

Annual Report 2009
Kuwait National Cinema Co. (S.A.K)



IN THE NAME OF ALLAH, THE MOST GRACIOUS, THE MOST MERCIFUL

H.H. Sheikh Sabah Al Ahmad Al Jaber Al Sabah
Amir of the State of Kuwait



H.H. Sheikh Nawaf Al Ahmad Al Jaber Al Sabah
Crown prince of the State of Kuwait



H.H. Sheikh Nasser Al Mohammed Al Ahmad Al Sabah
Prime minister of the state of Kuwait



CONTENTS

BOARD MEMBERS	9
EXECUTIVE MANAGEMENT	9
CHAIRMAN'S LETTER	10
INDEPENDENT AUDITORS' REPORT	12
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	14
CONSOLIDATED STATEMENT OF INCOME	15
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	16
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	16
CONSOLIDATED STATEMENT OF CASH FLOWS	17
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	18

BOARD MEMBERS

Nawaf Ahmed Al Marzouq - CHAIRMAN & CEO
Ahmed Abdulaziz Al Sarawi - VICE CHAIRMAN
Osama Jawad Bukhamseen - BOARD MEMBER
Sheikh Duaij Al Khalifa Al Sabah - BOARD MEMBER
Raed Jawad Bukhamseen - BOARD MEMBER
Mohamed Mustafa Al Marzouq - BOARD MEMBER
Marzouq Jasem Al Marzouq - BOARD MEMBER
Mishaal Jasem Al Marzouq - BOARD MEMBER
Nayef Bander Al Lafi - BOARD MEMBER

EXECUTIVE MANAGEMENT

Hisham Fahad Al Ghanim - GENERAL MANAGER PROGRAMES & OPERATIONS
Nasser Bader Al Rowdan - GENERAL MANAGER ADMINISTRATION & SERVICES
Lujain Fouad Al Saleh - GENERAL MANAGER MARKETING
Sami Qasim Sbeiti - PROGRAMES MANAGER
Hamad Abdulaziz Al Sayegh - PURCHASING & SERVICES MANAGER

CHAIRMAN'S LETTER

HONORABLE SHAREHOLDERS

Peace be upon you, with God's mercy and blessings

On behalf of my counterparts members of the Board and myself, it gives me pleasure to present to you the Kuwait National Cinema Company's Annual Report of year 2009,

in which I explore the most important events of the Company for this year. I am also presenting to you the Auditors' Report, Income Statement and Balance Sheet of the Company for the fiscal year ended on 31 December 2009

HONORABLE BROTHERS,

2009 was a special year for Kuwait National Cinema Company as we proudly celebrated our 55th Anniversary on October 5th 2009. Our 55th anniversary allowed us to look back and reflect at our achievements throughout the years. We have significantly developed throughout the years the art of exhibition. Our meticulous interiors, Digital technology, choices of films and the vast exposure of our locations have contributed to redefining the cinema industry in Kuwait. We have also managed throughout the years to pioneer the distribution industry as well, transcending local talent and local identity across the Middle East. Our objective is to continue to be one of the main pillars of media and entertainment, transporting Global cultures to Kuwait. This is just the beginning of many more endeavors.

Having said that, it pleases me to point out KNCC's achievement in respect of the display rate, whereby it managed during year 2009 to display 294 films as total for the various nationalities: American, British, French, Indian, Arabian, Gulf and Kuwaiti, which represents 4% rate of increase i.e. 12 films vis-à-vis year 2008.

HONORABLE BROTHERS,

Based on well thought-out plans that were implemented by the Company's staff during year 2009, the Company has persisted in attaining the results it anticipated. New and prime locations have opened. The most prominent was the opening of "Cinescape 360." The Multiplex theater encompasses 15 cinema screens inclusive of special 3D IMAX theater. Our IMAX is the first of its kind in the State of Kuwait to show commercial entertainment films licensed exclusively from leading Hollywood

studios. Moreover, 360 theater also incorporates two VIP lounges equipped with the most sophisticated visual and audio equipment of international standards and best means of comfort, hence Kuwait now owns one of the most renowned cinema theaters on world level.

Another opening success was "Cinescape AlBairaq" at the AlBairaq Complex situated in Mahbola district. The theatre consists of three cinema screens equipped with the latest international standard technology. The location of this district is unique in terms of geographical proximity and high population density within the State of Kuwait.

Allow me to remind you that in 2007 KNCC were the first to install Digital projector in Kuwait and the Middle East. This year, commemorating our anniversary, we have successfully installed 3 digital Screens inclusive of our special IMAX 2D and 3D. The Company shall,

with God's willing, conclude its plan in year 2010 by installing a total of 11 Digital cinema screens equipped with the latest digital technology. Yet another testament of our global benchmark mind-set.

HONORABLE BROTHERS,

Certainly, you are well aware of the proportions of the devastating world economic crisis which signs occurred in the last quarter of year 2008. The adverse impacts of this crisis have stretched to all economic sectors around the globe. Nonetheless, and due to the Company's adherence to its conservative policy towards its investments as well as its focus on its operational activities, both direct and indirect, thus it was able to evade the potential risks. As such, the effect of this crisis on the Company was limited, hence it realized net profits amounting to 2,990,852 Million Kuwaiti Dinars, and earning per share (EPS) of 29.93 Fils. Moreover, the Company's assets totaled 69.3 Million Kuwaiti Dinars representing an increase of 7 Million

Kuwaiti Dinars i.e. a rate of increase of nearly 11%. Furthermore, the Company was able to maintain almost the same shareholders' equity levels of last year at the amount of 43.7 Million Kuwaiti Dinars approximately.

In light of these results, the Company's Board of Director has suggested distribution of cash dividends for the fiscal year ended on 31/12/2009 at the rate of 36% of the share's nominal value i.e. 36 Fils per share.

HONORABLE BROTHERS,

In conclusion, I would like to express my sincere thanks and admiration to all my counterparts at the Board of the Directors and all the staff of Kuwait National Cinema Company " Cinescape " for the exceptional and distinctive efforts they put forth during the previous period, with my wishes to everyone of further success and prosperity.

Also, I would like to seize this opportunity to extend earnest thanks to His Highness the Amir of Kuwait

Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah and His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah may God protect them both, and also His Highness the Prime Minister Sheikh Naser Al-Mohammed Al-Ahmad Al-Sabah for the attention, support and patronage the private sector and the national corporations are enjoying, and pleading to God Almighty to maintain on our beloved Kuwait the blessing of security and further development and prosperity.

God is the guardian of success,



Nawaf Ahmed Al Marzouk
Chairman & CEO

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Kuwait National Cinema Company (K.S.C), "the Parent Company" and its subsidiaries referred to as "the Group" which comprise the consolidated statement of financial position as of 31 December 2009, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE 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 auditor's 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

KUWAIT NATIONAL CINEMA COMPANY (K.S.C)

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 of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

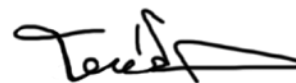
REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the 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 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 violation of

the Commercial Companies Law of 1960, as amended, or of the Parent Company's Articles of Association have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Group or on its consolidated financial position.



Bader A. Al-Wazzan
(Licence No. 62A)
Bader & Co.
PricewaterhouseCoopers



Nasser Abdullah Al-Muqait
(Licence No. 9A)
Al-Ahli Bureau
Kuwait 23 February 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2009

	Note	2009 KD	2008 KD
ASSETS			
Non- current assets			
Property and equipment	4	14,580,748	17,737,166
Intangible assets	5	1,176,519	1,074,132
Investments in associates	6	28,551,699	28,323,984
Available for sale investments	7	5,911,382	5,889,349
Advance payment to purchase assets		952,028	687,070
		51,172,376	53,711,701
Current assets			
Inventories	8	218,342	223,220
Properties held for trading	9	6,995,318	-
Receivables	10	1,362,804	1,075,672
Investments at fair value through profit or loss	11	728,935	61,864
Cash and cash equivalents	12	8,842,506	7,322,769
		18,147,905	8,683,525
Total assets		69,320,281	62,395,226
EQUITY AND LIABILITIES			
Equity			
Share capital	13	10,106,250	10,106,250
Treasury shares	14	(903,488)	(903,488)
Statutory reserve	15	5,053,125	4,745,075
General reserve	16	5,982,680	5,661,921
Lands revaluation reserve	17	8,143,894	8,143,894
Change in fair value reserve		(304,104)	615,295
Foreign currency translation reserve		503,662	86,730
Retained earnings		15,109,662	16,744,619
		43,691,681	45,200,296
Liabilities			
Non-current liabilities			
Post employment benefits		545,725	460,940
Current liabilities			
Payables	18	5,300,513	3,986,275
Dividend Payables		605,270	477,600
Loans and bank facilities	19	19,177,092	12,270,115
		25,082,875	16,733,990
Total liabilities		25,628,600	17,194,930
Total Equity And liabilities		69,320,281	62,395,226

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



Nawaf Ahmed Al Marzouq
Chairman and C.E.O



Ahmed Abdul Aziz Al Sarawi
Vice Chairman

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 KD	2008 KD
Operating revenues		11,270,286	12,001,609
Operating costs		<u>(8,958,546)</u>	<u>(9,164,059)</u>
Gross profit		2,311,740	2,837,550
Other operating income		3,639,922	4,055,780
Losses from investments at fair value through profit or loss	20	(87,473)	(161,977)
General and administrative expenses		(1,277,359)	(1,970,763)
Impairment in property, equipment and intangible assets		-	(9,215,298)
Impairment in inventory		-	(136,809)
Impairment in receivables	10	(310,000)	(17,721)
Other operating expenses	21	<u>(2,671,804)</u>	<u>(1,883,074)</u>
Operating profit / (loss)		1,605,026	(6,492,312)
Gains / (losses) from available for sale investments	22	121,824	(29,706)
Profit from associates	6	994,981	6,111,031
Gains on sale of associates	6	79,274	-
Gains on sale of investment property	6	1,607,259	6,235,022
Finance costs		(1,200,777)	(809,679)
Board of Directors' remuneration		(90,000)	(90,000)
Contribution to Kuwait Foundation for the Advancement of Sciences		(18,621)	(45,040)
National Labour Support Tax		(78,798)	(120,523)
Zakat		(29,316)	(51,995)
Net profit for the year		<u>2,990,852</u>	<u>4,706,798</u>
Earnings Per Share (fils)	23	<u>29.93</u>	<u>47.10</u>

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 KD	2008 KD
Net profit for the year	2,990,852	4,706,798
Other comprehensive income		
Change in fair value of available for sale investments	(919,399)	(2,647,227)
Transferred to statement of income on sale of available for sale investments	-	(1,552)
Impairment in available for sale investments	-	522,325
Foreign currency translation reserve	416,932	86,730
Total other comprehensive loss	(502,467)	(2,039,724)
Total comprehensive income for the year	2,488,385	2,667,074

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Treasury shares	Statutory reserve	General reserve	Land revaluation reserve	Change in fair value reserve	Foreign currency translation reserve	Retained earnings	Total
Balance as of 1 January 2008	8,085,000	(840,588)	4,243,639	5,160,485	8,807,636	2,741,749	-	17,196,101	45,394,022
Total comprehensive income for the year	-	-	-	-	-	(2,126,454)	86,730	4,706,798	2,667,074
Transferred on sale of lands	-	-	-	-	(663,742)	-	-	663,742	-
Cash dividends	-	-	-	-	-	-	-	(2,797,900)	(2,797,900)
Bonus shares	2,021,250	-	-	-	-	-	-	(2,021,250)	-
Purchase of treasury shares	-	(62,900)	-	-	-	-	-	-	(62,900)
Transfer to reserves	-	-	501,436	501,436	-	-	-	(1,002,872)	-
Balance as for 31 December 2008	10,106,250	(903,488)	4,745,075	5,661,921	8,143,894	615,295	86,730	16,744,619	45,200,296
Balance as of 1 January 2009	10,106,250	(903,488)	4,745,075	5,661,921	8,143,894	615,295	86,730	16,744,619	45,200,296
Total comprehensive income for the year	-	-	-	-	-	(919,399)	416,932	2,990,852	2,488,385
Cash dividends (Note 23)	-	-	-	-	-	-	-	(3,997,000)	(3,997,000)
Transfer to reserves	-	-	308,050	320,759	-	-	-	(628,809)	-
Balance as for 31 December 2009	10,106,250	(903,488)	5,053,125	5,982,680	8,143,894	(304,104)	503,662	15,109,662	43,691,681

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 KD	2008 KD
Cash Flows from operating activities			
Net cash generated from operating activities	28	<u>4,764,019</u>	<u>5,318,195</u>
Cash flows from investing activities			
Acquisition of property and equipment		(4,135,214)	(3,856,007)
Acquisition of intangible assets		(2,054,097)	(2,946,832)
Acquisition of available for sale investments		-	(95,500)
Acquisition of investment in associates		-	(8,425,000)
Proceeds from sale of available for sale investments		-	529,683
Proceeds from sale of property and equipment		921,934	22,808
Proceeds from sale of investment property		-	23,400,000
Dividends received		121,824	280,506
Net cash (used in) / generated from investing activities		<u>(5,145,553)</u>	<u>8,909,658</u>
Cash flows from financing activities			
Purchase of treasury shares		-	(62,900)
Loans and bank facilities		6,906,977	(3,337,940)
Dividends paid		(3,869,330)	(2,902,188)
Finance costs paid		(1,136,376)	(816,116)
Net cash generated from / (used in) financing activities		<u>1,901,271</u>	<u>(7,119,144)</u>
Net increase in cash and cash equivalents		<u>1,519,737</u>	<u>7,108,709</u>
Cash and cash equivalents at the beginning of the year		<u>7,322,769</u>	<u>214,060</u>
Cash and cash equivalents at the end of the year	12	<u>8,842,506</u>	<u>7,322,769</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1.CONSTITUTION AND ACTIVITIES

Kuwait National Cinema Company K.S.C. “the Parent Company” is a Kuwaiti shareholding company registered and incorporated in Kuwait on 5 October 1954. The Parent Company is licensed to engage all activities relating to the film industry, entertainment and cultural events, in addition to theater activities, leasing restaurants and coffee shops, and the right to operate and perform the publishing and printing activities.

The registered office of the Parent Company is located at Al-Zahara area, 360 Mall, fourth floor, P.O. Box 502 Safat, 13006 Safat, Kuwait.

THESE CONSOLIDATED FINANCIAL STATEMENTS INCLUDE THE FINANCIAL STATEMENTS OF THE PARENT COMPANY AND ITS SUBSIDIARIES REFERRED TO AS “THE GROUP”.

Company	Share Percentage %	Country of incorporation
International Company for Film Distribution	100% (1.5% under concession letters)	Kuwait
Mall of Kuwait Real Estate Company	100% (0.5% under concession letters)	Kuwait

The consolidated financial statements were authorized for issue by the Board of Directors on 23 February 2010. The General Assembly of the Shareholders has the power to amend these financial statements after issuance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by fair value of lands, investments at fair value through profit or loss and available for sale investments.

The preparation of Consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated financial statements are disclosed in Note (27).

2.1.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(A) New and amended standards adopted by the Company as at January 2009

- IAS 1 (revised). "Presentation of financial statements" – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. There is no impact on net profit or earnings per share.

- IFRS 7 "Financial instruments" – Disclosures'(amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value and liquidity risk measurement.

- IFRS 8 "Operating segments". IFRS replaces IAS, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

(B) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

- IFRS 17, "Distribution of non-cash assets to owners" (effective on or after

1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution according to IFRIC 17 from 1 January 2010.

- IAS 27 (revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gains or a loss are recognized in profit or loss. The group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 3 (revised), "Business combination" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. All acquisition costs are to be recorded in the statement of income. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- IAS 38 (amendment), "Intangible Assets". The group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a "business combination".

2.2 CONSOLIDATION

SUBSIDIARIES

- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment provides clarification on IFRS 5 that specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as a current or non current. The group will apply IAS 1 (amendment) from 1 January 2010.

- IFRS 9 'Financial Instruments'. The standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2013. IFRS 9 establishes principles for the classification and measurement of financial assets that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

These standards and interpretations will be adopted when these standards ,and interpretations become effective. The application of these standards and interpretations are not expected to have a material impact on the financial statements of the Group.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred at the date of acquisition, plus other costs attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities are identified at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is more than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

Inter-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ASSOCIATES

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights assumes existence of significant influence. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in reserves is recognized in equity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2.3 PROPERTY AND EQUIPMENT

Property and equipment, other than land, are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on the straight-line method over their estimated useful lives. The estimated useful lives of property and equipment are reviewed periodically by the Group's management and effect of any such changes is recognized prospectively in the statement of income.

Land is stated at fair value based on periodic valuations (every 5 years) by independent real estate experts. Increase in the carrying amount arising on revaluation of land is credited to land revaluation reserve in equity or charged to the statement of income to the extent of the impairment losses previously charged to statement of income. Decline in carrying amount as a result of the revaluation is directly charged to statement of income or reduces the revaluation reserve to the extent of its previous increase resulted from revaluation.

The estimated useful lives of property and equipment are follows:

	Estimated useful life (Year)
Buildings	5 – 40
Machinery and equipment	5 – 15
Computers and Furniture	5 – 8
Vehicles	4

Buildings erected over leasehold lands are depreciated over the estimated useful lives irrespective of the period of lease. The Group expects that the lease contracts for these lands are reliably renewable.

Projects under construction are included in property and equipment until they are completed and ready for their intended use. At that time they are reclassified under the appropriate category of assets and the depreciation is calculated since then.

Gain or losses resulting from the disposal of property and equipment is included in the statement of income being the difference between the selling price and carrying value of the property and equipment at the date of sale.

2.4 INTANGIBLE ASSETS

- The costs incurred by the Group in exchange for the right of utilization of lands are capitalized within intangible assets and are amortized on the straight line method according to their expected economic lives (20 years).
- Amounts paid as cost for purchasing films are capitalized within intangible assets and are amortized on the time periods according to the expected future benefits.

2.5 INVESTMENT PROPERTY

Investment property held by the Group for capital appreciation or to earn rental are classified as

non current assets. Investment property is carried at historical cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight line method over their estimated useful lives.

2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Impairment losses are recognized in the statement of income for the period in which they arise.

2.7 FINANCIAL INSTRUMENTS – RECOGNITION AND DE-RECOGNITION, CLASSIFICATION AND MEASUREMENT

In the normal course of business, the Group uses financial instruments, principally cash and cash equivalents, investments at fair value through profit and loss, available for sale investments, receivables, payables, and loans and bank facilities.

RECOGNITION AND DE-RECOGNITION

A financial asset is recognized when the Group becomes a party to the contractual provisions of the financial instrument. All regular way purchases and sale of financial assets are recognized using purchase date, the date on which the Group obligate to sale or purchase the assets. A financial asset is de-recognized when the right to the cash flows from the financial assets expires or, when the Group transfers substantially all the risks and rewards of ownership. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

CLASSIFICATION

The Group classifies its financial assets at the date of acquisition based on the purpose of acquiring these assets. The Group classified its financial assets as investments at fair value through profit or loss, available for sale, loans and receivables. All financial liabilities are classified as "other than at fair value through profit or loss".

Investments at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset held for trading are those assets acquired principally for the purpose of selling in the short term.

The financial assets designated at fair value through profit or loss at inception are classified in this category if managed and their performance is evaluated and internally reported on a fair value basis in accordance with documented strategic risk management or investment strategy.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are included in current assets, except for maturities greater than 12 months after the financial position date. These are classified as non-current assets.

The Group's loans and receivables comprise receivables, and cash and cash equivalents.

Investments available for sale

These are non-derivative financial assets that are either designated in this category or not included in any of the above categories, and are principally, those acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit rates.

Available for sale investments are included in non-current assets unless management intends to dispose of the investment within 12 months of the financial position date.

MEASUREMENT

Financial assets are initially recognized at fair value (plus transaction costs for all financial assets not carried at fair value through profit or loss). Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the statement of income. Subsequently, available for sale financial assets and financial assets at fair value through profit or loss are re-measured at fair value. Loans and receivables are carried at amortized cost using the effective interest method less impairment losses.

Unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss, while other changes are recognized in equity. When available-for sale financial assets are sold or impaired, the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

accumulated changes in fair value recognized in equity are transferred to the statement of income.

FAIR VALUE

The fair value of quoted investments is based on quoted closing bid prices. If the market for a financial asset is not active or the financial instrument is unquoted, fair value is derived from recent arm's length transactions, discounted cash flow analysis or other valuation techniques commonly used by market participants or determined with reference to market values of similar instruments. The fair value of financial instruments carried at amortized cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

For the equity securities, for which fair value have not been reliably determined, are carried at cost less impairment losses.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security is

considered as an indicator that the securities are impaired. If any such evidence exists, the total cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income.

A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Loss is recognized in the statement of income.

2.8 INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a First In First Out (FIFO) method. Net realizable value is determined based on estimated selling price less any expected selling costs.

2.9 PROPERTIES AND LANDS HELD FOR TRADING

Properties and lands held for trading are stated at cost when acquired. Cost is determined on an individual basis for such land or real estate, cost represents the fair value of the consideration given, plus ownership transfer fee and brokerage expenses. Properties and lands held for trading are classified under current assets and are valued at the lower of cost or net realizable value on an individual basis. Net realizable value is determined on the basis of estimated sale value, less the estimated expenses necessary to complete the sale. Gains and losses from the sale of properties and lands held for trading are reported in the consolidated statement of income as being the difference between the sales value and book value.

2.10 CASH AND CASH EQUIVALENTS

Cash on hand and at banks and time deposits that mature within three months from the date of placement are classified as cash and cash equivalents on statement of cash flows.

2.11 TREASURY SHARES

The cost of the Parent Company's own shares purchased, including directly attributable costs, is classified under equity. Gains and losses arising on sale are separately disclosed under equity and these amounts are not available for distribution. These shares are not entitled to cash dividends and right issues. 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.

2.12 POST EMPLOYMENT BENEFITS

The Group is liable under Kuwait Labor Law to make payments under defined benefit plans to employees at cessation of employment. The defined benefit plan is unfunded and is based on the liability that would arise on involuntary termination of all employees on the financial position date. This basis is considered to be a reliable approximation of the present value of this liability.

2.13 PROVISION FOR LIABILITIES

A provision is recognized when, the Group has a present legal or constructive obligation as a 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 the amount can be reliably estimated.

2.14 REVENUE RECOGNITION

- Cinema films revenues are recognized when the service is rendered to the customers or on sale of the product.

- Dividend income is recognized when the right to receive it is established.
- Interest income is recognized on a time proportion basis.
- Gain from sale of property and investment are recognized when risks and reward's associates with ownership transferred to the buyer

2.15 LEASES

When the Group is lessor:

Assets leased to other parties by operating lease contracts except the investment property are included in property and equipment on the balance sheet, and are depreciated over the expected useful lives on a basis consistent with similar assets. The rental income is recognized on straight – line basis over the lease term.

When the Group is the lessee:

Leases of property under which, all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease.

2.16 DIVIDENDS

Parent Company's dividends to shareholders are recorded as liability in the consolidated financial statements in the period, in which the dividends were approved by the Parent Company's shareholders.

2.17 FINANCE COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalized as part of that asset. Capitalization of borrowing costs is suspended during extended periods in which active development is interrupted. Capitalization is ceased when substantially all the activities necessary to prepare the asset for its intended use are completed. Other borrowing costs are recognized as expenditures in the period in which they are incurred.

2.18 FOREIGN CURRENCIES

The Group's functional currency is the Kuwaiti Dinars. Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the financial position date. Resultant gains or losses are taken to the statement of income.

Income and cash flows for each statement of income are translated to the presentation currency of the Parent Company at average exchange rates for the year and the financial positions of these companies are translated at the closing rate at the date of the financial position. All resulting exchange differences are recognized as a separate component in equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the statement of income as part of the gain or loss on sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

3. FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK

The activities of the group expose it to a series of financial risks, market risks, which include foreign currency risks and risks of change in fair value resulting from the change in interest rates, and risks of fluctuations in cash flows resulting from changes in interest rates, and risks of market prices in addition to credit risk and liquidity risks.

The group is managing these financial risks by focusing on a continuous evaluation of market conditions and its trends and the management's assessments of the changes for long and short-term market factors.

MARKET RISK

Market risk is the risk of loss resulting from fluctuations in the fair value or the future cash flows of financial instrument as a result of changes in market prices. Market risk comprises of: foreign currency risk, interest rate risk and price risk.

The Group's senior management monitors and manages its market risks by regular oversight of the market's circumstances and the change in foreign exchange and interest rates, and market prices.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates that affects the Group's cash flows or the valuation of the monetary assets and liabilities denominated in foreign currency.

The Group is exposed to foreign currency risks resulted mainly from the Group's dealings in financial instruments denominated in USD. Foreign currency risks result from the future transactions on financial instruments in foreign currency as reflected in the financial statements.

The major transactions of the Group are in Kuwaiti Dinars. Foreign currency financial assets are represented in available for sale investments in foreign currency. Foreign currency financial liabilities are represented in loans and credit facilities denominated in foreign currency and certain balances of trade payables.

The Group tracks and manages these risks by:

- Monitoring the changes in foreign currency exchange rates on regular basis.
- Set up tide limits for foreign exchange dealings for the basic objectives of the Group's activities.

The Group management believes that its financial assets, other than its available for sale investments denominated in USD (Note 7), exposure to foreign exchange risk is limited as the foreign currency financial

assets are not significant to the Group as at 31 December 2009 and 2008.

At 31 December 2009, if the USD had weakened / strengthened 10% against the Kuwaiti Dinar, the net equity of the Group would have changed by KD 304,500 (2008 : KD 291,259).

This increase or decrease in equity would have occurred as the Group maintains investments denominated in USD in equity and investment funds classified as financial assets available for sale.

Price risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Group is exposed to this risk as the Group owns investments classified in the consolidated financial position as available for sale investments and investments at fair value through profit or loss.

As at 31 December 2009, 61% of the Group's investments classified as available for sale financial assets are unquoted (65% as at 31 December 2008), while 39% of the Group's investments classified as available for sale financial assets are represented in quoted investments or investments in investment funds with a declared Net Asset Value (35% as at 31 December 2008). The Group's management monitors and manages this risks through: -

- Manage the Group's investments through portfolios managed by specialized portfolio managers.

KUWAIT NATIONAL CINEMA COMPANY (K.S.C) AND ITS SUBSIDIARIES - KUWAIT

- Invest in companies' shares that have good financial positions that generate high operating income and dividends and with well performing investment funds.
- Investments in unquoted securities should be on companies that carry similar activities where such investments should be studied and approved by the senior management.
- Periodic tracking of changes in market prices.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial instruments with fixed interest rates expose the Group to fair value interest rate risks. Financial

instruments with variable interest rates, expose the Group to cash flow interest rate risks.

The financial Instruments held by the Group which are exposed to this risk are represented in time deposits (Note 12), loans and banking facilities (Note 19).

Borrowings issued to the Group are at variable interest rate; accordingly, these borrowings expose the Group to cash flow interest rate risks.

As at 31 December 2009, if interest rates had been 1% higher, net profits of the year would have been lower by KD 228,720 approximately (2008: KD 104,475), due to the increase of financing interest on loans and banking facilities.

The Group management monitors and manages interest rate risk by:

- Regular tracking of market interest rates.
- Obtain borrowings for short terms which help mitigating interest rate risks.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Receivables, cash and cash equivalent are considered the most of the assets exposed to credit risk. The Group monitors and manages this risk by:-

- Dealing with high net worth and reputable customers.
- Dealing with highly credit rated financial institutions.

The management of the Group believes that the maximum exposure to credit risk as at 31 December is as follows:-

	2009 KD	2008 KD
Receivables and advance payment to purchase assets	2,314,832	1,762,742
Cash and cash equivalents (Note 12)	8,772,243	7,270,472
	<u>11,087,075</u>	<u>9,033,214</u>

Liquidity risks

The risk that Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk management mainly represents maintaining sufficient cash and high liquid financial instruments and the availability of funding resources to meet the Group's liquidity requirements.

The Group's financial obligations as at 31 December 2009 and 2008 mature within one year and accordingly equal their cash value as at that date as the impact of discounting is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

The Group's management facilitates the funding transactions by making available credit facilities through credit commitments with banks. The management also monitors the liquidity surplus in the Group through the expected cash flows. Presented below is the expected liquidity reserve as at 31 December 2010:

	2010 KD
Cash and cash equivalents at beginning of the period (Note 12)	8,842,506
Unutilized loans and bank facilities	14,725,000
Operating proceeds	17,500,000
Operating out flows	(11,200,000)
Repayments of dividends	(3,597,300)
	<u>26,270,206</u>

3.2 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group also monitors the share capital based on the gearing ratio, The debt to equity ratio as at 31 December was as flows:

	2009 KD	2008 KD
Total borrowings & banking facilities (Note 19)	19,177,092	12,270,115
Less : cash and cash equivalents (Note 12)	(8,842,506)	(7,322,769)
Net debt	10,334,586	4,947,346
Total equity	43,691,681	45,200,296
Total capital	<u>54,026,267</u>	<u>50,147,642</u>
Gearing ratio	19%	10%

3.3 FAIR VALUE ESTIMATION

Effective from 1 January 2009, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the financial position at fair value, this requires disclosure of fair value measurement by level of the following fair value measurement hierarchy:

- Level one: Quoted prices for financial assets in active markets.
- Level two: Quoted prices in active markets for similar instruments, or prices declared by investee fund managers, or other valuation techniques where important inputs are based on comparable market information, either directly or indirectly.
- Level three: Other valuation techniques where important inputs are not based on comparable market information.

The table below represents the financial instrument's analysis that is recorded at fair value on the above mentioned levels:

	Level one	Level two	Level three	Total
Assets				
Investments at fair value through profit or loss	728,935	-	-	728,935
Available for sale investments	1,367,836	464,240	3,620,653	5,452,729
	<u>2,096,771</u>	<u>464,240</u>	<u>3,620,653</u>	<u>6,181,664</u>

KUWAIT NATIONAL CINEMA COMPANY (K.S.C)
AND ITS SUBSIDIARIES - KUWAIT

4. PROPERTY AND EQUIPMENT

	2009					
	Lands KD	Buildings KD	Machinery, equipment & vehicles KD	Furniture & computers KD	Projects under progress KD	Total KD
Cost or revaluation						
As of 1 January 2009	7,687,653	5,012,468	3,493,219	2,818,826	12,936,883	31,949,049
Additions for the year	-	82,458	276,727	70,457	3,705,572	4,135,214
Transferred from projects under progress	-	2,150,890	984,303	391,003	(3,526,196)	-
Disposals	-	(3,500)	(63,138)	(16,439)	(6,418,820)	(6,501,897)
As of 31 December 2009	7,687,653	7,242,316	4,691,111	3,263,847	6,697,439	29,582,366
Accumulated depreciation and impairment loss						
As of 1 January 2009	-	3,013,584	3,189,916	2,547,831	5,460,552	14,211,883
Charge for the year	-	467,609	343,433	58,656	-	869,698
Disposals	-	(3,499)	(60,026)	(16,438)	-	(79,963)
As of 31 December 2009	-	3,477,694	3,473,323	2,590,049	5,460,552	15,001,618
Net book value						
As of 31 December 2009	7,687,653	3,764,622	1,217,788	673,798	1,236,887	14,580,748
	2008					
	Lands KD	Buildings KD	Machinery, equipment & vehicles KD	Furniture & computers KD	Projects under progress KD	Total KD
Cost or revaluation						
As of 1 January 2008	7,687,653	3,222,144	2,772,304	2,468,695	12,025,662	28,176,458
Additions for the year	-	198,258	52,407	79,409	3,519,610	3,849,684
Transferred from projects under progress	-	1,592,066	684,658	310,108	(2,586,832)	-
Disposals	-	-	(16,150)	(39,386)	(21,557)	(77,093)
As of 31 December 2008	7,687,653	5,012,468	3,493,219	2,818,826	12,936,883	31,949,049
Accumulated depreciation and impairment loss						
As of 1 January 2008	-	1,748,450	1,926,829	1,889,872	-	5,565,151
Depreciation for the year	-	139,395	148,188	120,957	-	408,540
Impairment loss	-	1,125,739	1,131,048	576,836	5,460,552	8,294,175
Disposals	-	-	(16,149)	(39,834)	-	(55,983)
As of 31 December 2008	-	3,013,584	3,189,916	2,547,831	5,460,552	14,211,883
Net book value						
As of 31 December 2008	7,687,653	1,998,884	303,303	270,995	7,476,331	17,737,166

- The cost of buildings on leasehold lands is amounted to KD 5,047,206 as of 31 December 2009 (2008: KD 2,817,358) and its net book value is amounted to KD 3,195,440 as of 31 December 2009 (2008: KD 1,413,016).
- During the year, the Group has sold project under progress to an associate (Tamdeen Shopping Centers Co. K.S.C.C) at KD 5,500,000 representing its book value at the selling date.No gain or loss was resulted from this transaction.
- Projects under progress represent projects of constructing commercial centers and developing & establishing cinemas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

Depreciation has been charged to the statement of income as follows:

	2009 KD	2008 KD
Cost of sales	508,498	382,325
Other operating expense	352,590	7,437
General and administrative expenses	8,610	18,778
	869,698	408,540

- The historical cost of lands at fair value is KD 650,000 as at 31 December 2009 (2008: KD 650,000).
- The latest valuation of lands was on 2006.

5. INTANGIBLE ASSETS

	2009			2008
	Film Costs KD	Land Utilization right KD	Total KD	Total KD
Balance as at 1 January 2009	475,707	598,425	1,074,132	1,366,234
Additions	1,789,139	-	1,789,139	3,166,369
Amortization for the year	(1,656,362)	(30,390)	(1,686,752)	(2,537,348)
Impairment	-	-	-	(921,123)
Balance as at 31 December 2009	608,484	568,035	1,176,519	1,074,132

6. INVESTMENT IN ASSOCIATES

Company name	Country of incorporation	Share percentage	2009 KD	2008 KD
Tamdeen Shopping Centers Co. K.S.C.C	Kuwait	30%	23,767,744	21,510,359
Tamdeen Entertainment Company K.S.C.C	Kuwait	25%	-	2,049,674
Tamdeen Holding Company K.S.C.H	Kuwait	20%	4,783,955	4,763,951
			28,551,699	28,323,984

- During the year ended 31 December 2009, the Group sold its share in Tamdeen Entertainment Company to a related party, which resulted in a profit of KD 79,274.
- The Group's share in associates' results is amounted to KD 994,981 for the year ended 31 December 2009 was recorded based on the latest available financial statements for these Companies for the same year ended (KD 6,111,031 as of 31 December 2008).
- During 2009, Tamdeen shopping centers (an associate) sold part of its investment properties, which was previously acquired from the Parent Company, to third parties. As a result, an amount of KD 1,607,259 was recognized in the consolidated statement of income for the year ended 31 December 2009, representing the previously unrealized profits related to this investment property.

KUWAIT NATIONAL CINEMA COMPANY (K.S.C)
AND ITS SUBSIDIARIES - KUWAIT

- The associate's securities are unquoted, and the following are total assets, liabilities and revenues of the associate companies according to the latest available financial statements :

Associate's name	2009			
	Total assets KD	Total liabilities KD	Total revenues KD	Net loss KD
Tamdeen Shopping Centers Co. K.S.C.C	217,323,206	98,549,484	4,560,000	(367,908)
Tamdeen Holding Company K.S.C.C	29,147,955	5,138,215	4,493,473	3,794,220
	<u>246,471,161</u>	<u>103,687,699</u>	<u>9,053,473</u>	<u>3,426,312</u>

Associate's name	2008			
	Total assets KD	Total liabilities KD	Total revenues KD	Net loss KD
Tamdeen Shopping Centers Co. K.S.C.C	206,385,020	94,515,992	1,765,218	(727,158)
Tamdeen Entertainment Company K.S.C.C	8,430,220	143,518	199,531	(213,298)
Tamdeen Holding Company K.S.C.H	32,268,982	11,300,522	(5,218,775)	(6,180,246)
	<u>247,084,222</u>	<u>105,960,032</u>	<u>(3,254,026)</u>	<u>(7,120,702)</u>

7. AVAILABLE FOR SALE INVESTMENTS

Following is the movement of available for sale investments:

	2009 KD	2008 KD
Balance as at 1 January	5,889,349	7,558,741
Additions	-	95,500
Disposals	-	(321,205)
Changes in fair value	22,033	(1,443,687)
Balance as at 31 December	<u>5,911,382</u>	<u>5,889,349</u>

Available for sale investment as at 31 December represented in the following:

	2009 KD	2008 KD
Quoted shares	1,367,836	1,543,386
Unquoted shares	4,079,306	3,847,371
Investment funds	464,240	498,592
	<u>5,911,382</u>	<u>5,889,349</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

- Unquoted investments include investments carried at cost amounting to KD 458,653 as of 31 December 2009 (2008: KD 458,653) since its fair value cannot be reliably measured.
- Available for sale investments includes investment in foreign shares and funds amounting to KD 3,926,526 as of 31 December 2009 (2008: KD 3,694,591).

Available for sale Investments as at 31 December are denominated in the following currencies:

	2009 KD	2008 KD
Kuwait Dinars	1,984,856	2,194,758
Us Dollar	3,887,873	3,655,938
Emirates Dirham	38,653	38,653
	5,911,382	5,889,349

8. INVENTORIES

	2009 KD	2008 KD
Food and beverages	22,551	33,415
Spare parts	178,989	189,805
Goods in transit	16,802	-
	218,342	223,220

9. PROPERTIES HELD FOR TRADING

During the fourth quarter of the year ended 31 December 2009, the Group has acquired part of properties that have been previously sold to an associate. Profits on sale of these properties to this associate were not recognized to the extent of the Group's share in this associate. Therefore, the cost of these properties was decreased with the unrealized gains which amounted to KD 195,703. These properties are kept in a real estate portfolio and have been classified as held for trading properties; since the Group's management intention is to sell them during 2010.

10. RECEIVABLES

	2009 KD	2008 KD
Trade receivables	370,396	402,185
Prepaid expenses	176,639	198,525
Advanced payments to suppliers	55,956	969
Refundable deposits	359,985	474,705
Staff receivables	46,784	52,527
Due from related parties	690,554	-
Other debit balances	53,220	27,491
	1,753,534	1,156,402
Impairment loss	(390,730)	(80,730)
	1,362,804	1,075,672

KUWAIT NATIONAL CINEMA COMPANY (K.S.C)

AND ITS SUBSIDIARIES - KUWAIT

- The balance of receivables are denominated in Kuwaiti Dinars. The carrying value of receivables approximates its fair value.
- Receivables do not contain balances due and not been collected other than the provisioned ones.
- The movement of impairment provision is represented in the following:

	2009 KD	2008 KD
Balance as of 1 January	80,730	63,009
Provided during the year	310,000	17,721
Balance as of 31 December	390,730	80,730

- The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the financial statement date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

11. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

This item represented investments in quoted shares, which fair value is determined based on the last bid price in the markets in which these investments are traded.

Investments at fair value through profit and loss are dominated in the following currencies:

	2009 KD	2008 KD
Kuwaiti Dinar	286,062	61,864
US Dollar	442,873	-
	728,935	61,864

12. CASH AND CASH EQUIVALENTS

	2009 KD	2008 KD
Cash on hand	70,263	52,297
Banks current accounts	5,355,467	508,272
Time Deposits (mature in less than three months)	2,000,000	6,703,908
Cash in investment portfolios	1,416,776	58,292
	8,842,506	7,322,769

The effective interest rate on time deposits was 3% as of 31 December 2009 (4% as of 31 December 2008).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

13. SHARE CAPITAL

The Parent Company's issued and paid up share capital amounted to KD 10,106,250 as of 31 December 2009 comprising of 101,062,500 shares of 100 fils per share, all shares are paid in cash (2008: KD 10,106,250).

14. TREASURY SHARES

	2009 KD	2008 KD
Number of treasury shares (share)	1,137,500	1,137,500
Percentage from capital (%)	1.13 %	1.13 %
Market value	864,500	1,114,750

15. STATUTORY RESERVE

In accordance with the Commercial Companies Law, and the Parent Company's Articles of Association, 10% of annual net profit is being transferred to legal reserve. The General Assemble may resolve to discontinue such annual transfers when the reserve reaches 50% of the share capital. This reserve is not available for distribution except in the cases stipulated by Commercial Companies Law.

16. GENERAL RESERVE

As required by the Parent Company's articles of association, a portion of the net profit for the year proposed by the board of directors and approved by the General Assembly is transferred to the voluntary reserve. The General Assembly may resolve to discontinue such transfer based on a proposal by the board of directors.

The Board of Directors proposed transferring an amount of KD 320,759 to the voluntary reserve for the year ended 31 December 2009 (2008: KD 501,436).

17. LAND REVALUATION RESERVE

The balance of Lands revaluation reserve as of 31 December 2009 includes an amount of KD 1,106,241 (2008: KD 1,106,241) represents remaining balance of revaluation surplus of lands, which were sold to an associate company during 2006 and 2005.

KUWAIT NATIONAL CINEMA COMPANY (K.S.C)
AND ITS SUBSIDIARIES - KUWAIT

18. PAYABLES

	2009 KD	2008 KD
Trade payables	677,244	630,003
Accrued expenses and leave	1,035,947	852,441
Customer advance payments	966,728	339,165
Board of directors' remuneration	90,000	90,000
Kuwait Foundation for the Advancement of Sciences	18,621	45,040
National labour support tax	78,798	120,523
Zakat	29,316	51,995
Other credit balances	188,046	146,546
Provision for claims	2,215,813	1,710,562
	<u>5,300,513</u>	<u>3,986,275</u>

19. LOANS AND BANK FACILITIES

	2009 KD	2008 KD
Short term loans	19,164,017	12,113,490
Overdrafts	13,075	156,625
	<u>19,177,092</u>	<u>12,270,115</u>

- All the loans and bank facilities are obtained by the Group from local banks against promissory notes.
- Loans and bank facilities as at 31 December 2009 include loans and bank facilities denominated in Us Dollar amounted to KD 645,750 (2008 :KD 346,250). The remaining loans and bank facilities are denominated in Kuwaiti Dinars.
- Effective interest rates for loans and bank facilities are as follows:

	2009	2008
Short term loans	5.25%	7.75%
Overdrafts	5.25%	7.50%

All loans and bank facilities are due within one year.

20. LOSS FROM FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 KD	2008 KD
Unrealized loss	(107,782)	(13,280)
Realized profits / (losses)	19,083	(151,557)
Dividends income	1,226	2,860
	<u>(87,473)</u>	<u>(161,977)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

21. OTHER OPERATING EXPENSES

Other operating expenses include expenses of cinemas' cafeterias and buffets, marketing expenses, and provision for claims compensation expenses for evacuating some shops in the under development old cinemas.

22. GAINS / (LOSSES) FROM AVAILABLE FOR SALE INVESTMENTS

	2009 KD	2008 KD
Realised gain	-	210,030
Dividend income	73,904	277,646
Interest income	47,920	4,943
Impairment loss	-	(522,325)
	121,824	(29,706)

23. EARNINGS PER SHARE

	2009 KD	2008 KD
Net profit for the year	2,990,852	4,706,798
Weighted average number of Outstanding shares (share)	<u>99,925,000</u>	<u>99,929,262</u>
	29.93	47.10

24. DIVIDEND

On 7 May 2009, the General Assembly of Parent Company's Shareholders approved the consolidated financial statement for the year ended 31 December 2008 and approved cash dividends of 40 fils per share for the profit of 2008.

On 23 February 2010, the Parent Company's Board of Directors proposed cash dividends of 36 fils per share. This proposed dividend is subject to the approval of the General Assembly of shareholders.

25. RELATED PARTIES TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Those transactions were conducted in the ordinary course of business and with the usual terms and conditions.

The following is the volume and nature of those transactions during the year:

	2009 KD	2008 KD
Gain on sale of investment property	1,607,259	6,235,022
Projects under progress	5,500,000	65,069
Key management compensation		
Salaries and wages	179,025	186,750
Board of directors remuneration	90,000	90,000
Leave and post employment benefits	45,675	38,360

The balances resulting from those transactions as at 31 December are as follows:

	2009 KD	2008 KD
Due from related parties	690,554	6,034

Transactions with related parties are subject to the approval of the General Assembly of shareholders.

26. SEGMENTS FINANCIAL INFORMATION

The main objective of the Group is to engage in all activities relating to the cinema industry, entertainment, and culture events. In addition, the Group invests its available excess funds through investment portfolios.

The following is the segment information which is consists with the internal reporting presented to management:

- Cinema division: Represents all activities related to cinema shows.
- Concession division: Represents all activities related to concessions supplemented to theaters.
- Marketing division: Represents advertising activities.
- Investments division: Represents investments in shares and funds in addition to investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

The following schedule presents the information about revenues, profit, and assets for each division:

	2009				Total
	Cinema division	Concession division	Marketing division	Investments division	
Net Revenues	11,270,286	2,742,332	690,886	2,715,863	17,419,367
Costs	(8,958,546)	(1,166,043)	(347,557)	-	(10,472,146)
Segment profits	<u>2,311,740</u>	<u>1,576,289</u>	<u>343,329</u>	<u>2,715,863</u>	<u>6,947,221</u>
Assets	<u>16,086,053</u>	<u>139,710</u>	<u>299,149</u>	<u>44,672,605</u>	<u>61,197,517</u>

	2008				Total
	Cinema division	Concession division	Marketing division	Investments division	
Net revenues	12,001,609	2,565,178	1,248,605	12,676,697	28,492,089
Costs	(9,164,059)	(1,173,075)	(389,709)	-	(10,726,843)
Impairment in value of assets	(3,715,895)	-	(30,662)	(5,982,876)	(9,729,433)
Segment profits	<u>(878,345)</u>	<u>1,392,103</u>	<u>828,234</u>	<u>6,693,821</u>	<u>8,035,813</u>
Assets	<u>14,251,760</u>	<u>146,750</u>	<u>312,124</u>	<u>47,040,189</u>	<u>61,750,823</u>

Net profit for the year ended of 31 December represents the following:

	2009 KD	2008 KD
Segment profits	6,947,221	8,035,813
Other income	206,705	241,995
Expenses and other costs	(3,347,823)	(3,248,847)
Provisions	(815,251)	(322,163)
Net profit for the year	<u>2,990,852</u>	<u>4,706,798</u>

The assets as at 31 December are represented in the following:

	2009 KD	2008 KD
Assets for divisions	61,197,517	61,750,823
Property and equipment	594,295	30,337
Trade and other receivables	102,739	53,496
Cash and cash equivalents	7,425,730	560,570
	<u>69,320,281</u>	<u>62,395,226</u>

27. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In accordance with the accounting policies contained in IFRS and adopted by the Group, management is required to make the following judgments and estimations that may affect the carrying values of assets and liabilities.

JUDGMENTS AND ESTIMATES

Classification of investments

The management decides when acquiring the investment whether to classify it as investment at fair value through profit or loss, available for sale or loans and receivables. For reaching such decision the Group considers the main purpose from acquiring the financial instrument and how to manage and report its performance. This judgment decides if it will subsequently re-measure the financial instrument at fair value or cost or whether the changes in fair value will be recorded in the statement of income or in equity.

Impairment of financial assets

When there is a significant or prolonged decline in the value of an available for sale investment security, management uses objective evidence to judge if it may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

Impairment of non financial assets

Management determines whether there is impairment for inventory, properties and equipments. The determination of impairment requires management to make considerable judgment and involves evaluating factors including industry and market conditions.

Impairment loss for non financial assets which were carried to statement of income for the year ended 31 December represents the following:

	2009 KD	2008 KD
Impairment of properties and equipments	-	8,294,175
Impairment of intangible assets	-	921,123
Impairment of inventory	-	136,809
	-	<u>9,352,107</u>

The impairment of these assets is mainly due to the obsolescence of technology and decrease of future benefits of those assets. Impairment was identified on the basis of net selling value of such assets.

SOURCES OF ESTIMATION UNCERTAINTY

Fair values- unquoted equity investments

The valuation techniques for unquoted equity make use of estimates such as future cash flows, discount prices, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

Receivable

The Group reviews its doubtful receivables periodically to assess a provision for impairment that should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degree of judgment and uncertainty.

Useful lives of property, equipment, future benefits of intangible assets

The Group's management determines the estimated useful lives and related depreciation charges for its property, equipment, investment property and intangible assets. Management increases the depreciation and amortization charge where the useful lives and future benefits are less than previously estimated lives and benefits, or it will write-off or write-down obsolete assets or non strategic assets that have been abandoned or sold.

28. CASH FLOWS FROM OPERATING ACTIVITIES

	2009 KD	2008 KD
Net profit for the year	2,990,852	4,706,798
Adjustments to:		
Depreciation/Amortization	2,556,450	2,945,888
Group's share in associates' results	(994,981)	1,507,521
Realized gains due to decrease of share percentage in an associate	-	(7,618,553)
Gain from available for sale investments	(121,824)	(487,676)
Gain from sale of investment property	(1,607,259)	(6,235,022)
Loss from investments at fair value through profit or loss	87,473	161,977
Gain from sale of an associate	(79,274)	-
Gain from sale of property and equipment	-	(1,698)
Impairment of property and equipment	-	8,294,175
Impairment of inventories	-	136,809
Impairment of available for sale investments	-	522,325
Impairment of intangible assets	-	921,123
Provision for claims	505,251	645,882
Provision for doubtful debts	310,000	17,721
Post employment benefits	120,442	133,702
Finance costs	1,200,777	809,679
Operation profit before changes in working capital	4,967,907	6,460,651
Inventories	4,878	(19,060)
Receivables	93,598	(256,343)
Investments at fair value through profit or loss	(754,544)	(226,701)
Payables	744,588	(336,619)
Related parties	(256,751)	(229,497)
Cash from operating activities	4,799,676	5,392,431
Paid from post employment benefit	(35,657)	(74,236)
Net cash generated from operating activities	4,764,019	5,318,195

KUWAIT NATIONAL CINEMA COMPANY (K.S.C) AND ITS SUBSIDIARIES - KUWAIT

29. CONTINGENT LIABILITIES

On 31 December 2009, the letters of guarantee for the benefit of third parties amounted to KD 1,413,030 (2008: KD 798,875).

30. FUTURE COMMITMENTS

	2009 KD	2008 KD
Capital expenditure commitments		
Estimated capital expenditure contracted for at the Financial position date	160,000	2,142,240
Uncalled capital of available for sale investments	-	37,395
Uncalled capital of investment in associate	-	6,000,000
	160,000	8,179,635
Operating lease commitments		
Future minimum operating lease payments:		
Not more than one year	2,318,063	1,718,063
More than one year and less than five years	9,272,252	6,672,428
More than five years	27,925,037	20,842,924
	39,515,352	29,233,415

31. COMPARATIVE FIGURES

Certain comparative figures are reclassified whenever necessary to conform to the current year presentation.

55th

Anniversary
cinema since 1954