

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

CONSOLIDATED FINANCIAL STATEMENT
31 December 2014



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 2014, 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.

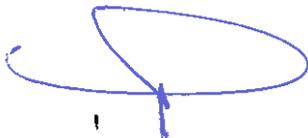
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL MAZAYA HOLDING COMPANY K.S.C.P. (continued)**

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, 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 2014 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)

18 January 2015
Kuwait

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | Notes | 2014 KD | 2013 KD |
|---|-------|--------------------|--------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Goodwill | 7 | 2,266,732 | 2,266,732 |
| Property and equipment | | 618,180 | 358,706 |
| Investment properties | 8 | 92,312,256 | 89,094,871 |
| Investment in joint ventures and associates | 9,10 | 12,884,446 | 14,250,135 |
| Financial assets available for sale | 11 | 12,072,697 | 12,750,873 |
| Advances for purchase of properties | 12 | 16,817,022 | - |
| | | <u>136,971,333</u> | <u>118,721,317</u> |
| Current assets | | | |
| Properties held for trading | 13 | 98,751,223 | 86,385,937 |
| Accounts receivable and other debit balances | 14 | 9,848,399 | 5,563,047 |
| Cash and cash equivalents | 15 | 16,317,680 | 17,445,840 |
| | | <u>124,917,302</u> | <u>109,394,824</u> |
| Total assets | | <u>261,888,635</u> | <u>228,116,141</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 16 | 68,827,896 | 64,931,977 |
| Share premium | 16 | 21,655,393 | 21,655,393 |
| Statutory reserve | 17 | 11,136,621 | 10,289,898 |
| Voluntary reserve | 17 | 8,201,701 | 7,354,978 |
| Fair value reserve | | 1,340,732 | 1,408,173 |
| Treasury shares | 18 | (21,788,181) | (21,788,181) |
| Other reserves | | 845,160 | 673,551 |
| Foreign currency translation reserve | | 2,096,107 | 636,546 |
| Retained earnings | | 8,294,866 | 5,797,886 |
| Equity attributable to equity holders of the Parent Company | | <u>100,610,295</u> | <u>90,960,221</u> |
| Non-controlling interests | | 7,145,155 | 6,207,117 |
| Total equity | | <u>107,755,450</u> | <u>97,167,338</u> |
| Liabilities | | | |
| Non-current liabilities | | | |
| Employees' end of service benefits | | 586,008 | 377,211 |
| Term loans | 19 | 8,000,000 | 22,000,000 |
| Tawarruq and ijara payables | 20 | 48,254,413 | 20,497,705 |
| | | <u>56,840,421</u> | <u>42,874,916</u> |
| Current liabilities | | | |
| Term loans | 19 | 4,500,000 | 1,500,000 |
| Tawarruq and ijara payables | 20 | 4,004,101 | 2,399,595 |
| Advances from customers | | 79,656,977 | 68,662,798 |
| Accounts payable and other credit balances | 21 | 9,131,686 | 12,523,867 |
| Bank overdrafts | 15 | - | 2,987,627 |
| | | <u>97,292,764</u> | <u>88,073,887</u> |
| Total liabilities | | <u>154,133,185</u> | <u>130,948,803</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>261,888,635</u> | <u>228,116,141</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 2014

| | Notes | 2014 KD | 2013 KD |
|---|-------|---------------------|---------------------|
| Revenue from sale of properties held for trading | | 10,968,894 | 21,401,278 |
| Rental income | | 5,302,786 | 3,964,882 |
| Net management fees and commission income | 22 | 393,216 | 609,780 |
| REVENUE | | 16,664,896 | 25,975,940 |
| Cost of sale of properties held for trading | | (9,168,087) | (17,070,175) |
| Cost of rental | | (1,229,322) | (1,119,465) |
| COST OF REVENUE | | (10,397,409) | (18,189,640) |
| GROSS PROFIT | | 6,267,487 | 7,786,300 |
| Net change in fair value of investment properties | 8 | (1,199,949) | 5,083,148 |
| Gain on disposal of investment properties | | 202,728 | 126,271 |
| Share of results of joint ventures and associates | 9,10 | 1,628,667 | 309,765 |
| Gain on disposal of an associate | 10 | 2,928,815 | 26,052 |
| Write back of impairment loss on properties held for trading | 13 | 2,003,838 | 704,717 |
| General and administrative expenses | | (3,997,903) | (3,459,447) |
| OPERATING INCOME | | 7,833,683 | 10,576,806 |
| Net investment income (loss) | 23 | 1,591,387 | (484,641) |
| Other income (expense) | 24 | 2,233,251 | (591,651) |
| Interest income | | 55,302 | 75,837 |
| Finance costs | | (2,539,603) | (2,634,303) |
| Foreign exchange loss | | (31,892) | (2,691) |
| Profit for the year before contribution for board of directors' remuneration, Kuwait Foundation for Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST") and Zakat | | 9,142,128 | 6,939,357 |
| Board of Directors' Remuneration | 16 | (120,000) | (85,000) |
| KFAS | | (76,069) | (55,129) |
| Zakat | | (50,076) | - |
| NLST | | (134,739) | - |
| | | 8,761,244 | 6,799,228 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | 8,086,345 | 6,001,051 |
| Non-controlling interests | | 674,899 | 798,177 |
| PROFIT FOR THE YEAR | | 8,761,244 | 6,799,228 |
| BASIC AND DILUTED EARNING PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | 6 | 13.05 fils | 9.69 fils |

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 2014

| | <i>Notes</i> | 2014 KD | 2013 KD |
|--|--------------|--------------------------|--------------------------|
| Profit for the year | | 8,761,244 | 6,799,228 |
| Other comprehensive income (expenses): | | | |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Net changes in fair value of financial assets available for sale | | 1,543,076 | 119,582 |
| Transferred to income statement on impairment of financial assets available for sale | 23 | 61,904 | 314,316 |
| Transferred to income statement on sale of financial assets available for sale | 23 | (1,675,547) | 41,497 |
| Exchange differences on translation of foreign operations | | 1,459,561 | 148,728 |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | | 1,388,994 | 624,123 |
| Total comprehensive income for the year | | 10,150,238 | 7,423,351 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | 9,478,465 | 6,630,089 |
| Non-controlling interests | | 671,773 | 793,262 |
| Total comprehensive income for the year | | 10,150,238 | 7,423,351 |

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 2014

| | 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 2014 | 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 |
| Profit for the year | - | - | - | - | - | - | - | - | 8,086,345 | 8,086,345 | 674,899 | 8,761,244 |
| Other comprehensive (loss) income for the year | - | - | - | - | (67,441) | - | - | 1,459,561 | - | 1,392,120 | (3,126) | 1,388,994 |
| Total comprehensive (loss) income for the year | - | - | - | - | (67,441) | - | - | 1,459,561 | 8,086,345 | 9,478,465 | 671,773 | 10,150,238 |
| Issue of bonus shares (note 16) | 3,895,919 | - | - | - | - | - | - | - | (3,895,919) | - | - | - |
| Partial disposal of a subsidiary | - | - | - | - | - | - | 171,609 | - | (1,693,446) | 171,609 | 266,265 | 437,874 |
| Transfer to reserves | - | - | 846,723 | 846,723 | - | - | - | - | - | - | - | - |
| At 31 December 2014 | 68,827,896 | 21,655,393 | 11,136,621 | 8,201,701 | 1,340,732 | (21,788,181) | 845,160 | 2,096,107 | 8,294,866 | 100,610,295 | 7,145,155 | 107,755,450 |
| 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 |

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 2014

| | Notes | 2014 KD | 2013 KD |
|---|-------|-------------------------|-------------------------|
| OPERATING ACTIVITIES | | | |
| Profit for the year before contribution for directors' remuneration, KFAS, Zakat and NLST | | 9,142,128 | 6,939,357 |
| Adjustments to reconcile profit to net cash flows: | | | |
| Depreciation | | 122,112 | 63,944 |
| Finance costs | | 2,539,603 | 2,634,303 |
| Net change in fair value of investment properties | 8 | 1,199,949 | (5,083,148) |
| Gain on disposal of investment properties | | (202,728) | (126,271) |
| Write back of impairment loss on properties held for trading | 13 | (2,003,838) | (704,717) |
| Net investment (income) loss | 23 | (1,591,387) | 484,641 |
| Share of results from joint venture and associate | 9,10 | (1,628,667) | (309,765) |
| Gain on disposal of an associate | 10 | (2,928,815) | (26,052) |
| Interest income | | (55,302) | (75,837) |
| Foreign exchange loss | | 31,892 | 2,691 |
| Provision for employees' end of service benefits | | 286,242 | 83,340 |
| | | <u>4,911,189</u> | <u>3,882,486</u> |
| Working capital adjustments: | | | |
| Properties held for trading | | (10,361,448) | 8,342,128 |
| Accounts receivable and other debit balances | | (4,317,244) | (116,561) |
| Accounts payable and other credit balances | | (4,349,027) | (5,196,133) |
| Deferred consideration on acquisition of properties | | - | (3,947,108) |
| Advances from customers | | 10,994,179 | 6,592,819 |
| | | <u>(10,033,540)</u> | <u>(16,810,023)</u> |
| Cash flows (used in) from operations | | (3,122,351) | 9,557,631 |
| Employees' end of service benefits paid | | (77,445) | (43,040) |
| | | <u>(3,199,796)</u> | <u>9,514,591</u> |
| INVESTING ACTIVITIES | | | |
| (Increase) decrease in restricted cash balances | | (3,999,840) | 62,486 |
| Purchase of property and equipment | | (381,586) | (261,737) |
| Addition to investment properties | 8 | (5,890,258) | (10,149,170) |
| Investment in joint venture | 9 | (3,702,816) | - |
| Proceeds from disposal of investment properties | | 3,079,179 | 826,360 |
| Movement in current account with joint venture | 9 | 1,244,833 | 3,936,112 |
| Proceeds from sale of financial assets available for sale | | 7,469,884 | 262,932 |
| Advances for purchase of properties | 12 | (16,817,022) | - |
| Proceeds from partial disposal of an associate | | 2,793,215 | 577,510 |
| Proceeds from partial disposal of a subsidiary | | 437,874 | 1,904,159 |
| Dividend received from an associate | 9 | 287,019 | 297,880 |
| Dividends income received | 23 | 104,381 | 5,000 |
| Interest income received | | 55,302 | 75,837 |
| | | <u>(15,319,835)</u> | <u>(2,462,631)</u> |
| FINANCING ACTIVITIES | | | |
| Term loans repaid | | (11,000,000) | (14,500,000) |
| Net movement in tawarruq and ijara payables | | 29,361,214 | 14,397,300 |
| Finance costs paid | | (2,090,278) | (2,634,303) |
| | | <u>16,270,936</u> | <u>(2,737,003)</u> |
| Net cash flows from (used in) financing activities | | 16,270,936 | (2,737,003) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Foreign currency translation adjustments | | (2,248,695) | 4,314,957 |
| Cash and cash equivalents at the beginning of the year | | 108,322 | (269,887) |
| | | <u>8,311,357</u> | <u>4,266,287</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 15 | <u><u>6,170,984</u></u> | <u><u>8,311,357</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 2014

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. 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 2014 were authorised for issue by the Board of Directors on 18 January 2015, 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.

2 BASIS OF PREPERATION

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

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

3 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new standards / amendments to IFRS effective as of 1 January 2014:

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' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no material impact on the Group's consolidated financial statements.

3 CHANGES IN ACCOUNTING POLICIES (continued)

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Standard issued 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 IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's financial statements, when adopted.

IFRS 15 Revenue from contracts with customers

The standard was issued in May 2014 and specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 is effective for annual periods beginning on or after 1 January 2017. The Group is in the process of quantifying the impact of this standard on the Group's financial statements, when adopted.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

3 CHANGES IN ACCOUNTING POLICIES (continued)

Annual improvements 2011-2013 Cycle

These improvements are effective for annual periods beginning on or after 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. Expect the impact from IFRS 9, the Group, however, expects no material impact from the adoption of the amendments on its financial position or performance.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2014. 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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and 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 group'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

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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

31 December 2014

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries, where the Parent Company has direct investment :

| Entity | Country of incorporation | Principal activities | Ownership interest % | |
|---|--------------------------|-------------------------|----------------------|--------|
| | | | 2014 | 2013 |
| Al Mazaya Real Estate Development Company K.S.C. (Closed) | Kuwait | Real estate development | 99.7% | 99.7% |
| 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 | 90.42% | 90.81% |
| Mezzan Combined For General Trading Company - W.L.L. | Kuwait | Real estate development | 99% | 99% |
| Gulf Turkey for General Trading Co. W.L.L. | Kuwait | Real estate development | 98% | 98% |
| First Kuwait for projects management Co. W.L.L. | Kuwait | Real estate development | 98% | 98% |
| 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% |
| Mazaya Turkey Gayimenkul Yatirimlianonim Sirketi (note 9) | Turkey | Real estate development | - | 100% |

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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 and restricted cash balances.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Financial liabilities

The Group's financial liabilities include Term loans, bank overdrafts 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 derecognized 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.

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.

Ijara payable

Ijara payable represents the amount payable on a deferred settlement basis for assets purchased under ijara and leasing arrangements. Ijara payable is stated at the aggregate of the minimum lease payment due, net of any deferred costs.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 .

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 consolidated statement of income 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

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

Segment information

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

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.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgments

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

Classification of property

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

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

Estimates and assumptions

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

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.

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>2014</i> | <i>2013</i> |
|--|---------------------|---------------|
| | <i>KD</i> | <i>KD</i> |
| Profit for the year attributable to equity holders of the Parent Company | 8,086,345 | 6,001,051 |
| | <i>Shares</i> | <i>Shares</i> |
| Weighted average number of ordinary shares | 688,278,956 | 688,278,956 |
| Less: weighted average number of treasury shares | (68,690,479) | (68,690,479) |
| Weighted average number of shares outstanding | 619,588,477 | 619,588,477 |
| Basic and diluted earnings per share attributable to the equity holders of the parent company- (fils) | 13.05 fils | 9.69 fils |

The weighted average number of ordinary shares and treasury shares data used to compute basic and diluted earnings per share for the comparative year have been restated to take account of the bonus shares issued during the year (Note 16).

7 GOODWILL

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

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8 INVESTMENT PROPERTIES

| | 2014 KD | 2013 KD |
|---|-------------------|-------------------|
| Balance at the beginning of the year | 89,094,871 | 74,474,146 |
| Additions | 5,890,258 | 10,149,170 |
| Disposals | (2,876,451) | (700,089) |
| Net (loss) gain from fair value adjustment (refer note below) | (1,199,949) | 5,083,148 |
| Foreign currency translation adjustments | 1,403,527 | 88,496 |
| Balance at the end of the year | <u>92,312,256</u> | <u>89,094,871</u> |

Investment properties mainly comprise of the following;

| | 2014 KD | 2013 KD |
|---|-------------------|-------------------|
| Land | 7,703,249 | 7,605,552 |
| Properties under development | 5,929,028 | - |
| Developed property held for earning rental income | 78,679,979 | 81,489,319 |
| | <u>92,312,256</u> | <u>89,094,871</u> |

Certain investment properties with a carrying value of KD 24,821,578 (31 December 2013: KD 19,080,400) are collateralised against term loans and tawarrouq payable amounting to KD 37,986,841 (31 December 2013: KD 23,500,000) (Note 19 and 20). Certain investment properties with a carrying value of KD 31,193,139 are collateralised against ijara payable amounting to KD 19,970,000 (Note 20).

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, annual rental income and capitalization rate. Further details are provided in Note 29. Operating expenses incurred on non-rental income generating investment property is not material.

9 INVESTMENT IN JOINT VENTURES

| | Country of incorporation | Principal activity | Ownership percentage % | | Carrying value | |
|---|--------------------------------|----------------------------|------------------------------|------|----------------|------------|
| | | | 2014 | 2013 | 2014 KD | 2013 KD |
| Al Wahda Real Estate Investment Limited | UAE | Real estate development | - | 50 | - | 899,573 |
| Mazaya Turkey Gayimlenkul Yatirimlarianonim Sirketi (MTGYS) (refer note below) | Turkey | Real estate development | 40 | - | 3,702,816 | - |

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

During the year, Parent Company increased the share capital of one of its subsidiary in Turkey MTGYS from Turkish Lira (TRY) 50,000 to TRY 72,000,000. The Parent Company, after the capital increase, sold its 50% equity interest in MTGYS to a Turkish Company (Joint Venturer). Further, the Parent Company sold its 10% equity interest in MTGYS to a major shareholder of the Parent Company at its carrying value, which result in no gain or loss in the consolidated statement of income (Note 25). As result of the above transaction, the remaining interest of Parent Company in MTGYS was reduced to 40%.

The remaining interest was classified as an investment in joint venture based on the contractual arrangement entered during the year between the above parties that establishes joint control over the economic activities of MTGYS.

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9 INVESTMENT IN JOINT VENTURES (continued)

Movement in investment joint venture equity accounted:

| | 2014 | 2013 |
|--|------------------|----------------|
| | KD | KD |
| Balance at the beginning of the year | | |
| At 1 January | 899,573 | 4,548,739 |
| Additions | 3,702,816 | - |
| Share of results for the year | 345,260 | 286,946 |
| Proceeds received on distribution of assets in joint venture | (1,244,833) | (3,936,112) |
| Balance at the end of the year | <u>3,702,816</u> | <u>899,573</u> |

Statement of financial position and income statement of joint venture:

| | 2014 | 2013 |
|-----------------------------|------------------|------------------|
| | KD | KD |
| Asset | 9,415,056 | 6,036,679 |
| Liabilities | (158,016) | (4,237,534) |
| Net assets | <u>9,257,040</u> | <u>1,799,145</u> |
| Group's share of net assets | <u>3,702,816</u> | <u>899,573</u> |
| Revenues | <u>3,160,078</u> | <u>3,337,569</u> |
| Profit for the year | <u>690,520</u> | <u>573,892</u> |
| Group's share of results | <u>345,260</u> | <u>286,946</u> |

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

| | 2014 | 2013 |
|---------------------|-----------------|------------------|
| | KD | KD |
| Current assets | <u>923,136</u> | <u>1,189,247</u> |
| Non-current assets | <u>-</u> | <u>-</u> |
| Current liabilities | <u>429,842</u> | <u>660,760</u> |
| Income | <u>13,438</u> | <u>1,241,602</u> |
| Expenses | <u>(12,752)</u> | <u>(724,038)</u> |

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10 INVESTMENT IN ASSOCIATES

| | Country of Incorporation | Ownership % | | Principal activities | 2014 | 2013 |
|---|-----------------------------|----------------|-------|-------------------------|------------------|-------------------|
| | | 2014 | 2013 | | KD | KD |
| Mazaya Qatar Real Estate Development Q.S.C | Qatar | - | 5.72 | Real estate services | - | 4,836,897 |
| First Qatar Real Estate Development K.S.C.(Closed) | Kuwait | 17.54 | 17.54 | Real estate services | 9,181,630 | 8,513,665 |
| | | | | | 9,181,630 | 13,350,562 |

Movement in the balance of investment in associate is as follows:

| | 2014 KD | 2013 KD |
|--|------------------|-------------------|
| Balance at the beginning of the year | 13,350,562 | 14,082,064 |
| Disposal (refer note below) | (1,899,268) | (551,458) |
| Dividend received | (287,019) | (297,880) |
| Transfer to available for sale investment (refer note below) | (3,213,764) | - |
| Share of results | 1,283,407 | 22,819 |
| Foreign currency translation adjustments | (52,288) | 95,017 |
| Balance at the end of the year | 9,181,630 | 13,350,562 |

Investment in associate with carrying value of KD 9,181,630 (2013: KD 9,192,519) is collateralised against certain term loans (note 19).

During the current year, the Group has lost significant influence on one of its associate Mazaya Qatar Real Estate Development Q.S.C. (Mazaya Qatar) and accordingly this investment has been classified as financial assets available for sale and carried at fair value. The Group realised a gain of KD 2,928,815. Out of which KD 2,034,868 represents the difference between the carrying value and fair value of the equity interest in Mazaya Qatar as on the date of reclassification and KD 893,947 represents the gain on disposal of an associate and included in the consolidated statement of income.

The Group has sold its interest in Mazaya Qatar after classifying it as an available for sale investment and realised a gain of KD 1,614,418 included in net investment income in the consolidated statement of income.

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

| | 2014 KD | 2013 KD |
|--|------------------|-------------------|
| Parent Company's share of assets and liabilities: | | |
| Assets | 10,691,184 | 16,008,513 |
| Liabilities | (1,509,554) | (2,657,951) |
| Equity | 9,181,630 | 13,350,562 |
| Parent Company's share revenue and results: | | |
| Revenue | 1,386,772 | 1,770,052 |
| Group's share of profit for the year | 1,283,407 | 22,819 |

Investment in associates include quoted associates with a carrying value of KD Nil (2013: KD 4,836,897) having a market value of KD Nil (2013: KD 5,549,983).

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11 FINANCIAL ASSETS AVAILABLE FOR SALE

| | 2014 KD | 2013 KD |
|------------------------------|-------------------|-------------------|
| <i>Quoted:</i> | | |
| Equity securities | 2,727,631 | 2,706,947 |
| <i>Unquoted:</i> | | |
| Equity securities | 1,931,434 | 2,565,811 |
| Funds and managed portfolios | 7,413,632 | 7,478,115 |
| | <u>12,072,697</u> | <u>12,750,873</u> |

Available for sale investments with a fair value of KD 6,781,345 (31 December 2013: KD 6,846,035) are pledged against certain term loans disclosed in Note 19.

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 61,904 (2013: KD 311,873) 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 2014 in respect of these investments. Impairment loss of KD Nil (2013: KD 2,443) is recorded in consolidated income statements on quoted equity shares.

12 ADVANCES FOR PURCHASE OF PROPERTIES

During the year, one of the Group's subsidiaries has paid TRY 114,000,000 equivalent to KD 14,656,980 as an advance to a joint venture of the Parent Company (Note 9 and 25) to purchase properties in Turkey.

Further KD 1,661,576 included in the advances for purchase of properties represents reversal of provision on receivables recorded in the prior years relating to acquisition of a land in Dubai (Note 24).

13 PROPERTIES HELD FOR TRADING

| | 2014 KD | 2013 KD |
|---|-------------------|-------------------|
| Balance at the beginning of the year | 86,385,937 | 93,788,247 |
| Additions | 16,373,446 | 8,728,048 |
| Disposals | (9,168,087) | (17,070,175) |
| Written back of impairment loss during the year | 2,003,838 | 704,717 |
| Foreign currency translation adjustments | 3,156,089 | 235,100 |
| Balance at the end of the year | <u>98,751,223</u> | <u>86,385,937</u> |

Valuation of properties held for trading were conducted by two independent appraisers with recognised and relevant professional qualifications and recent experience of the location and category of properties being valued. The reversal of impairment provision was calculated based on the lower of the two valuations. Net realisable value of the property held for trading is arrived at by reference to industry acknowledged methods of valuations that depend on market data including recent sales value of comparable properties.

Properties held for trading mainly comprise the following;

| | 2014 | | |
|------------------------------|-------------------|-------------------|-------------------|
| | Unsold KD | Sold KD | Total KD |
| Land | 9,608,895 | - | 9,608,895 |
| Properties under development | 20,964,398 | 66,124,196 | 87,088,594 |
| Developed properties | 1,195,875 | 857,859 | 2,053,734 |
| | <u>31,769,168</u> | <u>66,982,055</u> | <u>98,751,223</u> |

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13 PROPERTIES HELD FOR TRADING (continued)

| | <i>2013</i> | | <i>Total KD</i> |
|------------------------------|----------------------|--------------------|---------------------|
| | <i>Unsold KD</i> | <i>Sold 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> |

14 ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES

| | <i>2014 KD</i> | <i>2013 KD</i> |
|--|--------------------|--------------------|
| Trade receivables | 3,425,019 | 4,907,813 |
| Advance payments | 2,548,894 | 334,525 |
| Advance for investments | 22,915 | 22,915 |
| Due from related parties (Note 25) | 1,761,850 | 717,282 |
| Other receivables | 3,062,215 | 553,006 |
| | <u>10,820,893</u> | <u>6,535,541</u> |
| Provision for doubtful debts (Note 30.1.3) | (972,494) | (972,494) |
| | <u>9,848,399</u> | <u>5,563,047</u> |

15 CASH AND CASH EQUIVALENTS

| | <i>2014 KD</i> | <i>2013 KD</i> |
|---------------------------|--------------------|--------------------|
| Cash in hand and at banks | 16,239,794 | 17,516,278 |
| Cash in portfolios | 77,886 | (70,438) |
| | <u>16,317,680</u> | <u>17,445,840</u> |
| Bank overdrafts | - | (2,987,627) |
| | <u>16,317,680</u> | <u>14,458,213</u> |
| Restricted bank balances | (10,146,696) | (6,146,856) |
| | <u>6,170,984</u> | <u>8,311,357</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.

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16 SHARE CAPITAL, SHARE PREMIUM, ANNUAL GENERAL ASSEMBLY AND BONUS SHARES

a) Share capital;

| | <i>Authorised, issued and fully paid</i> | |
|-------------------------|--|-------------------|
| | <i>2014</i> | <i>2013</i> |
| | <i>KD</i> | <i>KD</i> |
| Shares of KD 0.100 each | 68,827,896 | 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) Dividend and annual general meeting;

The board of directors have proposed a cash dividends of 6% for the year ended 31 December 2014 which is subject to approval at the annual general meeting.

At the annual general meeting and extraordinary general meeting of the shareholders held on 19 March 2014, 6% bonus shares (2012: Nil) for the financial year ended 31 December 2013 was approved, and based on which the paid up capital became KD 68,827,895/600 distributed over 688,278,956 shares with a value of 100 fils per share and all shares are fully paid in cash. This decision has been initiated through a memo issued by the management of the shareholding companies No. 19 on April 2, 2014. The Parent Company has obtained regulatory approval for the issuance of bonus shares and accordingly notified the Kuwait stock exchange to adjust the authorised and fully paid up share capital to comprise of 688,278,956 number of shares of 100 fils each.

d) Board of directors remuneration

The board of directors' have proposed directors' remuneration for the year ended 31 December 2014 amounting KD 120,000 and is subject to approval by annual general assembly.

The proposed board of director's remuneration amounting to KD 85,000 for the year ended 31 December 2013 was approved by the annual general assembly held on 19 March 2014.

17 RESERVES

i) *Statutory reserve*

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company (before contributions to KFAS, NLST, 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. An amount equivalent to the cost of purchase of treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

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18 TREASURY SHARES

| | <i>2014</i> | <i>2013</i> |
|---------------------------------|-------------------|-------------|
| Number of shares | 68,690,479 | 64,802,134 |
| Percentage of issued shares (%) | 9.98 | 9.98 |
| Market value (KD) | 8,380,238 | 6,480,213 |

One of the group's subsidiaries had pledged shares of the Parent Company, included in treasury shares above against tawarruq payable amounting to KD 2,614,821 (2013: KD 3,150,000) (Note 20) as detailed below:

| | <i>2014</i> | <i>2013</i> |
|----------------------------|-------------------|-------------|
| Number of shares (numbers) | 32,250,000 | 32,250,000 |
| Cost (KD) | 10,843,301 | 10,843,301 |
| Market value (KD) | 3,934,500 | 3,225,000 |

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

19 TERM LOANS

| | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|---------------------|--------------------------|--------------------------|
| Current portion | 4,500,000 | 1,500,000 |
| Non-current portion | 8,000,000 | 22,000,000 |
| | 12,500,000 | 23,500,000 |

The Group is required to repay the term loan in sixteen quarterly instalments between 2012 and 2016 at a similar interest rate.

Certain assets with carrying value of KD 11,977,922 (31 December 2013: KD 25,926,435) were collateralized against the term loans (Note 8 and 11).

Shares of a listed subsidiary company with a fair value of KD 7,750,000 (31 December 2013: KD 52,700,000) and investment in associate with a carrying value of KD 9,181,630 (31 December 2013: KD 9,192,519) were collateralized against the term loans.

20 TAWARRUQ AND IJARA PAYABLES

| | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|-------------------|--------------------------|--------------------------|
| Tawarruq payables | 32,288,514 | 22,897,300 |
| Ijara payable | 19,970,000 | - |
| | 52,258,514 | 22,897,300 |

Tawarruq agreement with a local Islamic bank amounting to KD 12,000,000 will be repaid over six years of which KD 7,200,000 will be paid over twenty quarterly instalments. The first instalment is due after one year from the date of the agreement and the final payment of KD 4,800,000 will be paid that the end of the agreement period. The facility has been granted against a pledge of shares of a listed subsidiary company and investment property.

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20 TAWARRUQ AND IJARA PAYABLES (continued)

During the year, one of the Group's subsidiaries entered into an Ijara contract with an Islamic bank in United Arab Emirates (UAE) for AED 250,000,000. The Ijara carries annual profit at commercial rates. The Ijara is repayable in quarterly instalments starting June 2015 and ending June 2024 including a final instalment of AED 95,000,000. The Islamic facility has been granted against mortgage of investment property (Note 8). The Group will use proceeds of this facility to repay conventional loans previously obtained from one of the local banks.

Certain assets with carrying value of KD 50,818,140 (31 December 2013: KD 25,926,435) were collateralized against Tawarruq and Ijara payables (Note 8 and 11).

Certain shares in subsidiary with a fair value of KD 42,510,191 (2013: KD 51,057,000) are pledged against Tawarruq payable maturing on 31 December 2018. Certain treasury shares are pledged as collateral against tawarruq payable (Note 18).

21 ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|-------------------------------------|--------------------------|--------------------------|
| Trade payables | 4,013,789 | 6,121,968 |
| Retentions payable | 1,606,979 | 2,337,366 |
| Accrued development costs | 59,974 | 61,444 |
| Dividends payable | 166,450 | 172,353 |
| Other payables and accrued expenses | 3,284,494 | 3,830,736 |
| | <u>9,131,686</u> | <u>12,523,867</u> |

22 NET MANAGEMENT FEES AND COMMISSION INCOME

| | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|---|--------------------------|--------------------------|
| Management fees and commission income | 658,863 | 739,469 |
| Cost of management fees and commission income | (265,647) | (129,689) |
| | <u>393,216</u> | <u>609,780</u> |

23 NET INVESTMENT INCOME (LOSS)

| | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|--|--------------------------|--------------------------|
| Realized gain on disposal of available for sale investments | 1,675,547 | (41,497) |
| Dividend income | 104,381 | 5,000 |
| Portfolio management fees | (126,637) | (133,828) |
| Impairment loss on financial assets available for sale (note 11) | (61,904) | (314,316) |
| | <u>1,591,387</u> | <u>(484,641)</u> |

24 OTHER INCOME

During the year ended 31 December 2014, other income amounting to KD 1,661,576 mainly represents reversal of provision on receivables recorded in the prior years relating to acquisition of land in Dubai.

During the year 2008, the Group had entered into a Sale Purchase Agreement (SPA) with third party to acquire a land in Dubai at a cost of AED 238,022,512 by paying AED 119,011,256 in advance. Due to certain delays in the project infrastructure, the Group decided not to proceed with the payment of the balance consideration at that time and had taken a provision against the advances paid towards the acquisition of land.

Subsequent to the above, during the year the Group has entered into a settlement agreement with the third party where it has been agreed to reschedule the balance consideration amounting to AED 119,011,256 over 3 years through monthly payments. Accordingly, the Group reassessed the need of the previously recorded provision by comparing the current market value of the land against the balance consideration on the land, which resulted in a reversal of provision amounting to KD 1,661,576. The payments made shall be treated as advances towards the acquisition of the land and classified as advances for purchase of properties. The Group shall reassess any change in the recoverability of the provision on a continuing basis.

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>Total 2014 KD</i> | <i>Total 2013 KD</i> |
|--|------------------------------|------------------------------|
| Consolidated statement of income: | | |
| Revenue from sale of properties held for trading | - | 4,668,299 |
| Net management fees and commission income | - | 403,513 |

| | <i>Major shareholders KD</i> | <i>Joint venture and associates KD</i> | <i>Other related parties KD</i> | <i>2014 KD</i> | <i>2013 KD</i> |
|--|--------------------------------------|--|---|--------------------|--------------------|
| Consolidated statement of financial position: | | | | | |
| Amounts due from related parties (Note 14) (Note i and ii) | 1,553,059 | 208,791 | - | 1,761,850 | 717,282 |
| Advances for purchase of properties (Note 12) | - | 14,656,980 | - | 14,656,980 | - |

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

ii) Amount receivable from major shareholder includes KD 925,704 (2013: Nil) towards sale of 10% equity interest in a subsidiary (Note 9).

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

| | <i>2014 KD</i> | <i>2013 KD</i> |
|--|--------------------|--------------------|
| Salaries and other short term benefits | 698,191 | 750,070 |
| Terminal benefits | 46,661 | 32,313 |
| | <u>744,852</u> | <u>782,383</u> |

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

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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 income:

| | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|----------------------------|--------------------------|--------------------------|
| Revenue | 5,364,583 | 5,303,801 |
| Profit for the year | 3,884,135 | 6,920,921 |
| Total comprehensive income | 6,291,332 | 7,546,133 |

Summarised consolidated statement of financial position as at 31 December:

| | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|-------------------------|--------------------------|--------------------------|
| Current assets | 53,581,671 | 29,571,502 |
| Non-current assets | 45,696,394 | 43,041,431 |
| Current liabilities | 12,958,505 | 11,245,426 |
| Non-current liabilities | 21,285,721 | 2,625,000 |
| Total equity | 65,033,839 | 58,742,507 |

Attributable to:

| | | |
|--------------------------|------------|------------|
| Equity holders of parent | 61,158,504 | 55,202,547 |
| Non-controlling interest | 3,875,335 | 3,539,960 |

Summarised consolidated cash flow statement for year ending 31 December:

| | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|--|--------------------------|--------------------------|
| Operating | (19,378,368) | 263,725 |
| Investing | (675,049) | 538,325 |
| Financing | 19,431,285 | (368,244) |
| Net (decrease) increase in cash and cash equivalents | (622,132) | 433,806 |

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries
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27 SEGMENT INFORMATION

i) Primary segment information:

For management purposes, the Group is divided into four main geographical segments that are: State of Kuwait, United Arab Emirates (UAE), Kingdom of Saudi Arabia (KSA), Turkey 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.

| | 2014 | | | | | 2013 | | | | | |
|-------------------------|--------------|------------|-----------|--------------|--------------|-------------|--------------|------------|-----------|--------------|-------------|
| | Kuwait KD | UAE KD | KSA KD | Turkey KD | Others KD | Total KD | Kuwait KD | UAE KD | KSA KD | Others KD | Total KD |
| Segment revenue | 2,625,404 | 13,672,582 | 366,910 | - | - | 16,664,896 | 1,820,700 | 23,393,968 | 357,759 | 403,513 | 25,975,940 |
| Segment profit (loss) * | 733,268 | 4,040,505 | 299,141 | - | 3,688,330 | 8,761,244 | (592,007) | 6,520,991 | 415,534 | 454,710 | 6,799,228 |

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

| | 2014 | | | | | 2013 | | | | | |
|---------------------------|--------------|-------------|-----------|--------------|--------------|-------------|--------------|-------------|-----------|--------------|-------------|
| | Kuwait KD | UAE KD | KSA KD | Turkey KD | Others KD | Total KD | Kuwait KD | UAE KD | KSA KD | Others KD | Total KD |
| Total segment assets | 61,624,690 | 158,673,149 | 5,196,577 | 18,568,567 | 17,825,652 | 261,888,635 | 68,668,247 | 142,856,067 | 5,142,572 | 11,449,255 | 228,116,141 |
| Total segment liabilities | 49,234,937 | 104,884,598 | - | - | 13,650 | 154,133,185 | 53,239,752 | 77,693,429 | - | 15,622 | 130,948,803 |

Al Mazaya Holding Company K.S.C.P. and its Subsidiaries
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27 SEGMENT INFORMATION (continued)

| ii) Primary segment information: | 2014 | | | | 2013 | | | | | |
|--|--------------|-----------|-----------|--------------|-------------|--------------|-----------|-----------|--------------|-------------|
| | Kuwait KD | UAE KD | KSA KD | Others KD | Total KD | Kuwait KD | UAE KD | KSA KD | Others KD | Total KD |
| Other segmental information: | | | | | | | | | | |
| Change in fair value of investment properties | (807,657) | (592,294) | (69,597) | 269,599 | (1,199,949) | (558,967) | 5,154,172 | 221,885 | 266,058 | 5,083,148 |
| Write back of impairment loss on properties held for trading | - | 2,003,838 | - | - | 2,003,838 | - | 704,717 | - | - | 704,717 |
| Gain (loss) on financial assets available for sale | 61,129 | - | - | 1,614,418 | 1,675,547 | (41,497) | - | - | - | (41,497) |
| Impairment loss on financial assets available for sale | (61,904) | - | - | - | (61,904) | (314,316) | - | - | - | (314,316) |

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27 SEGMENT INFORMATION (continued)

iii) Secondary segment information:

| | 2014 | | | |
|-----------------------|---------------------------|--------------------------|----------------------|---------------------|
| | <i>Residential KD</i> | <i>Commercial KD</i> | <i>Others KD</i> | <i>Total KD</i> |
| Total segment revenue | 7,911,665 | 8,753,231 | - | 16,664,896 |
| Total segment assets | 133,270,940 | 74,609,560 | 54,008,135 | 261,888,635 |

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

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 17,418,130 (31 December 2013: KD 17,777,462).

The Group has commitments amounting to KD 8,998,633 to purchase land from a third party (Note 24).

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 3 KD</i> | <i>Total KD</i> |
|-------------------------------------|-----------------------|-----------------------|---------------------|
| 2014 | | | |
| Financial assets available for sale | 2,727,631 | 7,413,632 | 10,141,263 |

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29 FAIR VALUES MEASUREMENT (continued)

| | Level 1 KD | Level 3 KD | Total KD |
|-------------------------------------|---------------|---------------|-------------|
| 2013 | | | |
| Financial assets available for sale | 2,706,947 | 7,478,115 | 10,185,062 |

Certain unquoted investments with carrying value of KD 1,931,434 (31 December 2013: KD 2,565,811) are carried at cost less impairment.

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 2014 KD | Gain recorded in the consolidated statement of income KD | Loss recorded in other comprehensive income KD | Net purchases, sales and settlements KD | At 31 December 2014 KD |
|---|----------------------------|---|--|--|---------------------------------|
| <i>Financial assets available for sale:</i> | | | | | |
| Funds and managed portfolio | 7,478,115 | - | (64,483) | - | 7,413,632 |

| | At 1 January 2013 KD | Loss recorded in the consolidated statement of income KD | Gain recorded in other comprehensive income KD | Net purchases, sales and settlements KD | At 31 December 2013 KD |
|---|----------------------------|---|--|--|---------------------------------|
| <i>Financial assets available for sale:</i> | | | | | |
| Funds and managed portfolio | 7,606,660 | (125,575) | 83,448 | (86,418) | 7,478,115 |

Description of significant unobservable inputs to valuation of financial assets:

Managed portfolio and funds have been valued based on Net Asset Value (NAV) provided by the custodian of the fund and the information relating to valuation techniques and significant unobservable inputs to valuation to compute the sensitivity of the fair value measurement to changes in unobservable inputs is not available.

Non-financial instruments

Investment properties are fair valued at year end 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 and capitalisation of rental income method. The fair valuation was conducted by valuers considering transaction prices of similar properties in case of Mark to Market method. The significant unobservable valuation input used 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.

Capitalisation of rental income method assumes capitalisation of annual rental income and the significant unobservable valuation input used is the capitalisation rate in the range of 5.8% to 9.5%. A 5% increase in this input would result in an equivalent decrease in fair value.

Certain investment properties owned by the Group on Build Operate and Transfer (BOT) basis are valued using discounted cash flow method.

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 of collaterals against receivables.

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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.

Financial assets of the Group subject to credit risk are distributed over the following geographical regions:

| Geographical regions: | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|-----------------------|--------------------------|--------------------------|
| Kuwait | 9,070,010 | 6,280,165 |
| UAE | 13,734,809 | 16,163,114 |
| Other | 7,404 | 7,224 |
| | <u>22,812,223</u> | <u>22,450,503</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 2014 and 31 December 2013. Gross amount due amounting to KD 2,129,737 (2013: KD 2,129,737) were impaired with a provision of KD 972,494 (2013: KD 972,494). The movement in provision allowance during the year is as follows:

Allowance for doubtful debts for receivables

| | <i>2014</i> <i>KD</i> | <i>2013</i> <i>KD</i> |
|--------------------------------------|--------------------------|--------------------------|
| Balance at the beginning of the year | 972,494 | 972,494 |
| Charge for the year | - | - |
| Balance at the end of the year | <u>972,494</u> | <u>972,494</u> |

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.

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30 RISK MANAGEMENT (continued)

30.2 Liquidity risk (continued)

| 31 December 2014 | <i>Within 1 year KD</i> | <i>1-2 years KD</i> | <i>Over 2 Years KD</i> | <i>Total KD</i> |
|--|-------------------------------------|-----------------------------|------------------------------------|-------------------------|
| Tawarruq and ijara payable | 5,675,501 | 14,493,956 | 56,453,978 | 76,623,435 |
| Term loans | 4,564,688 | 8,115,000 | - | 12,679,688 |
| Accounts payable and other credit balances | 4,920,620 | 2,604,087 | 1,606,979 | 9,131,686 |
| Total undiscounted liabilities | 15,160,809 | 25,213,043 | 58,060,957 | 98,434,809 |
| Commitments | | | | |
| Capital commitments | 4,619,672 | 6,361,485 | 15,435,606 | 26,416,763 |
| 31 December 2013 | <i>Within 1 year KD</i> | <i>1-2 years KD</i> | <i>Over 2 years KD</i> | <i>Total KD</i> |
| Tawarruq payables | 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 |
| Total undiscounted liabilities | 16,684,031 | 14,321,662 | 37,296,713 | 68,302,406 |
| Commitments | | | | |
| Capital commitments | 3,555,492 | 4,444,365 | 9,777,605 | 17,777,462 |

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

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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 2014. 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>2014</i> | <i>2013</i> |
| | <i>KD</i> | <i>KD</i> |
| Kuwaiti Dinars | 323,793 | 246,938 |

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 2014 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>2014</i> | <i>2013</i> |
| | <i>KD</i> | <i>KD</i> |
| KSE (+5%) | 1,468 | 11,177 |
| Others | 4,903 | 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.

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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>2014</i> | <i>2013</i> |
| | <i>KD</i> | <i>KD</i> |
| UAE Dirhams | 275,749 | 177,471 |

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 2014 and 31 December 2013.

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 payables, ijara payable and other payables, less bank balances and cash.

| | <i>2014</i> | <i>2013</i> |
|--------------------------------|-------------|-------------|
| | <i>KD</i> | <i>KD</i> |
| Debts | 64,758,514 | 49,384,927 |
| Less: cash and cash equivalent | (6,170,984) | (8,311,357) |
| Net debt | 58,587,530 | 41,073,570 |
| Equity | 107,755,450 | 97,167,338 |
| Net debt to equity ratio | 54% | 42% |