# Consolidated financial statements and independent auditors' report

## Tamdeen Real Estate Company – KPSC

## and Subsidiaries

## Kuwait

31 December 2013

# Contents

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# Independent auditors' report

To the shareholders of
Tamdeen Real Estate Company – KPSC
Kuwait

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Tamdeen Real Estate Company – Kuwaiti Public Shareholding Company and Subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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 misstatement, whether due to fraud or error.

*Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 consolidated financial statements present fairly, in all material respects, the financial position of Tamdeen Real Estate Company and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Matters**

In our opinion, proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012, as amended, and by the Company's articles and memorandum of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended, nor of the Company's articles and memorandum of association, have occurred during the year that might have had a material effect on the business or financial position of the Company.

We further report that, during the course of our audit and to the best of our knowledge and belief, we have not become aware of any material violations, during the year, of the provisions of Law 7 of 2010, as amended, relating to the Capital Markets Authority and its related regulations during the year ended 31 December 2013.

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Fawzia Mubarak Al-Hassawi
(Licence No. 80-A)
of UHY-Fawzia Mubarak Al-Hassawi

Kuwait
19 March 2014

# Consolidated statement of income

| | Notes | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|---|
| **Revenue** | | | |
| Operational income | | 8,642 | 9,383 |
| Operational expenses | 8 | (3,223) | (4,011) |
| Net operational income | | 5,419 | 5,372 |
| Other operational income | 9 | 777 | 707 |
| Fees from management of investment portfolios | | 39 | 38 |
| Change in fair value of investment properties | 14 | 220 | - |
| Profit from sale of investments in lands and real estate held for trading | 18 | - | 1,074 |
| Impairment in value of properties under development | 15 | (1,441) | (420) |
| Net income from investments | 10 | 5,183 | 5,526 |
| Share of profit in associated companies | 13 | 4,285 | 3,480 |
| Other income | | 251 | 516 |
| Foreign currency exchange (loss)/gain | | (23) | 78 |
| | | 14,710 | 16,371 |
| **Expenses and other charges** | | | |
| Staff costs | | 1,859 | 2,250 |
| General and administrative expenses | | 2,269 | 2,505 |
| Finance costs | | 4,126 | 5,368 |
| | | 8,254 | 10,123 |
| **Profit for the year before contribution to KFAS, contribution to Zakat, provision for NLST and board of directors' remuneration** | | 6,456 | 6,248 |
| Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) | | - | - |
| Contribution to Zakat | | - | - |
| Provision for National Labour Support Tax (NLST) | | (71) | (60) |
| Board of directors' remuneration | | (50) | (70) |
| **Profit for the year** | | 6,335 | 6,118 |
| **Attributable to :** | | | |
| Owners of the parent company | | 4,424 | 4,059 |
| Non-controlling interests | | 1,911 | 2,059 |
| | | 6,335 | 6,118 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY** | 11 | 11.9 Fils | 10.9 Fils |

*The notes set out on pages 10 to 49 form an integral part of these consolidated financial statements.*

# Consolidated statement of comprehensive income

| | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|
| Profit for the year | 6,335 | 6,118 |
| ***Other comprehensive income:*** | | |
| *Items that may be reclassified to consolidated statement of income in subsequent periods:* | | |
| Exchange differences arising on translation of foreign operations | 26 | 219 |
| Available for sale investments: | | |
| - Net change in fair value during the year | 16,754 | (4,033) |
| -Transferred to consolidated statement of income on sale | (129) | (2,072) |
| - Transferred to consolidated statement of income on impairment in value | 534 | 458 |
| Total other comprehensive income/(loss) | 17,185 | (5,428) |
| **Total comprehensive income for the year** | 23,520 | 690 |
| **Attributable to:** | | |
| Owners of the parent company | 21,609 | (1,369) |
| Non-controlling interests | 1,911 | 2,059 |
| | 23,520 | 690 |

*The notes set out on pages 10 to 49 form an integral part of these consolidated financial statements.*

# Consolidated statement of financial position

| | Notes | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Available for sale investments | 12 | 111,657 | 89,246 |
| Investments in associated companies | 13 | 93,337 | 77,129 |
| Investment properties | 14 | 21,100 | 20,880 |
| Properties under development | 15 | 34,714 | 35,368 |
| Property, plant and equipment | 16 | 1,510 | 1,696 |
| | | 262,318 | 224,319 |
| **Current assets** | | | |
| Cash and bank balances | 26 | 3,573 | 1,979 |
| Short term deposits | 26 | 1,413 | 1,753 |
| Investments at fair value through profit or loss | | 904 | 675 |
| Accounts receivable and other debit balances | 17 | 11,352 | 13,529 |
| Investments in lands and real estate held for trading | 18 | 11,341 | 11,341 |
| | | 28,583 | 29,277 |
| **Total assets** | | 290,901 | 253,596 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 19 | 37,312 | 37,312 |
| Share premium | | 11,132 | 11,132 |
| Treasury shares | 20 | (754) | (650) |
| Reserve of profit on sale of treasury shares | | 739 | 739 |
| Legal reserve | 21 | 8,918 | 8,464 |
| Voluntary reserve | 21 | 10,316 | 9,862 |
| Foreign currency translation reserve | | 245 | 219 |
| Retained earnings | | 13,885 | 13,335 |
| Cumulative changes in fair value | | 32,024 | 14,865 |
| **Equity attributable to owners of the parent company** | | 113,817 | 95,278 |
| **Non-controlling interests** | | 56,568 | 42,944 |
| **Total equity** | | 170,385 | 138,222 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Term loans | 22 | 67,500 | 60,500 |
| Refundable rental deposits | | 1,206 | 1,138 |
| Provision for end of service indemnity | | 713 | 635 |
| | | 69,419 | 62,273 |
| **Current liabilities** | | | |
| Bank facilities | 23 | 937 | 8,646 |
| Accounts payable and other credit balances | 24 | 9,848 | 11,955 |
| Current portion of term loans | 22 | 40,312 | 32,500 |
| | | 51,097 | 53,101 |
| **Total liabilities** | | 120,516 | 115,374 |
| **Total equity and liabilities** | | 290,901 | 253,596 |

Meshaal Jassim Al-Marzouq
Chairman

Ali Yacoub Ghafil Al-Aryan
Vice-Chairman

*The notes set out on pages 10 to 49 form an integral part of these consolidated financial statements.*

# Consolidated statement of changes in equity

| | Equity attributable to owners of the parent company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital KD'000 | Share premium KD'000 | Treasury shares KD'000 | Reserve of profit on sale of treasury shares KD'000 | Legal reserve KD'000 | Voluntary reserve KD'000 | Foreign currency translation reserve KD'000 | Retained earnings KD'000 | Cumulative changes in fair value KD'000 | Sub-total KD'000 | Non-controlling interests KD'000 | Total KD'000 |
| **Balance as at 1 January 2013** | 37,312 | 11,132 | (650) | 739 | 8,464 | 9,862 | 219 | 13,335 | 14,865 | 95,278 | 42,944 | 138,222 |
| Change in non-controlling interests | - | - | - | - | - | - | - | - | - | - | 11,713 | 11,713 |
| Net change in treasury shares | - | - | (104) | - | - | - | - | - | - | (104) | - | (104) |
| Transferred to reserves (Note 21) | - | - | - | - | 454 | 454 | - | (908) | - | - | - | - |
| Cash dividends (Note 25) | - | - | - | - | - | - | - | (2,966) | - | (2,966) | - | (2,966) |
| Transactions with the owners | - | - | (104) | - | 454 | 454 | - | (3,874) | - | (3,070) | 11,713 | 8,643 |
| Profit for the year | - | - | - | - | - | - | - | 4,424 | - | 4,424 | 1,911 | 6,335 |
| Other comprehensive income | - | - | - | - | - | - | 26 | - | 17,159 | 17,185 | - | 17,185 |
| Total comprehensive income for the year | - | - | - | - | - | - | 26 | 4,424 | 17,159 | 21,609 | 1,911 | 23,520 |
| **Balance as at 31 December 2013** | 37,312 | 11,132 | (754) | 739 | 8,918 | 10,316 | 245 | 13,885 | 32,024 | 113,817 | 56,568 | 170,385 |

# Consolidated statement of changes in equity (continued)

| | Equity attributable to owners of the parent company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital KD'000 | Share premium KD'000 | Treasury shares KD'000 | Reserve of profit on sale of treasury shares KD'000 | Legal reserve KD'000 | Voluntary reserve KD'000 | Foreign currency translation reserve KD'000 | Retained earnings KD'000 | Cumulative changes in fair value KD'000 | Sub-total KD'000 | Non-controlling interests KD'000 | Total KD'000 |
| **Balance as at 1 January 2012** | 37,312 | 11,132 | (645) | 739 | 8,045 | 9,443 | - | 13,080 | 20,512 | 99,618 | 46,953 | 146,571 |
| Change in non-controlling interests | - | - | - | - | - | - | - | - | - | - | (6,068) | (6,068) |
| Net change in treasury shares | - | - | (5) | - | - | - | - | - | - | (5) | - | (5) |
| Transferred to reserves (Note 21) | - | - | - | - | 419 | 419 | - | (838) | - | - | - | - |
| Cash dividends (Note 25) | - | - | - | - | - | - | - | (2,966) | - | (2,966) | - | (2,966) |
| Transactions with the owners | - | - | (5) | - | 419 | 419 | - | (3,804) | - | (2,971) | (6,068) | (9,039) |
| Profit for the year | - | - | - | - | - | - | - | 4,059 | - | 4,059 | 2,059 | 6,118 |
| Other comprehensive income/(loss) | - | - | - | - | - | - | 219 | - | (5,647) | (5,428) | - | (5,428) |
| Total comprehensive income/(loss) for the year | - | - | - | - | - | - | 219 | 4,059 | (5,647) | (1,369) | 2,059 | 690 |
| **Balance as at 31 December 2012** | 37,312 | 11,132 | (650) | 739 | 8,464 | 9,862 | 219 | 13,335 | 14,865 | 95,278 | 42,944 | 138,222 |

*The notes set out on pages 10 to 49 form an integral part of these consolidated financial statements.*

# Consolidated statement of cash flows

| | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit for the year attributable to owners of the parent company | 4,424 | 4,059 |
| Adjustments: | | |
| Depreciation | 294 | 307 |
| Provision for end of service indemnity | 132 | 127 |
| Net unrealised (gain)/loss from investments at fair value through profit or loss | (229) | 82 |
| Profit from sale of investments in lands and real estate held for trading | - | (1,074) |
| Change in fair value of investment properties | (220) | - |
| Net profit from sale of available for sale investments | (228) | (2,162) |
| Impairment in value of available for sale investments | 534 | 458 |
| Impairment in value of properties under development | 1,441 | 420 |
| Dividends income | (5,246) | (3,859) |
| Interest income | (14) | (45) |
| Share of profit in associated companies | (4,285) | (3,480) |
| Finance costs | 4,126 | 5,368 |
| | 729 | 201 |
| End of service indemnity paid | (54) | (51) |
| | 675 | 150 |
| **Changes in operating assets and liabilities:** | | |
| Accounts receivable and other debit balances | 2,177 | 1,388 |
| Accounts payable and other credit balances | (2,006) | 1,850 |
| Refundable rental deposits | 68 | (6) |
| **Net cash from operating activities** | 914 | 3,382 |
| **INVESTING ACTIVITIES** | | |
| Net purchase of available for sale investments | (403) | (4,418) |
| Proceeds from sale of available for sale investments | 712 | 5,562 |
| Proceeds from sale of investments in lands and real estate held for trading | - | 11,620 |
| Paid to purchase additional shares in associated companies | (7,310) | (3,915) |
| Net additions to properties under development | (787) | (2,077) |
| Net purchase of property, plant and equipment | (108) | (21) |
| Dividends income received | 5,246 | 3,859 |
| Dividends income received from associated companies | 2,479 | - |
| Interest income received | 14 | 45 |
| **Net cash (used in)/from investing activities** | (157) | 10,655 |

# Consolidated statement of cash flows (Continued)

| | Note | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| Cash dividends to shareholders | | (2,957) | (3,454) |
| Change in non-controlling interests | | 746 | 950 |
| Change in bank facilities | | (7,709) | 6,835 |
| Net change in treasury shares | | (104) | (5) |
| Net proceeds/(payment) to term loans | | 14,812 | (17,500) |
| Change in foreign currency translation reserve | | 26 | 219 |
| Finance costs paid | | (4,317) | (5,404) |
| **Net cash from/(used in) financing activities** | | 497 | (18,359) |
| **Net increase/(decrease) in cash and cash equivalents** | | 1,254 | (4,322) |
| Cash and cash equivalents at the beginning of the year | | 3,732 | 8,054 |
| **Cash and cash equivalents at the end of the year** | 26 | 4,986 | 3,732 |

*The notes set out on pages 10 to 49 form an integral part of these consolidated financial statements.*

# Notes to the consolidated financial statements

## 1 Incorporation and activities of the parent company

Tamdeen Real Estate Company – KPSC (the parent company) was incorporated in Kuwait on 16 December 1982 in accordance with the Companies Law. Its shares are listed on the Kuwait Stock Exchange.

The principal activities of the parent company are represented in the real estate investments inside and outside the State of Kuwait, for the purposes of ownership, resale, leasing and renting. The parent company is also engaged in the development of real estate projects and construction contracts of buildings, managing the properties of others, establishing and managing real estate investment funds, real estate studies and consultancy, and investing in companies with activities similar to its own and exploiting the financial surpluses available at the company through its investment in financial portfolios managed by professional companies and authorities.

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

On 29 September 2013, Ministry of Commerce and Industry issued its regulation No. 425/2013 regarding the Executive by-laws of the Companies Law. All existing companies are required to comply with articles of these by-laws within one year from the date of its issuance.

The address of the parent company: PO Box 21816, Safat 13079, State of Kuwait.

The consolidated financial statements for the year ended 31 December 2013 were authorised for issue by the parent company's board of directors on 19 March 2014 and are subject to the approval of the general assembly of the shareholders.

## 2 Basis of preparation

The consolidated financial statements of the group have been prepared under historical cost convention except for financial assets at fair value through profit or loss, financial assets available for sale and investment properties that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD").

## 3 Statement of compliance

These consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## 4 Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in the previous year, except for the adoption of new and amended standards discussed below:

### 4.1 New and amended standards adopted by the group

The group has adopted the following new amended standards during the year:

# Notes to the consolidated financial statements (continued)

## 4 Changes in accounting policies (continued)

### 4.1 New and amended standards adopted by the group (continued)

| *Standard or Interpretation* | *Effective for annual periods beginning* |
|---|---|
| IAS 1 Presentation of Financial Statements – amendment | 1 July 2012 |
| IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements | 1 January 2013 |
| IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures | 1 January 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | 1 January 2013 |
| IFRS 13 Fair Value Measurement | 1 January 2013 |
| IFRS 7 Financial Instruments: Disclosures – amendments | 1 January 2013 |
| Annual Improvements 2009-2011 | 1 January 2013 |

#### *4.1.1 IAS 1 Presentation of Financial Statements*

The amendment to IAS 1 requires entities to group other comprehensive income items presented in the statement of comprehensive income based on those:

a) Potentially reclassifiable to statement of income in a subsequent period, and
b) That will not be reclassified to statement of income subsequently.

The amendments to IAS 1 changed the current presentation of the consolidated statement of comprehensive income of the group; however the amendment affected presentation only and had no impact on the group's financial position or performance.

#### *4.1.2 IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. It revises the definition of control together with accompanying guidance to identify an interest in a subsidiary. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. These new requirements have the potential to affect which of the Company's investees are considered to be subsidiaries and therefore change the scope of consolidation. However, the requirements and procedures of consolidation and the accounting for any non-controlling interests and changes in control remain the same. IFRS 10 did not change the classification (as subsidiaries or otherwise) of any of the Company's existing investees.

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

IFRS 11 supersedes IAS 31 Interests in Joint Ventures (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates. As a consequence of the new IFRS 11, IAS 28 brings investments in joint ventures into its scope, however, the equity accounting methodology under IAS 28 remains unchanged.

# Notes to the consolidated financial statements (continued)

## 4 Changes in accounting policies (continued)

### 4.1 New and amended standards adopted by the group (continued)

*4.1.4 IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

*4.1.5 IFRS 13 Fair Value Measurement*

IFRS 13 does not affect which items to be fair valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the group.

IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The group has however included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7, 'Financial Instruments; Disclosures'.

*4.1.6 IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The required disclosures are required to be provided retrospectively.

Management does not anticipate a material impact on the group's consolidated financial statements from these amendments.

*4.1.7 Annual Improvements 2009-2011 (the Annual Improvements)*

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the group are summarised below:

Clarification of the requirements for opening statement of financial position (amendments to IAS 1):

- Clarifies that the appropriate date for the opening statement of financial position ("third balance sheet") is the beginning of the preceding period (related notes are no longer required to be presented).

- Addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

# Notes to the consolidated financial statements (continued)

## 4 Changes in accounting policies (continued)

### 4.1 New and amended standards adopted by the group (continued)

#### *4.1.7 Annual Improvements 2009-2011 (the Annual Improvements) (continued)*

Clarification of the requirements for comparative information provided beyond minimum requirements (amendments to IAS 1):

- clarifies that additional financial statement information need not to be presented in the form of a complete set of financial statements for periods beyond the minimum requirements.

- Requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

Tax effect of distribution to holders of equity instruments (Amendments to IAS 32):

- addresses a perceived inconsistency between IAS 12 'Income Taxes' (IAS 12) and IAS 32 'Financial Instruments: Presentation' (IAS 32) with regards to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction
- Clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

The amendment did not have an impact on the consolidated financial statements for the group, as there is no tax consequences attached to cash or non-cash distribution.

### 4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's consolidated financial statements.

| *Standard or Interpretation* | *Effective for annual periods beginning* |
|---|---|
| IAS 32 Financial Instruments: Presentation – amendments | 1 January 2014 |
| IAS 36 Impairment of Assets- Amendments | 1 January 2014 |
| IAS 39 Financial Instruments: Recognition and Measurement | 1 January 2014 |
| IFRS 9 Financial Instruments | 1 January 2015 |

#### *4.2.1 IAS 32 Financial Instruments: Presentation - Amendments*

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off
- that some gross settlement systems may be considered equivalent to net settlement.

# Notes to the consolidated financial statements (continued)

## 4 Changes in accounting policies (continued)

### 4.2 IASB Standards issued but not yet effective (continued)

#### *4.2.1 IAS 32 Financial Instruments: Presentation – Amendments (continued)*

The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the group's consolidated financial statements from these amendments.

#### *4.2.2 IAS 36 Impairment of Assets- Amendments*

The amendments to IAS 36 reduces the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amendments are applicable to annual periods beginning on or after 1 January 2014. Management does not anticipate a material impact on the group's consolidated financial statements from these amendments.

#### *4.2.3 IAS 39 Financial Instruments: Recognition and Measurement- Amendments*

Under the IAS 39 amendments 'Novation of Derivatives and Continuation of Hedge Accounting' there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2014, with earlier application being permitted.

#### *4.2.4 IFRS 9 Financial Instruments*

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities, and hedge accounting have been issued. Chapter dealing with impairment methodology is still being developed. The effective date for the entire standard will be determined after completion of the new impairment model.

Further, in November 2013, the IASB made limited modifications to IFRS 9's financial asset classification model to address application issues. Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice.

The management have yet to assess the impact of this new standard on the group's consolidated financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

## 5 Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

### 5.1 Basis of consolidation

The financial statements of the parent company and its subsidiaries are consolidated within the consolidated financial statements. Subsidiaries are all entities over which the group has the power to control the financial and operating policies. The group obtains and exercises control through more than half of the voting rights. All subsidiaries have a reporting date of 31 December (or the financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the parent company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the parent company's financial statements).

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.1 Basis of consolidation (continued)

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition up to the effective date of disposal.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed off, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated income statement.

### 5.2 Business combinations

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e gain on a bargain purchase) is recognised in profit or loss immediately.

### 5.3 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note above for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to note 5.14 for a description of impairment testing procedures.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.4 Investment in associates

Associates are those entities over which the group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the group.

Unrealised gains and losses on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

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

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

### 5.5 Segment reporting

The group has two operating segments: the real estate and investment segments. In identifying these operating segments, management generally follows the group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the group uses the same measurement policies as those used in its consolidated financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

### 5.6 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.

Profit and loss on trade of investments are recognised as and when they are realised. Dividends income is recognised when the right to receive payment is established. Other income is accounted for under the accrual basis.

#### *5.6.1 Rendering of services*

The group generates revenues from after-sales service and maintenance, consulting and construction contracts. Consideration received for these services is initially deferred, included in other liabilities and is recognised as revenue in the period when the service is performed.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.6 Revenue (continued)

#### *5.6.1 Rendering of services (continued)*

In recognising after-sales service and maintenance revenues, the group considers the nature of the services and the customer's use of the related products, based on historical experience. Revenue from consulting services is recognised when the services are provided by reference to the contract's stage of completion at the reporting date in the same way as construction contracts.

The group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.
The group earns fees and commission income from diverse range of asset management, investment banking, custody and brokerage services provided to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management fees.

- *Fee income from providing transaction services*

Fees arising for rendering specific advisory services, brokerage services, equity and debt placement transactions for a third party or arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

#### *5.6.2 Interest and similar income*

Interest income and expenses are reported on an accrual basis using the effective interest method.

#### *5.6.3 Dividend income*

Dividend income, other than those from investments in associates, are recognised at the time the right to receive payment is established.

### 5.7 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

### 5.8 Finance costs

Finance costs are recognised in the consolidated statement of income for the year on a time proportion basis over the maturity period of the related liabilities.

### 5.9 Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the group's management.

Property, plant and equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of property, plant and equipment. 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 arising from items of property, plant and equipment. The following annual rates are applied:

| | |
|---|---|
| • Machines and equipment | 20% to 33.33% |
| • Vehicles | 20% to 25% |
| • Furniture, fixtures and office equipment | 5% to 33.33% |

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.9 Property, plant and equipment (continued)

In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

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 recognised in the consolidated income statement.

### 5.10 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within "change in fair value of investment property".

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

### 5.11 Property under development

Property under development represents property held for future use as investment property and is initially measured at cost. Subsequently, property under development are carried at fair value that is determined based on valuation performed by independent valuers at the end of each year using valuation methods consistent with the market conditions at the reporting date. Gains or losses from change in the fair value are recognised in the consolidated income statement.

If the group determines that the fair value of an investment property under development is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, the group measures that investment property under development at cost until either its fair value become reliably determinable or development is completed (whichever is earlier).

### 5.12 Investments in lands and real estate held for trading

Trading properties are stated at the lower of cost or net realisable value. Costs are those expenses incurred in bringing each property to its present condition including identifiable finance costs. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

### 5.13 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.13 Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement. Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or change in circumstances indicate the carrying value may be impaired, either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

### 5.14 Impairment testing of goodwill and non financial assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.15 Financial instruments

#### *5.15.1 Recognition, initial measurement and derecognition*

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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

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

Where the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

#### *5.15.2 Classification and subsequent measurement of financial assets*

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Receivables
- Financial assets at fair value through profit or loss (FVTPL)
- Held-to-maturity (HTM) investments
- Available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.'2

- ***Receivables***

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.15 Financial instruments (continued)

### *5.15.2 Classification and subsequent measurement of financial assets (continued)*

- *Receivables (continued)*

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The group categorises receivables into following categories:

- *Trade receivables*

Trade receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, bank balances and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

- *Financial assets at FVTPL*

Classification of investments as financial assets at FVTPL depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are as designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

- *HTM investments*

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the group has the intention and ability to hold them until maturity.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss

- *AFS financial assets*

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.15 Financial instruments (continued)

#### *5.15.2 Classification and subsequent measurement of financial assets (continued)*

- *AFS financial assets (continued)*

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

The group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated income statement.
Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

#### *5.15.3 Classification and subsequent measurement of financial liabilities*

The group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

The subsequent measurement of financial liabilities depends on their classification as follows:

- *Financial liabilities other than at fair value through profit or loss*

These are stated using effective interest rate method. Borrowings, Wakala Payables and Bonds are classified as financial liabilities other than at FVTPL.

- *Trade payables*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

- *Borrowings*

Term loans are carried on the date of the consolidated statement of financial position at their principal amounts. Interest is charged as an expense as it accrues, with unpaid interest included in the creditors' balances. All borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

- *Wakala payables*

Wakala payables represent short-term borrowings under Islamic principles and are stated at amortised cost.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.15 Financial instruments (continued)

### *5.15.3 Classification and subsequent measurement of financial liabilities (continued)*

- *Bonds*

Bonds are carried on the consolidated statement of financial position at their principal amount, net of directly related costs of issuing the bonds to the extent that such costs have not been amortised. These costs are amortised through the consolidated income statement over the life of the bonds using the effective interest rate method.

- *Murabaha finance payables*

Murabaha finance payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha finance payables are stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss, are included within finance costs or finance income.

### *5.15.4 Derivative financial instruments and hedge accounting*

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which requires a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the consolidated statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

All derivative financial instruments are recognised in the consolidated statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

Derivative financial instruments used by the group include interest rate swaps.

- *Swaps*

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates. Typically, for an interest rate swap, a floating rate interest stream will be exchanged for a fixed rate or vice versa.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.15 Financial instruments (continued)

#### *5.15.5 Amortised cost of financial instruments*
This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

#### *5.15.6 Trade and settlement date accounting*
All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

#### *5.15.7 Offsetting of financial instruments*
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### *5.15.8 Fair value of financial instruments*
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

### 5.16 Equity, reserves and dividend payments
Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the commercial companies' law and the parent company's articles of association.

Other components of equity include the following:
- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign entities into KD
- Fair value reserve – comprises gains and losses relating to available for sale financial assets

Retained earnings includes all current and prior period retained profits. All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general assembly meeting.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.17 Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity.

When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

### 5.18 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

### 5.19 Impairment and uncollectability of financial assets

An assessment is made at the date of each consolidated statement of financial position to determine whether there is objective evidence that a specific financial asset, or group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the consolidated statement of income. For assets carried at amortised cost, future anticipated cash flows are discounted at the financial instrument's original effective interest rate. For assets carried at fair value, impairment is the difference between cost and fair value.

### 5.20 Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the financial instrument. A financial asset (in whole or in part) is derecognised either when the group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset. A financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

### 5.21 Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is principally limited to the determination of fair valuation of unquoted investments and investment properties.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.22 Related party transactions
Related parties consist of the members of the board of directors, executive officers, their close family members and companies of which they are principal owners. All related party transactions are conducted on an arm's length basis and in the ordinary course of business.

### 5.23 Foreign currency translation

#### *5.23.1 Functional and presentation currency*
The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### *5.23.2 Foreign currency transactions and balances*
Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

#### *5.23.3 Foreign operations*
In the group's financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

### 5.24 End of service indemnity
The group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date

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

### 5.25 Taxation

#### *5.25.1 National Labour Support Tax (NLST)*
NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Group after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

# Notes to the consolidated financial statements (continued)

## 5 Significant accounting policies (continued)

### 5.25 Taxation (continued)

#### *5.25.2 Kuwait Foundation for the Advancement of Sciences (KFAS)*

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

#### *5.25.3 Zakat*

Contribution to Zakat is calculated at 1% of the profit of the group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

## 6 Significant management judgments

The preparation of the group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### 6.1 Significant management judgments

In the process of applying the group's accounting policies, management has made the following significant judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### *6.1.1 Classification of financial instruments*

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit or loss.

Classification of assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

#### *6.1.2 Classification of real estate*

Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.

The group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The group classifies property as property under development if it is acquired with the intention of development.

# Notes to the consolidated financial statements (continued)

## 6 Significant management judgments (continued)

### 6.1 Significant management judgments (continued)

#### *6.1.2 Classification of real estate (continued)*
The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

#### *6.1.3 Fair values of assets and liabilities acquired*
The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

### 6.2 Estimates uncertainty
Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

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

#### *6.2.2 Impairment of associates*
After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

#### *6.2.3 Impairment of available for sale equity investments*
The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

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

#### *6.2.5 Useful lives of depreciable assets*
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

#### *6.2.6 Business combinations*
Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

# Notes to the consolidated financial statements (continued)

## 6 Significant management judgments (continued)

### 6.2 Estimates uncertainty (continued)

#### *6.2.7 Fair value of financial instruments*

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

## 7 Subsidiary companies

7.1 The list of the consolidated subsidiary companies of the group is as follows:

| Subsidiary companies | Percentage of ownership in subsidiary companies 31 Dec. 2013 % | 31 Dec. 2012 % | Country of incorporation | Principal activity | Date of incorporation | Date of control |
|---|---|---|---|---|---|---|
| Tamdeen Investment Company- KPSC* | 51.37 | 51.37 | Kuwait | Investment | 3 March 1997 | 11 January 2003 |
| Manshar Real Estate Company - KSC (Closed) | 75.685 | 75.685 | Kuwait | Real estate | 17 March 2007 | 17 March 2007 |
| Tamdeen Housing Company - KSC (Closed) | 45.41 | 45.41 | Kuwait | Real estate | 21 July 2008 | 21 July 2008 |
| Al Adiyat International Real Estate Company – KSC (Closed) ** | 97.75 | 97.75 | Kuwait | Real estate | 25 June 2006 | 1 April 2012 |

* The shares of Tamdeen Investment Company – KPSC which are owned by the parent company, are quoted shares within an investment portfolio totally managed by a specialized investment company.

** During the previous year, the parent company purchased the entire shares of 97.75% of one of its subsidiary companies Tamdeen Investment Company – KPSC in Al Adiyat International Real Estate Company – KSC (Closed). No profit or loss resulted from this transaction and Al Adiyat International Real Estate Company – KSC (Closed) became a direct subsidiary of the parent company with the same shares' percentage.

7.2 Subsidiaries with non-controlling interests

The financial information of subsidiaries before the eliminations of the consolidation process are summarised below:

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Total assets | 223,130 | 191,531 |
| Total liabilities | (75,120) | (72,038) |
| Net assets | 148,010 | 119,493 |
| Equity attributable to owners of the parent company | 91,442 | 76,549 |
| Non-controlling interests | 56,568 | 42,944 |

# Notes to the consolidated financial statements (continued)

## 7 Subsidiary companies (continued)

7.2 Subsidiaries with non-controlling interests (continued)

| | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|
| Profit for the year attributable to owners of the parent company | 2,171 | 2,274 |
| Profit for the year attributable to non-controlling interests | 1,911 | 2,059 |

## 8 Operational expenses

| | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|
| Direct staff costs | 863 | 861 |
| Other real estate expenses | 2,360 | 3,150 |
| | 3,223 | 4,011 |

## 9 Other operational income

| | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|
| Yacht club membership revenue | 40 | 57 |
| Projects management fees and consultancies | 352 | 332 |
| Services revenue – Al Kout Complex | 233 | 212 |
| Other miscellaneous revenue | 152 | 106 |
| | 777 | 707 |

## 10 Net income from investments

| | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|
| Net profit from sale of available for sale investments | 228 | 2,162 |
| Impairment in value of available for sale investments | (534) | (458) |
| Net unrealised gain/(loss) from investments at fair value through profit or loss | 229 | (82) |
| Dividends income | 5,246 | 3,859 |
| Interest income | 14 | 45 |
| | 5,183 | 5,526 |

# Notes to the consolidated financial statements (continued)

## 11 Earnings per share attributable to owners of the parent company

| | Year ended 31 Dec. 2013 | Year ended 31 Dec. 2012 |
|---|---|---|
| Profit for the year attributable to owners of the parent company (KD'000) | 4,424 | 4,059 |
| Weighted average of the number of outstanding shares (excluding treasury shares) (in thousand) | 370,456 | 370,710 |
| Earnings per share attributable to owners of the parent company | 11.9 Fils | 10.9 Fils |

## 12 Available for sale investments

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Local managed portfolios | 5,204 | 4,707 |
| Participations in local companies shares | 7,401 | 7,656 |
| Participations in capital of companies located outside Kuwait | 99,052 | 76,883 |
| | 111,657 | 89,246 |

Participations in capital of companies located outside Kuwait include the investments of one of the subsidiary companies [Tamdeen Investment Company – KPSC] in shares listed on foreign financial markets. These participations include investments with a total fair value of KD61,883 thousand (2012: KD59,071 thousand) mortgaged against term loans (Note 22) and bank facilities (Note 23).

## 13 Investments in associated companies

This item comprises the investments of the group in the following associated companies:

| Company's name | Place of incorporation | 31 Dec. 2013 Direct & indirect ownership % | 31 Dec. 2013 Value KD'000 | 31 Dec. 2012 Direct & indirect ownership % | 31 Dec. 2012 Value KD'000 |
|---|---|---|---|---|---|
| Ajmal Holding Company - BSC | Bahrain | 29 | 11,626 | 29 | 9,489 |
| Tamdeen Holding Company – KSC (Holding Closed) * | Kuwait | 51 | 22,224 | 51 | 17,665 |
| Fucom for Central Markets – KSC (Closed) | Kuwait | 25 | 354 | 25 | 228 |
| Tamdeen Shopping Centers Company – KSC (Closed) | Kuwait | 30 | 37,460 | 30 | 36,175 |
| Tamdeen Franchises Holding Company – KSC (Holding Closed) | Kuwait | 30 | 13,682 | 30 | 12,896 |
| Tamdeen Resorts Company – WLL ** | Kuwait | 46 | 6,390 | 25 | 133 |
| Al-Maysam Combined General Trading Company – WLL *** | Kuwait | 30 | 1,601 | 46 | 543 |
| | | | 93,337 | | 77,129 |

# Notes to the consolidated financial statements (continued)

## 13 Investments in associated companies (continued)

As follows, the group's share in the net assets and profit for the year of the associated companies in accordance with the latest financial statements available at the date of the consolidated statement of financial position:

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Total assets | 149,446 | 122,793 |
| Total liabilities | (56,109) | (45,664) |
| **Net assets** | 93,337 | 77,129 |

| | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|
| **Profit for the year** | 4,285 | 3,480 |

* During the previous year, one of the subsidiary companies of the group [Tamdeen Investment Company – KPSC] purchased from a related party an additional share in Tamdeen Holding Company – KSC (Holding Closed) for an amount of KD3,915 thousand, accordingly, the group's share in this associated company became 51%. The parent company's management confirms that the group do not exercise control over the decisions of this company either directly or in participation with the indirect shares. Accordingly, the financial statements of this company were not consolidated, and they were accounted for using the equity method within the associated companies above.

** During the current year, the share capital of Tamdeen Resorts Company – WLL was increased by an amount of KD9,000 thousand to become KD9,250 thousand, and the parent company and Tamdeen Investment Company – KPSC (subsidiary company) subscribed in this increase by a total amount of KD6,250 thousand, and this resulted in the increase of the group's share in this associated company from 25% to 46% during the current year.

*** During the year, the share capital of Al-Maysam Combined General Trading Company – WLL was increased by an amount of KD3,000 thousand, but the group subscribed by part of its share in this increase by an amount of KD1,060 thousand, and this resulted in a decrease in the group's share in this associated company from 46% to 30%.

## 14 Investment properties

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Value at beginning of the year | 20,880 | 20,880 |
| Change in fair value during the year | 220 | - |
| **Value at end of the year** | 21,100 | 20,880 |

# Notes to the consolidated financial statements (continued)

## 14 Investment properties (continued)

The balance of the group's investment properties amounting to KD21,100 thousand (2012: KD20,880 thousand ) represents the estimated fair value of Al-Manshar Rotana Hotel property which is totally managed and operated by Rotana Hotel Management Corporation LTD and which has been separated during the previous year from Al-Manshar Commercial and Residential Complex property which is currently being redeveloped. The estimation of fair value of investment properties during the current year has resulted in change of its fair value by an amount of KD220 thousand (2012: KD Nil) recognized in the consolidated statement of income for the year. These investment properties are totally mortgaged against term loans (Note 22).

## 15 Properties under development

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| **Cost** | | |
| At beginning of the year | 36,411 | 33,914 |
| Additions during the year * | 787 | 2,497 |
| **At end of the year** | **37,198** | 36,411 |
| **Impairment in value** | | |
| At beginning of the year | 1,043 | 623 |
| Additions during the year ** | 1,441 | 420 |
| **At end of the year** | **2,484** | 1,043 |
| **Net book value at end of the year** | **34,714** | 35,368 |

* The additions to the properties under development are mainly represented in the amounts expensed during the year for the redevelopment of Al-Manshar Commercial and Residential Complex which is totally mortgaged against term loans (Note 22).

** During the year, the group impaired the total cost of properties under development related to Barwa City project located in the State of Qatar for an amount of KD1,441 thousand (2012: KD420 thousand), and this was according to management estimates about the decline in the project's value.

The fair value of properties under development has not been estimated until the completion of construction and building works.

# Notes to the consolidated financial statements (continued)

## 16 Property, plant and equipment

| | Machines and equipment KD'000 | Vehicles KD'000 | Furniture, fixtures and office equipment KD'000 | 31 Dec. 2013 Total KD'000 | 31 Dec. 2012 Total KD'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At beginning of the year | 597 | 46 | 2,352 | 2,995 | 2,988 |
| Additions during the year | 5 | 12 | 91 | 108 | 224 |
| Disposals during the year | - | - | (1) | (1) | (217) |
| **At end of the year** | 602 | 58 | 2,442 | 3,102 | 2,995 |
| **Accumulated depreciation** | | | | | |
| At beginning of the year | 430 | 28 | 841 | 1,299 | 1,006 |
| Charge for the year | 90 | 9 | 195 | 294 | 307 |
| Relating to disposals | - | - | (1) | (1) | (14) |
| **At end of the year** | 520 | 37 | 1,035 | 1,592 | 1,299 |
| **Net book value** | | | | | |
| **At end of the year** | 82 | 21 | 1,407 | 1,510 | 1,696 |

# Notes to the consolidated financial statements (continued)

## 17 Accounts receivable and other debit balances

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Receivable from tenants | 1,477 | 1,385 |
| Staff receivable | 53 | 32 |
| Prepaid expenses | 178 | 301 |
| Due from related parties* | 2,893 | 3,443 |
| Accrued income | - | 19 |
| Due from sale of investments in lands and real estate held for trading* | 7,088 | 8,769 |
| Other debit balances | 724 | 845 |
| | 12,413 | 14,794 |
| Provision for doubtful debts | (1,061) | (1,265) |
| | 11,352 | 13,529 |

* The balances due above are mainly represented by the amounts that resulted from the sale transaction performed by the group for some of its real estate plots which have been invested in for trading purpose to related parties for an amount of KD9,103 thousand and other third parties for an amount of KD10,030 thousand. The group's management confirms that these due amounts are totally collectible from the concerned parties.

## 18 Investments in lands and real estate held for trading

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Balance at beginning of the year | 11,341 | 15,987 |
| Additions during the year* | - | 5,900 |
| Disposals during the year** | - | (10,546) |
| **Balance at end of the year** | 11,341 | 11,341 |

* The additions during the year 2012 are represented in the purchase of a real estate plot located in the State of Kuwait, and which has been purchased during the previous year from one of the associated companies [Tamdeen Shopping Canters Company – KSC (Closed)] for an amount of KD5,900 thousand.

** During the previous year, one of the subsidiary companies sold some of the real estate plots, which have been invested in for a trading purpose, to third parties at a sale value of KD11,620 thousand, and these sale transactions have resulted in a net profit of KD1,074 thousand, and the total sale value has been collected in full during the previous year.

## 19 Share capital

The authorised and totally paid up share capital of the parent company as at 31 December 2013 is comprised of 373,120 thousand shares of 100 Kuwaiti Fils each, and all are issued and fully paid (2012: 373,120 thousand shares of 100 Kuwaiti Fils each).

## 20 Treasury shares

At the date of the consolidated statement of financial position, the parent company owned 2,939,517 shares of the treasury shares (2012: 2,430,317 shares) equivalent to 0.8% of the total shares of the issued share capital (2012: 0.7%). The market value of these shares according to the latest announced purchase price at the date of the consolidated statement of financial position was KD635 thousand (2012: KD525 thousand).

# Notes to the consolidated financial statements (continued)

## 21 Reserves

In accordance with the Companies Law of Kuwait, 10% of the profit attributable to the owners of the parent company before contribution to KFAS, contribution to Zakat, provision for NLST and board of directors' remuneration is transferred each year to the legal reserve until such time that the balance of the legal reserve account equals 50% of the balance of the paid up share capital.

Distribution of the legal reserve is limited to the amount required to enable the payment of dividends of 5% of paid-up share capital to be made in years when retained earnings are insufficient for the payment of dividends of that amount.

10% of this profit before contribution to KFAS, contribution to Zakat, provision for NLST and board of directors' remuneration is also transferred to the voluntary reserve, and this transfer could be ceased based on the decision of the parent company's board of directors. Transfers to the voluntary reserve are made in accordance with the recommendation of the parent company's board of directors to the general assembly.

The amounts transferred during the year to the legal and voluntary reserves attributable to the parent company have been calculated as follows:

| | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 |
|---|---|---|
| Profit for the year | 6,335 | 6,118 |
| **Deduct:** | | |
| Profit attributable to non-controlling interests | (1,911) | (2,059) |
| Profit attributable to owners of the parent company | 4,424 | 4,059 |
| **Add:** | | |
| Board of directors' remuneration of the parent company | 50 | 70 |
| Provision for National Labour Support Tax (NLST) of the parent company | 71 | 60 |
| Contribution to Zakat of the parent company | - | - |
| Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) of the parent company | - | - |
| Profit attributable to owners of the parent company before contribution to KFAS, contribution to Zakat, provision for NLST and Board of directors' remuneration | 4,545 | 4,189 |
| **Transferred to legal reserve (10%)** | 454 | 419 |
| **Transferred to voluntary reserve (10%)** | 454 | 419 |

## 22 Term loans

The term loans are due for repayment as follows:

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Within one year | 40,312 | 32,500 |
| Over one year | 67,500 | 60,500 |
| | 107,812 | 93,000 |

The group obtained new loans during the current year, and all these loans are granted to it by local banks. These loans are denominated in Kuwaiti Dinars with annual interest rate ranging between 1.75% to 2% (2012: 1.75% to 2.25%) over the discount rate announced by the Central Bank of Kuwait. The total amount of the instalments relating to the loans which are due to be repaid within twelve months from the date of the consolidated statement of financial position is shown as a current liability.

# Notes to the consolidated financial statements (continued)

## 22 Term loans (continued)

The loans granted to the subsidiary companies are against the mortgage of investments in shares with a fair value of KD61,883 thousand (2012: KD59,071 thousand) (Note 12) and mortgage of investment properties (Note 14) and properties under development (Note 15).

## 23 Bank facilities

The bank facilities represent the balances of overdraft facilities which are granted to the group by local banks to finance the working capital and the real estate activities. They are completely repayable under demand with annual floating interest rate which is equal to current interest rate in market. The bank facilities are granted to the group against mortgage of available for sale investments (Note 12).

## 24 Accounts payable and other credit balances

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Retentions for executed works | 131 | 149 |
| Income received in advance | 711 | 761 |
| Accrued leave and expenses | 2,516 | 3,047 |
| Due to related parties | 94 | 1,763 |
| Uncollected dividends to shareholders | 305 | 262 |
| Other credit balances | 6,091 | 5,973 |
| | 9,848 | 11,955 |

## 25 Proposed appropriations

The board of directors of the parent company proposed to distribute cash dividends of 8% or 8 Kuwaiti Fils per share from the paid-up share capital and bonus share of 5% per share from the paid-up share capital, and this proposal is subject to the approval of the general assembly of shareholders and control authorities.

On 26 May 2013, the general assembly of shareholders approved the cash dividends of 8% or 8 Kuwaiti Fils per share from the paid-up share capital amounting to KD2,966 thousand to the shareholders registered at that date as per records for the year ended 31 December 2012 (cash dividends of 8% or 8 Kuwaiti Fils per share from the paid-up share capital amounting to KD2,966 thousand to the shareholders for the year ended 31 December 2011).

## 26 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise of the following balances of the consolidated statement of financial position:

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Cash and bank balances | 3,573 | 1,979 |
| Short term deposits | 1,413 | 1,753 |
| | 4,986 | 3,732 |

Short term deposits earn interest at annual rate of 1% (annual rate of 1% in 2012).

## 27 Segmental analysis

The activities of the group are principally carried out within the State of Kuwait. With the exception of participations in capital of companies located outside Kuwait (Note 12), all of the assets and liabilities are located inside Kuwait.

# Notes to the consolidated financial statements (continued)

## 27 Segmental analysis (continued)

The segmental analysis of gross income, profit or loss for the year attributable to owners of the parent company, total assets, total liabilities, non-controlling interests and net assets employed is as follows:

| | Real estate KD'000 | Investment KD'000 | Total KD'000 |
|---|---|---|---|
| **Year ended at 31 December 2013** | | | |
| Gross income | 6,615 | 8,095 | 14,710 |
| Profit for the year attributable to owners of the parent company | 414 | 4,010 | 4,424 |
| Total assets | 81,126 | 209,775 | 290,901 |
| Total liabilities | (83,662) | (36,854) | (120,516) |
| Non-controlling interests | - | (56,568) | (56,568) |
| **Net assets employed** | (2,536) | 116,353 | 113,817 |
| **Year ended at 31 December 2012** | | | |
| Gross income | 5,685 | 10,686 | 16,371 |
| (Loss)/profit for the year attributable to owners of the parent company | (1,322) | 5,381 | 4,059 |
| Total assets | 82,811 | 170,785 | 253,596 |
| Total liabilities | (82,243) | (33,131) | (115,374) |
| Non-controlling interests | - | (42,944) | (42,944) |
| **Net assets employed** | 568 | 94,710 | 95,278 |

## 28 Related party transactions

Included in the transactions carried out by the group during the year, there are certain transactions with related parties within the normal activities of the group involving shareholders who are represented in the board of directors, in addition to other major shareholders. These transactions were incorporated in the consolidated financial statements as follows:

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| **Consolidated statement of financial position** | | |
| Accounts receivable and other debit balances (Note 17) | 2,893 | 3,443 |
| Accounts payable and other credit balances (Note 24) | 94 | 1,763 |
| Purchase of additional shares in associated companies (Note 13) | 3,250 | 3,915 |
| | **Year ended 31 Dec. 2013 KD'000** | **Year ended 31 Dec. 2012 KD'000** |
| **Consolidated statement of income** | | |
| Management fees income and consultancies | 441 | 408 |
| General and administrative expenses (top management salaries and remunerations) | 681 | 697 |
| Operational expenses | 636 | 519 |
| | **31 Dec. 2013 KD'000** | **31 Dec. 2012 KD'000** |
| **Contra accounts – off consolidated statement of financial position items** | | |
| Net book value of customers' portfolios (major shareholders) managed by Tamdeen Investment Company – KPSC (subsidiary company) | 63,687 | 62,027 |

# Notes to the consolidated financial statements (continued)

## 29 Contingent liabilities

At the date of the consolidated statement of financial position, the group had commitments against letters of guarantee issued to third parties of amount KD2,271 thousand (2012: KD2,271 thousand).

## 30 Contra accounts – off consolidated statement of financial position items

One of the subsidiary companies [Tamdeen Investment Co. – KPSC] manages investment portfolios for third parties which had a net book value of KD165,314 thousand at 31 December 2013 (2012: KD162,937 thousand) including KD63,687 thousand (2012: KD62,027 thousand) related to portfolios for related parties (Note 28). These balances are not included in the consolidated statement of financial position.

## 31 Fair value measurement

### 31.1 Fair value hierarchy

Fair value represents 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.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included in level (1) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from inputs for the financial assets or liabilities that are not based on observable market data (unobservable inputs).

### 31.2 Fair value measurement of financial instruments

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position are as follows:

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| **Financial assets** | | |
| **Financial assets at amortised cost:** | | |
| - Cash and cash equivalents | 4,986 | 3,732 |
| - Accounts receivable and other debit balances | 11,352 | 13,529 |
| **Investments at fair value through profit or loss :** | | |
| - At fair value | 904 | 675 |
| **Available for sale investments :** | | |
| -At fair value | 101,858 | 78,930 |
| -At cost less impairment in value, if any | 9,799 | 10,316 |
| | 128,899 | 107,182 |

# Notes to the consolidated financial statements (continued)

## 31 Fair value measurement (continued)

### 31.2 Fair value measurement of financial instruments (continued)

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| **Financial liabilities** | | |
| **Financial liabilities at amortised cost:** | | |
| - Accounts payable and other credit balances | 9,848 | 11,955 |
| -Term loans | 107,812 | 93,000 |
| - Bank facilities | 937 | 8,646 |
| | 118,597 | 113,601 |

Management considers that the carrying amounts of financial assets and liabilities, which are stated at amortised cost, approximate their fair values.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value on a recurring basis in the statement of consolidated financial position are grouped into the fair value hierarchy as follows:

| | Note | Level 1 KD'000 | Level 2 KD'000 | Level 3 KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| **Financial assets at fair value at 31 December 2013** | | | | | |
| **Investments at fair value through profit or loss** | | | | | |
| • Quoted shares | a | 904 | - | - | 904 |
| **Available for sale investments** | | | | | |
| - Local managed portfolios | | | | | |
| • Quoted shares | a | 404 | - | - | 404 |
| • Unquoted shares | b | - | 2,250 | - | 2,250 |
| - Participations in local companies shares | | | | | |
| • Quoted shares | a | 4,800 | - | - | 4,800 |
| - Participations in capital of companies located outside Kuwait | | | | | |
| • Quoted shares | a | 88,821 | - | - | 88,821 |
| • Unquoted shares | c | - | - | 5,583 | 5,583 |
| | | 94,929 | 2,250 | 5,583 | 102,762 |

# Notes to the consolidated financial statements (continued)

## 31 Fair value measurement (continued)

### 31.2 Fair value measurement of financial instruments (continued)

| | Note | Level 1 KD'000 | Level 2 KD'000 | Level 3 KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| **Financial assets at fair value at 31 December 2012** | | | | | |
| **Investments at fair value through profit or loss** | | | | | |
| • Quoted shares | a | 675 | - | - | 675 |
| **Available for sale investments** | | | | | |
| - Local managed portfolios | | | | | |
| • Quoted shares | a | 357 | - | - | 357 |
| • Unquoted shares | b | - | 2,250 | - | 2,250 |
| - Participations in local companies shares | | | | | |
| • Quoted shares | a | 4,350 | - | - | 4,350 |
| - Participations in capital of companies located outside Kuwait | | | | | |
| • Quoted shares | a | 66,407 | - | - | 66,407 |
| • Unquoted shares | c | - | - | 5,566 | 5,566 |
| | | 71,789 | 2,250 | 5,566 | 79,605 |

There have been no significant transfers between levels 1 and 2 during the reporting period.

**Measurement at fair value**
The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

**a) Quoted shares (level 1)**
The quoted shares present all listed shares that are traded in the financial markets. The fair values are determined by reference to the latest bid prices at the reporting date.

**b) Unquoted shares (level 2)**
This represents investments in unquoted securities included in local managed portfolios. Its fair value has been determined by reference to the latest financial report issued from the managers of these portfolios.

**c) Unquoted shares (level 3)**
The information about these investments is limited to periodic financial reports submitted by the managers of the investment. These investments are stated at the net assets value announced by the managers of the investment. As to the nature of these investments, the net assets value announced by the managers of the investment represents the best estimation of available fair values for these investments.

**Level 3 fair value measurements**
The group's measurement for the financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

# Notes to the consolidated financial statements (continued)

## 31 Fair value measurement (continued)

### 31.2 Fair value measurement of financial instruments (continued)

**Level 3 fair value measurements (continued)**

| | Available for sale investments | |
|---|---|---|
| | 31 Dec. 2013 Unquoted shares KD'000 | 31 Dec.2012 Unquoted shares KD'000 |
| Opening balances | 5,566 | 5,534 |
| Gains or losses recognised in: | | |
| - Consolidated statement of income | - | (22) |
| - Consolidated other comprehensive income | 17 | 54 |
| **Closing balances** | 5,583 | 5,566 |

The group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The valuation techniques used for instruments categorised in level 3 are described below:

The fair value of financial instruments that are not traded in an active market (e.g unquoted shares) is determined by using valuation techniques. Fair value for the unquoted shares investments are approximately the summation of the estimated value of underlying investments as if realised on the date of the consolidated statement of financial position.

The investment managers in determining the fair value of these investments use a variety of methods and makes assumptions that are based on market conditions existing at each consolidated financial position date. Investment managers also used techniques such as discounted cash flow analysis, recent transactions prices and market multiples to determine fair value.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the consolidated statement of income, total assets, total liabilities or total equity.

## 32 Risk management objectives and policies

The group's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk, price risk), credit risk and liquidity risk.

The parent company's board of directors are ultimately responsible for the overall risk management and for approving risk strategies and principles. The group's risk management is carried out by investment management and audit committee and focuses on actively securing the group's short to medium term cash flows by minimizing the potential adverse effects on the group's financial performance through internal risk reports. Long term financial investments are managed to generate lasting returns.

# Notes to the consolidated financial statements (continued)

## 32 Risk management objectives and policies (continued)

The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The most significant financial risks to which the group is exposed to are as follows:

### 32.1 Market risk

#### a) Foreign currency risk

The group mainly operates in the Kuwait, GCC and other Middle Eastern countries, and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar and Bahraini Dinar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the group's exposure to foreign currency risk, management works on maintaining a balanced exposure of assets and liabilities by currency to minimize fluctuations and enter into forward foreign exchange contracts, if needed, in accordance with the group's risks management polices. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward foreign exchange contracts may be entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

The group had the following significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| US Dollar | 100,309 | 75,232 |
| Bahraini Dinar | 4,441 | 3,320 |

The foreign currency sensitivity is determined on the following assumptions:

| | Exchange rate sensitivity % | |
|---|---|---|
| | 31 Dec. 2013 | 31 Dec. 2012 |
| US Dollar | 5 | 5 |
| Bahraini Dinar | 5 | 5 |

The above percentages have been determined based on the average market volatility in exchange rates in the previous twelve months. There has been no change during the year in the methods and assumptions used in the preparation of the sensitivity analysis.

# Notes to the consolidated financial statements (continued)

## 32 Risk management objectives and policies (continued)

### 32.1 Market risk (continued)

**a) Foreign currency risk (continued)**

If the Kuwaiti Dinar had strengthened against the foreign currencies assuming the above sensitivity being constant then this would have the following impact on the profit for the year and equity:

| | Profit for the year | | Equity | |
|---|---|---|---|---|
| | **Year ended 31 Dec. 2013 KD'000** | Year ended 31 Dec. 2012 KD'000 | **31 Dec. 2013 KD'000** | 31 Dec. 2012 KD'000 |
| US Dollar | **-** | - | **5,015** | 3,762 |
| Bahraini Dinar | **-** | - | **222** | 166 |
| | **-** | - | **5,237** | 3,928 |

If the Kuwaiti Dinar had weakened against the foreign currencies assuming the above sensitivity being constant then this would have the following impact on the profit for the year and equity:

| | Profit for the year | | Equity | |
|---|---|---|---|---|
| | **Year ended 31 Dec. 2013 KD'000** | Year ended 31 Dec. 2012 KD'000 | **31 Dec. 2013 KD'000** | 31 Dec. 2012 KD'000 |
| US Dollar | **-** | - | **(5,015)** | (3,762) |
| Bahraini Dinar | **-** | - | **(222)** | (166) |
| | **-** | - | **(5,237)** | (3,928) |

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the group's exposure to the foreign currency risk.

**b) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk with respect to its short term deposits and its borrowings. The borrowings mainly represent short and long term borrowings and bear fixed or variable rates of interest. The management has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Positions are monitored on a regular basis and hedging strategies maybe used to ensure positions are maintained within established limits.

The effective interest rate (effective yield) of monetary financial instruments is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

# Notes to the consolidated financial statements (continued)

## 32 Risk management objectives and policies (continued)

### 32.1 Market risk (continued)

### b) Interest rate risk (continued)

The group's interest rate exposure based on earlier of contractual repricing arrangements and maturity at 31 December 2013 and 2012 was as follows:

| | 1-3 months KD'000 | 3-12 months KD'000 | Over 1 year KD'000 | Items not exposed to interest rate risk KD'000 | Total KD'000 | Effective interest rate % |
|---|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | | |
| **ASSETS** | | | | | | |
| Cash and bank balances | - | - | - | 3,573 | 3,573 | - |
| Short term deposits | - | 1,413 | - | - | 1,413 | 1 |
| Investments at fair value through profit or loss | - | - | - | 904 | 904 | - |
| Accounts receivable and other debit balances | - | - | - | 11,352 | 11,352 | - |
| Investments in lands and real estate held for trading | - | - | - | 11,341 | 11,341 | - |
| Available for sale investments | - | - | - | 111,657 | 111,657 | - |
| Investments in associated companies | - | - | - | 93,337 | 93,337 | - |
| Investment properties | - | - | - | 21,100 | 21,100 | - |
| Properties under development | - | - | - | 34,714 | 34,714 | - |
| Property, plant and equipment | - | - | - | 1,510 | 1,510 | - |
| **Total assets** | - | 1,413 | - | 289,488 | 290,901 | |
| **LIABILITIES** | | | | | | |
| Bank facilities | - | 937 | - | - | 937 | 3.75 - 4 |
| Accounts payable and other credit balances | - | - | - | 9,848 | 9,848 | - |
| Term loans | - | 40,312 | 67,500 | - | 107,812 | 3.75 - 4 |
| Refundable rental deposits | - | - | - | 1,206 | 1,206 | - |
| Provision for end of service indemnity | - | - | - | 713 | 713 | - |
| **Total liabilities** | - | 41,249 | 67,500 | 11,767 | 120,516 | |
| **At 31 December 2012** | | | | | | |
| **ASSETS** | | | | | | |
| Cash and bank balances | - | - | - | 1,979 | 1,979 | - |
| Short term deposits | - | 1,753 | - | - | 1,753 | 1 |
| Investments at fair value through profit or loss | - | - | - | 675 | 675 | - |
| Accounts receivable and other debit balances | - | - | - | 13,529 | 13,529 | - |
| Investments in lands and real estate held for trading | - | - | - | 11,341 | 11,341 | - |
| Available for sale investments | - | - | - | 89,246 | 89,246 | - |
| Investments in associated companies | - | - | - | 77,129 | 77,129 | - |
| Investment properties | - | - | - | 20,880 | 20,880 | - |
| Properties under development | - | - | - | 35,368 | 35,368 | - |
| Property, plant and equipment | - | - | - | 1,696 | 1,696 | - |
| **Total assets** | - | 1,753 | - | 251,843 | 253,596 | |
| **LIABILITIES** | | | | | | |
| Bank facilities | - | 8,646 | - | - | 8,646 | 3.75 - 4.5 |
| Accounts payable and other credit balances | - | - | - | 11,955 | 11,955 | - |
| Term loans | - | 32,500 | 60,500 | - | 93,000 | 3.75 - 4.75 |
| Refundable rental deposits | - | - | - | 1,138 | 1,138 | - |
| Provision for end of service indemnity | - | - | - | 635 | 635 | - |
| **Total liabilities** | - | 41,146 | 60,500 | 13,728 | 115,374 | |

# Notes to the consolidated financial statements (continued)

## 32 Risk management objectives and policies (continued)

### 32.1 Market risk (continued)

**b) Interest rate risk (continued)**

The following table illustrates the sensitivity of the profit for the year and equity to a reasonably possible change in interest rates of +5% and - 5% (2012: +5 % and - 5%) retrospectively from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the group's financial instruments exposed to interest rate risk held at the date of the consolidated statement of financial position. All other variables are held constant. There has been no change during this year in the methods and assumptions used in preparing the sensitivity analysis.

| | 31 Dec. 2013 | | 31 Dec. 2012 | |
|---|---|---|---|---|
| | + 5 % KD'000 | - 5 % KD'000 | + 5 % KD'000 | - 5 % KD'000 |
| Profit for the year | (206) | 206 | (268) | 268 |
| Equity | (206) | 206 | (268) | 268 |

**c) Price risk**

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through profit or loss (including trading securities) and available for sale securities. The group's investments are listed on the Kuwait Stock Exchange and other Gulf markets.

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the date of the consolidated financial statements. There has been no changes in the methods and assumptions used in the preparation of the sensitivity analysis.

If the prices of securities had been 5% higher/lower, the effect on the profit for the year and equity for the year ended 31 December would have been as follows:

| | Profit for the year | | Equity | |
|---|---|---|---|---|
| | Year ended 31 Dec. 2013 KD'000 | Year ended 31 Dec. 2012 KD'000 | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
| Market Stock Exchange index + 5% | 45 | 34 | 4,701 | 3,556 |
| Market Stock Exchange index – 5% | (45) | (34) | (4,701) | (3,556) |

### 32.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains collateral security when appropriate.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the date of the consolidated statement of financial position, as summarized below:

# Notes to the consolidated financial statements (continued)

## 32 Risk management objectives and policies (continued)

### 32.2 Credit risk (continued)

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Investments at fair value through profit or loss | 904 | 675 |
| Available for sale investments | 111,657 | 89,246 |
| Cash and cash equivalents | 4,986 | 3,732 |
| Accounts receivable and other debit balances | 11,352 | 13,529 |
| | 128,899 | 107,182 |

### 32.3 Concentration of assets

The distribution of assets by geographic region was as follows:

| | Kuwait KD'000 | Other middle eastern countries KD'000 | Total KD'000 |
|---|---|---|---|
| **At 31 December 2013** | | | |
| **Geographic region:** | | | |
| Cash and bank balances | 3,573 | - | 3,573 |
| Short term deposits | 1,413 | - | 1,413 |
| Investments at fair value through profit or loss | 8 | 896 | 904 |
| Accounts receivable and other debit balances | 11,351 | 1 | 11,352 |
| Investments in lands and real estate held for trading | 11,341 | - | 11,341 |
| Available for sale investments | 12,605 | 99,052 | 111,657 |
| Investments in associated companies | 81,711 | 11,626 | 93,337 |
| Investment properties | 21,100 | - | 21,100 |
| Properties under development | 34,714 | - | 34,714 |
| Property, plant and equipment | 1,510 | - | 1,510 |
| | 179,326 | 111,575 | 290,901 |

| | Kuwait KD'000 | Other middle eastern countries KD'000 | Total KD'000 |
|---|---|---|---|
| **At 31 December 2012** | | | |
| **Geographic region:** | | | |
| Cash and bank balances | 1,979 | - | 1,979 |
| Short term deposits | 1,753 | - | 1,753 |
| Investments at fair value through profit or loss | 8 | 667 | 675 |
| Accounts receivable and other debit balances | 13,524 | 5 | 13,529 |
| Investments in lands and real estate held for trading | 11,341 | - | 11,341 |
| Available for sale investments | 12,363 | 76,883 | 89,246 |
| Investments in associated companies | 67,640 | 9,489 | 77,129 |
| Investment properties | 20,880 | - | 20,880 |
| Properties under development | 33,941 | 1,427 | 35,368 |
| Property, plant and equipment | 1,696 | - | 1,696 |
| | 165,125 | 88,471 | 253,596 |

# Notes to the consolidated financial statements (continued)

## 32 Risk management objectives and policies (continued)

### 32.4 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. To limit this risk, the group's management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summarises the maturity profile of the group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the date of the consolidated statement of financial position to the contractual maturity date. Maturity periods for investments at fair value through profit or loss and available for sale investments are based on planned and exact dates.

The maturity profile of the assets and liabilities at 31 December 2013 and 2012 are as follows:

| | 1-3 months KD'000 | 3-12 months KD'000 | 1-3 years KD'000 | Over 3 years KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | |
| **ASSETS** | | | | | |
| Cash and bank balances | 3,573 | - | - | - | 3,573 |
| Short term deposits | - | 1,413 | - | - | 1,413 |
| Investments at fair value through profit or loss | - | 904 | - | - | 904 |
| Accounts receivable and other debit balances | - | 11,352 | - | - | 11,352 |
| Investments in lands and real estate held for trading | - | 11,341 | - | - | 11,341 |
| Available for sale investments | - | - | - | 111,657 | 111,657 |
| Investments in associated companies | - | - | - | 93,337 | 93,337 |
| Investment properties | - | - | - | 21,100 | 21,100 |
| Properties under development | - | - | - | 34,714 | 34,714 |
| Property, plant and equipment | - | - | - | 1,510 | 1,510 |
| **Total assets** | 3,573 | 25,010 | - | 262,318 | 290,901 |
| **LIABILITIES** | | | | | |
| Bank facilities | - | 937 | - | - | 937 |
| Accounts payable and other credit balances | 786 | 8,957 | - | 105 | 9,848 |
| Term loans | - | 40,312 | - | 67,500 | 107,812 |
| Refundable rental deposits | - | - | - | 1,206 | 1,206 |
| Provision for end of service indemnity | - | - | - | 713 | 713 |
| **Total liabilities** | 786 | 50,206 | - | 69,524 | 120,516 |
| **At 31 December 2012** | | | | | |
| **ASSETS** | | | | | |
| Cash and bank balances | 1,979 | - | - | - | 1,979 |
| Short term deposits | - | 1,753 | - | - | 1,753 |
| Investments at fair value through profit or loss | - | 675 | - | - | 675 |
| Accounts receivable and other debit balances | - | 13,529 | - | - | 13,529 |
| Investments in lands and real estate held for trading | - | 11,341 | - | - | 11,341 |
| Available for sale investments | - | - | - | 89,246 | 89,246 |
| Investments in associated companies | - | - | - | 77,129 | 77,129 |
| Investment properties | - | - | - | 20,880 | 20,880 |
| Properties under development | - | - | - | 35,368 | 35,368 |
| Property, plant and equipment | - | - | - | 1,696 | 1,696 |
| **Total assets** | 1,979 | 27,298 | - | 224,319 | 253,596 |
| **LIABILITIES** | | | | | |
| Bank facilities | - | 8,646 | - | - | 8,646 |
| Accounts payable and other credit balances | 1,711 | 10,112 | - | 132 | 11,955 |
| Term loans | - | 32,500 | - | 60,500 | 93,000 |
| Refundable rental deposits | - | - | - | 1,138 | 1,138 |
| Provision for end of service indemnity | - | - | - | 635 | 635 |
| **Total liabilities** | 1,711 | 51,258 | - | 62,405 | 115,374 |

# Notes to the consolidated financial statements (continued)

## 33 Capital management objectives

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the group consists of the following:

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Bank facilities | 937 | 8,646 |
| Term loans | 107,812 | 93,000 |
| Less: Cash and cash equivalents | (4,986) | (3,732) |
| Net debt | 103,763 | 97,914 |
| Equity attributable to owners of the parent company | 113,817 | 95,278 |
| Non-controlling interests | 56,568 | 42,944 |
| Total capital | 274,148 | 236,136 |

The group monitors capital on the basis of the gearing ratio. This gearing ratio is calculated as net debt divided by total capital as follows:

| | 31 Dec. 2013 KD'000 | 31 Dec. 2012 KD'000 |
|---|---|---|
| Net debt | 103,763 | 97,914 |
| Total capital | 274,148 | 236,136 |
| Gearing ratio | 38% | 41% |

## 34 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation of the consolidated financial statements. This reclassification has no effect on the consolidated financial statements of the previous year including equity, net profit and cash and cash equivalents.