AL MAZAYA HOLDING CO. K.S.C.P
HOLDING AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENT
31 December 2012

MAZAYA

AIM TO LEAD

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL MAZAYA HOLDING COMPANY K.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statement of Al Mazaya Holding Company K.S.C. (the "Parent Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL MAZAYA HOLDING COMPANY K.S.C. (continued)

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters
The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2012.

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 25 of 2012, as amended, and by the Parent Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 25 of 2012, as amended, nor of the Articles of Association have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68-A
OF ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

ALI OWAID RUKHEYES
LICENCE NO. 72-A
MEMBER OF THE INTERNATIONAL
ACCOUNTING GROUP

28 March 2013
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 KD	2011 KD
ASSETS			
Non-current assets			
Goodwill	7	2,266,732	3,091,732
Property and equipment		160,913	129,703
Investment properties	8	74,474,146	73,856,672
Investment in joint ventures	9	4,548,739	3,221,917
Investment in associates	10	14,082,064	13,568,654
Financial assets available for sale	11	12,894,223	16,334,617
		108,426,817	110,203,295
Current assets			
Properties held for trading	12	93,788,246	107,372,223
Accounts receivable and other debit balances	13	5,446,486	10,931,762
Cash and cash equivalents	14	13,391,425	23,542,732
		112,626,157	141,846,717
Total assets		221,052,974	252,050,012
EQUITY AND LIABILITIES			
Equity			
Share capital	15	64,931,977	64,931,977
Share premium	15	21,655,393	79,760,732
Statutory reserve	17	9,675,780	9,646,725
Voluntary reserve	17	6,740,860	6,711,805
Fair value reserve		927,863	327,700
Treasury shares	16	(21,788,181)	(21,788,181)
Other reserves		(369,033)	(369,033)
Foreign currency translation reserve		487,818	463,648
Retained earnings (accumulated losses)	15	1,025,071	(58,105,339)
Equity attributable to equity holders of the Parent Company		83,287,548	81,580,034
Non-controlling interests		4,552,280	5,286,562
Total equity		87,839,828	86,866,596
Liabilities			
Non-current liabilities			
Employees' end of service benefits		336,911	286,890
Term loans	18	31,000,000	38,000,000
		31,336,911	38,286,890
Current liabilities			
Term loans	18	7,000,000	4,500,000
Wakala and murabaha payables	19	8,500,000	8,500,000
Deferred consideration on acquisition of properties	20	3,947,108	3,866,170
Advances from customers		62,069,979	70,727,302
Accounts payable and other credit balances	21	17,443,352	36,331,212
Bank overdrafts	14	2,915,796	2,971,842
		101,876,235	126,896,526
Total liabilities		133,213,146	165,183,416
TOTAL LIABILITIES AND EQUITY		221,052,974	252,050,012

Rasheed Y. Al Nafisi
Chairman

The attached notes 1 to 30 form part of these consolidated financial information.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

	Notes	*2012 KD*	*2011 KD*
Revenue from sale of properties held for trading		29,301,615	84,842,960
Rental income		2,843,665	1,608,759
Net management fees and commission income	22	1,356,697	1,212,769
REVENUE		33,501,977	87,664,488
Cost of sale of properties held for trading		(23,592,161)	(59,361,095)
Cost of rental		(931,638)	(767,490)
COST OF REVENUE		(24,523,799)	(60,128,585)
GROSS PROFIT		8,978,178	27,535,903
General and administrative expenses		(2,781,900)	(2,727,606)
Marketing expenses		(119,654)	(107,000)
Professional services fees		(318,004)	(267,407)
Depreciation		(93,706)	(202,093)
Net change in fair value of investment properties	8	(1,965,753)	(11,239,341)
Net reversal (charge) of impairment loss on properties held for trading	12	1,312,868	(18,760,205)
Impairment of goodwill	7	(825,000)	-
Allowance for doubtful debts of receivables	28	(236,167)	(9,647,663)
Net investment loss	23	(2,532,136)	(47,110)
Share of results of associates including impairment	10	458,223	(171,153)
Share of results of joint ventures including impairment	9	873,007	(284,018)
Provisions no longer required		752,552	-
Loss on sale of a joint venture		-	(18,061)
Murabaha income		-	75,268
Interest income		114,489	187,838
Finance costs		(3,260,256)	(3,409,445)
Foreign exchange (loss) gain		(21,868)	257,308
Profit (loss) for the year before contribution to Kuwait Foundation for Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST") and Zakat		334,873	(18,824,785)
KFAS		-	-
NLST		-	-
Zakat		-	-
		334,873	(18,824,785)
Attributable to:			
Equity holders of the Parent Company		290,553	(15,842,218)
Non-controlling interests		44,320	(2,982,567)
PROFIT (LOSS) FOR THE YEAR		334,873	(18,824,785)
BASIC AND DILUTED EARNING (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	6	0.50 fils	(28.24) fils

The attached notes 1 to 30 form part of these consolidated financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Notes	*2012* *KD*	*2011* *KD*
Profit (loss) for the year		**334,873**	(18,824,785)
Other comprehensive income:			
Changes in fair value of financial assets available for sale		**(2,056,862)**	384,965
Transferred to income statement on impairment of financial assets available for sale	23	**2,767,082**	455,904
Transferred to income statement on sale of financial assets available for sale	23	**(96,031)**	(308,794)
Foreign currency translation adjustments		**24,170**	(517,777)
Other comprehensive income for the year		**638,359**	14,298
Total comprehensive income (expense) for the year		**973,232**	(18,810,487)
Attributable to:			
Equity holders of the Parent Company		**914,886**	(15,829,925)
Non-controlling interests		**58,346**	(2,980,562)
		973,232	(18,810,487)

The attached notes 1 to 30 form part of these consolidated financial information.

Al Mazaya Holding Company K.S.C. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 December 2012

	Equity attributable to equity holders of the Parent Company											
	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Other reserves KD*	*Fair value reserve KD*	*Treasury shares KD*	*Foreign currency translation reserve KD*	*Retained earnings (accumulated losses) KD*	*Sub-total KD*	*Non-controlling interests KD*	*Total KD*
At 1 January 2012	64,931,977	79,760,732	9,646,725	6,711,805	(369,033)	327,700	(21,788,181)	463,648	(58,105,339)	81,580,034	5,286,562	86,866,596
Profit (loss) for the year	-	-	-	-	-	-	-	-	290,553	290,553	44,320	334,873
Other comprehensive income for the year	-	-	-	-	-	600,163	-	24,170	-	624,333	14,026	638,359
Total comprehensive income for the year	-	-	-	-	-	600,163	-	24,170	290,553	914,886	58,346	973,232
Transfer to non controlling interest (refer note below)	-	-	-	-	-	-	-	-	792,628	792,628	(792,628)	-
Transfer to reserves	-	-	29,055	29,055	-	-	-	-	(58,110)	-	-	-
Extinguishment of accumulated losses against share premium (Note 15)	-	(58,105,339)	-	-	-	-	-	-	58,105,339	-	-	-
At 31 December 2012	**64,931,977**	**21,655,393**	**9,675,780**	**6,740,860**	**(369,033)**	**927,863**	**(21,788,181)**	**487,818**	**1,025,071**	**83,287,548**	**4,552,280**	**87,839,828**
At 1 January 2011	49,947,675	75,714,971	9,646,725	6,711,805	(369,033)	(202,370)	(18,113,786)	981,425	(42,263,121)	82,054,291	7,926,429	89,980,720
Profit (loss) for the year	-	-	-	-	-	-	-	-	(15,842,218)	(15,842,218)	(2,982,567)	(18,824,785)
Other comprehensive income (expenses) for the year	-	-	-	-	-	530,070	-	(517,777)	-	12,293	2,005	14,298
Total comprehensive income (expenses) for the year	-	-	-	-	-	530,070	-	(517,777)	(15,842,218)	(15,829,925)	(2,980,562)	(18,810,487)
Issuance of share capital	14,984,302	4,045,761	-	-	-	-	-	-	-	19,030,063	-	19,030,063
Purchase of treasury shares	-	-	-	-	-	-	(3,674,395)	-	-	(3,674,395)	-	(3,674,395)
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	340,695	340,695
At 31 December 2011	64,931,977	79,760,732	9,646,725	6,711,805	(369,033)	327,700	(21,788,181)	463,648	(58,105,339)	81,580,034	5,286,562	86,866,596

During the current year, the Parent Company transferred a loss of KD 792,628 from accumulated losses to non controlling interest arising from transactions that took place prior to 1 January 2011 as the loss was incorrectly allocated to accumulated losses instead of non controlling interest. This transfer does not have any impact on the total assets, total liabilities, and total equity of the Group as at 1 January 2011. The management has adjusted this in the current year as Parent Company has set of the carried forward accumulated losses against share premium as approved by the AGM in 2012.

The attached notes 1 to 30 form part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2012

	Notes	2012 KD	2011 KD
OPERATING ACTIVITIES			
Profit (loss) for the year		334,873	(18,824,785)
Adjustments to reconcile profit to net cash flows:			
Depreciation		93,706	202,093
Net change in fair value of investment properties	8	1,965,753	11,239,341
Net (reversal) charge of impairment loss on properties held for trading	12	(1,312,868)	18,760,205
Allowance for doubtful debts	28	236,167	9,647,663
Impairment of goodwill	7	825,000	-
Net investment loss	23	2,532,136	47,110
Share of results of associates including impairment	10	(458,223)	171,153
Share of results of joint ventures including impairment	9	(873,007)	284,018
Loss on disposal of a joint venture		-	18,061
Murabaha income		-	(75,268)
Interest income		(114,489)	(187,838)
Finance costs		3,260,256	3,409,445
Foreign exchange loss (gain)		21,868	(257,308)
Provision for employees' end of service benefits		99,706	68,261
		6,610,878	24,502,151
Working capital adjustments:			
Properties held for trading		17,100,323	(13,587,193)
Accounts receivable and other debit balances		5,249,109	(12,237,917)
Accounts payable and other credit balances		(18,887,860)	(4,154,771)
Deferred consideration on acquisition of properties		80,938	(491,163)
Advances from customers		(8,657,323)	2,858,552
Cash flows from (used in) operations		1,496,065	(3,110,341)
Employees' end of service benefits paid		(49,685)	(38,647)
Net cash flows from (used in) operating activities		1,446,380	(3,148,988)
INVESTING ACTIVITIES			
Increase in restricted cash balances		2,405,076	3,385,298
Addition to investment properties	8	(2,198,232)	-
Purchase of property and equipment		(124,916)	(37,100)
Proceeds from disposal of investment in a joint venture		-	5,918,836
Interest acquired in joint venture	9	(174,054)	-
Investment in a joint venture	9	(2,055,815)	-
Investment in associates	10	-	(670,000)
Purchase of financial assets available for sale		(344,234)	(1,255,600)
Proceeds from sale of financial assets available for sale		1,720,810	3,712,856
Increase in murabaha receivables		-	2,609,309
Murabaha income received		-	75,268
Dividends income received		138,915	100,000
Interest income received		114,489	187,838
Net cash flows (used in) from investing activities		(517,961)	14,026,705
FINANCING ACTIVITIES			
Term loans repaid		(4,500,000)	500,000
Finance costs paid		(3,260,256)	(3,409,445)
Purchase of treasury shares		-	(3,674,395)
Issuance of share capital		-	4,219,377
Dividends paid		-	(69,907)
Net cash flows used in financing activities		(7,760,256)	(2,434,370)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(6,831,837)	8,443,347
Foreign currency translation adjustments		(858,348)	-
Cash and cash equivalents at the beginning of the year		11,956,472	3,513,125
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	4,266,287	11,956,472
NON CASH TRANSACTION			
INVESTING ACTIVITIES			
Transfer of properties held for trading to investment properties	8	(345,710)	801,770
Consideration received on disposal of a joint venture	9	1,776,054	1,474,830
Adjustment of investment properties by transfer from deferred consideration	8	-	24,205,675
Adjustment of investment properties by transfer to accounts receivable	8	-	8,333,034
		1,430,344	34,815,309
FINANCING ACTIVITIES			
Increase in share capital against advance subscriptions received		-	14,810,686
Increase in share premium against advance subscriptions received		-	4,045,761
		-	18,856,447

The attached notes 1 to 30 form part of these consolidated financial information.

1 CORPORATE INFORMATION

Al Mazaya Holding Company - K.S.C. (the "Parent Company") was incorporated on 7 November 1998 under the Companies Law No. 25, of 2012 and is listed on the Kuwait Stock Exchange and Dubai Financial Market. The address of the Parent Company's registered office is at Salhiya Complex, Fahed Al Salem Street, P.O. Box 3546, Safat 13036, State of Kuwait.

The principal activities of the Parent Company as per the article of association are as follows:
Ownership of Kuwaiti and foreign shareholding companies, ownership of shares and portions of limited liability Kuwaiti and foreign companies or participating in the formation of those companies, as well as managing and guaranteeing those companies, granting loans to the companies in which it owns shares in and guaranteeing them towards others, provided that the percentage of participation of the holding company in the capital of the borrowing company is not less than 20%, ownership of industrial property rights including intellectual rights, trade marks, industrial marks, industrial fees or any other rights relating to such assets and leasing them to other companies to utilize them whether inside or outside the state of Kuwait, ownership of the movable assets and real properties needed to operate within the applicable laws, utilization of its available financial surpluses by investing them in financial real estate portfolios managed by specialized companies.

The Parent Company has the right to practice its aforementioned objectives inside the State of Kuwait and abroad for itself or as agent or representative to other, the Company has the right as well to have interest or to participate with entities that practice similar operations or assist the Company in achieving its objectives inside and outside Kuwait, and such it has the right to establish, form partnership, purchase or merge with those entities.

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 28 March 2013, and are issued subject to the approval of the Ordinary General Assembly of the shareholders of the Parent Company. The shareholders' General Assembly has the power to amend the consolidated financial statements after issuance.

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no 97 of 2013 (the Decree).

According to article 2 and 3 of the Decree, Executive Regulations which shall be issued by the Minister of Industry and Commerce by 26 September 2013 will determine the basis and rules which the Parent Company shall adopt to regularise its affairs with the Companies Law as amended.

2 BASIS OF PREPERATION

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for financial assets available for sale, and investment properties that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Parent Company. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

3 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended to IFRS and IFRIC interpretation effective as of 1 January 2012:

The adoption of the standards or interpretations is described below:

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

3 CHANGES IN ACCOUNTING POLICIES (continued)

Standard issue but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Revised)
The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an Group's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

3 CHANGES IN ACCOUNTING POLICIES (continued)

Standard issue but not yet effective (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a Parent Company, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any material impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group currently accounts its interest in joint venture using equity method and proportionate consolidation based on the nature of arrangement. Adoption of this IFRS will have effect on its accounting policy for joint ventures and consolidated statement of financial position and consolidated statement of income for 2013 and retrospective changes will be made when this new standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an Group's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. Inter-group balances and transactions, including inter-group profits and unrealised profits and losses are eliminated upon consolidation.

Subsidiaries are those entities controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Non-controlling interest represents the portion of profit and 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 statement of financial position separately from equity attributable to the equity holders of the Parent Company.

4 SUMMAARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Entity	*Country of incorporation*	*Principal activities*	*Beneficial ownership interest %*	
			2012	***2011***
Al Mazaya Real Estate Development Company K.S.C. (Closed)	Kuwait	Real estate development	**100%**	100%
Al Mazaya Real Estate Free Zone(FZ)/ LLC	U.A.E	Real estate development	**100%**	100%
Al Dana Real Estate Limited	U.A.E	Real estate development	**100%**	100%
Al Rayhan Real Estate Limited	U.A.E	Real estate development	**100%**	100%
Advantage General Trading Co. W.L.L.	U.A.E	Real estate development	**100%**	100%
Mazaya Lebanon Company - S.A.L. (Holding)	Lebanon	Real estate development	**100%**	100%
Mazaya Lamartien - S.A.L.	Lebanon	Real estate development	**100%**	100%
Seven Zones Real Estate Company K.S.C. (Closed)	Kuwait	Real estate development	**100%**	100%
First Dubai Real Estate Development Company – K.S.C. (Closed)	Kuwait	Real estate development	**92.23%**	92.23%
Future International Project Management – W.L.L.	Kuwait	Real estate development	**85%**	85%
Waterfront Real Estate Company K.S.C. (Closed)	Kuwait	Real estate development	**93.6%**	93.6%
Mezzan Combined For General Trading - W.L.L. Company	Kuwait	Real estate development	**100%**	100%
United Circle General Contracting and Building Company W.L.L	Kuwait	Real estate development	**100%**	100%
Spectrum FZ / LLC	U.A.E	Real estate development	**-**	100%
Al Mazaya Al Khalijia General Trading and Contracting - Khalid S. Esbaitah and Partners – W.L.L.	Kuwait	Real estate development	**100%**	100%
Al Mazaya Arabian Real Estate Company, Khalid S. Esbaitah and Partners W.L.L.	Kuwait	Real estate development	**100%**	100%
Al Mazaya International Projects Management Company, Khalid S. Esbaitah and Partner W.L.L.	Kuwait	Real estate development	**100%**	100%

The beneficial ownership represents direct and indirect holding of the Parent Company through subsidiaries or individuals who have confirmed in writing that the beneficial ownership rests with the Parent Company.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill
A business combination is the bringing together of separate entities or businesses into one reporting entity as a result one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Under this method, the Group recognises, separately from goodwill, identifiable assets acquired, liabilities assumed and any non-controlling interests in the acquiree at the acquisition date. For each business combination, the Group elects to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other expenses.

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

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

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

Financial assets and liabilities

Initial recognition and measurement
Financial assets and liabilities within the scope of IAS 39 are classified as "loans and receivables", "available for sale investments" and "financial liabilities other than at fair value through profit or loss". The Group determines the appropriate classification of each instrument at initial recognition.

Regular way purchases or sales of financial assets are recognised using trade date accounting. Financial liabilities are not recognised unless the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not classified as at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Subsequent measurement
The subsequent measurement of financial assets and liabilities depends on their classification as described below:

Financial assets
Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any. Amortised cost is calculated by taking into account any discount or premium arising on acquisition and fees or costs that are an integral part of the interest rate method.

The effective interest rate method amortisation is included in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income.

Bank deposit and accounts receivable are classified as "Loan and advances".

Financial assets available for sale
Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables. After initial recognition at cost including transaction costs associated with the acquisition, financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Changes in fair value of available for sale investments are reported as a separate component of other comprehensive income until the investment is derecognised or the investment is determined to be impaired, at which time, the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated statement of income.

Financial liabilities
The Group's financial liabilities include Term loans, bank overdrafts, Wakala and murabaha payables and accounts payable and other credit balances.

Term loans and bank borrowings
After initial recognition, interest bearing term loans and bank overdraft are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of income. Unpaid amounts of term loan are included in 'accounts payable and other credit balances'.

Term loan and bank overdraft are carried on the consolidated statement of financial position at their principal amounts less any repayment. Installments due within one year from the reporting date are shown as current liabilities.

Wakala and murabaha payables
Wakala and murabaha payables represent the amount payable on a deferred settlement basis for assets purchased under murabaha arrangements. Installments due within one year from the reporting date are shown as current liability. Wakala and murabaha payables are stated at gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking into account of the profit rate attributable and the balance outstanding.

Accounts payable and other credit balances
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

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

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

Financial liabilities
A financial liability is derecognised 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

Offsetting of financial instruments
Financial assets and liabilities are offset and net amount is reported in the consolidated statement of financial position when the Group has currently legal enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Fair values of financial instruments.
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. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definitions of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms.

Financial instruments traded in organised financial markets, fair value is determined by reference to the quoted market prices or dealer price quotations (bid prices for long positions and ask price for short position) without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 28.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets available for sale
For financial assets available for sale, the Group assess at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of investment and 'prolonged' against the period in which fair value has been below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets available for sale previously recognised in the consolidated statement of income is removed from other comprehensive income and recognised in the consolidated statement of income.

Impairment losses in equity investments are not reversed through consolidated statement of income; subsequent increase in their fair value after impairment is recognized directly in other comprehensive income.

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

Interest in joint ventures
Jointly controlled entities
The Group has investment in joint venture, which are jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The arrangement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method. Under the equity method, investment in a joint venture is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture. Any goodwill arising on the acquisition of the Group's interest in a jontly control entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of joint venture.

The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the joint venture from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from a joint venture reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the joint venture arising from changes in the joint venture's equity that have not been recognised in the joint venture's statement of income. The Group's share of those changes is recognised directly in equity. Unrealised gains on transactions with an joint venture are eliminated to the extent of the Group's share in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred

Jointly controlled assets
The Group has joint control of certain properties held for trading. The Group recognises its interests in the jointly controlled asset using the proportionate consolidation method whereby the Group includes its share of the asset and liabilities and related income and expenses on a line by line basis in its consolidated financial statements.

Investment in associates
The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in the associate's equity that have been recognised in the associate's statement of comprehensive income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)
The Group's share of those changes is recognised directly in equity. Unrealised gains on transactions with an associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever impairment requirements of IAS 36, indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value.

The difference in reporting dates of the associates and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

Investment properties
Investment property comprises developed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the consolidated statement of income in the year in which they arise.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period consolidated financial statements.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

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

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

Computer hardware and software	3 years
Furniture and fixtures	5 years
Motor vehicles	5 years

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which goodwill allocated. These budgets and forecast cash flow calculations generally cover a period of two to five years.

Properties held for trading
Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital operation, is held as properties held for trading and is measured at lower of cost and net realisable value.

Cost includes freehold and leasehold rights for land, amount paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realizable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money of material, less costs of completion and estimated cost of sale.

The cost of properties held for trading recognised in profit or loss on disposal is determined with reference to the specific cost incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Employees' end of service benefits
The Group provides end of service benefits to its expatriate employees. Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Parent Company makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The Parent Company's obligations are limited to these contributions, which are expensed when due.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
A provision is recognised 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 a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects some or all of a provision to be reimbursed, for example, under an issuance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement.

Revenue recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Goup and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sale of completed property
A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Sales of property under development
Where property is under development and agreement has been reached to sell such property when construction is complete, the directors consider whether the contract comprises:

i) A contract to construct a property or, ii) a contract for the sale of a completed property.

Where a contract is judged to be for the construction of a property, revenue is recognised using the percentage of completion method as construction progresses. Where the contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer. If, however, the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage-of-completion method of revenue recognition is applied and revenue is recognised as work progresses. Continuous transfer of work in progress is applied when:

- The buyer controls the work in progress, typically when the land on which the development takes place is owned by the final customer;
- and all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically, when buyer cannot put the incomplete property back to the Group.

In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Real estate rental income
Rental income receivable from operating leases except for contingent rental income which is recognised when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Dividends income
Dividend income is recognized when the right to receive payment is established, which is generally when shareholders approve the dividend.

Management fees
Management fees earned for the provision of services over a period of time are accrued for over that period.

Interest income
Interest income is recognised as the interest accrues using the effective yield method.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Group as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

A property interest that is held by the Group under an operating lease may be classified and accounted for as an investment property when the property otherwise meets the definition of an investment property, evaluated property by property, and based on management's intention. The initial cost of a property interest held under a lease and classified as an investment property is determined at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

Borrowing costs
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised, if they are directly attributable to a project, as part of projects under construction, over the period of the construction until the project concerned is completed and becomes ready for its intended use, on the basis of actual borrowings and actual expenditure incurred on the project. Capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the project for its intended use are complete. Borrowing costs capitalised is calculated using the Group's weighted average cost of borrowings.

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.
Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefit is probable.

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

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

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

Segment information
A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance and the reporting is consistent with the internal reports provided to the chief operation decision maker. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined . The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Group companies
The assets and liabilities of foreign operations are translated into Kuwaiti Dinars at the rate of exchange prevailing at the reporting date and their statement of incomes are translated at average exchange rates during the period where such averages are reasonable approximation of actual rates. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

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

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of property
The Group determines whether a property is classified as investment property or properties held for trading:

- Investment property comprises land and buildings which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and/or capital appreciation.
- Properties held for trading comprises property that is held for sale in the ordinary course of business.

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

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and assumptions (continued)
The group based its assumptions and estimation parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however may change due to market changes or circumstances arising beyond the content of the Group. Such changes are reflected in the assumptions when they occur.

Estimation of net realisable value for property held for trading
Property held for trading is stated at the lower of cost and net realisable value (NRV). NRV for completed property held for trading is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions.

NRV in respect of property held for trading under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less an estimate of the time value of money to the date of completion.

Valuation of investment properties
Fair value of investment properties have been assessed by an independent real estate appraiser. Two main methods were used to determine the fair value of property interests in investment properties; (a) formula based discounted cash flow analysis and (b) comparative analysis as follows:

(a) Formula based discounted cash flow, is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.

(b) Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

The significant methods and assumptions used by valuers in estimating fair value of investment property are stated in note 8.

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

Impairment of trade accounts receivable
An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates. Any difference between the actual amounts collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

Impairment of goodwill
The Group tests whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

6 BASIC AND DILUTED EARNING (LOSS) PER SHARE

Basic and diluted earning (loss) per share is computed by dividing the profit (loss) for the year attributable to the equity holders of the Parent Company by the weighted average number of shares outstanding during the year less treasury shares.

The following reflects the profit (loss) and share data used in the basic and diluted profit (loss) per share computations:

	2012	*2011*
	KD	*KD*
Profit (loss) for the year attributable to equity holders of the Parent Company	**290,553**	(15,842,218)
	Shares	*Shares*
Weighted average number of ordinary shares	**649,319,770**	620,172,229
Less: weighted average number of treasury shares	**(64,802,113)**	(59,174,197)
Weighted average number of shares outstanding	**584,517,657**	560,998,032
Basic and diluted earning (loss) per share attributable to the equity holders of the parent company- (fils)	**0.50**	(28.24)

7 GOODWILL

Goodwill represents excess of consideration paid for acquisition of First Dubai Real Estate Development Company K.S.C. (Closed) (FDDRE) share over and above the fair value of the identifiable assets and liabilities. During the year management has tested the carrying value of goodwill for impairment based on cash flows from the underlying real estate projects of FDDRE. The management has used cash flow projection for 1 to 2 years, applying 15% discount rate and recorded an impairment loss of KD 825,000. For projecting cash flows, management has used assumptions of market rate per sq. ft. derived from the valuation performed for properties held for trading in the books of FDDRE.

8 INVESTMENT PROPERTIES

	2012	*2011*
	KD	*KD*
Balance at the beginning of the year	**73,856,672**	116,921,489
Additions	**2,198,232**	5,899,754
Transferred from properties held for trading (Note 12)	**345,710**	801,770
Net changes in fair value (refer note (i) below)	**(1,965,753)**	(11,239,341)
Adjustments (refer note (ii) below)	-	(38,438,463)
Foreign currency translation adjustments	**39,285**	(88,537)
Balance at the end of the year	**74,474,146**	73,856,672

Investment properties mainly comprise of the following;

	2012	*2011*
	KD	*KD*
Land	**6,901,421**	8,319,013
Developed property held for earning rental income	**67,572,725**	65,537,659
	74,474,146	73,856,672

8 INVESTMENT PROPERTIES (continued)

Certain investment properties with a carrying value of KD 14,283,688 (31 December 2011: KD 9,708,334) are collateralised against term loans amounting to KD 38,000,000 (31 December 2011: KD 42,500,000) (note 18).

(i) Valuations of investment properties were conducted as at 31 December 2012 by two independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of investment properties being valued. The change in fair value was calculated based on the lower of the two values. Fair value of the investment properties is arrived at by reference to industry acknowledged methods of valuations that depend on market data including recent sales value of comparable properties.

(ii) Adjustments recorded in the previous year represent the following:
a) One of the Group's subsidiaries, Al Mazaya Real Estate Company FZ LLC ("MREC FZ") on 4 December 2007 signed a sale and purchase agreement with Limitless Company LLC (Limitless) for purchasing 9 plots in Down Town Jebel Ali, Dubai (DTJA) for KD 34.712 million of which KD 19.6 million was paid in cash and the remaining consideration of KD 15.166 million was deferred. MREC FZ terminated the agreement and submitted a claim in the Dubai International Arbitration Tribunal. Accordingly, the Group in the previous year offset the related deferred consideration of KD 15.166 million (see note 20) against the carrying value of the investment property of KD 34.712 million and the resultant amount of KD 19.6 million was recorded as fair value decline of investment properties.

During the year a final verdict was given by Dubai International Arbitration Tribunal (DIAT) whereby MREC FZ shall only be entitled to receive AED 1.342 million (KD 0.101 million) from Limitless and that the control over the plots would remain with Limitless. The management will record the income only on receipt of the amount.

b) In a separate transaction, the Group had entered into a Sale Purchase Agreement (SPA) with an investor to acquire Waterfront land (WF) in Dubai at a cost of KD 42 million by paying KD 31.5 million in advance. A consideration of KD 10.5 million was deferred and recorded as a payable. A fair value decline of KD 24.7 million was recorded against this property. Due to delays in development of the project from the master developer, the Group has withdrawn its right to acquire these properties. Accordingly, the Group in the previous year offset the outstanding deferred consideration payable to the investor of KD 9 million (see note 20) against the carrying value of the land amounting to KD 17.3 million. The net amount of KD 8.3 million was transferred to trade and other receivables and an equal amount of allowance for doubtful debts was recorded.

	DTJA	*WF*	*Total*
	KD	*KD*	*KD*
Balance at the beginning of the year 2011	34,711,975	17,373,130	52,085,105
Adjustment of deferred consideration	(15,165,579)	(9,040,096)	(24,205,675)
Decline of fair value	(19,546,396)	-	(19,546,396)
Adjustment by transfer to account receivable and other debit balance	-	(8,333,034)	(8,333,034)
Balance at the end of the year 2011	-	-	-

9 INVESTMENT IN JOINT VENTURES

	Country of incorporation	*Ownership percentage %*		*Carrying value*	
		2012	*2011*	*2012*	*2011*
				KD	*KD*
Al Madar Gulf Limited 9(i)	UAE	**49.99**	49.99	**-**	2,018,887
Al Wahda Real Estate Investment Limited 9(ii)	UAE	**50**	48	**4,548,739**	1,203,030
				4,548,739	3,221,917

The Group further holds 50% ownership in Villa 492 – Project (the Villa) that is accounted using proportionate consolidation method.

9 INVESTMENT IN JOINT VENTURES (continued)

(i) During the year ended 31 December 2012, the Parent Company and it's joint venture partner Caledonian Developments Company Limited entered into a Partnership Dissolution Agreement to distribute the existing assets and liabilities of their joint venture 'Al Madar Gulf Limited' (Al Madar) among themselves. Al Madar was initially established for the purpose of developing certain properties in Dubai and was classified as a joint venture. As a result of the distribution of the assets and liabilities of Al Madar, the Group has obtained assets amounting to KD 3,787,463 comprising of cash, properties held for trading, investment property and liabilities amounting to KD 2,011,409 comprising of advances from customers and other liabilities. The Parent Company recorded a net loss of KD 242,833 based on the net assets received as compared to the carrying value of Al Madar and is included in the share of results for the year.

(ii) During the year the Parent Company entered into an agreement with one of its partners, Al Nafisi National Real Estate Group K.S.C.(Closed) (NNRG), to distribute certain assets of it's joint venture (JVs) Al Wahda Real Estate Investment Limited (Al Wahda). The Group's share in asset distributed amounted to KD 4,343,681, comprising of properties held for trading amounting to KD 431,471 and the balance amount was received in cash subsequent to 31 December 2012 (after netting of other balances related to the JV). The distribution of assets was effected based on the fair value of properties held for trading as on the date of the contract determined by an independent valuer.

(iii) As per another agreement, the Parent Company took over more assets from Al Wahda JV than its proportionate share and contributed the excess value in cash to the Al Wahda.

(iv) During the year the Parent Company entered into an agreement with its partner NNRG to distribute certain assets of it's joint venture Villa – 492 Project (the Villa). The Group's share in asset distributed amounted to KD 5,059,535, comprising of properties held for trading amounting to KD 1,300,746 and the balance amount was received in cash subsequent to 31 December 2012 (after netting of other balances related to the JV). The distribution of assets was effected based on the fair value of properties held for trading as on the date of the contract determined by an independent valuer.

(iv)The Parent Company has further acquired 2% equity shares in Al Wahda from another partner for a consideration of KD 174,054.

Movement in investment joint ventures:

	2012	*2011*
	KD	*KD*
Carrying amount of the investment in the joint venture		
At 1 January	**3,221,917**	11,054,413
Share of results for the year including impairment	**873,007**	(284,018)
Funds transferred to the joint venture (refer note (iii) above)	**2,055,815**	-
Acquisition from another partner (refer note (iv) above)	**174,054**	-
Disposal (refer note (i) above)	**(1,776,054)**	(7,411,727)
Foreign currency translation adjustments	**-**	(136,751)
At 31 December	**4,548,739**	3,221,917

9 INVESTMENT IN JOINT VENTURES (continued)

Share of joint venture entity's statement of financial position

	2012		2011	
	Al Madar Gulf Limited KD	***Al Wahada Real Estate Investment Limited KD***	*Al Madar Gulf Limited KD*	*Al Wahada Real Estate Investment Limited KD*
Asset	-	**12,739,199**	7,831,654	17,694,688
Liabilities	-	**(3,641,721)**	(3,793,073)	(15,188,375)
Net assets	-	**9,097,478**	4,038,581	2,506,313
Group's share of net assets	-	**4,548,739**	2,018,887	1,203,030
Revenues	-	**7,625,484**	706,530	21,232,601
Profit /(loss) for the year	-	**2,396,980**	(4,408,041)	3,999,087
Group's share of results	**(242,833)**	**1,198,490**	(2,203,580)	1,919,562

The following amounts are included in the consolidated financial statements as a result of the proportionate consolidation of Villa:

	2012 KD	*2011 KD*
Current assets	**2,877,137**	3,632,149
Non-current assets	**997,197**	10,584,124
Current liabilities	**3,385,252**	4,318,824
Income	**3,110,979**	26,425,025
Expenses	**(1,163,695)**	(19,779,087)

10 INVESTMENT IN ASSOCIATES

	Amount		Country of Incorporation	Ownership %		
	2012 KD	*2011 KD*		***2012***	*2011*	***Principal activities***
Mazaya Qatar Real Estate Development Q.S.C	**5,557,024**	4,753,460	Qatar	**6.37**	6.37	Real estate services
First Qatar Real Estate Development K.S.C.(Closed)	**8,525,040**	8,815,194	Kuwait	**17.54**	17.54	Real estate services
	14,082,064	13,568,654				

10 INVESTMENT IN ASSOCIATES (continued)

Classification of associates where the Group holds less than 20 percent of the voting power of the investee is based on the existence of significant influence exercised by the Group. This is evidenced by the Group's management agreement, participation in policy and decision making process of the investee with sufficient degree for the Group to demonstrate that it has significant influence over the respective associates.

	2012	*2011*
	KD	*KD*
Balance at the beginning of the year	**13,568,654**	13,263804
Additions	**-**	670,000
Share of results including impairment	**458,223**	(171,153)
Foreign currency translation adjustments	**55,187**	(193,997)
Balance at the end of the year	**14,082,064**	13,568,654

The summarized financial information of the associates is given as follows:

	2012	*2011*
	KD	*KD*
Share of associates' assets and liabilities:		
Assets	**15,595,976**	15,404,108
Liabilities	**(1,513,912)**	(1,835,454)
Equity	**14,082,064**	13,568,654
Share of associates' revenue and results:		
Revenue	**1,064,594**	501,717
Results	**(47,299)**	(148,010)

Investment in associates include quoted associates with a carrying value of KD 5,557,024 (2011: KD 4,753,460) having a market value of KD 5,409,789 (2011: KD 3,813,704).

11 FINANCIAL ASSETS AVAILABLE FOR SALE

	2012	*2011*
	KD	*KD*
Quoted:		
Equity securities	**2,732,376**	1,933,622
Unquoted:		
Equity securities	**2,555,187**	4,626,679
Funds and managed portfolios	**7,606,660**	9,774,316
	12,894,223	16,334,617

Impairment loss of KD 2,767,082 (31 December 2011: KD 455,904) has been made against certain quoted and unquoted securities on which there has been a significant or prolonged decline in value (note 23).

Available for sale investments with a fair value of KD 6,761,573 (31 December 2011: KD 3,389,445) are pledged against certain term loans disclosed in note 18.

12 PROPERTIES HELD FOR TRADING

	2012 *KD*	*2011* *KD*
Balance at the beginning of the year	**107,372,223**	115,314,965
Additions (refer note (i) below)	**16,219,784**	71,039,745
Disposals	**(23,592,161)**	(59,361,095)
Transferred to investment properties (note 8)	**(345,710)**	(801,770)
Net transfers (refer note (ii) below)	**(7,951,891)**	-
Foreign currency translation adjustments	**773,133**	(59,417)
Impairment reversal (charge) for the year	**1,312,868**	(18,760,205)
Balance at the end of the year	**93,788,246**	107,372,223

(i) Included in additions are properties held for trading received from Al Madar, Al Wahda and Villa as a result of asset distribution agreement (note 9 (i), (ii) and (iv)).

(ii) During the year the Parent Company entered into an agreement to distribute the certain assets of it's joint venture Villa – 492 Project (the Villa) with one of its partner NNRG. Based on the agreement certain of the properties held for trading were transferred to NNGR (Note 9 (ii) and (iv)).

Properties held for trading mainly comprise the following;

	2012		
	Unsold *KD*	*Sold* *KD*	***Total*** ***KD***
Land	13,536,538	-	**13,536,538**
Properties under development	10,562,889	46,638,826	**57,201,715**
Developed properties	15,220,658	7,829,335	**23,049,993**
	39,320,085	**54,468,161**	**93,788,246**

	2011		
	Unsold *KD*	*Sold* *KD*	*Total* *KD*
Land	12,850,264	-	12,850,264
Properties under development	18,545,463	33,132,829	51,678,292
Developed properties	18,111,615	24,732,052	42,843,667
	49,507,342	57,864,881	107,372,223

13 ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES

	2012	*2011*
	KD	*KD*
Trade receivables	**3,996,395**	13,435,477
Advance payments	**261,708**	1,188,496
Advance for investments	**495,577**	975,827
Due from related parties (note 24)	**1,121,759**	4,796,836
Other receivables	**543,541**	984,803
	6,418,980	21,381,439
Allowance for doubtful debts (note 28.1.3)	**(972,494)**	(10,449,677)
	5,446,486	10,931,762

14 CASH AND CASH EQUIVALENTS

	2012	*2011*
	KD	*KD*
Cash in hand and at banks	**13,066,745**	16,652,549
Short term deposits	**146,222**	5,476,413
Cash in portfolios	**178,458**	1,413,770
	13,391,425	23,542,732
Bank overdrafts	**(2,915,796)**	(2,971,842)
	10,475,629	20,570,890
Restricted bank balances	**(6,209,342)**	(8,614,418)
	4,266,287	11,956,472

Restricted bank balances represent escrow accounts restricted for receiving and making payments for specific construction activity and these may not be available for use within 90 days.

The average effective interest rate on short term bank deposits was 1% (31 December 2011: 1.4%) per annum.

15 SHARE CAPITAL, SHARE PREMIUM, ACCUMULATED LOSSES AND ANNUAL GENERAL MEETING

a) Share capital;

	Authorised, issued and fully paid	
	2012	*2011*
	KD	*KD*
Shares of KD 0.100 each	**64,931,977**	64,931,977

b) Share premium;
Share premium represents the cash received in excess of the par value of the share issued. This is not available for distribution.

c) Accumulated losses;
On 14 June 2012, the ordinary Annual General Meeting of the Parent Company's shareholders approved to extinguish accumulated losses of KD 58,105,339 as of 31 December 2011 against the share premium.

15 SHARE CAPITAL, SHARE PREMIUM, ACCUMULATED LOSSES AND ANNUAL GENERAL MEETING (continued)

d) Annual general meeting;
The Annual General Meeting ("AGM") held 14 June 2012 approved the consolidated financial statements for the year ended 31 December 2011. They approved not to distribute any dividend for the year ended 31 December 2011 (2010: Nil).

16 TREASURY SHARES

	2012	*2011*
Number of shares	**64,802,113**	64,802,113
Percentage of issued shares (%)	**9.98**	9.98
Market value (KD)	**4,730,554**	4,017,731

During the year, a subsidiary company had pledged shares of the Parent Company, included in treasury shares above against murabaha payable (Note 19) amounting to KD 3,500,000 (2011: KD 3,500,000).

	2012	*2011*
Number of shares (numbers)	**32,250,000**	32,250,000
Cost (KD)	**10,843,301**	10,843,301
Market value (KD)	**2,354,250**	1,999,500

17 RESERVES

i) Statutory reserve
In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company (before contributions to KFAS, NLST, directors' fees and Zakat) has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

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

ii) Voluntary reserve
The Parent Company's Articles of Association require that 10% of the profit for the year attributable to the shareholders of the Parent Company (before contributions to KFAS, NLST, directors' fees and Zakat) has been transferred to a Voluntary reserve. There are no restrictions on distribution of general reserve.

18 TERM LOANS

	2012 KD	*2011 KD*
Current portion	**7,000,000**	4,500,000
Non-current portion	**31,000,000**	38,000,000
	38,000,000	42,500,000

During the year ended 31 December 2012, the Group rescheduled it's term loans through renegotiation with a local bank. The rescheduling terms require the Group to repay the loan in sixteen quarterly instalments between 2012 and 2016 at a similar interest rate. The average effective interest rate on the term loans is 5.63% (2011: 5.63%).

18 TERM LOANS (continued)

Certain assets with carrying value of KD 21,045,261 (31 December 2011: KD 13,097,779) were collateralized against the term loans (Note 8 and 11).

Shares of a subsidiary company with a fair value of KD 24,480,000 (31 December 2011: KD 17,340,000) were collateralized against the term loans.

Investment in associate with a carrying of KD 9,136,509 (31 December 2011: KD 9,136,509) were collateralized against the term loans.

19 WAKALA AND MURABAHA PAYABLES

	2012 *KD*	*2011* *KD*
Wakala payables	**5,000,000**	5,000,000
Murabaha payable	**3,500,000**	3,500,000
	8,500,000	8,500,000

Average cost rate attributable to Wakala payable during the year ended31 December 2012 6.25% (2011: 6.25%) per annum.

Average cost attributable to Murabaha payable during the year ended 31 December 2012 was 6.5% (2011: 6.5%) per annum.

Certain shares in subsidiary with a fair value of KD 4,320,000 (2011: KD 3,060,000) are pledged against Wakala payable maturing on 12 March 2013. Certain treasury shares are pledged against Murabaha payable maturing on 19 April 2013 (note 16).

20 DEFFERED CONSIDERATION ON ACQUISITION OF PROPERTIES

	2012 *KD*	*2011* *KD*
Balance at the beginning of the year	**3,866,170**	30,070,031
Consideration paid during the year	-	(491,163)
Foreign currency translation adjustments	**80,938**	
Adjustments	-	(25,712,698)
Balance at the end of the year	**3,947,108**	3,866,170

In the previous year, adjustments represent a transfer of KD 24,205,675 to investments properties as explained in note 8 and a transfer of KD 1,507,023 to accounts payable and other credit balances.

21 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2012 *KD*	*2011* *KD*
Trade payables	**8,018,974**	17,863,481
Amounts due to related parties (note 24)	**173,438**	6,365,991
Retentions payable	**5,221,208**	7,577,199
Accrued development costs	**802,891**	2,255,185
Dividends payable	**194,719**	656,214
Other payables and accrued expenses	**3,032,122**	1,613,142
	17,443,352	36,331,212

Due to related parties balance as of 31 December 2011 included a loan provided by a related party bearing an interest rate of 5.3% per annum. This loan was secured against an investment available for sale and has been repaid during the year.

22 NET MANAGEMENT FEES AND COMMISSION INCOME

	2012 *KD*	*2011* *KD*
Management fees and commission income	**1,503,682**	1,234,150
Cost of management fees and commission income	**(146,985)**	(21,381)
	1,356,697	1,212,769

23 NET INVESTMENT LOSS

	2012 *KD*	*2011* *KD*
Realized gain on disposal of available for sale investments	**96,031**	308,794
Dividend income	**138,915**	100,000
Impairment loss on financial assets available for sale (note 11)	**(2,767,082)**	(455,904)
	(2,532,136)	(47,110)

24 RELATED PARTIES TRANSACTIONS

These represent transactions with related parties, i.e. Subsidiaries, shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

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

	Major shareholders *KD*	***Associates*** *KD*	***2012*** *KD*	*2011* *KD*
Consolidated statement of income:				
Net management fees and commission income	**-**	**714,082**	**714,082**	405,725
Net rental income	**231,733**	**-**	**231,733**	254,253
Finance costs	**-**	**-**	**-**	47,586

24 RELATED PARTIES TRANSACTIONS (continued)

	Major shareholders KD	*Associates KD*	*Other related parties KD*	*2012 KD*	*2011 KD*
Consolidated statement of financial position:					
Amounts due from related parties *	**141,921**	**487,772**	**492,066**	**1,121,759**	4,796,836
Amounts due to related parties **	**173,438**	-	-	**173,438**	6,365,991
Cash and cash equivalents	**261,952**	-	-	**261,952**	375,523

Compensation for board members and other key management member for the year are as follows:

	2012 KD	*2011 KD*
Key management compensation:		
Salaries and other short term benefits	**303,035**	287,301
Terminal benefits	**16,096**	13,962
	319,131	301,263

* Amounts due from related parties are interest free and are receivable on demand.

** Amounts due to related parties carry interest at nil% (2011: 5.3%) and are payable on demand.

25 SEGMENT INFORMATION

i) Primary segment information:

For management purposes, the Group is divided into three main geographical segments that are: State of Kuwait, United Arab Emirates (UAE), Kingdom of Saudi Arabia (KSA) and others, where the Group performs its main activities in the real estate segment. There is no income generating transactions between the Group's segments.

	2012					2011				
	Kuwait KD	*UAE KD*	*KSA KD*	*Others KD*	*Total KD*	*Kuwait KD*	*UAE KD*	*KSA KD*	*Others KD*	*Total KD*
Segment revenue	**925,974**	**31,561,667**	**300,253**	**714,083**	**33,501,977**	492,563	86,509,750	259,283	402,892	87,664,488
Segment (loss) profit	**(7,603,672)**	**11,066,590**	**(2,301,869)**	**(826,176)**	**334,873**	(2,330,663)	(19,618,543)	251,282	2,873,139	(18,824,785)

	2012				
	Kuwait KD	*UAE KD*	*KSA KD*	*Others KD*	*Total KD*
Total segment assets	**53,419,854**	**150,883,528**	**4,920,687**	**11,828,905**	**221,052,974**
Total segment liabilities	**64,155,449**	**69,055,178**	**-**	**2,519**	**133,213,146**

	2011				
	Kuwait KD	*UAE KD*	*KSA KD*	*Others KD*	*Total KD*
Total segment assets	75,164,379	157,291,524	7,493,999	12,100,110	252,050,012
Total segment liabilities	71,904,178	93,276,719	-	2,519	165,183,416

25 SEGMENT INFORMATION

ii) Secondary segment information:

	2012			
	Residential KD	***Commercial KD***	***Others KD***	***Total KD***
Total segment revenue	**5,887,212**	**26,258,068**	**1,356,697**	**33,501,977**
Total segment assets	**102,907,471**	**65,354,921**	**52,790,555**	**221,052,947**

	2011			
	Residential KD	*Commercial KD*	*Other*	*Total KD*
Total segment revenue	32,000,202	54,451,517	1,212,769	87,664,488
Total segment assets	93,604,921	87,623,974	70,821,117	252,050,012

26 CAPITAL COMMITMENTS

The Group has agreed construction contracts with third parties and is consequently committed to future capital expenditure in respect of properties under construction amounting to KD 14,665,565 (31 December 2011: KD 27,650,062).

27 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities

The methodologies and assumptions used to determine fair values of financial instruments is described in fair value section of Note 2: Significant Accounting Policies.

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

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

	Level 1 KD	*Level 2 KD*	*Level 3 KD*	*Total KD*
2012				
Financial assets available for sale	**2,732,376**	**-**	**10,161,847**	**12,894,223**
2011				
Financial assets available for sale	1,933,622	-	14,400,995	16,334,617

27 FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value.

	At 1 January 2011 KD	***Loss recorded in the consolidated statement of income KD***	***Loss recorded in other comprehensive income KD***	***Net purchases, sales and settlements KD***	***At 31 December 2012 KD***
Financial assets available for sale:					
Equity securities	**4,626,679**	**(1,841,188)**	**(230,304)**	**-**	**2,555,187**
Managed portfolio	**9,774,316**	**(570,094)**	**(30,362)**	**(1,567,200)**	**7,606,660**

	At 1 January 2010 KD	*Loss recorded in the consolidated statement of income KD*	*Gain recorded in other comprehensive income KD*	*Net purchases, sales and settlements KD*	*At 31 December 2011 KD*
Financial assets available for sale:					
Equity securities	4,419,702	(28,223)	25,200	210,000	4,626,679
Managed portfolio	11,490,663	(16,331)	210,061	(1,910,077)	9,774,316

28 RISK MANAGEMENT

Introduction
Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

Risk management structure
The Board of Directors of the Parent Company are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

The major risks to which the Group is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value are outlined below.

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

28 RISK MANAGEMENT (continued)

28.1 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 manages credit risk by setting limits for individual counter-parties, monitors credit exposures, and continually assesses the creditworthiness of counterparties, with the result that the Group's exposure to bad debts is not significant.

The Group trades only with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Group management.

With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances, short term deposits and account receivables, the Group's exposure to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying amount these instruments.

Due to the nature of the Group's business, the Group does not take possession of collaterals.

28.1.1 Gross maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk across the Group's financial assets.

	2012 *KD*	*2011* *KD*
Bank balances and short term deposits	**13,386,421**	23,536,354
Accounts receivable	**4,902,945**	9,946,958
	18,289,366	33,483,312

The financial assets of the Group are distributed over the following geographical regions:

Geographical regions:	*2012* *KD*	*2011* *KD*
Kuwait	**5,460,094**	16,802,019
Dubai	**12,822,242**	16,670,147
Other	**7,030**	11,146
	18,289,366	33,483,312

The Group's exposure is predominately to real estate and construction sectors.

There is no concentration of credit risk with respect to real estate receivables, as the Group has a large number of tenants.

28.1.2 Credit quality of financial assets that are neither past due nor impaired

The Group neither uses internal credit grading system nor external credit grades. The Group manages credit quality by ensuring that credit is granted only to known creditworthy parties.

28 RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

28.1.3 Past due and impaired

The Group does not have any past due but not impaired financial assets as at 31 December 2012 and 31 December 2011. Gross amount due amounting to KD 2,129,737 (2011: KD 10,449,677) were impaired with a provision of KD 972,494 (2011: KD 10,449,677). The movement in provision allowance during the year is as follows:

Allowance for doubtful debts for receivables

	2012 *KD*	*2011* *KD*
Balance at the beginning of the year	**10,449,677**	959,454
Charge for the year	**236,167**	9,647,663
Written off	**(9,713,350)**	(157,440)
Balance at the end of the year	**972,494**	10,449,677

28.2 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.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank deposits and loans.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities.

31 December 2012	*Within 1 year* *KD*	*1-2 years* *KD*	*2-5 years* *KD*	*Total* *KD*
Wakala and murabaha payables	9,040,000	-	-	**9,040,000**
Term loans	9,225,000	9,300,000	26,100,000	**44,625,000**
Accounts payable and other credit balances	1,022,483	3,180,783	13,240,086	**17,443,352**
Deferred consideration on acquisition of properties	-	3,947,108	-	**3,947,108**
Bank overdraft	3,120,435	-	-	**3,120,435**
Total undiscounted liabilities	**22,407,918**	**16,427,891**	**39,340,086**	**78,175,895**

28 RISK MANAGEMENT (continued)

28.2 Liquidity risk (continued)

Commitments	***Within 1 year KD***	***1-2 years KD***	***2-5 years KD***	***Total KD***
Capital commitments	**2,933,113**	**3,666,391**	**8,066,061**	**14,665,565**

31 December 2011	*Within 1 year KD*	*1-2 years KD*	*2- 5years KD*	*Total KD*
Wakala and murabaha payables	9,040,000	-	-	9,040,000
Term loans	4,500,000	6,337,800	33,801,600	44,639,400
Accounts payable and other credit balances	36,331,212	-	-	36,331,212
Deferred consideration on acquisition of properties	3,866,170	-	-	3,866,170
Bank overdraft	3,120,434	-	-	3,120,434
Total undiscounted liabilities	56,857,816	6,337,800	33,801,600	96,997,216

Commitments	*Within 1 year KD*	*1-2 years KD*	*2-5 years KD*	*Total KD*
Capital commitments	5,530,012	6,912,516	15,207,534	27,650,062

28.3 Market risk

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

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

28 RISK MANAGEMENT (continued)

28.2 Liquidity risk (continued)

Commitments	***Within 1 year KD***	***1-2 years KD***	***2-5 years KD***	***Total KD***
Capital commitments	**2,933,113**	**3,666,391**	**8,066,061**	**14,665,565**

31 December 2011	*Within 1 year KD*	*1-2 years KD*	*2- 5years KD*	*Total KD*
Wakala and murabaha payables	9,040,000	-	-	9,040,000
Term loans	4,500,000	6,337,800	33,801,600	44,639,400
Accounts payable and other credit balances	36,331,212	-	-	36,331,212
Deferred consideration on acquisition of properties	3,866,170	-	-	3,866,170
Bank overdraft	3,120,434	-	-	3,120,434
Total undiscounted liabilities	56,857,816	6,337,800	33,801,600	96,997,216

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28 RISK MANAGEMENT (continued)

28.3 Market risk (continued)

28.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. Interest rate risk is managed by the finance department of the Parent Company. The Group is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits, loans and borrowings and bonds) as a result of mismatches of interest rate repricing of assets and liabilities. It is the Group's policy to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep a substantial portion of its borrowings at variable rates of interest.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the Group's profit before directors' remuneration and taxation, based on floating rate financial assets and financial liabilities held at 31 December 2012. There is no impact on equity.

The following table demonstrates the sensitivity of the consolidated statement of income to a reasonable charge in interest rates of 50 basis points, with all other variables held constant.

	50 basis points increase	
	Increase (decrease) in profit	
	2012	*2011*
	KD	*KD*
Kuwaiti Dinars	**247,359**	269,859

28.3.2 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's quoted investments are quoted on the regional Stock Exchanges.

The effect on other comprehensive income (OCI) as a result of a change in the fair value of equity instruments held as available for sale financial assets at 31 December 2012 due to 5% change in the following market indices with all other variables held constant is as follows:

Market indices	*Effect on OCI*	
	2012	*2011*
	KD	*KD*
KSE (±5%)	**136,381**	96,429
Others	**80**	-

28 RISK MANAGEMENT (continued)

28.3.3 Foreign currency risk

Currency risk is the risk that the value of the financial instrument on monetary items will fluctuate due to changes in the foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the Kuwaiti Dinar. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

If the Kuwaiti Dinar had strengthened or weakened against the foreign currencies assuming a change of 5%, this would have the following impact on the consolidated statement of income:

	Effect on profit (loss) for the year	
	2012	*2011*
	KD	*KD*
UAE Dirhams	**118,016**	459,678

29 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business maximise shareholder value and remain within the quantitative loan covenants.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio as per the debt covenant for their loans, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio below 120%. The Group includes within net debt, interest bearing loans and borrowings, wakala and murabaha payable and other payables, less bank balances and cash.

	2012	*2011*
	KD	*KD*
Debts	**49,415,796**	53,971,842
Less: bank balances and cash	**(13,391,425)**	(23,542,732)
Net debt	**36,024,371**	30,429,110
Equity	**87,839,928**	86,866,596
Net debt to equity ratio	**41%**	35%

30 COMPARATIVE INFORMATION

Certain prior year amounts have been reclassified to conform to current year's presentation. This reclassification pertains to accounts receivable and other debit balances being set-off against advances from customers by KD 9,644,716 and transfer of KD 79,970 from advances from customers to accounts payable and other credit balances. The effect of this reclassification is summarized as follows:

	As previously reported KD	*Reclassifi -cation KD*	*After reclassifi-cation KD*
Accounts receivable and other debit balances	20,576,478	(9,644,716)	10,931,762
Advances from customers	80,451,988	(9,724,686)	70,727,302
Accounts payable and other credit balances	36,251,242	79,970	36,331,212

This reclassification does not have any effect on the consolidated statement of income, comprehensive income or retained earnings as at 31 December 2011. Such reclassification has been made to improve the quality of information presented.