# DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING)
# AND ITS SUBSIDIARY
# STATE OF KUWAIT

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 2013
## WITH
## INDEPENDENT AUDITOR'S REPORT

# DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING)
AND ITS SUBSIDIARY
STATE OF KUWAIT

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FOR THE YEAR ENDED DECEMBER 31, 2013
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INDEPENDENT AUDITOR'S REPORT

CONTENTS


Independent auditor's report

| | Pages |
|---|---|
| Consolidated statement of financial position | 3 |
| Consolidated statement of profit or loss | 4 |
| Consolidated statement of profit or loss and other comprehensive income | 5 |
| Consolidated statement of changes in equity | 6 |
| Consolidated statement of cash flows | 7 |
| Notes to consolidated financial statements | 8 – 21 |

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50 Years of Service Since 1963

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# INDEPENDENT AUDITOR'S REPORT

The Shareholders
Dar Al Dhabi Holding Company K.S.C. (Holding)
State of Kuwait

## Report on the consolidated financial statements

I have audited the accompanying consolidated financial statements of Dar Al Dhabi Holding Company K.S.C. (Holding) (the Parent Company) and its subsidiary (the Group) which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the financial year then ended and a summary of significant accounting policies and other explanatory notes.

## Management's responsibility for the consolidated financial statements

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 of material misstatement, whether due to fraud or error.

## Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

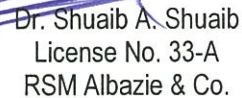
In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2013 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

## Emphasis of matter

Without qualifying my opinion, I draw attention to Note 19 to the consolidated financial statements where the Group's ability to continue as a going concern has been summarized.

## Report on other Legal and Regulatory Requirements

Also in my opinion, the consolidated financial statements include the disclosures required by the Companies Law No. 25 of 2012, as amended and its Executive bylaw and the Parent Company's Memorandum of Incorporation and Articles of Association, and I obtained the information I required to perform my audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Director's Report is in agreement with the Parent Company's books. According to the information available to me, no violation of the Companies Law No. 25 of 2012, as amended and its Executive bylaw or of the Parent Company's Memorandum of Incorporation and Articles of Association has occurred during the financial year ended December 31, 2013 which might have materially affected the Group's financial position or results of its operations.



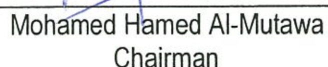
State of Kuwait
March 20, 2014

Dr. Shuaib A. Shuaib
License No. 33-A
RSM Albazie & Co.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013
(All amounts are in Kuwaiti Dinars)

| ASSETS | Note | 2013 | 2012 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash on hand and at banks | | **545** | 3,958 |
| Accounts receivable and other debit balances | | - | 4,994 |
| **Total current assets** | | **545** | 8,952 |
| **Non-current assets:** | | | |
| Properties under development | 3 | **72,958,682** | 72,913,338 |
| Fixed assets | 4 | - | 14,176 |
| **Total assets** | | **72,959,227** | 72,936,466 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and other credit balances | 5 | **24,190,720** | 24,130,236 |
| **Total current liabilities** | | **24,190,720** | 24,130,236 |
| **Non-current liabilities:** | | | |
| Revenue received in advance | 6 | **5,502,487** | 5,486,060 |
| Due to a related party | 7 | **6,829,651** | 6,606,353 |
| Provision for end of service indemnity | 8 | **689** | 28,984 |
| **Total non - current liabilities** | | **12,332,827** | 12,121,397 |
| **Equity:** | | | |
| Share capital | 9 | **100,000,000** | 100,000,000 |
| Share premium | 10 | **4,950,000** | 4,950,000 |
| Statutory reserve | 11 | **22,739** | 22,739 |
| Voluntary reserve | 12 | **22,739** | 22,739 |
| Foreign currency translation adjustments | | **(334,650)** | (318,223) |
| Accumulated losses | | **(68,225,148)** | (67,992,422) |
| **Total equity** | | **36,435,680** | 36,684,833 |
| **Total liabilities and equity** | | **72,959,227** | 72,936,466 |

The accompanying notes (1) to (19) form an integral part of the consolidated financial statements.



Mohamed Hamed Al-Mutawa
Chairman

Faisal Ali Al - Mutawa
Vice Chairman

| | Note | **2013** | 2012 |
|---|---|---|---|
| **Revenue:** | | | |
| Impairment reversal (loss) on properties under development | 3 | **45,344** | (66,776,471) |
| | | **45,344** | (66,776,471) |
| **Expenses and other charges:** | | | |
| General and administrative expenses | 14 | **67,128** | 432,944 |
| Related party receivable balance written off | | **-** | 51,150 |
| Finance costs | 7 | **135,000** | 146,753 |
| Impairment of goodwill | | **-** | 47,879 |
| Foreign exchange loss | | **75,942** | 340,638 |
| | | **278,070** | 1,019,364 |
| **Net loss for the year** | | **(232,726)** | (67,795,835) |

The accompanying notes (1) to (19) form an integral part of the consolidated financial statements.

| | 2013 | 2012 |
|---|---|---|
| Net loss for the year | (232,726) | (67,795,835) |
| **Other comprehensive loss:** | | |
| Items that may be reclassified subsequently to consolidated statement of profit or loss | | |
| Foreign currency translation adjustments | (16,427) | (53,096) |
| **Other comprehensive loss for the year** | (16,427) | (53,096) |
| **Total comprehensive loss for the year** | (249,153) | (67,848,931) |

The accompanying notes (1) to (19) form an integral part of the consolidated financial statements.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(All amounts are in Kuwaiti Dinars)

| | Share capital | Share premium | Statutory reserve | Voluntary reserve | Foreign currency translation adjustments | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| Balance as at December 31, 2011 | 100,000,000 | 4,950,000 | 22,739 | 22,739 | (265,127) | (196,587) | 104,533,764 |
| Total comprehensive loss for the year | - | - | - | - | (53,096) | (67,795,835) | (67,848,931) |
| Balance as at December 31, 2012 | 100,000,000 | 4,950,000 | 22,739 | 22,739 | (318,223) | (67,992,422) | 36,684,833 |
| Total comprehensive loss for the year | - | - | - | - | (16,427) | (232,726) | (249,153) |
| **Balance as at December 31, 2013** | **100,000,000** | **4,950,000** | **22,739** | **22,739** | **(334,650)** | **(68,225,148)** | **36,435,680** |

The accompanying notes (1) to (19) form an integral part of the consolidated financial statements.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(All amounts are in Kuwaiti Dinars)

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss for the year | (232,726) | (67,795,835) |
| Adjustments: | | |
| Impairment (reversal) loss on properties under development | (45,344) | 66,776,471 |
| Provision for end of service indemnity | 6,594 | 39,804 |
| Depreciation | - | 4,493 |
| Loss on sale of fixed assets | 2,176 | - |
| Related party receivable balance written off | - | 51,150 |
| Finance costs | 135,000 | 146,753 |
| Impairment of goodwill | - | 47,879 |
| Foreign exchange loss | 75,942 | 340,638 |
| | (58,358) | (388,647) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and other debit balances | 4,994 | 285,979 |
| Accounts payable and other credit balances | (5,012) | (516,834) |
| Net movement in related party balances | 77,852 | 110,587 |
| Cash generated from (used in) operating activities | 19,476 | (508,915) |
| End of service indemnity paid | (34,889) | (88,501) |
| Net cash used in operating activities | (15,413) | (597,416) |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of fixed assets | 12,000 | - |
| Net cash generated from investing activities | 12,000 | - |
| Net decrease in cash on hand and at banks | (3,413) | (597,416) |
| Cash on hand and at banks at the beginning of the year | 3,958 | 601,374 |
| Cash on hand and at banks at the end of the year | 545 | 3,958 |

The accompanying notes (1) to (19) form an integral part of the consolidated financial statements.

## 1. Incorporation and activities of the Parent Company

Dar Al Dhabi Holding Company (the Parent Company) is a Kuwaiti Shareholding Company incorporated through an agreement No. 6601/Vol. 1 dated August 30, 2004. The Parent Company's commercial registration number is 103326 dated October 23, 2005 and its latest amendment on July 8, 2012.

The objectives of the Parent Company are:

a) Own shares of Kuwaiti or foreign shareholding companies, shares or stocks of Kuwaiti or foreign limited liability companies or participate in the incorporation and management of these types of companies including lending and guarantee activities.
b) Granting loans to companies in which the Company is a shareholder and guarantee them provided that the Company's share in the borrowing company's capital shall not be less than 20%.
c) Own industrial property rights including patents, industrial trademarks, industrial fees or any other rights related thereto and leasing the same to other companies for usage inside and outside Kuwait.
d) Own tangible assets and real estates required to conduct its activities as permitted by the law.
e) Use available surplus in the investment of financial portfolios managed by specialized companies and entities.

The Parent Company may conduct the aforementioned business inside and outside Kuwait as a principal or an agent. The Parent Company may have interest or participate in any manner in entities conducting similar activities or assist them in achieving their objectives inside or outside Kuwait. Also, it may establish, participate or purchase such entities or have them annexed to it.

Dar Al Dhabi Holding Co. K.S.C. (Holding) (the Parent Company) is a subsidiary of Bayan Investment Company K.S.C. (Public) (the Ultimate Parent Company).

The Parent Company is located in Suad Commercial Building, Fahad Al-Salem St., Area 12, Building No. 21 and its registered office is P.O. Box No. 104, Al Dasma 35151, State of Kuwait.

The Companies Law was issued on November 26, 2012 by Decree No. 25 of 2012 (the "Companies Law"), and had cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended by Law No. 97 of 2013. The Executive Charter of the new amended law was issued on September 29, 2013 and was published in the Official Gazette on October 6, 2013. As stated in Article No. (3) of the Executive Charter, all companies have a grace period of one year from the Executive Charter's publication date to comply with the requirements of the new amended law.

The consolidated financial statements were approved for issue by the Board of Directors on March 20, 2014. The Shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance.

## 2. Significant accounting policies

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990. Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting policies applied by the Group are consistent with those used in the previous year, except for the changes due to implementation of the following new and amended International Financial Reporting Standard as of January 1, 2013:

IAS 1 Presentation of items of other comprehensive income
The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories
a) Items that will not be reclassified, subsequently to consolidated statement of profit or loss and
b) Items that may be reclassified to consolidated statement of profit or loss when specific conditions are met. The amendments are effective for annual periods beginning on or after July 1, 2012.

IFRS 7 Offsetting financial assets and financial liabilities and related disclosures
The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments are effective for annual periods beginning on or after January 1, 2013.

IFRS 10 Consolidated Financial Statements
The new Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. It introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities
The new Standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
This IFRS
a) defines fair value.
b) sets out in a single IFRS a framework for measuring fair value.
c) requires disclosures about fair value measurements.

IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013.

The adoption of above mentioned standards did not have any material impact on the financial position or performance of the Group.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(n).

**Standards issued but not effective**

The following IASB Standards have been issued but are not yet effective, and have not been adopted by the Group:

Amendments to IAS 32 offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right of set off" and "simultaneous realization and settlement". These are effective for annual periods beginning on or after January 1, 2014.

IFRS 9 Financial Instruments

The standard, which was earlier effective for annual periods beginning on or after January 1, 2015 and now deferred, specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified entirely based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

Amendments to IFRS 10 and IFRS 12 for Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated financial statements. The amendments are effective for annual periods beginning on or after January 1, 2014.

The above mentioned amendments and standards are not expected to have any impact on the consolidated financial statements.

b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of Dar Al Dhabi Holding Company K.S.C. (Holding) and the following subsidiary:

| | | Percentage of holding | |
|---|---|---|---|
| Name of subsidiary | Country of incorporation | **2013** | 2012 |
| Dar Al Dhabi Real Estate Co. (K.S.C.C.) and its wholly owned subsidiary: Emirates Dar Al Dhabi Real Estate Co. (L.L.C.) | Kuwait | **100%** | 100% |

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company:

- has power over the investee.
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Parent Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When a Company has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets 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 shareholders' share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the Group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to shareholders of the Parent Company. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

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

c) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash on hand and at banks, receivables, due to a related party and payables.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

i) Accounts receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of profit or loss.

ii) Accounts payable

Accounts payables include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

d) Fixed assets

The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated statement of profit or loss in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets.

Fixed assets are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of profit or loss.

Depreciation is computed on a straight-line basis over the estimated useful lives of other fixed assets as follows:

| | Years |
|---|---|
| Vehicles | 5 |

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of fixed assets.

e) Properties under development

Properties acquired, constructed or in the course of construction for sale are classified as properties under development. Unsold properties are stated at the lower of cost or net realizable value. Sold properties in the course of development are stated at cost plus attributable profit/loss less progress billings.

The cost of properties 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.

The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed. At that stage, the total asset value is eliminated from properties under development.

f) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its 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 the 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 assessment 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 recognized immediately in the consolidated statement of profit or loss, 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 recognized for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognized immediately in the consolidated statement of profit or loss, 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.

g) Provision for end of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the reporting period and approximates the present value of the final obligation.

h) Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

i) Capital

Ordinary shares are classified as equity.

j) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

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.

**Sale of properties under development**

- 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 – construction contracts.

- When the agreement is within the scope of IAS 18 – Revenue, Group recognizes revenue at time of completion, when the significant risks and rewards of ownership of real estate are being transferred from Group at a single time.

- If the significant risks and rewards of ownership are transferred as when construction progresses, the Group recognize revenue by reference to the percentage of completion method.

If there is a doubt about the future economic benefits flowing to the Group, the Group recognizes revenue based on the installment percentage.

k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in consolidated statement of profit or loss in the period in which they are incurred.

l) Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the end of reporting period are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the end of reporting period. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in the consolidated statement of profit or loss and other comprehensive income. Such translation differences are recognized in consolidated profit or loss in the period in which the foreign operation is disposed off.

m) Contingencies

Contingent liabilities are not recognized but disclosed in the consolidated financial statements except when the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

n) Critical accounting estimates and judgments

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

**Judgments**

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue recognition
Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

(ii) Classification of land
Upon acquisition of land, the Group classifies the land into one of the following categories, based on the intention of the management for the use of the land:

1) Properties under development
When the intention of the Group is to develop land in order to sell it in the future, both the land and the construction costs are classified as properties under development.

2) Work in progress
When the intention of the Group is to develop a land in order to rent or to occupy it in the future, both the land and the construction costs are classified as work in progress.

3) Properties held for trading
When the intention of the Group is to sell land in the ordinary course of business, the land are classified as properties held for trading.

4) Investment properties
When the intention of the Group is to earn rentals from land or hold land for capital appreciation or if the intention is not determined for land, the land is classified as investment property.

**Estimates and assumptions**
The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period 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.

(i) 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.

(ii) Impairment of non-financial assets
An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

3. Properties under development

Properties under development represent plots of land located in Reem Island - Abu Dhabi (UAE) and held with a view to be developed for sale in the future as residential apartments, offices and retail outlets. The estimated cost of the project is AED 5,017,353,779 (KD 385,931,892).

The transfer of ownership as per paragraph No. 7.2 of the contract will be done upon full payment and completion of the development work.

Properties under development are as follows:

| | **2013** | 2012 |
|---|---|---|
| Lands | **134,104,463** | 134,104,463 |
| Consultancy and design | **5,585,346** | 5,585,346 |
| Impairment loss on properties under development | **(66,731,127)** | (66,776,471) |
| | **72,958,682** | 72,913,338 |

The movement during the year is as follows:

| | **2013** | 2012 |
|---|---|---|
| Balance at the beginning of the year | **72,913,338** | 114,670,520 |
| Additions | **-** | 25,019,289 |
| Impairment reversal (loss) on properties under development | **45,344** | (66,776,471) |
| Balance at the end of the year | **72,958,682** | 72,913,338 |

Impairment reversal on properties under development for the year ended December 31, 2013 has been recorded based on the lowest of the valuations carried out by two independent valuers.

4. Fixed assets

| | Vehicles | Total |
|---|---|---|
| **Cost:** | | |
| At December 31, 2012 | 22,400 | 22,400 |
| Disposals | (22,400) | (22,400) |
| **At December 31, 2013** | - | - |
| **Accumulated depreciation:** | | |
| At December 31, 2012 | 8,224 | 8,224 |
| Related to disposals | (8,224) | (8,224) |
| **At December 31, 2013** | - | - |
| **Net book value:** | | |
| **At December 31, 2013** | - | - |
| At December 31, 2012 | 14,176 | 14,176 |

5. Accounts payable and other credit balances

| | **2013** | 2012 |
|---|---|---|
| Trade payable (a) | **24,188,473** | 24,122,975 |
| Accrued expenses | **2,047** | 5,202 |
| Accrued staff leave | **200** | 2,059 |
| | **24,190,720** | 24,130,236 |

(a) Trade payables include KD 21,937,326 (AED 285,198,846) that represent the remaining amount payable on the acquisition of properties under development. The payable is overdue as of December 31, 2013.

6. Revenue received in advance

Revenue received in advance represents advances from customers for booking their residential apartments or offices that would be constructed as part of the properties under development Note (3). Four customers have raised legal cases claiming refund for the advances paid amounting to KD 252,203 (AED 3,278,797) and final verdicts have been favorably issued for three customers amounting to KD 151,894 (AED 1,974,710).

7. 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 party balances and transactions are as follows:

| | **Major shareholders** | **2013** | 2012 |
|---|---|---|---|
| **(i) Balances included in the consolidated statement of financial position:** | | | |
| Due to a related party | **(6,829,651)** | **(6,829,651)** | (6,606,353) |
| **(ii) Transactions included in the consolidated statement of profit or loss:** | | | |
| Finance costs (a) | **(135,000)** | **(135,000)** | (146,753) |
| Related party receivable balance written off | - | - | (51,150) |

(a) During the year ended December 31, 2009, the Parent Company obtained financing from the Ultimate Parent Company amounting to KD 3,000,000 to finance the payments for properties under development. The effective interest rate was 4.5% per annum (December 31, 2012: 4.9% per annum). Accordingly finance costs amounting to KD 135,000 have been recognized in the consolidated statement of profit or loss for the year ended December 31, 2013 (December 31, 2012: KD 146,753).

**(iii) Compensation to key management personnel**

| | **2013** | 2012 |
|---|---|---|
| Salaries and other short term benefits | - | 49,804 |
| Termination benefits | - | 36,055 |
| | - | 85,859 |

8. Provision for end of service indemnity

| | 2013 | 2012 |
|---|---|---|
| Balance at the beginning of the year | **28,984** | 77,681 |
| Charge for the year | **6,594** | 39,804 |
| Paid during the year | **(34,889)** | (88,501) |
| Balance at the end of the year | **689** | 28,984 |

9. Share capital

The authorized, issued and fully paid-up capital consists of 1,000,000,000 shares of 100 fils each and all shares are paid in cash (December 31, 2012: 1,000,000,000 shares).

10. Share premium

This represents cash received in excess of the par value of the shares issued. The share premium is not distributable except in cases stipulated by law.

11. Statutory reserve

As required by Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for Advancement of Sciences, Zakat and Board of Directors' remuneration is transferred to statutory reserve. Such transfers may be discontinued when the reserve exceeds 50% of share capital. This reserve is not available for distribution except for in certain cases stipulated by law and the Parent Company's Articles of Association. No transfer was made to the statutory reserve during the year, due to net loss incurred by the Parent Company during the year.

12. Voluntary reserve

As required by the Parent Company's Articles of Association, a percentage of profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for Advancement of Sciences, Zakat and Board of Directors' remuneration is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the Shareholders' Annual General Assembly upon recommendation by the Board of Directors. No transfer was made to the voluntary reserve during the year, due to net loss incurred by the Parent Company during the year.

13. General assembly and proposed dividends

The Board of Directors proposed not to distribute dividends for the year ended December 31, 2013. This proposal is subject to the approval of the Shareholders' Annual General Assembly.

The Shareholders' Annual General Assembly held on July 24, 2013 approved the Board of Directors' proposal not to distribute dividends for the year ended December 31, 2012.

14. General and administrative expenses

General and administrative expenses include staff costs amounting to KD 49,871 (December 31, 2012: KD 339,541).

## 15. Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

Contribution to KFAS is calculated at 1% of the profit of the Parent Company before contribution to KFAS, Zakat and Board of Directors' remuneration and after deducting accumulated losses, its share of income from Kuwaiti shareholding subsidiaries and transfer to statutory reserve. No KFAS has been provided since there was net loss for the year.

## 16. Zakat

Zakat is calculated at 1% of the profit of the Parent Company before contribution to KFAS, Zakat and Board of Directors' remuneration in accordance with Law No. 46 for the year 2006 and the Ministerial of Finance resolution No. 58 for the year 2007 and their executive regulations. No Zakat has been provided since there was net loss for the year.

## 17. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash on hand and at banks, receivables, due to a related party and payables and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

a) **Interest rate risk**
Financial instruments are subject to the risk of changes in value due to changes in the level of interest. At present, the Group has no significant exposure to such risk.

b) **Credit risk**
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash at banks. The Group's cash at banks are placed with high credit rating financial institutions. The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash at banks.

c) **Foreign currency risk**
The Group incurs foreign currency transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between foreign currency and Kuwaiti Dinar.

| | 2013 | | |
|---|---|---|---|
| **Description** | **Increase / (Decrease) against KD** | **Effect on consolidated statement of profit or loss** | **Effect on other comprehensive income** |
| **UAE Dirham** | **± 5%** | **±1,438,349** | **±275,131** |

| | 2012 | | |
|---|---|---|---|
| Description | Increase / (Decrease) against KD | Effect on consolidated statement of profit or loss | Effect on other comprehensive income |
| UAE Dirham | ± 5% | ±1,268,023 | ±274,303 |

d) **Liquidity risk**
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group invests in investments that are readily realizable.

The maturity profile of financial liabilities was as follows:

| 2013 | 3-12 months | More than 1 year | Total |
|---|---|---|---|
| Accounts payable and other credit balances | 24,190,720 | - | 24,190,720 |
| Due to a related party | - | 6,829,651 | 6,829,651 |
| | 24,190,720 | 6,829,651 | 31,020,371 |

| 2012 | 3-12 months | More than 1 year | Total |
|---|---|---|---|
| Accounts payable and other credit balances | 24,130,236 | - | 24,130,236 |
| Due to a related party | - | 6,606,353 | 6,606,353 |
| | 24,130,236 | 6,606,353 | 30,736,589 |

e) **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. As at December 31, 2013, the Group has no exposure to such risk.

f) **Fair value of financial instruments**
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As at December 31, the fair values of financial instruments approximate their carrying amounts.

## 18. Capital risk management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

## 19. Going concern

The Group's current liabilities exceeded its current assets by KD 24,190,175 (December 31, 2012: KD 24,121,284). The consolidated financial statements have been prepared assuming the Group will continue as a going concern. The ability of the Group to continue as a going concern is dependent on the availability of continued support from the shareholders, financial institutions, related parties and the ability of the Group to improve its cash flows.

The Group's management is in the process of negotiating the terms of the settlement of the trade payables amounting to KD 21,937,326 with the counterparty.

If the Group is unable to reschedule the trade payables for the foreseeable future, it may be unable to realize its assets and discharge its liabilities in the normal course of business.