

**AL MAZAYA HOLDING COMPANY K.S.C.
AND ITS SUBSIDIARIES**



**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT FOR THE
YEAR ENDED 31 DECEMBER 2011**

AL MAZAYA HOLDING COMPANY K.S.C AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT



For the year ended 31 December 2011

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INDEPENDENT AUDITORS' REPORT

The Shareholders
Al Mazaya Holding Company K.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Al Mazaya Holding Company K.S.C. ("the Parent Company") and subsidiaries (together referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2011, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the 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.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



AL – WAHA
AUDITING OFFICE
ALI OWAID RUKHEYES



Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Parent Company, and the consolidated financial statements and Board of Directors' report, 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 Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended to 31 December 2011 that might have had a material effect on the business of the Parent Company or on its financial position

Other matter

Consolidated financial statements for the year ended 31 December 2010 were audited by another auditor whose report dated 30 March 2011 expressed an unqualified opinion.

Jassim Ahmad Al-Fahad
License No. 53-A

28 March 2012

Ali Owaid Rukheyas
License No.72-A

AL MAZAYA HOLDING COMPANY K.S.C. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION



For the year ended 31 December 2011

		31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
	Notes	KD	KD	KD
ASSETS				
Current assets				
Cash and bank balances	6	23,542,732	20,483,961	28,180,304
Accounts receivable and other debit balances	7	20,576,478	9,685,383	31,531,428
Murabaha receivable		-	2,609,309	3,223,456
Properties held for trading	8	107,372,223	113,402,965	102,844,733
		<u>151,491,433</u>	<u>146,181,618</u>	<u>165,779,921</u>
Non-current assets				
Available for sale investments	9	16,334,617	18,406,908	24,713,492
Investment in associates	10	13,568,654	13,263,803	10,414,824
Investment in joint ventures	11	3,221,917	11,054,413	11,737,667
Investment properties	12	73,856,672	116,921,489	101,852,535
Property and equipment		129,703	294,720	22,796,458
Goodwill		3,091,732	3,091,732	3,091,732
		<u>110,203,295</u>	<u>163,033,065</u>	<u>174,606,708</u>
Total assets		<u>261,694,728</u>	<u>309,214,683</u>	<u>340,386,629</u>
LIABILITIES AND EQUITY				
LIABILITIES				
Current liabilities				
Accounts payable and other credit balances	13	36,251,242	55,842,100	43,192,814
Advances from customers		80,451,988	77,593,436	71,642,501
Bank overdraft		2,971,842	4,971,120	5,073,936
Current portion of long term loan	14	4,500,000	42,000,000	44,970,000
Wakala and Murabaha payables	15	8,500,000	8,500,000	8,500,000
Deferred consideration on acquisition of properties	16	3,866,170	30,070,031	31,464,443
		<u>136,541,242</u>	<u>218,976,687</u>	<u>204,843,694</u>
Non current liabilities				
Term loan	14	38,000,000	-	-
Provision for end of service indemnity		286,890	257,276	283,952
		<u>38,286,890</u>	<u>257,276</u>	<u>283,952</u>
Total liabilities		<u>174,828,132</u>	<u>219,233,963</u>	<u>205,127,646</u>
Equity				
Share capital	17	64,931,977	49,947,675	49,947,675
Share premium		79,760,732	75,714,971	75,714,971
Other reserves	18	15,989,497	15,989,497	19,899,838
Fair value reserve		327,700	(202,370)	56,055
Foreign currency translation reserve		463,648	981,425	1,478,702
Accumulated losses		<u>(58,105,339)</u>	<u>(42,263,121)</u>	<u>(26,721,665)</u>
		103,368,215	100,168,077	120,375,576
Treasury shares	19	<u>(21,788,181)</u>	<u>(18,113,786)</u>	<u>(27,189,284)</u>
Equity attributable to shareholders of the Parent Company		<u>81,580,034</u>	<u>82,054,291</u>	<u>93,186,292</u>
Non-controlling interests		5,286,562	7,926,429	42,072,691
Total equity		<u>86,866,596</u>	<u>89,980,720</u>	<u>135,258,983</u>
Total liabilities and equity		<u>261,694,728</u>	<u>309,214,683</u>	<u>340,386,629</u>

Rasheed Y. Al-Nafisi – Chairman

The accompanying notes set out on pages 9 to 41 form an integral part of these consolidated financial statements.

AL MAZAYA HOLDING COMPANY K.S.C. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2011



	Notes	31 December 2011 KD	31 December 2010 (Restated) KD
INCOME			
Revenue from sale of properties held for trading		84,842,960	9,161,198
Rental income		1,608,759	944,213
Management fees, commission and consultancy income		1,234,150	1,950,669
		<u>87,685,869</u>	<u>12,056,080</u>
Cost of sale of properties held for trading	8	(59,361,095)	(7,330,468)
Direct operating expenses on investment properties		(767,490)	(538,930)
Cost of management fees and consultancy services		(21,381)	(263,544)
		<u>(60,149,966)</u>	<u>(8,132,942)</u>
Gross profit		27,535,903	3,923,138
Change in fair value of investment properties	12	(11,239,341)	(8,935,807)
Impairment on properties held for trading	8	(18,760,205)	(1,912,000)
Allowance for doubtful debts		(9,647,663)	(158,564)
Marketing expenses		(107,000)	(280,228)
Group's share of results from associates including provision	10	(171,153)	(493,477)
Group's share of results from joint ventures	11	(284,018)	(177,737)
Loss on sale of a joint venture		(18,061)	-
Operating loss		(12,691,538)	(8,034,675)
General and administrative expenses		(2,401,024)	(1,992,391)
Professional services fees		(267,407)	(368,794)
Depreciation and amortization		(202,093)	(298,496)
Foreign currency exchange differences		257,308	114,662
Net investment loss	20	(100,839)	(1,725,645)
Gain from sale of an associate		-	546,743
Dilution gain		-	134,620
Provisions no longer required		-	349,901
Murabaha income		75,268	131,077
Interest income		187,838	519,122
Other (loss)/income		(272,853)	281,457
Finance charges		(3,409,445)	(2,670,351)
		<u>(6,133,247)</u>	<u>(4,978,095)</u>
Loss for the year		(18,824,785)	(13,012,770)
Attributable to:			
Equity holders of the Parent Company		(15,842,218)	(11,320,941)
Non-controlling interests		(2,982,567)	(1,691,829)
Loss profit for the year		(18,824,785)	(13,012,770)
Loss per share attributable to equity holders of the Parent Company	21	<u>(28.24) fils</u>	<u>(24.26) fils</u>

The accompanying notes set out on pages 9 to 41 form an integral part of these consolidated financial statements.

AL MAZAYA HOLDING COMPANY K.S.C. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



For the year ended 31 December 2011

	31 December 2011	31 December 2010 (Restated)
	KD	KD
Loss for the year	<u>(18,824,785)</u>	<u>(13,012,770)</u>
Other comprehensive income:		
Foreign currency translation adjustments	(517,777)	(497,277)
Change in fair value of available for sale investments	532,075	(546,170)
Assets revaluation deficit	-	(519,366)
Other comprehensive loss for the year	<u>14,298</u>	<u>(1,562,813)</u>
Total comprehensive loss for the year	<u>(18,810,487)</u>	<u>(14,575,583)</u>
Attributable to:		
Equity holders of the Parent Company	(15,829,925)	(12,596,009)
Non-controlling interests	<u>(2,980,562)</u>	<u>(1,979,574)</u>
	<u>(18,810,487)</u>	<u>(14,575,583)</u>

The accompanying notes set out on pages 9 to 41 form an integral part of these consolidated financial statements.

AL MAZAYA HOLDING COMPANY K.S.C. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



For the year ended 31 December 2011

	Share capital	Share premium	Other reserves (Note 18)	Fair value reserve	Foreign currency translation reserve	Accumulated losses	Treasury shares	Attributable to equity holders of the Parent Company	Non-controlling interests	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance as at 1 January 2010	49,947,675	75,714,971	19,899,838	56,055	1,478,702	4,220,515	(27,189,284)	124,128,472	42,072,691	166,201,163
Effect of restatement (note 5)	-	-	-	-	-	(30,942,180)	-	(30,942,180)	-	(30,942,180)
Balance as at 1 January 2010 as restated	49,947,675	75,714,971	19,899,838	56,055	1,478,702	(26,721,665)	(27,189,284)	93,186,292	42,072,691	135,258,983
Purchase of treasury shares	-	-	-	-	-	-	(759,281)	(759,281)	-	(759,281)
Sale of treasury shares	-	-	(3,635,997)	-	-	(4,220,515)	9,834,779	1,978,267	-	1,978,267
Effect of changes in ownership percentage of a subsidiary	-	-	245,022	-	-	-	-	245,022	(974,905)	(729,883)
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	(31,191,783)	(31,191,783)
Total comprehensive loss for the year	-	-	(519,366)	(258,425)	(497,277)	(11,320,941)	-	(12,596,009)	(1,979,574)	(14,575,583)
Balance as at 1 January 2011	49,947,675	75,714,971	15,989,497	(202,370)	981,425	(42,263,121)	(18,113,786)	82,054,291	7,926,429	89,980,720
Issuance of share capital (note 17)	14,984,302	4,045,761	-	-	-	-	-	19,030,063	-	19,030,063
Purchase of treasury shares	-	-	-	-	-	-	(3,674,395)	(3,674,395)	-	(3,674,395)
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	340,695	340,695
Total comprehensive income / (loss) for the year	-	-	-	530,070	(517,777)	(15,842,218)	-	(15,829,925)	(2,980,562)	(18,810,487)
Balance as at 31 December 2011	<u>64,931,977</u>	<u>79,760,732</u>	<u>15,989,497</u>	<u>327,700</u>	<u>463,648</u>	<u>(58,105,339)</u>	<u>(21,788,181)</u>	<u>81,580,034</u>	<u>5,286,562</u>	<u>86,866,596</u>

The accompanying notes set out on pages 9 to 41 form an integral part of these consolidated financial statements.

AL MAZAYA HOLDING COMPANY K.S.C. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS



For the year ended 31 December 2011

		31 December 2011	31 December 2010 (Restated)
	Notes	KD	KD
OPERATING ACTIVITIES			
Loss for the year		(18,824,785)	(13,012,770)
Adjustments for:			
Change in fair value of investment properties	12	11,239,341	8,935,807
Impairment for properties held for trading	8	18,760,205	1,912,000
Allowance for doubtful debts	7	9,647,663	158,565
Share of results of associates including provision	10	171,153	493,477
Share of results of joint ventures	11	284,018	177,737
Loss on disposal of a joint venture	11	18,061	-
Depreciation and amortization		202,093	298,496
Foreign currency exchange gain		(257,308)	(114,662)
Net investment loss	20	47,110	1,725,645
Gain on disposal of an associate		-	(546,743)
Dilution gain		-	(134,620)
Provision no longer required		-	(349,901)
Murabaha income		(75,268)	(131,077)
Interest income		(187,838)	(519,122)
Finance charges		3,409,445	2,670,351
Provision for end of service indemnity		68,261	(23,768)
		<u>24,502,151</u>	<u>1,539,415</u>
Movements in working capital			
Accounts receivable and other debit balances	7	(12,237,917)	22,152,037
Properties held for trading	8	(13,587,193)	(20,016,608)
Deferred consideration on acquisition of properties	16	(491,163)	(996,795)
Accounts payable and other credit balances	13	(4,154,771)	24,492,435
Advances from customers		2,858,552	5,950,935
End of service indemnity paid		(38,647)	(2,611)
Net cash (used in)/generated by operating activities		<u>(3,148,988)</u>	<u>33,118,808</u>
INVESTING ACTIVITIES			
Increase in restricted cash	6	3,385,298	6,140,776
Purchase of available for sale investments	9	(1,255,600)	(11,003,541)
Proceeds from disposal of available for sale investments		3,712,856	6,040,726
Increase in investment in an associate	10	(670,000)	-
Proceeds from disposal of investment in an associate		-	5,898,858
Proceeds from disposal of investment in a joint venture		5,918,836	-
Additions to investment properties	12	-	(9,933,242)
Increase in Murabaha receivables		2,609,309	302,185
Interest income received		187,838	519,122
Dividends received		100,000	422,122
Murabaha income received		75,268	131,077
Purchase of property and equipment		(37,100)	-
Proceeds from disposal of property and equipment		-	1,387,123
Paid against increase in equity holding of a subsidiary		-	1,866,266
Net cash generated by investing activities		<u>14,026,705</u>	<u>1,771,472</u>

AL MAZAYA HOLDING COMPANY K.S.C. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011



		31 December 2011	31 December 2010 (Restated)
	Notes	KD	KD
FINANCING ACTIVITIES			
Bank overdrafts		(1,999,278)	(102,816)
Term loans	14	500,000	(2,970,000)
Issuance of share capital	17	4,219,377	-
Purchase of treasury shares		(3,674,395)	(759,281)
Finance charges paid		(3,409,445)	(2,670,351)
Dividends paid		(69,907)	-
Proceeds from disposal of treasury shares		-	1,978,267
Movement in non-controlling interests		-	(31,921,666)
Net cash used in financing activities		(4,433,648)	(36,445,847)
Net increase / (decrease) in cash and cash equivalents		6,444,069	(1,555,567)
Cash and cash equivalents at beginning of the year		8,484,245	10,039,812
Cash and cash equivalents at end of the year	6	14,928,314	8,484,245
NON-CASH TRANSACTIONS:			
INVESTING ACTIVITIES			
Transfer of properties held for trading to investment properties	8	801,770	-
Deferred consideration on disposal of a joint venture	11	1,474,830	-
Adjustment of investment property by transfer from deferred consideration	12	24,205,675	-
Adjustment of investment property by transfer to accounts receivable	12	8,333,034	-
		34,815,309	-
FINANCING ACTIVITIES			
Increase in share capital against advance subscriptions received		14,810,686	-
Increase in share premium against advance subscriptions received		4,045,761	-
		18,856,447	-

The accompanying notes set out on pages 9 to 41 form an integral part of these consolidated financial statements.

1. FORMATION AND PRINCIPAL ACTIVITIES

Al Mazaya Holding Company - K.S.C. (Holding) was incorporated on 7 November 1998 under the Commercial Companies Law No. 15 of 1960 and amendments thereto.

The Parent Company is engaged in investment in local and foreign companies, real estate properties and consultancy services. The registered Head Office of the Parent Company is at Salhiya complex, Fahed Al Salem Street, P.O. Box 3546, Safat 13036, Kuwait.

The consolidated financial statements were approved for issue by the Board of Directors on 28 March 2012. The shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards, Interpretations and amendments effective in the current year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the prior year except for the adoption of the new standards and amendments adopted in the current year. During the current year, the Group has applied all of the new and revised standards, interpretations and amendments issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2011. Significant amendments relevant to the Group are described as follows:

Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to continue the presentation of such an analysis in the consolidated statement of comprehensive income.

IAS 24 Related Party Disclosures (as revised in 2009)

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Parent Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year did not have material impact on the financial statements.

Amendments to IFRS 3 Business Combinations

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees.

The application of amendments to IFRS 3 has had no material effect on the presentation and disclosures in the financial statements of the Group for the current year and prior years but may affect the accounting for future transactions or arrangements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

At the date of authorisation of these financial statements, the following Standards, Interpretations and amendments were in issue but not yet effective:

Standards and Interpretations in issue not yet effective and not early adopted by the Group	Effective for annual periods beginning on or after
Amendments to IFRS 7 <i>Disclosures – Transfers of Financial Assets</i> increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.	1 July 2011
IFRS 9 <i>Financial Instruments</i> was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.	1 January 2015
IFRS 10 <i>Consolidated Financial Statements</i> uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 <i>Separate Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>* have been amended for the issuance of IFRS 10.	1 January 2013
IFRS 11 <i>Joint Arrangements</i> establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 <i>Investments in Associates and Joint Ventures</i> has been amended for the issuance of IFRS 11.	1 January 2013
IFRS 12 <i>Disclosure of Interests in Other Entities</i> combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard.	1 January 2013
IFRS 13 <i>Fair Value Measurement</i> issued in May 2011, establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.	1 January 2013

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Standards and Interpretations in issue not yet effective (Continued)

Standards and Interpretations in issue not yet effective	Effective for annual periods beginning on or after
Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i>. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.	1 July 2012
Amendments to IAS 12 <i>Income Taxes</i> provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 <i>Investment Property</i> by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale.	1 January 2012
Amendments to IAS 19 <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities	1 January 2013
Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities	1 January 2013
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9	1 January 2015 (or otherwise when IFRS 9 is first applied)

The directors anticipate that IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13, IAS 27 (as revised in 2011), IAS 28 (as revised in 2011) will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2013. The application of these standards may have significant impact on amounts reported in the consolidated financial statements and result in more extensive disclosures in the financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on the historical cost basis as amended for the revaluation of available for sale investments and investment properties. The principal accounting policies are set out below. These consolidated financial statements are presented in Kuwaiti Dinars (“KD”), which is the Parent Company’s functional and presentation currency.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company (its subsidiaries). Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Profits and losses are attributed to the owners of the Parent Company and to the non-controlling interests in the ratio of their respective shareholdings even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

Business combinations

Acquisition of business is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are recognised in the consolidated statement of income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised 2008) are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with "IFRS 5 Non-current Assets Held for Sale and Discontinued Operations", which are measured at fair value less costs to sell.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to the consolidated statement of income, where such treatment would be appropriate if that interest is disposed off.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the entity over the net fair value of the identifiable net assets recognised.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any), the excess is recognised immediately in the consolidated statement of income as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least annually. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit to which goodwill relates. The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit.

Any impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Financial instruments

Financial assets are recognised on the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets are classified as 'cash and bank balances', 'trade and other receivables' and 'available for sale investments'.

Classification

In accordance with International Accounting Standard (IAS) 39, the Company classifies its financial instruments as "investments available for sale", "loans and receivables", and "financial liabilities other than at fair value through profit or loss".

Recognition and de-recognition

The Company recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A financial asset (in whole or in part) is de-recognised when the contractual right to receive cash flows from the financial asset has expired or the Company has transferred substantially all the risks and rewards of ownership and has not retained control. If the Company has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Regular way purchase and sale of financial assets are recognized using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Measurement

All financial assets and liabilities are initially measured at fair value. Transaction costs are added only for those financial instruments not measured at fair value through profit or loss.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Available for sale investments

Investments available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as investments at fair value through profit or loss or loans and receivables.

After initial recognition, investments available for sale are measured at fair value with unrealised gains and losses recognised as other comprehensive income in a separate component of equity until the investments are derecognised or until the investments are determined to be impaired at which time the cumulative gain and loss previously reported in other comprehensive income is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Loans and receivables

These are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortized cost using the effective yield method. Trade and other receivables are classified as loans and receivables.

Properties held for trading

Properties acquired, constructed or in the course of construction for sale are classified as properties held for trading. Unsold properties are stated at cost or net realizable value whichever is less. The cost of properties held for trading under development includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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 results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"*. Under the equity method, investments in associate is carried in the consolidated statement of financial position at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess, of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of comprehensive income.

Where the Group transacts with its associate, profits and losses are eliminated to the extent of the Group's interest in the relevant associate

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where a Group undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant group and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group reports its interests in jointly controlled entities using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of an associate.

Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Investment properties

Investment properties, which are properties constructed or in course of construction, held to earn rentals and/or for capital appreciation, are stated at their fair value at the end of the reporting period. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of income for the period in which they arise.

Property interest that is held under an operating lease is classified and accounted for as investment property when the property would otherwise meet the definition of an investment property and the lessee uses the fair value model.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses arising on the retirement or disposal of an investment property are recognized in the consolidated statement of income.

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

Fair value of investment properties is arrived at by reference to industry acknowledged methods of valuations that depend on market data including recent sales values of comparable properties, capitalization rates and other observable market data.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Property and equipment**

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset (including borrowing costs).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the year in which they are incurred.

Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation methods are reviewed at each consolidated statement of financial position date, with the effect of any changes in estimate accounted for on prospective basis.

Properties in the course of construction for production, or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the period in which they are incurred.

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

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Leasing (continued)***The Group as lessee (continued)*

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

Impairment of tangible and intangible assets excluding goodwill

At each consolidated statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions*Classification*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provision for staff indemnity

The provision for staff indemnity is payable on completion of employment. The provision is calculated in accordance with applicable labour law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of the involuntary termination of staff at the consolidated statement of financial position date, on the basis that this computation is a reliable approximation of the present value of this obligation.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue on sale of properties under development classified under properties held for trading is recognized as follows:

- When the agreement is within the scope of IAS 11 – construction contracts, and its outcome can be estimated reliably, the Group recognizes the revenue by reference to the stage of completion of the contract activity in accordance with IAS 11.
- When the agreement is within the scope of IAS 18 – Revenue, Group recognizes revenue at time of completion and the significant risks and rewards of ownership of real estate are being transferred from Group at a single time.

Cost of revenue:

Cost of revenue includes the cost of land and development costs. Development costs include the cost of infrastructure and construction.

Rental income

Rental income is recognized when earned on a time apportionment basis

Management fees, commission and consultancy income

- Management fees are recognized on an accrual basis.
- Commission and consultancy income are recognized at the time the related services are provided.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Gain on sale of investments

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

Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Foreign currencies**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of these consolidated financial statements, the results and financial position of each Group entity are translated into KD which is the functional currency of the Parent Company and the presentation currency for these consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each consolidated statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the consolidated statement of financial position date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined and resulting exchange differences are transferred to consolidated statement of comprehensive income for available for sale equity instruments and to consolidated statement of income for debt instruments. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in consolidated statement of income in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into KD using exchange rates prevailing at the consolidated statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in the consolidated statement of income in the period in which the foreign operation is disposed of

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets by applying a capitalisation rate on the expenditure on such assets, until such time as the assets are substantially ready for their intended use. The capitalisation rate used by the Group is the weighted average of the borrowing costs applicable to the outstanding borrowings during the period. The remaining borrowing costs are recognised in the consolidated statement of income in the period in which they are incurred.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements but are disclosed in the Notes to the consolidated financial statements.

Kuwait Foundation for the Advancement of Sciences

The Group is legally required to contribute to the Kuwait Foundation for the Advancement of Sciences ("KFAS"). The Group's contributions to KFAS are recognised as an expense in the period during which the Group's contribution is legally required.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

National Labour Support Tax

The Group is legally required to contribute to the National Labour Support Tax ("NLST"). The Group's contribution to NLST is recognised as an expense in the period during which the Group's contribution is legally required.

Zakat

Effective 10 December 2007, the Group has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of income.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

Classification of investments

Management decides on the acquisition of an investment whether to classify it as available for sale or at fair value through profit or loss. The Group classifies investments as at fair value through profit or loss if it has been acquired principally for the purpose of selling it in the near term and its fair value can be reliably determined. All other investments are classified as available for sale.

Impairment of available for sale investments

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment.

Application of IFRIC 15 – Agreements for the construction of real estate.

The determination, whether the agreements within the scope of IAS 11 – Construction Contracts or IAS 18 – Revenue, require significant judgment.

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of goodwill

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

Provision for doubtful debts

The extent of provision for doubtful debts involves estimation process. Provision for doubtful debts is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The benchmarks for determining the amount of provision or write-down include analysis, technical assessment and subsequent events. The provisions and write-down of receivables are subject to management approval.

Revaluation of investment properties and properties held for sale

The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statement of income. The Group engaged an independent valuation specialist to determine fair value as at 31 December 2011. For the investment property the evaluator used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the property. The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate.

5. RESTATEMENT

During the year, management became aware of certain clauses in its contracts relating to the sale of properties which can lead to revocation of transferred risks and rewards incidental to ownership of properties. Based on the revised evaluation of such sale contracts revenue recognised in years 2008 to 2010 based on percentage of completion method has been reassessed.

Consequently, the Group has reversed the revenues recognised based on percentage of completion method for the years 2008 to 2010. The comparative figures in these financial statements have been restated as follows:

	31 December 2010 (restated)	31 December 2010 (as reported previously)	31 December 2009 (restated)	31 December 2009 (as reported previously)
	KD	KD	KD	KD
Consolidated statement of financial position				
Properties held for trading	113,402,965	138,972,881	102,844,733	126,122,141
Investment in joint ventures	11,054,413	11,525,814	11,737,667	11,790,446
Investment properties	116,921,489	115,374,019	101,852,535	100,232,287
Advances from customers	77,593,436	69,981,443	71,642,501	64,030,508
(Accumulated losses)/retained earnings	(42,263,121)	(8,609,811)	(26,721,665)	4,220,515
Equity attributable to shareholders of the Parent Company	82,054,291	115,707,601	93,186,292	124,128,472

AL MAZAYA HOLDING COMPANY K.S.C. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011



5. RESTATEMENT (CONTINUED)

	For the year ended December 2010 (restated)	For the year ended 31 December 2010 (as reported previously)
	KD	KD
Consolidated statement of income		
Revenue from sale of properties held for trading	9,161,198	17,726,597
Cost of properties sold	(7,330,468)	(13,251,380)
Marketing expenses	(280,228)	(213,585)
Loss for the year	(13,012,770)	(10,301,640)
 Loss per share attributable to the equity holders of the Parent Company -Fils	 (24.26)	 (18.38)

6. CASH AND BANK BALANCES

	2011	2010	2009
	KD	KD	KD
Cash on hand and at banks	16,652,549	14,819,256	20,760,706
Short term bank deposits	5,476,413	5,600,000	7,182,970
Cash in investment portfolios	1,413,770	64,705	236,628
	23,542,732	20,483,961	28,180,304
Restricted bank balances	(8,614,418)	(11,999,716)	(18,140,492)
Cash and cash equivalents	14,928,314	8,484,245	10,039,812

The average effective interest rate on short term bank deposits was 1.4% (31 December 2010: 1.75%, 31 December 2009: 2%) per annum. These deposits have an average maturity of 66 days (31 December 2010: 30 days, 31 December 2009: 30 days).

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.

7. ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES

	2011	2010	2009
	KD	KD	KD
Trade receivables	23,080,193	6,058,934	5,142,216
Advance payments	1,188,496	2,302,053	11,938,128
Advance for investments	975,827	931,865	-
Advances for capital subscription	-	-	7,163,163
Due from related parties	4,796,836	887,114	5,365,299
Staff receivables	8,410	8,951	1,254,791
Other receivables	976,393	455,920	1,468,720
	31,026,155	10,644,837	32,332,317
Allowance for doubtful debts	(10,449,677)	(959,454)	(800,889)
	20,576,478	9,685,383	31,531,428

8. PROPERTIES HELD FOR TRADING

	2011	2010 (Restated)	2009 (Restated)
	KD	KD	KD
Balance at the beginning of the year	115,314,965	102,844,733	197,864,613
Additions	72,951,745	24,669,564	29,531,545
Disposal	(59,361,095)	(7,330,468)	(41,282,582)
Transfers to investment properties (note 12)	(801,770)	(3,174,783)	(86,648,299)
Foreign currency translation adjustments	(59,417)	(1,694,081)	3,379,456
Balance at the end of the year	128,044,428	115,314,965	102,844,733
Provision for impairment	(20,672,205)	(1,912,000)	-
	<u>107,372,223</u>	<u>113,402,965</u>	<u>102,844,733</u>

Provision for impairment

	2011	2010	2009
	KD	KD	KD
Balance at beginning of the year	1,912,000	-	-
Charge for the year	18,760,205	1,912,000	-
Balance at end of the year	<u>20,672,205</u>	<u>1,912,000</u>	<u>-</u>

9. AVAILABLE FOR SALE INVESTMENTS

	2011	2010	2009
	KD	KD	KD
Quoted:			
Equity securities	1,980,122	2,496,543	1,393,094
Unquoted:			
Equity securities	4,580,179	4,419,702	17,235,067
Funds & Portfolios	9,774,316	11,490,663	6,085,331
	<u>16,334,617</u>	<u>18,406,908</u>	<u>24,713,492</u>

Available for sale investments with a fair value of KD 3,398,445 (31 December 2010: KD 13,340,787, 31 December 2009: Nil) are pledged against loans disclosed in note 14.

Available for sale investments with a fair value of KD Nil (31 December 2010: 2,525,102, 31 December 2009: Nil) are pledged against a related party payable disclosed in note 13.

Available for sale investments amounting to KD 702,883 (2010: Nil, 2009: KD 631,575) are carried at cost since the fair value could not be reliably determined.

Impairment loss on available for sale investments of KD 455,904 (2010: KD 4,156,488, 2009: KD Nil) has been recognized in the consolidated statement of income.

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10. INVESTMENT IN ASSOCIATES

	Country of incorporation	Ownership Percentage
Mazaya Qatar Real Estate Development Q.S.C	Qatar	6.37
First Qatar Real Estate Development K.S.C.(Closed)	Kuwait	17.54
Real Estate Development J.S.C.	Jordan	-

The Group exercise significant influence over its associates Mazaya Qatar Real Estate Q.S.C. through management agreement which give rise to the Group's ability to participate and influence the associates' operating and financial policies.

	2011	2010	2009
	KD	KD	KD
Balance at the beginning of the year	13,746,183	11,247,105	3,905,889
Transferred from Investment available for sale	-	8,569,475	6,676,330
Additions	670,000	418,187	615,920
Group's share of results for the year	(148,010)	(493,477)	48,811
Disposal	-	(6,129,727)	-
Dilution gain	-	134,620	-
Foreign currency translation adjustments	(193,996)	-	155
	14,074,177	13,746,183	11,247,105
Provision	(505,523)	(482,380)	(832,281)
Balance at the end of the year	13,568,654	13,263,803	10,414,824

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10. INVESTMENT IN ASSOCIATES (CONTINUED)

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

	2011			2010			2009		
	Mazaya Qatar Q.S.C.	First Qatar K.S.C.C.	Total	Mazaya Qatar Q.S.C.	First Qatar K.S.C.C.	Total	Mazaya Qatar Q.S.C.	Real Estate Development J.S.C.	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD
Assets	76,462,785	60,066,081	136,528,866	79,217,380	89,717,251	168,934,631	33,411,380	77,114,144	110,525,524
Liabilities	(1,793,291)	(9,812,695)	(11,605,986)	(17,394,254)	(37,232,755)	(54,627,009)	(959,175)	(44,177,144)	(45,136,319)
Net assets	74,669,494	50,253,386	124,922,880	61,823,126	52,484,496	114,307,622	32,452,205	32,937,000	65,389,205
Group's share of net assets	4,753,460	8,815,194	13,568,654	4,766,563	8,497,240	13,263,803	3,738,494	6,676,330	10,414,824
Revenue	2,367,519	2,000,974	4,368,493	1,319,313	1,318,046	2,637,359	2,841,701	-	2,841,701
Profit for the year / (loss)	245,793	(1,047,527)	(801,734)	690,869	(2,697,301)	(2,006,432)	423,707	-	423,707
Group's share of results	196,414	(344,424)	(148,010)	53,266	(546,743)	(493,477)	48,811	-	48,811

11. INVESTMENT IN JOINT VENTURES

During the year, the Group disposed of its interest in a joint venture. The Group's share of net assets disposed of amounted to KD 7,411,727 against a sale consideration of KD 7,393,666 resulting in a loss on disposal amounting to KD 18,061. Of the total consideration, KD 1,474,830 is deferred and is due within one year.

	Country of incorporation	Ownership Percentage%
Al Madar Gulf Limited	UAE	49.99
Al Wahda Real Estate Investment Limited	UAE	48
Seven Zones	Kuwait	50

	2011	2010 (Restated)	2009 (Restated)
	KD	KD	KD
Al Madar Gulf Limited	2,018,887	4,270,700	4,534,859
Al Wahda Real Estate Investment Limited	1,203,030	(628,014)	(58,168)
Seven Zones	-	7,411,727	7,260,976
	<u>3,221,917</u>	<u>11,054,413</u>	<u>11,737,667</u>

	2011	2010 (Restated)	2009 (Restated)
	KD	KD	KD
Balance at the beginning of the year	11,054,413	11,737,667	11,681,170
Additions	-	-	215,133
Group's share of results for the year	(284,018)	(177,737)	(226,592)
Disposal	(7,411,727)	-	-
Foreign currency translation adjustments	(136,751)	(505,517)	67,956
Balance at the end of the year	<u>3,221,917</u>	<u>11,054,413</u>	<u>11,737,667</u>

2011	Al Madar Gulf Limited	Al Wahda Real Estate Investment Limited	Seven Zones
	KD	KD	KD
Assets	7,831,654	17,694,688	-
Liabilities	(3,793,073)	(15,188,375)	-
Net assets	4,038,581	2,506,313	-
Group's share of net assets	<u>2,018,887</u>	<u>1,203,030</u>	-
Revenue	706,530	21,232,601	-
(Loss)/profit for the year	(4,408,041)	3,999,087	-
Group's share of results	<u>(2,203,580)</u>	<u>1,919,562</u>	-

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11. INVESTMENT IN JOINT VENTURES (CONTINUED)

	Al Madar Gulf Limited	Al Wahda Real Estate Investment Limited	Seven Zones
2010 (Restated)	KD	KD	KD
Assets	13,737,552	700,515	15,684,192
Liabilities	(5,195,704)	(2,007,565)	(860,738)
Net assets	8,541,848	(1,307,050)	14,823,454
Group's share of net assets	4,270,070	(627,384)	7,411,727
Revenue	4,059,946	(812,162)	-
Profit / (loss) for the year	484,304	(821,037)	(51,486)
Group's share of results	242,104	(394,098)	(25,743)
2009 (Restated)	KD	KD	KD
Assets	13,676,194	3,666,007	18,263,786
Liabilities	(4,606,476)	(3,787,190)	(3,741,834)
Net assets	9,069,718	(121,183)	14,521,952
Group's share of net assets	4,534,859	(58,168)	7,260,976
Revenue	4,426,772	(104,481)	18,034
(Loss) / profit for the year	(358,044)	(108,043)	8,510
Group's share of results	(178,986)	(51,861)	4,255

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11. INVESTMENT IN JOINT VENTURES (CONTINUED)

Included in the consolidated statement of financial position is jointly controlled operations , financial details of which are as shown below:

	2011		2010		2009	
	Total	Group's share	Total	Group's share	Total	Group's share
	KD	KD	KD	KD	KD	KD
Assets	32,561,223	15,629,387	85,431,200	41,006,976	76,731,285	36,831,017
Liabilities	8,997,550	4,318,824	60,375,308	28,980,148	(53,351,155)	(25,608,555)
Revenue	55,052,135	26,425,025	61,855,260	29,690,525	(55,618,846)	(26,697,046)
Expenses	41,206,431	19,779,087	47,060,582	22,589,079	42,719,888	20,505,546

12. INVESTMENT PROPERTIES

	2011	2010 (Restated)	2009 (Restated)
	KD	KD	KD
Balance at the beginning of the year	116,921,489	101,852,535	19,906,643
Additions	-	1,089,036	11,620,362
Transferred from properties held for trading (note 8)	801,770	3,174,783	86,648,299
Adjustments	(32,538,709)	-	-
Transferred from fixed assets	-	20,816,119	-
Reversal of revaluation surplus	-	(519,366)	-
Changes in fair value	(11,239,341)	(8,935,807)	(16,028,799)
Foreign currency translation adjustments	(88,537)	(555,811)	(293,970)
Balance at the end of the year	<u>73,856,672</u>	<u>116,921,489</u>	<u>101,852,535</u>

The fair value of the Group's investment properties at 31 December 2011 has been arrived at on the basis of a valuation carried out at that date by independent evaluators.

Investment properties amounting to KD 9,708,334 (2010: KD 9,647,000) are pledged against a term loan disclosed in note 14.

Adjustments represent the following:

One of the Group's subsidiaries Al Mazaya Real Estate Company FZ LLC ("MREC FZ") on 4 December 2007 signed a sale and purchase agreement with Limitless Company LLC (Limitless) for purchasing 9 plots in Down Town Jebel Ali, Dubai (DTJA) for KD 34.712 Million of which KD 19.6 Million was paid in cash and the remaining consideration of KD 15.166 Million was deferred. MREC FZ has sought to terminate the agreement and submitted a claim before the Dubai International Arbitration Tribunal claiming an amount of KD 15.8 Million plus interest besides claiming alternative reliefs in accordance with the prevailing UAE laws and the Real Estate rules and regulations applicable in Dubai. Based on the opinion of the Group's internal legal advisory, MREC FZ claim is supported based on the fact that Limitless has not done the necessary infrastructure like electricity, water plumbing, drainage, approach roads etc that was required for delivery of the plots to FZ under the agreement. As on the date of issue of the consolidated financial statements the arbitration proceeding is ongoing and the Group's management is of the view that based on the legal opinion, the Group's liability to Limitless towards this deferred consideration is remote. Limitless has also submitted their plea to the arbitration committee for forfeiture of the advance amount paid by the Group. Accordingly, the Group has offset the related deferred consideration of KD 15.166 Million (see note 16) against the carrying value of the investment property of KD 34.712 Million and the resultant amount of KD 19.546 Million has been recorded as fair value decline of investment properties.

In a separate transaction, the Group had entered into a Sale Purchase Agreement (SPA) with an investor to acquire Waterfront land (WF) in Dubai at a cost of KD 42 Million by paying KD 31.5 Million in advance. A consideration of KD 10.5 Million was deferred and recorded as a payable. A cumulative provision reflecting a fair value decline of KD 24.7 Million had been recorded against the Waterfront assets in prior years.

Due to certain delays in the development of the project from the master developer, the Group has withdrawn its right to the acquired properties and demanded the settlement of advance paid. Accordingly, the Group has offset the outstanding deferred consideration payable to the investor of KD 9 Million (see note 16) against the carrying value of the land amounting to KD 17.3 Million. The net amount of KD 8.3 Million was transferred to trade and other receivables and an equal amount of allowance for doubtful debts has been recorded.

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

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13. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	2011	2010	2009
	KD	KD	KD
Trade payables	17,863,481	24,101,675	20,449,459
Amounts received in advance for capital subscription	-	14,810,686	-
Amounts due to related parties	6,365,991	8,296,943	10,482,183
Retentions payable	7,577,199	5,349,684	6,320,453
Accrued development costs	2,255,185	1,497,835	136,800
Dividends payable	656,214	726,121	747,868
Other payables and accrued expenses	1,533,172	1,059,156	5,056,051
	<u>36,251,242</u>	<u>55,842,100</u>	<u>43,192,814</u>

Trade payables are non-interest bearing. There is no material difference between the fair value and the book value of accounts payable and other credit balances.

14. TERM LOAN

	2011	2010	2009
	KD	KD	KD
Current portion	4,500,000	42,000,000	44,970,000
Non-current portion	38,000,000	-	-
	<u>42,500,000</u>	<u>42,000,000</u>	<u>44,970,000</u>

During the year, the Group rescheduled its long term loan through renegotiation with a local bank. The rescheduling terms require the Group to repay the loan in sixteen equal quarterly installments between 2012 and 2016 at an approximately similar interest rate. The average effective interest rate on the term loans is 5.63% (2010: 5.67% and 2009 5.50%) per annum.

15. WAKALA AND MURABAHA PAYABLES

	2011	2010	2009
	KD	KD	KD
Wakala payables maturing on 19 October 2012	5,000,000	5,000,000	5,000,000
Murabaha payable maturing on 13 April 2012	3,500,000	3,500,000	3,500,000
	<u>8,500,000</u>	<u>8,500,000</u>	<u>8,500,000</u>

Average cost rate attributable to Wakala payables during the year ended 31 December 2011 was 6.25% (2010: 7.23%, 2009: 7%) per annum.

Average cost rate attributable to Murabaha payable during the year ended 31 December 2011 was 6.5% (2010: 6.5%, 2009: 8%) per annum.

16. DEFERRED CONSIDERATION ON ACQUISITION OF PROPERTIES

	2011	2010	2009
	KD	KD	KD
Balance at the beginning of the year	30,070,031	31,464,443	34,007,819
Consideration paid during the year	(491,163)	(996,795)	(3,582,792)
Adjustments	(25,712,698)	-	-
Foreign currency transaction adjustments	-	(397,617)	1,039,416
Balance at the end of the year	<u>3,866,170</u>	<u>30,070,031</u>	<u>31,464,443</u>

Adjustments represent a transfer of KD 24,205,675 to investments properties as explained in note 12 and a transfer of KD 1,507,023 to accounts payable and other credit balances.

17. SHARE CAPITAL

During the year, the Parent Company completed the issuance of shares pertaining to subscriptions received in advance during the year 2010.

Share capital consists of 649,319,770 authorised and issued shares of 100 fils each (2010: 499,476,750 authorised and issued shares of 100 fils each, 2009: 499,476,750 authorised and issued shares of 100 Fils each) fully paid in cash.

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18. OTHER RESERVES

	Statutory reserve	Voluntary reserve	Treasury shares reserve	Asset revaluation surplus	Effect of changes in subsidiary's equity	Effect of changes in subsidiary's treasury shares	Total
	KD	KD	KD	KD	KD	KD	KD
At 31 December 2009	9,646,725	9,646,725	701,077	519,366	(156,410)	(457,645)	19,899,838
Loss on sale of treasury shares	-	(2,934,920)	(701,077)	-	-	-	(3,635,997)
Other comprehensive loss	-	-	-	(519,366)	-	-	(519,366)
At 31 December 2010	9,646,725	6,711,805	-	-	88,612	(457,645)	15,989,497
At 31 December 2011	9,646,725	6,711,805	-	-	88,612	(457,645)	15,989,497

STATUTORY RESERVE

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before KFAS, NLST and Zakat is to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital and shareholders resolve to discontinue such transfers. This reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends. No transfer to the reserve has been made due to losses incurred during the year.

VOLUNTARY RESERVE

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year before KFAS, NLST and Zakat is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer on distributions from the voluntary reserve. No transfer to the reserve has been made due to losses incurred during the year.

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19. TREASURY SHARES

	2011	2010	2009
Number of shares (shares)	64,802,113	35,869,869	49,189,869
Percentage of issued shares (%)	9.98	7.18	9.8
Market value (Kuwaiti Dinars)	4,017,731	4,232,644	5,997,864
Cost (Kuwaiti Dinars)	21,788,181	18,113,786	27,189,284

20. NET INVESTMENT LOSS

	2011	2010
	KD	KD
Realized gain on disposal of available for sale investments	308,794	2,008,721
Dividend income	100,000	422,122
Impairment loss on investments available for sale	(455,904)	(4,156,488)
Portfolio management fees	(53,729)	-
	<u>(100,839)</u>	<u>(1,725,645)</u>

21. LOSS PER SHARE

	2011	2010 (Restated)
Loss for the year attributable to equity holders of the Parent Company	<u>(15,842,218)</u>	<u>(11,320,941)</u>
	Shares	Shares
Weighted average number of issued and fully paid-up shares	620,172,229	499,476,780
Less: weighted average number of treasury shares	(59,174,197)	(32,872,287)
Weighted average number of shares outstanding	<u>560,998,032</u>	<u>466,604,493</u>
Loss per share attributable to equity holders of the Parent Company -Fils	<u>(28.24)</u>	<u>(24.26)</u>

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**22. SUBSIDIARIES**

The details of the Group's subsidiaries are as follows:

Subsidiaries	Country of incorporation	Percentage of ownership (%)	
		31 December 2011	31 December 2010
Al Mazaya Real Estate Development Company – K.S.C. (Closed)	Kuwait	100	100
Al Mazaya Real Estate FZ/LLC	U.A.E	100	100
Al Dana Real Estate Limited	U.A.E	100	100
Al Rayhan Real Estate Limited	U.A.E	100	100
Advantage General Trading Co. W.L.L.	U.A.E	100	100
Spectrum FZ / LLC	U.A.E	100	100
Mazaya Investments (DIFC) Limited	U.A.E	-	100
Al Mazaya Al Khalijia General Trading and Contracting – Khalid S. Esbaitah and Partners – W.L.L.	Kuwait	100	100
Al Mazaya Arabian Real Estate Company, Khalid S. Esbaitah and Partners W.L.L.	Kuwait	100	100
Al Mazaya International Projects Management Company, Khalid S. Esbaitah and Partner – W.L.L.	Kuwait	100	100
Mazaya Lebanon Company - S.A.L. (Holding)	Lebanon	100	100
Mazaya Lamartien – S.A.L.	Lebanon	100	100
Seven Zones Real Estate Company K.S.C. (Closed)	Kuwait	100	100
First Dubai Real Estate Development Company - K.S.C. (Closed)	Kuwait	92.23	92.23
Future International Project Management – W.L.L.	Kuwait	85	85
Waterfront Real Estate Company K.S.C. (Closed)	Kuwait	86.43	86.43
Mezzan Combined For General Trading - W.L.L. Company	Kuwait	100	100
United Circle General Contracting and Building Company W.L.L.	Kuwait	92.23	92.23

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23. SEGMENT INFORMATION

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

	31 December 2011					31 December 2010				
	Kuwait	UAE	KSA	Others	Total	Kuwait	UAE	KSA	Others	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Segment income	<u>2,954,795</u>	<u>(18,621,466)</u>	<u>251,282</u>	<u>2,723,851</u>	<u>(12,691,538)</u>	<u>(4,871,114)</u>	<u>(2,870,615)</u>	<u>264,018</u>	<u>(556,964)</u>	<u>(8,034,675)</u>
Segment (loss) / profit	<u>(2,330,663)</u>	<u>(19,618,543)</u>	<u>251,282</u>	<u>2,873,139</u>	<u>(18,824,785)</u>	<u>(10,876,209)</u>	<u>(3,050,229)</u>	<u>264,018</u>	<u>649,650</u>	<u>(13,012,770)</u>

	At 31 December 2011				
	Kuwait	UAE	KSA	Others	Total
	KD	KD	KD	KD	KD
Total segment assets	<u>75,164,379</u>	<u>166,936,240</u>	<u>7,493,999</u>	<u>12,100,110</u>	<u>261,694,728</u>
Total segment liabilities	<u>71,904,178</u>	<u>102,921,435</u>	<u>-</u>	<u>2,519</u>	<u>174,828,132</u>

	At 31 December 2010				
	Kuwait	UAE	KSA	Others	Total
	KD	KD	KD	KD	KD
Total segment assets	<u>235,475,055</u>	<u>51,956,273</u>	<u>6,364,996</u>	<u>15,418,359</u>	<u>309,214,683</u>
Total segment liabilities	<u>109,628,396</u>	<u>109,604,229</u>	<u>-</u>	<u>1,338</u>	<u>219,233,963</u>

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24. FIDUCIARY ASSETS

The Group manages projects on behalf of others, and maintains cash balances and notes receivable in fiduciary accounts, which are not reflected in the Group's consolidated statement of financial position. Assets under management as of 31 December 2011, amounted to KD 4,688,330 (2010- KD 6,840,820; 2009: KD 12,060,967).

25. RELATED PARTY BALANCES AND TRANSACTIONS

The Group has entered into various transactions with related parties, i.e. shareholders, key management personnel and other related parties in the normal course of its business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. Significant related parties' balances and transactions are as follows:

	Major shareholders	Other related parties	31 December 2011	31 December 2010
	KD	KD	KD	KD
a) Balances included in the consolidated statement of financial position:				
Cash and cash equivalents	375,523	-	375,523	-
Accounts receivable and other debit balances	4,796,836	-	4,796,836	887,114
Accounts payable and other credit balances	6,365,991	-	6,365,991	8,296,943
b) Transactions included in the consolidated statement of income:				
Management fees, commission and consultancy income	-	405,725	405,725	127,427
Rental income	254,253	-	254,253	-
Allowance for doubtful debts	-	-	-	116,118
Finance charges	47,586	-	47,586	80,198
c) Key management compensation:				
Salaries and other short term benefits			287,301	342,182
Terminal benefits			13,962	19,815
			301,263	361,997

26. CAPITAL COMMITMENTS

	2011	2010	2009
	KD	KD	KD
Letters of guarantee	-	-	22,876,000
Capital commitments	27,650,062	35,880,362	103,054,154
	<u>27,650,062</u>	<u>35,880,362</u>	<u>125,930,154</u>

27. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from previous year.

Gearing ratio

The gearing ratio at the year end was as follows:

	2011	2010	2009
	KD	KD	KD
Debts	53,971,842	55,471,120	58,543,936
Less: cash and bank	(23,542,732)	(20,483,961)	(28,180,304)
Net debts	<u>30,429,110</u>	<u>34,987,159</u>	<u>30,363,632</u>
Equity	<u>86,866,596</u>	<u>89,980,720</u>	<u>135,258,983</u>
Net debts to equity ratio	<u>0.35</u>	<u>0.39</u>	<u>0.22</u>

28. FINANCIAL INSTRUMENTS**Financial risk management objectives**

The Group's Management provides services to the business and monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period were insignificant.

Foreign currency sensitivity analysis

The Group has minimal exposure to the foreign currency exchange rate fluctuations.

28. FINANCIAL INSTRUMENTS (CONTINUED)*Interest rate risk management*

The Group is exposed to interest rate risk as it borrows funds at floating interest rates and places time deposits with local banks. The risk is managed by the Group by borrowing funds at market linked floating interest rates and placing time deposits at the best available rates.

The Group's exposures to interest rates on time deposits and long-term debts are detailed in notes 5 and 13 to these consolidated financial statements respectively.

Interest rate sensitivity analysis

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in interest rates of + 1% (2009: + 1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at the end of the reporting period. All other variables are held constant.

A positive number below indicates an increase in profit and a negative number indicates a decrease in profit.

	2011	2010	2009
Impact on consolidated statement of income	KD	KD	KD
KD	± 539,718	±554,711	±585,439

Equity price risk

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in equity securities classified as investments available for sale.

The following table demonstrates the sensitivity to a reasonably possible change in equity indices as a result of change in the fair value of these investments to which the Group had significant exposure:

	2011			2010		
	Change in equity price %	Effect on consolidated statement of income (KD)	Effect on consolidated statement of comprehensive income (KD)	Change in equity price %	Effect on consolidated statement of income (KD)	Effect on consolidated statement of comprehensive income (KD)
Market indices						
Kuwait Stock Exchange	± 5%	-	± 522,843	± 5%	-	± 699,360

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

28. FINANCIAL INSTRUMENTS (CONTINUED)**Credit risk management***Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was:

	2011	2010	2009
	KD	KD	KD
Bank balances	23,542,732	20,483,961	28,180,304
Trade receivables	18,412,155	6,451,465	12,430,137
Murabaha receivables	-	2,609,309	3,223,456
	<u>41,954,887</u>	<u>29,544,735</u>	<u>43,833,897</u>

The Group does not hold any collateral over its assets exposed to credit risk.

The maximum exposure to credit risk for financial assets at the end of the reporting period by geographic region was:

	2011	2010	2009
	KD	KD	KD
Inside Kuwait	13,970,502	14,677,260	22,360,353
Outside Kuwait	27,984,385	14,867,475	21,473,544
	<u>41,954,887</u>	<u>29,544,735</u>	<u>43,833,897</u>

The fair values of accounts receivable and other debit balances approximated their carrying values as at 31 December 2011.

Trade receivable that are past due for less than 6 months are not considered impaired. As of 31 December trade receivable amounting to KD 7,074,144 (2010: KD 127,655) were neither past due nor impaired. These relate to a number of independent customers for whom there is no recent history of default.

Ageing of receivables past due but not impaired

	2011	2010	2009
	KD	KD	KD
3 to 6 months	<u>11,338,011</u>	<u>6,323,810</u>	<u>29,125,553</u>

The Group does not hold any collateral over these receivables.

Allowance for doubtful debts

	2011	2010	2009
	KD	KD	KD
Balance at beginning of the year	959,454	800,889	-
Charge for the year	9,647,663	158,564	800,889
Written off	(157,440)	(99)	-
Balance at end of the year	<u>10,449,677</u>	<u>959,454</u>	<u>800,889</u>

28. FINANCIAL INSTRUMENTS (CONTINUED)**Liquidity risk management**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 December 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Financial liabilities	KD	KD	KD	KD
Bank overdrafts	2,791,842	-	-	2,791,842
Accounts payable and other credit balances	36,251,242	-	-	36,251,242
Wakala and Murabaha payables	8,500,000	-	-	8,500,000
Term loans	4,500,000	6,337,800	33,801,600	44,639,400
Deferred consideration on acquisition of properties	3,866,170	-	-	3,866,170
	<u>55,909,254</u>	<u>6,337,800</u>	<u>33,801,600</u>	<u>96,048,654</u>
Commitments				
Capital commitments	<u>5,530,012</u>	<u>6,912,516</u>	<u>15,207,534</u>	<u>27,650,062</u>
Operating lease commitments	<u>221,110</u>	<u>-</u>	<u>-</u>	<u>221,110</u>
At 31 December 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Financial liabilities	KD	KD	KD	KD
Bank overdrafts	4,971,120	-	-	4,971,120
Accounts payable and other credit balances	55,842,100	-	-	55,842,100
Wakala and Murabaha payables	-	8,500,000	-	8,500,000
Term loans	-	4,226,800	40,154,600	44,381,400
Deferred consideration on acquisition of properties	30,070,031	-	-	30,070,031
	<u>90,883,251</u>	<u>12,726,800</u>	<u>40,154,600</u>	<u>143,764,651</u>
Commitments				
Capital commitments for construction	<u>-</u>	<u>-</u>	<u>35,880,362</u>	<u>35,880,362</u>
Operating lease commitments for land	<u>245,109</u>	<u>-</u>	<u>-</u>	<u>245,109</u>

28. FINANCIAL INSTRUMENTS (CONTINUED)**Fair value of financial instruments**

Management believes that the fair value of the financial instruments at the end of the reporting period is not significantly different from their respective carrying values.

The different levels pertaining to fair valuation of financial instruments have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's equity securities that are measured at fair value at December 31:

	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
2011				
Investments available for sale	1,980,094	8,476,761	5,174,879	15,631,734
2010				
Investments available for sale	2,496,543	11,490,663	4,419,702	18,406,908
2009				
Investments available for sale	1,393,094	6,085,331	16,603,492	24,081,917

29. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, and systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risks. The Group's management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management.