

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

CONSOLIDATED FINANCIAL STATEMENT  
31 December 2013



MAZAYA

AIM TO LEAD



Building a better  
working world

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

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

We have audited the accompanying consolidated financial statement of Al Mazaya Holding Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, 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.P. (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 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the 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 Memorandum of Incorporation and 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, or of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
EY  
AL AIBAN, AL OSAIMI & PARTNERS

DR. SAUD HAMAD AL-HUMAIDI  
LICENSE NO. 51 A  
OF DR. SAUD HAMAD AL-  
HUMAIDI & PARTNERS  
MEMBER OF BAKER TILLY  
INTERNATIONAL

26 January 2014  
Kuwait

**Al Mazaya Holding Company K.S.C.P. and its Subsidiaries**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2013

	Notes	2013 KD	2012 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	7	2,266,732	2,266,732
Property and equipment		358,706	160,913
Investment properties	8	89,094,871	74,474,146
Investment in joint ventures and associates	9,10	14,250,135	18,630,803
Financial assets available for sale	11	12,750,873	12,894,223
		<u>118,721,317</u>	<u>108,426,817</u>
<b>Current assets</b>			
Properties held for trading	12	86,385,937	93,788,246
Accounts receivable and other debit balances	13	5,563,047	5,446,486
Cash and cash equivalents	14	17,445,840	13,391,425
		<u>109,394,824</u>	<u>112,626,157</u>
<b>Total assets</b>		<u><b>228,116,141</b></u>	<u><b>221,052,974</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	15	64,931,977	64,931,977
Share premium	15	21,655,393	21,655,393
Statutory reserve	16	10,289,898	9,675,780
Voluntary reserve	16	7,354,978	6,740,860
Fair value reserve		1,408,173	927,863
Treasury shares	17	(21,788,181)	(21,788,181)
Other reserves		673,551	(369,033)
Foreign currency translation reserve		636,546	487,818
Retained earnings		5,797,886	1,025,071
		<u>90,960,221</u>	<u>83,287,548</u>
Equity attributable to equity holders of the Parent Company			
Non-controlling interests		6,207,117	4,552,280
<b>Total equity</b>		<u><b>97,167,338</b></u>	<u><b>87,839,828</b></u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employees' end of service benefits		377,211	336,911
Tawarruq payable	19	20,497,705	-
Term loans	18	22,000,000	31,000,000
		<u>42,874,916</u>	<u>31,336,911</u>
<b>Current liabilities</b>			
Term loans	18	1,500,000	7,000,000
Tawarruq payable	19	2,399,595	-
Wakala and murabaha payables	19	-	8,500,000
Deferred consideration on acquisition of properties	20	-	3,947,108
Advances from customers		68,662,798	62,069,979
Accounts payable and other credit balances	21	12,523,867	17,443,352
Bank overdrafts	14	2,987,627	2,915,796
		<u>88,073,887</u>	<u>101,876,235</u>
<b>Total liabilities</b>		<u><b>130,948,803</b></u>	<u><b>133,213,146</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>228,116,141</b></u>	<u><b>221,052,974</b></u>

Rasheed Y. Al Nafisi  
Chairman

Ibrahim A. Al Soqabi  
Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial information.

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

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

	Notes	2013 KD	2012 KD
Revenue from sale of properties held for trading		21,401,278	29,301,615
Rental income		3,964,882	2,843,665
Net management fees and commission income	22	609,780	1,356,697
<b>REVENUE</b>		<b>25,975,940</b>	<b>33,501,977</b>
Cost of sale of properties held for trading		(17,070,175)	(23,592,161)
Cost of rental		(1,119,465)	(931,638)
<b>COST OF REVENUE</b>		<b>(18,189,640)</b>	<b>(24,523,799)</b>
<b>GROSS PROFIT</b>		<b>7,786,300</b>	<b>8,978,178</b>
General and administrative expenses		(3,593,275)	(3,313,264)
Impairment of goodwill	7	-	(825,000)
Net change in fair value of investment properties	8	5,083,148	(1,965,753)
Gain on disposal of investment properties		126,271	-
Share of results of associates and joint ventures including impairment	9,10	309,765	1,331,230
Gain on partial disposal of an associate		26,052	-
Reversal of impairment loss on properties held for trading	12	704,717	1,312,868
Net investment loss	23	(350,813)	(2,532,136)
Other (loss) income	24	(591,651)	752,552
Provision for doubtful debts	30	-	(236,167)
Interest income		75,837	114,489
Finance costs		(2,634,303)	(3,260,256)
Foreign exchange loss		(2,691)	(21,868)
<b>Profit for the year before contribution for directors' remuneration, Kuwait Foundation for Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLSST") and Zakat</b>		<b>6,939,357</b>	<b>334,873</b>
Board of Directors' Remuneration	15	(85,000)	-
KFAS		(55,129)	-
		<b>6,799,228</b>	<b>334,873</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company		6,001,051	290,553
Non-controlling interests		798,177	44,320
<b>PROFIT FOR THE YEAR</b>		<b>6,799,228</b>	<b>334,873</b>
<b>BASIC AND DILUTED EARNING PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	6	<b>10.27 fils</b>	<b>0.50 fils</b>

The attached notes 1 to 31 form part of these consolidated financial information.

**Al Mazaya Holding Company K.S.C.P. and its Subsidiaries**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2013

	<i>Notes</i>	<b>2013</b> <i>KD</i>	<b>2012</b> <i>KD</i>
<b>Profit for the year</b>		<b>6,799,228</b>	334,873
<b>Other comprehensive income (loss):</b>			
Net changes in fair value of financial assets available for sale		119,582	(2,056,862)
Transferred to income statement on impairment of financial assets available for sale	23	314,316	2,767,082
Transferred to income statement on sale of financial assets available for sale	23	41,497	(96,031)
Exchange differences on translation of foreign operations		148,728	24,170
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>624,123</b>	638,359
<b>Total comprehensive income for the year</b>		<b>7,423,351</b>	973,232
<b>Attributable to:</b>			
Equity holders of the Parent Company		6,630,089	914,886
Non-controlling interests		793,262	58,346
<b>Total comprehensive income for the year</b>		<b>7,423,351</b>	973,232

The attached notes 1 to 31 form part of these consolidated financial information.

**Al Mazaya Holding Company K.S.C.P. and its Subsidiaries**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2013

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Fair value reserve KD	Treasury shares KD	Other reserves KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total KD
At 1 January 2013	64,931,977	21,655,393	9,675,780	6,740,860	927,863	(21,788,181)	(369,033)	487,818	1,025,071	83,287,548	4,552,280	87,839,828
Profit for the year	-	-	-	-	-	-	-	-	6,001,051	6,001,051	798,177	6,799,228
Other comprehensive income (loss) for the year	-	-	-	-	480,310	-	-	148,728	-	629,038	(4,915)	624,123
Total comprehensive income for the year	-	-	-	-	480,310	-	-	148,728	6,001,051	6,630,089	793,262	7,423,351
Partial disposal of subsidiary	-	-	614,118	614,118	-	-	1,042,584	-	(1,228,236)	1,042,584	861,575	1,904,159
Transfer to reserves	-	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2013	64,931,977	21,655,393	10,289,898	7,354,978	1,408,173	(21,788,181)	673,551	636,546	5,797,886	90,960,221	6,207,117	97,167,338
At 1 January 2012	64,931,977	79,760,732	9,646,725	6,711,805	327,700	(21,788,181)	(369,033)	463,648	(58,105,339)	81,580,034	5,286,562	86,866,596
Profit 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	-	-	-	-	-	-	-	-	792,628	792,628	(792,628)	-
Transfer to reserves	-	-	29,055	29,055	-	-	-	-	(58,110)	-	-	-
Extinguishment of accumulated losses against share premium (note 15(c))	-	(58,105,339)	-	-	-	-	-	-	58,105,339	-	-	-
At 31 December 2012	64,931,977	21,655,393	9,675,780	6,740,860	927,863	(21,788,181)	(369,033)	487,818	1,025,071	83,287,548	4,552,280	87,839,828

The attached notes 1 to 31 form part of these consolidated financial information.

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

## CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2013

	Notes	2013 KD	2012 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year		6,799,228	334,873
Adjustments to reconcile profit to net cash flows:			
Depreciation		63,944	93,706
Provision for doubtful debts	30	-	236,167
Net change in fair value of investment properties	8	(5,083,148)	1,965,753
Gain on disposal of investment properties		(126,271)	-
Reversal of impairment loss on properties held for trading	12	(704,717)	(1,312,868)
Impairment of goodwill	7	-	825,000
Net investment loss	23	350,813	2,532,136
Share of results of associates and joint venture including impairment		(309,765)	(1,331,230)
Gain on partial disposal of an associate		(26,052)	-
Interest income		(75,837)	(114,489)
Finance costs		2,634,303	3,260,256
Foreign exchange loss		2,691	21,868
Provision for employees' end of service benefits		83,340	99,706
		<u>3,608,529</u>	<u>6,610,878</u>
Working capital adjustments:			
Properties held for trading		8,342,128	17,100,323
Accounts receivable and other debit balances		(116,561)	5,249,109
Accounts payable and other credit balances		(4,922,176)	(18,887,860)
Deferred consideration on acquisition of properties		(3,947,108)	80,938
Advances from customers		6,592,819	(8,657,323)
		<u>9,557,631</u>	<u>1,496,065</u>
Cash flows from operations		9,557,631	1,496,065
Employees' end of service benefits paid		(43,040)	(49,685)
		<u>9,514,591</u>	<u>1,446,380</u>
<b>INVESTING ACTIVITIES</b>			
Decrease in restricted cash balances		62,486	2,405,076
Purchase of property and equipment		(261,737)	(124,916)
Purchase of investment properties	8	(10,149,170)	(2,198,232)
Proceeds from disposal of investment properties		826,360	-
Interest acquired in joint venture	9	-	(174,054)
Investment in a joint venture	9	-	(2,055,815)
Proceeds received on distribution of assets in joint venture	9	3,936,112	-
Purchase of financial assets available for sale		-	(344,234)
Proceeds from sale of financial assets available for sale		262,932	1,720,810
Proceeds from partial disposal of associate		577,510	-
Proceeds from partial disposal of a subsidiary		1,904,159	-
Dividend received from an associate		297,880	-
Dividends income received		5,000	138,915
Interest income received		75,837	114,489
		<u>(2,462,631)</u>	<u>(517,961)</u>
<b>FINANCING ACTIVITIES</b>			
Term loans repaid		(14,500,000)	(4,500,000)
Net movement in tawarruq, murabaha and wakala payables		14,397,300	-
Finance costs paid		(2,634,303)	(3,260,256)
		<u>(2,737,003)</u>	<u>(7,760,256)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Foreign currency translation adjustments		(269,887)	(858,348)
Cash and cash equivalents at the beginning of the year		4,266,287	11,956,472
		<u>4,314,957</u>	<u>(6,831,837)</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	14	<u><u>8,311,357</u></u>	<u><u>4,266,287</u></u>

The attached notes 1 to 31 form part of these consolidated financial information.

**Al Mazaya Holding Company K.S.C.P. and its Subsidiaries**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT**  
31 December 2013

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**1 CORPORATE INFORMATION**

Al Mazaya Holding Company - K.S.C.P. (the "Parent Company") was incorporated on 7 November 1998 under the Companies Law No. 25 of 2012 and amended thereto. The Parent Company is engaged in investment in local and foreign companies, real estate properties and consultancy services. This consolidated financial statement presents the results of the Parent Company and its subsidiaries (collectively referred to as the "Group").

The registered head office of the Parent Company is at Mazaya Tower 01, Al Murqab, 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 2013 were authorised for issue by the Board of Directors on 26 January 2014, 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 New Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the "Companies Law"), 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). The Executive Regulations of the new amended law issued on 29 September 2013 and was published in the official Gazette on 6 October 2013.

As per article three of the executive regulations, the companies have one year from the date of publishing the executive regulations to comply with the new amended law.

**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") and applicable requirements of Ministerial Order No. 18 of 1990.

**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 IFRS effective as of 1 January 2013:

### 3 CHANGES IN ACCOUNTING POLICIES (continued)

#### New and amended standards and interpretations (continued)

The adoption of the standards or interpretations is described below:

##### *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 OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore has no impact on the Group's financial position or performance.

##### *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 entity'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. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

##### *IFRS 10 Consolidated Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The adoption of this standard did not have any material impact on the consolidated financial position or performance of the Group.

##### *IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. This amendment does not have any impact on the consolidated financial statement.

##### *IFRS 12 Disclosure of Involvement with Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. It does not apply to certain employee benefit plans, separate financial statements to which IAS 27 Separate Financial Statements applies (except in relation to unconsolidated structured entities and investment entities in some cases), certain interests in joint ventures held by an entity that does not share in joint control, and the majority of interests in another entity accounted for in accordance with IFRS 9 Financial Instruments. IFRS 12 adds to the disclosure requirements of IAS 1 by specifically requiring an entity to disclose all significant judgements and estimates made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest. Adoption of this standard did not have any impact on the consolidated financial statement of the Group and the new disclosure are made in consolidated financial statement.

##### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard 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. IFRS 13 requires an entity to disclose information that helps users of its financial statements to assess both of the following: (a) For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements. (b) For fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income for the period.

### 3 CHANGES IN ACCOUNTING POLICIES (continued)

#### **New and amended standards and interpretations (continued)**

The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for non-financial instruments, thereby affecting the disclosures of consolidated financial statements. The Group provides these disclosures in Note 29.

#### **Standard issue but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards issued is those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

#### *IFRS 9 'Financial Instruments':*

The standard was issued in November 2009, however at the IASB meeting in July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9 to be left open. However, IFRS 9 would still be available for early application. The standard improves the ability of the users of the financial statement to assess the amount, timing and uncertainty of future cash flows of the entity by replacing many financial instrument classification categories, measurement and associated impairment methods. The application of IFRS 9 will result in amendments and additional disclosures relating to financial instruments and associated risks.

#### *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. This amendment is not expected to impact the Group's financial position or performance and becomes effective for annual periods beginning on or after 1 January 2014.

#### *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment would not be relevant to the Group, since the Group would not qualify to be an investment entity under IFRS 10.

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Parent Company's voting rights and potential voting rights

The financial statements of the Subsidiary are prepared at the same reporting year as the Parent Company using consistent accounting policies. Subsidiaries are consolidated from the date on which the Group obtains control and continues to be consolidated until the date that such control ceases.

All material intra-group balances and transactions, including material unrealised gains and losses arising on intra-group transactions are eliminated on consolidation.

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT  
 31 December 2013

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of consolidation (continued)**

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.

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, where the Parent Company has direct investment :

<i>Entity</i>	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Ownership interest %</i>	
			<i>2013</i>	<i>2012</i>
Al Mazaya Real Estate Development Company K.S.C. (Closed)	Kuwait	Real estate development	99.7%	99.7%
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	80%	80%
Al Rayhan Real Estate Limited	U.A.E	Real estate development	80%	80%
Advantage General Trading Co. W.L.L.	U.A.E	Real estate development	99%	99%
Mazaya Lebanon Company - S.A.L. (Holding)	Lebanon	Real estate development	99.85%	99.85%
Mazaya Lamartien - S.A.L.	Lebanon	Real estate development	99.9%	99.9%
Seven Zones Real Estate Company K.S.C. (Closed)	Kuwait	Real estate development	96%	96%
First Dubai Real Estate Development Company – K.S.C.P.	Kuwait	Real estate development	90.81%	92.23%
Waterfront Real Estate Company K.S.C. (Closed)	Kuwait	Real estate development	93.6%	93.6%
Mezzan Combined For General Trading Company - W.L.L.	Kuwait	Real estate development	99%	99%

**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, Murabaha and Tawarruq 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 loans 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.

***Tawarruq payables***

Tawarruq payable represent amounts due to financial institutions arising from an Islamic financing arrangement where the liability is settled on a deferred settlement basis for assets purchased. Tawarruq payable are stated at the gross amount of the payables, net of deferred profit payable. Tawarruq cost is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets and liabilities (continued)**

*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.

**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.

**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.

*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.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Impairment of financial assets (continued)**

*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.

**Fair value measurement**

The Group measures financial instruments, such as, financial asset available for sale and non-financial assets, at fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

*Fair value measurement of financial instruments*

Fair values for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including financial instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants. For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

The fair value of financial instruments carried at amortised cost, other than short-term in nature is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

The fair value of a derivative financial instrument is the equivalent of the unrealised gain or loss from marking to market the derivative financial instrument, using relevant market rates or internal pricing models.

*Fair value measurement of non-financial instruments*

Fair values of non-financial instruments are measured based on valuation provided by independent valuers.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement**

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**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 jointly 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**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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.

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.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment in associates (continued)**

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 properties 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)

##### **Other reserves**

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

##### **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 Group 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 property held for trading*

A property is regarded as sold when the significant risks and rewards of ownership of real estate property 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.

##### *Gain on sale of investments financial assets available for sale*

Gain on sale of investment is measured by the difference between the sale proceeds and the carrying amount of investment at the date of disposal, and is recognised at the time of the sale.

##### *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.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition (continued)**

*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.

**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.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Taxation (continued)**

*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.

**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.

**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 judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the consolidated financial statements:

**5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

***Judgments (continued)***

**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:

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 and 29.

***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. Where this estimation cannot be reliably determined these investments are carried at cost less impairment.

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**5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

*Estimates and assumptions (continued)*

*Impairment of trade accounts receivable*

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

Basic and diluted earnings per share is computed by dividing the profit 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 and share data used in the basic and diluted profit per share computations:

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Profit for the year attributable to equity holders of the Parent Company	<u>6,001,051</u>	<u>290,553</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of ordinary shares	<u>649,319,770</u>	649,319,770
Less: weighted average number of treasury shares	<u>(64,802,134)</u>	(64,802,134)
Weighted average number of shares outstanding	<u>584,517,636</u>	<u>584,517,636</u>
<b>Basic and diluted earnings per share attributable to the equity holders of the parent company- (fils)</b>	<u><u>10.27 fils</u></u>	<u><u>0.50 fils</u></u>

**7 GOODWILL**

Goodwill represents excess of consideration paid for acquisition of First Dubai Real Estate Development Company K.S.C.P. (FDDRE) shares 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 fair value of FDDRE shares quoted on the Kuwait Stock Exchange and has noted no impairment.

During the previous year management tested the carrying value of goodwill based on cash flows from the underlying real estate projects of FDDRE. The management 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 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**

	2013 KD	2012 KD
Balance at the beginning of the year		
Additions (refer note (i) below)	74,474,146	73,856,672
Disposals	10,149,170	2,198,232
Transferred from properties held for trading (Note 12)	(700,089)	-
Net gain (loss) from fair value adjustment (refer note (ii) below)	-	345,710
Foreign currency translation adjustments	5,083,148	(1,965,753)
	88,496	39,285
Balance at the end of the year	<u>89,094,871</u>	<u>74,474,146</u>

Investment properties mainly comprise of the following:

	2013 KD	2012 KD
Land		
Developed property held for earning rental income	7,605,552	6,901,421
	81,489,319	67,572,725
	<u>89,094,871</u>	<u>74,474,146</u>

Certain investment properties with a carrying value of KD 19,080,400 (31 December 2012: KD 14,283,688) are collateralised against term loans amounting to KD 23,500,000 (31 December 2012: KD 38,000,000) (note 18).

(i) Additions includes the purchase of an investment property amounting to KD 9,800,000 from related party. For detail of transaction refer note 25.

(ii) Valuations of investment properties were conducted 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. Further details are provided in note 29.

**Sensitivity analysis**

The table below presents the sensitivity of the valuation to changes by 5% in the most significant assumptions underlying the valuation of the investment property.

	Changes in the valuation assumption	Impact on profit for the year	
		2013 KD	2012 KD
Land			
Developed property held for earning rental income	+/-5%	380,278	345,071
	+/-5%	4,074,466	3,378,636

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9 INVESTMENT IN JOINT VENTURES

	Country of incorporation	Ownership percentage %		Carrying value	
		2013	2012	2013 KD	2012 KD
Al Wahda Real Estate Investment Limited (note 9(i) and (ii))	UAE	50	50	899,573	4,548,739

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

(i) During the previous 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).

During the year, the Group received the remaining balance of its share of assets from the assets distributed in cash amounting to AED 51,000,000 equivalent to KD 3,936,112 and is netted off against the carrying value of Al Wahda.

(ii) During the previous year the Parent Company entered into an agreement with its partner NNRG to distribute certain assets of its 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 of KD was received in cash during the year (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.

*Movement in investment joint ventures:*

	2013 KD	2012 KD
Balance at the beginning of the year		
At 1 January	4,548,739	3,221,917
Disposal	-	(1,776,054)
Share of results for the year including impairment	286,946	873,007
Proceeds received on distribution of assets in joint venture	(3,936,112)	-
Funds transferred to the joint venture	-	2,055,815
Acquisition from another partner	-	174,054
Balance at the end of the year	899,573	4,548,739

*Share of Al Wahada Real Estate Investment Limited statement of financial position*

	2013 KD	2012 KD
Asset	6,036,679	12,739,199
Liabilities	(4,237,534)	(3,641,721)
Net assets	1,799,145	9,097,478
Group's share of net assets	899,573	4,548,739
Revenues	3,337,569	7,625,484
Profit for the year	573,892	2,396,980
Group's share of results	286,946	1,198,490

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**9 INVESTMENT IN JOINT VENTURES (continued)**

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

	<b>2013</b> <b>KD</b>	<b>2012</b> <b>KD</b>
Current assets	<b>1,189,247</b>	<b>2,877,137</b>
Non-current assets	<b>-</b>	<b>997,197</b>
Current liabilities	<b>660,760</b>	<b>3,385,252</b>
Income	<b>1,241,602</b>	<b>3,110,979</b>
Expenses	<b>(724,038)</b>	<b>(1,163,695)</b>

**10 INVESTMENT IN ASSOCIATES**

	Country of Incorporation	Ownership %		<i>Principal activities</i>	<b>2013</b> <b>KD</b>	<b>2012</b> <b>KD</b>
		<b>2013</b>	<b>2012</b>			
Mazaya Qatar Real Estate Development Q.S.C	Qatar	5.72	6.37	Real estate services	<b>4,836,897</b>	<b>5,557,024</b>
First Qatar Real Estate Development K.S.C.(Closed)	Kuwait	17.54	17.54	Real estate services	<b>8,513,665</b>	<b>8,525,040</b>
					<b>13,350,562</b>	<b>14,082,064</b>

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.

	<b>2013</b> <b>KD</b>	<b>2012</b> <b>KD</b>
Balance at the beginning of the year	<b>14,082,064</b>	<b>13,568,654</b>
Disposal	<b>(551,458)</b>	<b>-</b>
Dividend received	<b>(297,880)</b>	<b>-</b>
Share of results including reversal of impairment	<b>22,819</b>	<b>458,223</b>
Foreign currency translation adjustments	<b>95,017</b>	<b>55,187</b>
Balance at the end of the year	<b>13,350,562</b>	<b>14,082,064</b>

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**10 INVESTMENT IN ASSOCIATES (continued)**

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

	<b>2013</b>	<b>2012</b>
	<b>KD</b>	<b>KD</b>
<b>Parent Company's share of assets and liabilities:</b>		
Assets	16,008,513	15,595,976
Liabilities	(2,657,951)	(1,513,912)
<b>Equity</b>	<b>13,350,562</b>	<b>14,082,064</b>
<b>Parent Company's share revenue and results:</b>		
Revenue	1,770,052	1,064,594
Group's share of profit (loss) for the year	<b>22,819</b>	<b>(47,299)</b>

Investment in associates include quoted associates with a carrying value of KD 4,836,897 (2012: KD 5,557,024) having a market value of KD 5,549,983 (2012: KD 5,409,789).

**11 FINANCIAL ASSETS AVAILABLE FOR SALE**

	<b>2013</b>	<b>2012</b>
	<b>KD</b>	<b>KD</b>
<b>Quoted:</b>		
Equity securities	2,706,947	2,732,376
<b>Unquoted:</b>		
Equity securities	2,565,811	2,555,187
Funds and managed portfolios	7,478,115	7,606,660
	<b>12,750,873</b>	<b>12,894,223</b>

Impairment loss of KD 314,316 (31 December 2012: KD 2,767,082) 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 6,846,035 (31 December 2012: KD 6,761,573) are pledged against certain term loans disclosed in note 18.

Unquoted equity shares are carried at cost, less impairment, if any, due to the non-availability of reliable measures of their fair values. Management has performed a review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments and recorded an impairment loss of KD 311,873 (2012: KD 2,572,957) in the consolidated income statement. Based on the latest available financial information, management is of the view that no further impairment loss is required as at 31 December 2013 in respect of these investments. Impairment loss of KD 2,443 (2012: KD 194,125) is recorded in consolidated income statements on quoted equity shares.

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12 PROPERTIES HELD FOR TRADING

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Balance at the beginning of the year	93,788,247	107,372,223
Additions (refer note (i) below)	8,728,048	16,219,784
Disposals (refer note (ii) below)	(17,070,175)	(23,592,161)
Transferred to investment properties (note 8)	-	(345,710)
Net impairment reversal for the year	704,717	1,312,868
Net transfers	-	(7,951,891)
Foreign currency translation adjustments	235,100	773,133
Balance at the end of the year	<u>86,385,937</u>	<u>93,788,246</u>

(i) Additions includes the purchase of an property held for trading amounting to KD 868,299 from related party. For detail of transaction refer note 25.

(ii) Disposal includes the sale of property held for trading of KD 4,668,299 to a related party. For more details of transaction refer note 25.

Properties held for trading mainly comprise the following;

	<i>2013</i>		
	<i>Unsold</i> <i>KD</i>	<i>Sold</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Land	8,369,901	-	8,369,901
Properties under development	19,408,346	49,790,055	69,198,401
Developed properties	6,103,786	2,713,849	8,817,635
	<u>33,882,033</u>	<u>52,503,904</u>	<u>86,385,937</u>
	<i>2012</i>		
	<i>Unsold</i> <i>KD</i>	<i>Sold</i> <i>KD</i>	<i>Total</i> <i>KD</i>
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
	<u>39,320,085</u>	<u>54,468,161</u>	<u>93,788,246</u>

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**13 ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES**

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Trade receivables	4,907,813	3,996,395
Advance payments	334,525	261,708
Advance for investments	22,915	495,577
Due from related parties (note 25)	717,282	1,121,759
Other receivables	553,006	543,541
	<u>6,535,541</u>	<u>6,418,980</u>
Provision for doubtful debts (note 30.1.3)	(972,494)	(972,494)
	<u>5,563,047</u>	<u>5,446,486</u>

**14 CASH AND CASH EQUIVALENTS**

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Cash in hand and at banks	17,516,278	13,066,745
Short term deposits	-	146,222
Cash in portfolios	(70,438)	178,458
	<u>17,445,840</u>	<u>13,391,425</u>
Bank overdrafts	(2,987,627)	(2,915,796)
	<u>14,458,213</u>	<u>10,475,629</u>
Restricted bank balances	(6,146,856)	(6,209,342)
	<u>8,311,357</u>	<u>4,266,287</u>

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.

**15 SHARE CAPITAL, SHARE PREMIUM, RETAINED EARNINGS AND ANNUAL GENERAL MEETING**

a) Share capital;

	<i>Authorised, issued and fully paid</i>	
	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
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) Retained earnings/(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.

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### 15 SHARE CAPITAL, SHARE PREMIUM, RETAINED EARNINGS AND ANNUAL GENERAL MEETING (continued)

d) Annual general meeting;

The Annual General Meeting ("AGM") held 9 June 2013 approved the consolidated financial statements for the year ended 31 December 2012. The General Assembly approved not to distribute any dividends for the year ended 31 December 2012 (2011: Nil).

e) The board of directors' have proposed directors' remuneration for the year ended 31 December 2013 amounting KD 85,000 (2012: KD Nil) and that is subject to approval by annual general assembly.

f) The board of directors' have proposed 6% bonus shares in respect of the year ended 31 December 2013 (2012: nil) and is subject to approval at the annual general assembly.

### 16 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, board of directors' remuneration 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, board of directors' remuneration and Zakat) has been transferred to a Voluntary reserve. There are no restrictions on distribution of general reserve.

### 17 TREASURY SHARES

	2013	2012
Number of shares	64,802,134	64,802,134
Percentage of issued shares (%)	9.98	9.98
Market value (KD)	6,480,213	4,730,556

During the year, a subsidiary company had pledged shares of the Parent Company, included in treasury shares above against tawarruq payable amounting to KD 3,150,000 (2012: KD 3,500,000) as detailed below:

	2013	2012
Number of shares (numbers)	32,250,000	32,250,000
Cost (KD)	10,843,301	10,843,301
Market value (KD)	3,225,000	2,354,250

Reserves (share premium and statutory reserve) of the Parent Company equivalent to the cost of treasury shares have been earmarked as non-distributable.

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**18 TERM LOANS**

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Current portion	1,500,000	7,000,000
Non-current portion	22,000,000	31,000,000
	<u>23,500,000</u>	<u>38,000,000</u>

The Group is required to repay the term loan in sixteen quarterly instalments between 2012 and 2016 at a similar interest rate. The average effective interest rate on the term loans is 5.16% (2012: 5.63%) per annum.

Certain assets with carrying value of KD 25,926,435 (31 December 2012: KD 21,045,261) were collateralized against the term loans (Note 8 and 11).

Shares of a listed subsidiary company with a fair value of KD 52,700,000 (31 December 2012: KD 24,480,000) and investment in associate with a carrying value of KD 9,192,519 (31 December 2012: KD 9,136,509) were collateralized against the term loans.

**19 TAWARRUQ, WAKALA AND MURABAHA PAYABLES**

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Tawarruq payables	22,897,300	-
Wakala payable	-	5,000,000
Murabaha payable	-	3,500,000
	<u>22,897,300</u>	<u>8,500,000</u>

Certain shares in subsidiary with a fair value of KD 51,057,000 (2012: KD 7,047,000) are pledged against Tawarruq maturing on 31 December 2018.

**20 DEFERRED CONSIDERATION ON ACQUISITION OF PROPERTIES**

The deferred consideration on acquisition of properties was payable to the master developer against certain properties held for trading. During the year, the Parent Company settled this amount by sale of certain properties held for trading to the master developer.

**21 ACCOUNTS PAYABLE AND OTHER LIABILITIES**

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Trade payables	6,121,968	8,018,974
Amounts due to related parties (note 25)	-	173,438
Retentions payable	2,337,366	5,221,208
Accrued development costs	61,444	802,891
Dividends payable	172,353	194,719
Other payables and accrued expenses	3,830,736	3,032,122
	<u>12,523,867</u>	<u>17,443,352</u>

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**22 NET MANAGEMENT FEES AND COMMISSION INCOME**

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Management fees and commission income	739,469	1,503,682
Cost of management fees and commission income	(129,689)	(146,985)
	<u>609,780</u>	<u>1,356,697</u>

**23 NET INVESTMENT LOSS**

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Realized gain on disposal of available for sale investments	(41,497)	96,031
Dividend income	5,000	138,915
Impairment loss on financial assets available for sale (note 11)	(314,316)	(2,767,082)
	<u>(350,813)</u>	<u>(2,532,136)</u>

**24 OTHER (LOSS) INCOME**

Other (loss) income include the following gains and losses:

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Net (loss) gain on settlement of liabilities and claims	(580,717)	471,456
Others	(10,934)	281,096
	<u>(591,651)</u>	<u>752,552</u>

**25 RELATED PARTY 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:

	<i>Major shareholders KD</i>	<i>Associates KD</i>	<i>Other related parties KD</i>	<i>Total 2013 KD</i>	<i>Total 2012 KD</i>
<b>Consolidated statement of income:</b>					
Revenue from sale of properties held for trading	-	-	4,668,299	4,668,299	-
Net management fees and commission income	-	403,513	-	403,513	714,082
Net rental income	-	-	-	-	231,733

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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### 25 RELATED PARTY TRANSACTIONS (continued)

	<i>Major shareholders KD</i>	<i>Associates KD</i>	<i>Other related parties KD</i>	<i>2013 KD</i>	<i>2012 KD</i>
<b>Consolidated statement of financial position:</b>					
Amounts due from related parties (note 13)*	239,696	477,586	-	717,282	1,121,759
Amounts due to related parties (note 21)*	-	-	-	-	173,438
Cash and cash equivalents	-	-	-	-	261,952

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

#### Other transaction

During 2013, the Parent Company has entered into a contract with a related party to purchase an investment property amounting to KD 9,800,000 and property held for trading amounting to KD 868,299 at fair value. The fair value of the investment property and property held for trading purchased by the Parent Company is determined by an independent valuer as agreed by the parties to the contract. The purchase price was required to be settled by the Parent Company in the form of sales of certain units of properties held for trading amounting to KD 4,668,299 and taking over a bank borrowing of that related party (note 8 and 12).

Further, the legal procedure to transfer the ownership of investment property purchased by the Parent Company is under process as at the reporting date (note 8).

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

	<i>2013 KD</i>	<i>2012 KD</i>
Salaries and other short term benefits	750,070	771,178
Terminal benefits	32,313	20,423
	<u>782,383</u>	<u>791,601</u>

### 26 SIGNIFICANT NON CONTROLLING INTEREST

The summarised consolidated financial statement of First Dubai Real Estate Development Company K.S.C.P is provided below. This information is based on amounts before inter-company eliminations.

**Summarised consolidated statement of profit or loss:**

	<i>2013 KD</i>	<i>2012 KD</i>
Revenue	5,303,801	2,764,098
Profit for the year	6,920,921	773,607
Total comprehensive income	7,546,133	1,174,184

**Al Mazaya Holding Company K.S.C.P. and its Subsidiaries**  
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**26 SIGNIFICANT NON CONTROLLING INTEREST (continued)**

**Summarised consolidated statement of financial position as at 31 December:**

	<b>2013</b>	<b>2012</b>
	<b>KD</b>	<b>KD</b>
Current assets	<b>29,571,502</b>	27,962,031
Non-current assets	<b>43,041,431</b>	38,455,060
Current liabilities	<b>11,245,426</b>	15,220,717
Non-current liabilities	<b>2,625,000</b>	-
Total equity	<b>58,742,507</b>	51,196,374
<b>Attributable to:</b>		
Equity holders of parent	<b>55,202,547</b>	47,850,374
Non-controlling interest	<b>3,539,960</b>	3,346,000

**Summarised consolidated cash flow statement for year ending 31 December:**

	<b>2013</b>	<b>2012</b>
	<b>KD</b>	<b>KD</b>
Operating	<b>263,725</b>	(3,349,680)
Investing	<b>538,325</b>	2,460,899
Financing	<b>(368,244)</b>	(49,254)
Net increase (decrease) in cash and cash equivalents	<b>433,806</b>	(938,035)

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**27 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.

	2013				2012					
	Kuwait KD	UAE KD	KSA KD	Others KD	Total KD	Kuwait KD	UAE KD	KSA KD	Others KD	Total KD
Segment revenue	1,820,700	23,393,968	357,759	403,513	25,975,940	925,974	31,561,667	300,253	714,083	33,501,977
Segment (loss) profit *	(592,007)	6,520,991	415,534	454,710	6,799,228	(3,712,206)	7,563,952	(2,416,099)	(1,100,774)	334,873
Total segment assets	68,668,247	142,856,067	5,142,572	11,449,255	228,116,141	53,419,854	150,883,528	4,920,687	11,828,905	221,052,974
Total segment liabilities	53,239,752	77,693,429	-	15,622	130,948,803	64,155,449	69,055,178	-	2,519	133,213,146

\* Segment results are computed after allocating common cost to the geographical segments based on asset base of the segment.

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27	SEGMENT INFORMATION (continued)	2013					2012			Total KD			
		Kuwait KD	UAE KD	KSA KD	Others KD	Total KD	Kuwait KD	UAE KD	KSA KD		Others KD		
ii)	Primary segment information:												
	Other segmental information:												
	Change in fair value of investment properties	(558,967)	5,154,172	221,885	266,058	5,083,148	(668,491)	2,909,406	(2,573,313)	(1,633,355)	(1,965,753)		
	Impairment reversal on property held for trading	-	704,717	-	-	704,717	-	1,312,868	-	-	1,312,868		
	(Loss) gain on financial assets available for sale	(41,497)	-	-	-	(41,497)	96,031	-	-	-	96,031		
	Impairment loss on financial assets available for sale	(314,316)	-	-	-	(314,316)	(2,767,082)	-	-	-	(2,767,082)		

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**27 SEGMENT INFORMATION (continued)**

iii) Secondary segment information:

	<i>2013</i>			
	<i>Residential KD</i>	<i>Commercial KD</i>	<i>Others KD</i>	<i>Total KD</i>
Total segment revenue	10,893,939	14,860,760	221,241	25,975,940
Total segment assets	<u>122,716,722</u>	<u>52,764,086</u>	<u>52,635,333</u>	<u>228,116,141</u>

  

	<i>2012</i>			
	<i>Residential KD</i>	<i>Commercial KD</i>	<i>Other KD</i>	<i>Total KD</i>
Total segment revenue	5,887,212	26,258,068	1,356,697	33,501,977
Total segment assets	<u>102,907,471</u>	<u>65,354,921</u>	<u>52,790,582</u>	<u>221,052,974</u>

**28 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 17,777,462 (31 December 2012: KD 14,665,565).

**29 FAIR VALUES MEASUREMENT**

Financial instruments comprise financial assets and financial liabilities

The fair value of financial assets and financial liabilities that are not carried at fair value is not materially different from their carrying amounts

The methodologies and assumptions used to determine fair values of assets is described in fair value section of Note 4: Significant Accounting Policies.

*Financial instruments*

The Group held the following financial instruments available for sale fair valued at the reporting date in the consolidated statement of financial position:

	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
<b>2013</b>				
Financial assets available for sale	2,706,947	-	10,043,926	12,750,873

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29 FAIR VALUES MEASUREMENT (continued)

	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

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

	At 1 January 2013 KD	Gain (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 2013 KD
<i>Financial assets available for sale:</i>					
Equity securities	2,555,187	29,346	115,630	(134,363)	2,565,811
Funds and managed portfolio	7,606,660	(125,575)	83,448	(86,418)	7,478,115
	At 1 January 2012 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
<i>Financial assets available for sale:</i>					
Equity securities	4,626,679	(1,841,188)	(230,304)		2,555,187
Funds and managed portfolio	9,774,316	(570,094)	(30,362)	(1,567,200)	7,606,660

**Description of significant unobservable inputs to valuation of financial assets:**

Unquoted equity securities are valued based on book value method using latest financial statement available of the investee entities and adjusted for lack of marketability discount in the range of (15% to 20%). The Group has determined that market participants would take into account these discounts when pricing the investments.

Funds and managed portfolio have been valued based on Net Asset Value (NAV) of the fund provided by the custodian of the fund or portfolio.

*Non-financial instruments*

Investment properties are fair valued at 30 November 2013 and are classified under level 3 fair value hierarchy and reconciliation is provided in note 8.

**Description of significant unobservable inputs to valuation of non-financial assets:**

Fair value of investment properties were determined using Mark to Market method, conducted by valuers considering transaction prices of the property and similar properties. The significant unobservable valuation input used for the purpose of valuation is the market price per square foot and varies from property to property. A reasonable change in this input would result in an equivalent amount of change in fair value.

Certain investment properties owned by the Group on Build Operate and Transfer (BOT) basis are valued using discounted cashflow and capitalization of rental income.

## **30 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.

### **30.1 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.

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**30 RISK MANAGEMENT (continued)**

**30.1.1 Gross maximum exposure to credit risk**

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

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Bank balances and short term deposits	17,440,462	13,386,421
Accounts receivable	5,010,041	4,902,945
	<u>22,450,503</u>	<u>18,289,366</u>

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

Geographical regions:	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Kuwait	6,280,165	5,460,094
UAE	16,163,114	12,822,242
Other	7,224	7,030
	<u>22,450,503</u>	<u>18,289,366</u>

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.

**30.1.2 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.

**30.1.3 Past due and impaired**

The Group does not have any past due but not impaired financial assets as at 31 December 2013 and 31 December 2012. Gross amount due amounting to KD 2,129,737 (2012: KD 2,129,737) were impaired with a provision of KD 972,494 (2012: KD 972,494). The movement in provision allowance during the year is as follows:

**Allowance for doubtful debts for receivables**

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Balance at the beginning of the year	972,494	10,449,677
Charge for the year	-	236,167
Written off	-	(9,713,350)
Balance at the end of the year	<u>972,494</u>	<u>972,494</u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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### 30 RISK MANAGEMENT (continued)

#### 30.2 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 2013	<i>Within 1 year KD</i>	<i>1-2 years KD</i>	<i>2-5 years KD</i>	<i>Total KD</i>
Tawarruq payable	3,408,300	4,219,837	18,751,975	26,380,112
Term loans	2,688,438	7,547,813	16,140,938	26,377,189
Accounts payable and other credit balances	7,566,055	2,554,012	2,403,800	12,523,867
Bank overdraft	3,021,238	-	-	3,021,238
<b>Total undiscounted liabilities</b>	<b>16,684,031</b>	<b>14,321,662</b>	<b>37,296,713</b>	<b>68,302,406</b>
<b>Commitments</b>				
Capital commitments	3,555,492	4,444,365	9,777,605	17,777,462
31 December 2012	<i>Within 1 year KD</i>	<i>1-2 years KD</i>	<i>2-5 years KD</i>	<i>Total KD</i>
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
<b>Total undiscounted liabilities</b>	<b>22,407,918</b>	<b>16,427,891</b>	<b>39,340,086</b>	<b>78,175,895</b>
<b>Commitments</b>				
Capital commitments	2,933,113	3,666,391	8,066,061	14,665,565

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**30 RISK MANAGEMENT (continued)**

**30.3 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.

**30.3.1 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 2013. 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.

	<i>50 basis points increase</i>	
	<i>Increase (decrease) in profit</i>	
	<i>2013</i>	<i>2012</i>
	<i>KD</i>	<i>KD</i>
Kuwaiti Dinars	246,938	247,359

**30.3.2 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 2013 due to 5% increase in the following market indices with all other variables held constant is as follows:

Market indices	<i>Effect on OCI</i>	
	<i>2013</i>	<i>2012</i>
	<i>KD</i>	<i>KD</i>
KSE ( $\pm 5\%$ )	11,177	136,381
Others	80	80

The effect on the profit before directors' remuneration and taxation represents increase in fair value of impaired available for sale investments which will be recorded in the consolidated income statement.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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### 30 RISK MANAGEMENT (continued)

#### 30.3.3 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:

	<i>Effect on profit (loss) for the year</i>	
	<i>2013</i>	<i>2012</i>
	<i>KD</i>	<i>KD</i>
UAE Dirhams	177,471	118,016

### 31 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 2013 and 31 December 2012.

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, tawarruq, wakala and murabaha payables and other payables, less bank balances and cash.

	<i>2013</i>	<i>2012</i>
	<i>KD</i>	<i>KD</i>
Debts	49,384,927	49,415,796
Less: cash and cash equivalent	(17,445,840)	(13,391,425)
Net debt	31,939,087	36,024,371
Equity	97,167,338	87,839,928
Net debt to equity ratio	33%	41%