge has been allocated as follows:

| | 2007 | 2006 |
|---|---|---|
| | KD | KD |
| Operating expenses | 129,348 | 1,686,216 |
| General and administration expenses | 86,232 | 95,689 |
| | 215,580 | 1,781,905 |

## 4. AVAILABLE FOR SALE INVESTMENTS

| | 2007 | 2006 |
|---|---|---|
| | KD | KD |
| Quoted investments in managed portfolios | 1,934,500 | - |
| Unquoted investments | 805,000 | 210,000 |
| | 2,739,500 | 210,000 |

Available for sale investments are acquired with the intention of capital appreciation over a medium to long-term time frame. Certain available for sale investments are managed by a third party (note 17).

## 5. INTANGIBLE ASSETS

Intangible assets represents the excess of cost of acquiring the local fuel marketing activity including fuel stations amounting 40 ones, over the fair value of the identifiable net assets acquired as below:

| | 2007 | 2006 |
|---|---|---|
| | KD | KD |
| Cost of acquisition | 27,700,000 | 27,700,000 |
| Fair value of identifiable assets and liabilities | (3,735,500) | (3,735,500) |
| | 23,964,500 | 23,964,500 |

At the balance sheet date by the Group carried out an independent valuation of the recoverable amount of the intangible assets by an external party. The recoverable amount of these assets was greater than its carrying amount by KD 27,970,345 at the balance sheet date. Valuation of the recoverable amount was determined by reference to discounted cash flow method.

## 6. TRADE AND OTHER RECEIVABLES

| | 2007 | 2006 |
|---|---|---|
| | KD | KD |
| Trade receivables | 851,680 | 1,486,515 |
| Prepayments | 414,105 | 430,206 |
| Refundable deposits | 11,700 | 11,700 |
| Others | 46,733 | 42,018 |
| | 1,324,218 | 1,970,439 |

In determining the recoverability of a trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Groups' management believes that there is further provision required.

## 7. TIME DEPOSITS

This represents the balance of deposits maturing during a period exceeding three months from the placement date. The effective interest rate on these deposits as of 31 December 2007 ranges from 7.0% to 7.5% (31 December 2006: 4.25% to 7.5%).

## 8. CASH AND CASH EQUIVALENT

| | **2007** | 2006 |
|---|---|---|
| | **KD** | KD |
| Cash on hand | **343,824** | 774,459 |
| Cash at bank | **3,253,724** | 1,653,362 |
| Time deposits | **-** | 1,300,000 |
| Wakala investments | **430,000** | - |
| Cash at portfolios | **296,847** | - |
| | **4,324,395** | 3,727,821 |

The effective interest rate on term deposits as of 31 December 2007 was Nil (31 December 2006: 4.75%).

## 9. SHARE CAPITAL

The Parent Company's share capital comprises of 299,726,540 ordinary shares (31 December 2006: 299,726,540) shares of 100 fils each as follows:

| | **2007** | 2006 |
|---|---|---|
| | **KD** | KD |
| Authorized and issued | **30,000,000** | 30,000,000 |
| Unallocated shares | **(27,346)** | (27,346) |
| | **29,972,654** | 29,972,654 |

## 10. STATUTORY RESERVE

In accordance with the Kuwait Commercial Companies' Law of 1960, and the Parent Company's articles of association, as amended, 10% of the net profit for the year is required to be transferred to the statutory reserve until the reserve totals 50% of the paid up share capital.

Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

## 11. VOLUNTARY RESERVE

As required by the Parent Company's Articles of Association, a percentage of the net profit for the year is required to be transferred to the voluntary reserve as proposed by the board and agreed by the general assembly. This transfer may be discontinued as per a resolution from the general assembly.

## 12. TRADE PAYABLES AND OTHER CREDIT BALANCES

| | 2007 | 2006 |
|---|---|---|
| | **KD** | KD |
| Trade payables | **456,095** | 24,974 |
| Accrued expenses | **8,597** | 55,716 |
| Staff leave pay | **65,202** | 33,642 |
| Kuwait Foundation for the Advancement of Sciences | **38,028** | 44,817 |
| National Labor Support Tax ("NLST") | **105,793** | 91,258 |
| Provision for Zakat | **2,586** | - |
| Notes payable | **-** | 136,541 |
| Board of Directors' remuneration | **45,000** | 45,000 |
| Advances received | **57,760** | - |
| Other | **10,000** | 12,075 |
| | **789,061** | 444,023 |

## 13. OPERATING EXPENSES

| | 2007 | 2006 |
|---|---|---|
| | **KD** | KD |
| Salaries, wages and staff costs | **728,109** | 358,897 |
| Lease rental | **673,269** | 702,029 |
| Margin money | **26,297** | 6,754 |
| Fuel stations management contract | **2,419,398** | 2,677,977 |
| Depreciation | **129,348** | 1,686,216 |
| Cleaning | **75,550** | 42,341 |
| Consultancy and designs | **-** | 130,019 |
| Transportation | **319,505** | 298,880 |
| Others | **438,652** | 410,123 |
| | **4,810,128** | 6,313,236 |

## 14. GENERAL & ADMINISTRATION EXPENSES

| | 2007 | 2006 |
|---|---|---|
| | **KD** | KD |
| Salaries, wages and staff costs | **969,073** | 619,427 |
| Consultancy expenses | **22,375** | 144,577 |
| Lease charges | **148,496** | 120,116 |
| Depreciation | **86,232** | 95,689 |
| Publicity and business promotion | **27,092** | 59,222 |
| Margin money | **276** | 47,439 |
| Office Equipment | **797** | 46,455 |
| Others | **629,927** | 71,321 |
| | **1,884,268** | 1,204,246 |

## 15. ZAKAT

A Zakat of 1% has been provided for a period of 22 days from 10 December 2007 as of applying Law No. 46 of 2006 concerning Zakat.

## 16. EARNINGS PER SHARE (EPS)

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

| | **2007** | 2006 |
|---|---|---|
| Profit for the year (KD) | **4,040,294** | 3,481,193 |
| Weighted average number of outstanding shares | **299,726,540** | 299,726,540 |
| **Earnings per share (basic and diluted)** | **13.48 Fils** | 11.61 Fils |

## 17. RELATED PARTIES TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by the such parties.

Pricing policies and terms of these transactions are approved by the Group's management. Related parties transactions are as follows:

| | **Major shareholders** | **Key management personnel** | **Total 2007** | Total 2006 |
|---|---|---|---|---|
| **Consolidated balance sheet** | **KD** | **KD** | **KD** | **KD** |
| Available for sale investments | 2,739,500 | - | **2,739,500** | 210,000 |
| | | - | | |
| **Consolidated statement of income** | | | | |
| Purchase of fuel | 9,044,621 | - | **9,044,621** | 9,780,416 |
| Balance of purchase of Property plant and equipment | 2,308,333 | - | **2,308,333** | 6,922,502 |
| Key management compensation | - | 45,000 | **45,000** | 45,000 |

## 18. SEGMENTAL INFORMATION

The Parent Company is organized on operating divisions for management of its various business lines with its business mainly located in Kuwait, so there are no secondary geographical segments. For the purposes of reporting on primary segment information "business segments", the management merged its products and services within the following business segments:

- Fuels: This represents car fuel service.
- Investment segment: Investment in bank deposits, portfolios, securities and other investment activities.

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Fuels** | **Investment** | **Total** | Fuels | Investment | Total |
| | KD | KD | KD | KD | KD | KD |
| Income | **73,948,983** | **(203)** | **73,948,780** | 75,170,786 | - | 75,170,786 |
| Segments costs | **(69,293,634)** | **-** | **(69,293,634)** | (71,862,162) | - | (71,862,162) |
| Segments results | **4,655,349** | **(203)** | **4,655,146** | 3,308,624 | - | 3,308,624 |
| Other income | | | **1,522,358** | | | 1,545,926 |
| Loss on disposal of property, plant and equipment | | | **(61,535)** | | | - |
| Un allocated expenses | | | **(2,075,675)** | | | (1,373,357) |
| Profit for the year | | | **4,040,294** | | | 3,481,193 |
| **Other information** | | | | | | |
| Assets | | | | | | |
| Segments assets | **26,021,664** | **3,036,347** | **29,058,011** | 26,218,004 | 210,000 | 26,428,004 |
| Unallocated assets | | | **22,050,779** | | | 25,506,284 |
| Total assets | | | **51,108,790** | | | 51,934,288 |
| Liabilities | | | | | | |
| Segments liabilities | **11,489,992** | **-** | **11,489,992** | 16,727,892 | - | 16,727,892 |
| Unallocated liabilities | | | **712,893** | | | 435,163 |
| Total liabilities | | | **12,202,885** | | | 17,163,055 |

## 19. FINANCIAL RISK AND CAPITAL MANAGEMENT

### a) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

### b) Significant accounting policies:

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 2 to the consolidated financial statements.

## 19. FINANCIAL RISK AND CAPITAL MANAGEMENT - CONTINUED

### c) Categories of financial instruments

| | **2007** | 2006 |
|---|---|---|
| | **KD** | KD |
| **Financial assets** | | |
| Cash and cash equivalent | **4,324,395** | 3,727,821 |
| Trade receivables | **851,680** | 1,486,515 |
| Available for sale investments | **2,739,500** | 210,000 |
| **Financial liabilities** | | |
| Trade payables | **456,095** | 24,974 |
| Due to related parties | **11,352,954** | 16,702,918 |

### d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit policy is monitored on an ongoing basis. The Group seeks to avoid undue concentration of risks with individuals or group of customers in specific locations or activities. through diversification of lending activities and obtaining the suitable guarantees when appropraite. The maximum credit risk exposure is not materially different from the carrying values in the consolidated financial statements.

### e) Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in equity prices. Financial instruments, which potentially subject the Group to market risk, consist principally of investments available for sale. The Group manages this risk by diversifying its investments on the basis of the pre-determined asset allocations across various categories, continuous appraisal of market conditions and trends and management estimate of long and short term changes in fair value.

The following table demonstrates the sensitivity of the changes in fair value to reasonably possible changes in prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

| | **Change in price** | **Effect on equity** | 2006 |
|---|---|---|---|
| Kuwait | +5% | 1,219 | - |

### f) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Financial instruments, which potentially subject the Group to interest rate risk, consist principally of cash and cash equivalents, and bank deposits.

In the opinion of management there is no exposure to interest rate since its financial instruments bear fixed interest rate.

### g) Foreign currency risk management

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group incurs foreign currency risk on sales, purchases and certain investments that are denominated in a currency other than Kuwaiti Dinars. Exchange rate exposures are managed within approved policy parameters.

**h) Liquidity risk**

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

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

**i) Fair value of financial assets and liabilities**

The fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. As at the balance sheet date, the fair value of the Group's financial assets, and financial liabilities were not materially different from their carrying values.

## 20. PROPOSED DIVIDEND

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the board of directors propose to distribute 10% cash dividend (10 fils for each share) to the shareholders of record as of the date of the general assembly.

## 21. CONTRACTS AND CONTINGENT LIABILITIES

| | **2007** | 2006 |
|---|---|---|
| | **KD** | KD |
| **Contingent liabilities** | | |
| Letter of guarantee | **4,618,143** | 13,850,000 |

### Operating leases

Minimum lease commitments under non-cancelable operating leases are as follows.

| | **2007** | 2006 |
|---|---|---|
| | **KD** | KD |
| Less than 1 year | **814,372** | 794,470 |

## 22. COMPARATIVE FIGURES

Where necessary, some comparative figures have been reclassified to conform with the presentation in the current year.

# CONTACT GUIDE

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